1Q20 Nexa's Transcript Earnings Call and Q&A

	Participants
T	Mr. Tito Martins - CEO of Nexa Resources
M	Mr. Rodrigo Menck - CFO of Nexa Resources
R	Ms. Roberta Varella – Head of IR of Nexa Resources
P	Presenter

P - Good morning, and welcome to Nexa Resources First Quarter 2020 Conference Call. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] The Presenters in this call are: Mr. Tito Martins, CEO of Nexa Resources; Mr. Rodrigo Menck, CFO of Nexa Resources; and Ms. Roberta Varella, Head of Investor Relations. [Operator Instructions]

I would now like to turn the conference over to Mr. Tito Martins. Please go ahead.

T – Thank you. Good morning and good afternoon everyone, I hope you and your families are doing fine in a time so complex for our lives. Thank you for being here in another Nexa's earnings conference call. Today we will be talking about our results for the first quarter of 2020. Please, let's move to slide 3 where we will begin our presentation.

On slides 3, 4 and 5, I will comment on the measures we have taken in response to COVID-19 outbreak. We are living in an unprecedented scenario that should not only affect the way we manage our business, but it will also affect our personal lives. What does not change and is part of our core value, is our commitment to protect and preserve the well-being of our people and our host communities.

We think our reaction to the COVID-19 escalation was actually quick. Even before the authorities in Peru and Brazil started to take measures to deal with the corona virus outbreak we decided to set up a crisis committee to carry out preventive procedures in our operations and offices, it was clear for us we should look at the health and safety of our people and we needed to preserve the continuity of our business.

A strong communication plan addressing our workers and stakeholders was implemented and we also decided for additional safety measures in all our operations, here we have some examples: social distance; increased site cleaning and hygiene services; health screening and fever monitoring; non-essential site personnel, risk group and corporate employees, all working remotely; restriction of external visitors; suspension of non-essential business trips and events; health & wellbeing programs developed to target COVID-19 related issues; and the increase of the use of technology to manage our business. I am sure everybody here never thought we would be working and running businesses as we are doing today with a lot of technological support. Please move to slide 4.

We are also strengthening the relationship with our host communities and local governments. In Brazil, we provided medical equipment's, kits for medical assistance and technical support in the locations where we operate.

In Peru, given the state of emergency, we have managed to provide some supplies, such as food and medicines. Some of these initiatives were done in partnership with Votorantim Institute which provided some financial support. We are also keeping a regular communication with local authorities trying to help them on the combat of the COVID-19, and to get their support for the continuity of our operations. Now, please turn to slide 5.

In response to the measures announced by the Peruvian government, we maintained our mining activities limited to critical operations. From March 18 until May 11, regarding Cajamarquilla smelter, we were able to secure some raw material supply and given the limitation of the workforce we had to operate at reduced rates.

During this period, mining and smelting in Brazil operated at normal levels, without any interruptions. As most of you, our corporate areas in Brazil and Peru are using home office and surprisingly we´ve seen productivity improvements in some of them.

To navigate this uncertain global scenario, we have proactively taken measures to strength our balance and improve our cash flow: capex was reduced more than US$100 million and the total capex now for the year is US$300 million; Non-essential activities were suspended, such as Greenfield projects and development and exploration investments; the only exception among the Greenfield projects is Magistral which is in advanced stage of the FEL3 phase; on top of that, we are estimating cost savings of something around US$20 million basically related to bonus suspension, travel expenses and third-party services. It is important to mention, our board members are reducing their remuneration by 20%. This amount will be added to the resources Nexa is using to combat COVID-19.

Now, I would like to pass to Rodrigo Menck our CFO who will comment on the measures adopted to improve our liquidity. Menck please.

M – Thank you Tito and good morning everyone. I am on slide 6 now.

As you know, prior to the COVID-19 escalation and taking into account our strong cash position, we approved in February the payment of US$50 million of dividends to shareholders.

Also in February, taking the advantage of the capital market momentum then, we announced and completed a tender offer of our Nexa Peru 2023 notes in the amount of US$215 million, and completed this liability management exercise entering into a new five-year term loan of US$100 million with lower costs.

Moving forward, as a response to the worsening conditions of the COVID-19 global spread in march, we increased our liquidity position by adding almost US$600 million to our cash balance through new debts, being: US$250 million in march and US$44 million in April, both through our Brazilian subsidiary, and also the drawdown of our revolving credit facility in the amount of US$300 million in April through Nexa Resources in Luxemburg.

Therefore, our available liquidity is of approximately US$1 billion and as such we believe we have a strong balance sheet to navigate this uncertain scenario. We will continue to monitor the market development as well as our capital structure, analyzing opportunities to support us in our deleveraging process in the future.

In terms of leverage, measured by the net debt to EBITDA ratio, we ended the quarter at 3.3x. Considering the current scenario and projections, it is likely that we will not comply with the maximum level of leverage allowed by our financial covenant clauses defined in some agreements. We are already discussing such situation with the interested counterparts to address it.

Moving on to slides 7 and 8, I will comment on our revised guidance for 2020. But before discussing guidance, I would like to comment on our assumptions behind the scenario. Despite the high level of uncertainty, we have to choose a path, and thus we are assuming a gradual recovery during the second semester, as we estimate the worst of the pandemic will have passed.

We have implemented business continuity measures in our operations, supply chain and financial situation to mitigate and reduce the potential impacts of the continuous efforts to fight COVID-19, but we still estimate having restriction protocols to access our mines, particularly in Peru, which will affect our operating rates.

So now turning to slide 7, I will comment our mining segment guidance for 2020.

Zinc production is estimated to be between 300 to 335 thousand tons, down 11% from previous estimates. The decrease in throughput should be partially offset by higher zinc grades though.

The main assumptions behind our revised guidance are: the suspension of production at the Peruvian mines Cerro Lindo, Atacocha and El Porvenir mines from mid-march to May 10; the restart of Cerro Lindo and El Porvenir production activities on May 11, but assuming additional health and safety protocols that will limit our operational capacity and impose a ramp up curve; Atacocha activities remain suspended; and no change in our Brazilian operations. We estimate to continue running at normal levels in Brazil.

Copper and lead productions were then affected and we forecast a reduction of 11 thousand tons for copper and 17 thousand tons for lead, considering the mid-range of the guidance.

With regard to our 2020 cash cost guidance, it was revised considering changes such as: updated production in Peru; lower commodity prices; FX variations in Brazil and Peru; and higher treatment charges. And as a result, we estimate mining average cash cost increased to US$0.57/lb of zinc sold, approximately 10% higher compared with the previous guidance of US$0.52/lb released in January 2020.

Moving to slide 8, to discuss our smelting segment guidance.

Metal sales were also revised downwards and we estimate a reduction of approximately 10%. The main assumptions behind guidance revision are: reduced operation rates in Cajamarquilla from mid-march until end of May; lower demand in our home markets; and the reduction of Juiz de Fora operating rates to 60% during the months of May and June. Depending on market conditions, we may extend this period further, or as an alternative, we may rebalance the capacity utilization rates of all 3 smelters.

With regard to costs, smelting benefits from higher TCs and the smelting cash cost guidance for 2020 was reduced to US$0.74/lb, compared with US$0.90/lb in January 2020. In order to have an appropriate comparison, please note that the cash costs levels for both mining and smelting do not include the cost of idleness in our operations.

I now handle the call over to Roberta Varella, our head of investor relations, who will comment on the results for the first quarter. Thank you, Roberta.

R – Thank you Menck and good morning everyone. Please let’s move to slide 10.

Beginning with the mining segment, as you can see in the first graph on the upper left, zinc production decreased by 14% year-over-year. The temporary suspension of our Peruvian mines, required by the local government on its efforts to control COVID-19 spread, offset the performance of our Brazilian operations.

In respect to our smelting segment, 1Q metal sales were relatively flat, reflecting the still good demand by mid-march. Consolidated net revenue was US$442 million, down 22% year over year, primarily driven by the steep decline in LME prices. Turning to slide 11, we will comment on our consolidated EBITDA.

Compared to the first quarter of 2019, adjusted EBITDA decreased 59% to US$44 million dollars. This performance is primarily explained by: the negative price variation due to lower LME prices and changes in market prices in respect of quotation period adjustments; and the decrease in by-products revenue due to lower volume and LME prices. These effects were partially offset by lower operating costs and expenses, the U.S. Dollar appreciation against Brazilian real had a positive impact of US$14 million. Turning to slide 12.

We will comment on mining segment performance. In 1Q20, adjusted EBITDA was negative at US$17 million dollars, compared with US$83 million a year ago. This decrease was primarily driven by: market related factors such as lower LME prices and higher treatment charges with a negative variation impact of US$64 million and US$9 million, respectively; lower volumes, which were impacted by the temporary suspension in Peru, with a negative impact of US$29 million; and lower by-product credits, particularly in Peru, totaling US$4 million.

These negative effects were partially offset by lower operating costs and a decrease in mineral exploration and project development expenses. Looking to the graph at the bottom right, we present the global cash cost curve for zinc. Despite the challenging scenario, we remain well positioned, at beginning of the 3rd quartile of the cash cost curve. Moving to the next slide.

On this slide, we will discuss the smelting segment performance. Different from mining, adjusted EBITDA increased over 100% to US$61 million in 1Q20.

The increase was primarily driven by: (i) the positive net price effect of US$14 million related to changes in market prices in respect of quotation period adjustments, which offset lower LME zinc prices; (ii) the positive variation of US$10 million due to higher treatment charges; and (iii) lower operating costs, positively affected by Três Marias performance and lower energy prices. Market-related factors had a positive contribution on our smelting average cash cost, which decreased by 30% year-over-year to US$0.80/lb.

Once again, the results of our smelting clearly shows the importance of the mining-smelting integration, reinforcing our strategic advantage of having smelters in our portfolio. We believe we are well positioned to mitigate risks and capture the opportunities of the commodities cycle looking to the graph at the bottom right, we present the global cash cost curve for zinc smelters and Nexa is positioned at the beginning of the 2nd quartile of the curve. Moving to the next slide.

On slide 14 we present Nexa's free cash flow generation. Starting from our US$44 million dollar adjusted EBITDA, we had a negative change in working capital of US$68 million driven by a decrease in average supplier terms. We spent US$39 million in sustaining capex and another US$27 million in interest paid and taxes. As a result, cash flow before expansion projects was negative in US$90 million.

Non-sustaining capex, which includes our expansion projects that will contribute to additional cash generation in the future, amounted to US$46 million. During the quarter we also paid US$50 million in dividends in March witch were approved in February and amortized a net of US$39 million in loans and financing. Witch led to a negative cash flow of US$246 million. Moving forward, we have adopted measures to improve our cash flow, by reducing our investments and costs.

I will now turn over the call to Tito, who will continue our presentation.

T – Thanks. Please turn to slide 16 and 17, here we will comment the Aripuanã project.

As previously announced we are working on a rebase line of the project. Production is now scheduled to start in the 3Q21. Of course the rebase line is subject to a successful execution of the updated plan, and it is also subject to COVID-19 outbreak extent.

For 2020, we revised our capex plan and we estimate to invest close to US$200 million dollars. The updated capex contemplates an FX gain of US$50 million, which offset the estimated increase in costs. In 1Q20, US$29 million were invested in the project. Aripuanã is a highly profitable project and we worked in our capital allocation strategy to balance our resources and keep its development unchanged.

As you know, Aripuanã is located in a remote area and in light of the crisis we are facing, our stakeholder's agenda has been upgraded. Awareness campaigns were made, we have provided antibody tests and medical equipment's, and many other initiatives related to the combat of COVID-19 have been implemented in the city. A strong protocol for mobilization and incoming site personnel was also set. Please move to slide 18.

I am going to make some comments about our pipeline of projects, as I previously mentioned, in response to COVID-19, we re-access our capital allocation strategy and decided to put on hold our Greenfield projects and some exploration plans. Exception for Magistral, which is in FEL-3 stage. Its feasibility study work is advancing, but may face delays due to the current conditions. Some of the needed work at site cannot be performed until the end of the restriction imposed by the lockdown in Peru. Anyway we are still considering the conclusion of the FEL 3 in the second half of 2020.

The pre-feasibility studies at Shalipayco and Pukaqaqa were both placed on hold. As for Hilarión, after filing our pea in March with promising results, we intend to continue with the exploration campaign in 2H20, of course if market conditions and cash generation allow us to do so. Moving to our last slide

As we mentioned in our last call, we initiated in 2019 the Nexa way program looking not only to improve efficiency in our operations but also to strengthen our organization and our culture, to prepare ourselves for the future. It allowed us to build solid foundations to navigate this crisis. We have rapidly responded to COVID-19 escalation being able to mitigate any potential impact in our operations, in our financials and in our supply chain. We managed to support our host communities and local governments in different fronts.

The short-term scenario is very challenging and we need to guarantee the sustainability of our business in the long-run we expect to continue delivering our guidance and improve our results especially in the second half of the year when we expect the worst has passed. Our strategy has not changed. We remain committed in building the mining of the future, supported by our operational and financial discipline, with a high qualified team.

Thank you all for your time, and let's move to the Q&A session.

Q&A Session:

P - We will now begin the question-and-answer session. [Operator Instructions]. Our first question comes from Carlos de Alba with Morgan Stanley. Please go ahead.

Question – Yeah, good morning everyone. Hopefully you guys and your families are safe and healthy. So my first question, if I may, has to do with the financial covenants. You could maybe remind us what the current covenants are, and what are the -- what is the status of the discussions that you're having with the relevant parties, in trying to restructure them? And do you expect -- what is the amount, if any of fees or penalties that you expect -- you may incur, as you refinance or rearrange these covenants? And then given your -- well, your liquidity definitely has improved significantly, your Net debt also has increased. So the leverage has gone up. Are there any plans to either sell projects or potentially raise equity, just to strengthen the balance sheet? Or you don't think that is necessary, given that the mines in Peru are starting to restart -- are starting to produce again as we speak? And then another part of my question is, if I may, is related to the impact of the idled capacity. I notice that in the cash cost guidance of US$0.59 for the mining operations, this cost of idle capacity or the impact on cost of idle capacity is not included, can you maybe talk about how much do you expect that impact to be? And if it is, where do you plan and book this, if you're going to be spreading between COGS and expenses or it's going to be mostly in COGS? Thank you very much.

M – Hello, Carlos. Its Rodrigo Menck here. Thank you for participating and hope all of you in the call are safe and well with your families. Well Carlos, first of all financial covenants, we have in four agreements with nine counterparts. It's equivalent to 25% of our debt. We have financial covenants of net leverage of 4x Net debt/EBITDA, right? Total capitalization ratio of minimum of 0.3x and the debt service ratio of minimum of one time. Right? So we estimate that the net leverage one, will be the one that we probably will reach. We are talking with the banks and the counterparts. We are beginning this discussion, right? Sharing projections and all that. So I will, we will be updating the markets, when appropriate. I don't know which fees they're going to charge, but its market practice, these type of fees are pretty much standardized and I don't expect anything high.

On terms of liquidity we have been adding liquidity both locally and also through the drawdown of our RCF. The debt profile that we have of our US$2 billion debt is pretty comfortable. Right, so we have an increase in leverage, mainly due to the reduction of the last 12 months EBITDA. So what we understand is that, once everything comes back to a normalized flow, this EBITDA denominator will be compounded back to other levels that we will reduce naturally the leverage. Of course, we are also monitoring the market to take benefit of any opportunities that might arise in the coming months, so that we can reprofile our debt or even deleverage using some other opportunities.

To this extent, we don't believe raising equity at this very moment is highly necessary nor interesting. And also selling projects, it depends on the evolution of the market, certainly at this point in time, where you have this price scenario -- pricing projects to be sold. It's not necessarily interesting for the company. And provided that we have a good liquidity position with long-term -- I mean, well spread that curve, we don't see this as necessary in this point in time, but we are aware and we are alert to analyzing possibilities. On the idle capacity costs, I will pass to Roberta, she has more detail to show you.

R - Hey Carlos, Good morning. In terms of the idle cost, is it included in our cost of sales, we have a note in our earnings release. We exclude from our cash cost guidance in order to better compare from the estimates that we provided in January. But we also add this in our earnings. So I'd say, almost 15 days that we have our mine suspended, it cost us around US$11 million and US$2 million for the smelter. So could be a good reference for you, considering now that you have a little bit more than a month, April end to May 10th, so can be a reference for you in terms of the cash cost.

P - Next question comes from Isabella Vasconcelos with Bradesco BBI. Please go ahead.

Question - Hi, good morning everyone. Can you hear me well?

T - Yes, go ahead please.

Question - OK, thank you. I hope you are all doing well. So I have a few questions here. So first, could you please comment on how demand within the key end use markets for zinc has been developing so far in the second quarter? And also versus your initial expectations going into the crisis? And then my second question on the lockdown in Peru, do you already have a timeframe you're working on to resume operations at Atacocha, or is it still too early? These are my two questions. Thank you.

T - Thank you for your questions Isabella. We are fine. I hope you are also fine with your family. Regarding demands, what we are seeing so far. Clearly, there was a major drop in demand in our home market. By home mark we mean, everything below Mexico in LatAm. Brazilian customers, Argentinian customers, they are not doing well. There are still many in Brazil, who are almost completely closed for more than 45 days. That's the reason why we decided actually to reduce production in Juiz de Fora for a couple of months exactly to monitor and see how the demand will behave, and being able actually to produce -- to not produce, in excess and generate more stocks, in our facility in Brazil.

In general, what we are seeing abroad and I mean in Asia, is there is an adjustment in the market right now. If you notice, the price of zinc is coming up in the last two weeks, now it's around US$2,000 per ton already, coming from almost US$1,650 per ton 45 days ago. Looks like the lockdown in Peru and associated with the recovery in China, has been supporting the price to come up, and also, we we've seen already a reduction in the stocks around the world, metal stocks around the world, which implies that, the recovery in Asia is actually being able to demand more than has been supplied everywhere. Of course, a lot of uncertainties, we don't know where it will take us. How it will move in the next few months, but paying a lot of attention to that.

Regarding the second question, the operations in Peru, we are coming back with Cerro Lindo and El Porvenir that was mentioned before. Atacocha because of its size, it will remain suspended at least for the next month. It's going to be interesting to see how the return is done. A lot of protocols, lot of arrangements to be made in order to have our people back to the sites, and hopefully we can return Atacocha next month. Thank you.

P - Our next question comes from Orest Wowkodaw with Scotiabank. Please go ahead.

Question - Hi, good morning. I'm curious if you can give us some insight into how Brazil is coping with COVID-19 and by that I mean, do you see any risk factors of the mines or smelters having to close, because of the increasing spread of the virus?

T - Orest, thanks for the question. Very good question. Brazil is having not a one case with the COVID-19, actually we can split the country in many different areas. The impact of the outbreak is different from state to state. Of course, the big cities like Sao Paulo and Rio have been more affected. And we also saw some impact, huge impact in the north of the country. Surprisingly, many of the states where we are located, has not been impacted yet. We are running a lot of different protocols. We'd be in direct contact with the local authorities, we have been very supportive to the local authorities. Even some of our internal protocols, we are applying to the cities we are located. You have to remember that, some of the cities are very small. So in some ways, you can actually control it.

To say that we would not have been impacted is very difficult now. What I can tell you so far in Brazil, we had within our sites in all our operations, just one case of contamination, which actually was in São Paulo. So we haven't had anybody in our operations, in Juiz de Fora, Três Marias, Vazante and Paracatu, affected yet. We've set protocols, we are testing people regularly. But we haven't seen anything yet. So we have to wait and see how the situation evolves along the next few months. Hopefully, we can control it. Risks for lockdowns maybe in the big cities. There are rumors that we will implement it, Sao Paulo also may go for that. Some of the states in the north, as I mentioned, they have done already that. But not where we are, not yet. Even in Aripuanã, which is a very remote and isolated place, we had some cases in the city, but they were controlled, and we have more than 1,500 people at the site in Aripuanã today, and no case registered so far. So let's wait and see. But we have to be up in this right.

Question - That's right. Thanks Tito. And just following up on the previous question on demand, can you give us a sense, specifically in April? I mean, you've announced with this update that you're going to pull back smelting capacity, one of the smelters for May and June. But can you give us a sense of, like how much are refined zinc sales down, say, in the month of April versus what they normally would be?

T - No, specifically in April, I don't have this number with me. But I can tell you the following, based on what we've seen so far, we saw a potential drop in demand and our home market is around 17% until the end of the year. Why we are assuming that? Because we start to see some of our customers in the home market actually postponing some orders to the second half, and even some of them to the beginning of '21. So that was why we decided actually to stop for a couple of months, to see if this situation remains as it was, or it could improve or become worse. So that's where we are today. Anything we produced, we were able to sell because we have the option to sell in the spot markets. Assuming that we would reduce production in May and June in Juiz de Fora, we are trying to balance how much we are producing, how much we are selling the spot market and not taking the risk through actually producing more and be forced to sell with some losses in the spot markets. We are investing in working capital as well.

Question - OK. And just finally then, if you're assuming of 17% demand reduction this year in your home market, does that leave the door open then to reduce smelting production even more?

T - We have to see, I hope not. If we calibrate with the reductions that we have implemented in Juiz de Fora, we should be able to deal with that. Once more, it will depend a lot in how much we will actually be able to ship to other markets. It's an unprecedented situation that we are leading right now in Juiz de Fora. A decision was made based to -- actually to reduce production and evaluate how the market will behave, in order to avoid an excess of production in the short term. We may go for full production everywhere, because as I said, we have the spot market, where our traditional customer decided to delay and postpone some of the orders. But it was just a conservative approach, in order to check what's going on. It's completely new for everybody, Its the first time -- I've been here for eight years, we never had to actually reduce production in the smelters. This is the first time. We always operate in full capacity. We are doing that, because we are really afraid of having an excess of working capital.

Question - OK. Thanks Tito. And then just finally, the costs, the maintenance cost for the closed capacity, is that going to be put through as Opex or Capex in the second quarter, in terms of these standby fees?

T – Opex.

Question - Thank you.

P – Our next question comes from Jackie Przybylowski with BMO. Please go ahead.

Question – Hi, good morning Tito and team. I just wanted to ask you about the Aripuanã project. I know in the release you said you're working on a new baselining for that project. Can you tell me what that means exactly? What are you doing in terms of baselining and maybe, is there a timeline where we could expect to hear the results of this study or review?

T - Hello, Jackie. Thank you for the question. Basically, what we did first we reprogrammed, the project base on the impacts we suffered at the end of last year. We mentioned in the call, the first of 2019, that we have been impacted by an excess of rains in late '19, and also a delay in the rebuild of an important bridge for accessing the project. And because of that, we knew that we need to change the schedule of the project, and it has been done already. So when we say that production should be started, the third quarter of '21 has to do with that, and some of the impacts we already saw coming from the COVID-19. Just to give an example, we have to set up protocols to bring in more people, to mobilize more people to our -- to the construction. Nowadays, we have to bring in people and keep them for a couple of weeks, inquiring teams before we can actually be in the site.

Then we have given the change in the schedule, we need also to change. We revised the budget for the capex, right, for the project. We are doing that, but given the uncertainties we faced with COVID, we decided not actually to set a precise value for the project, and we should have this on the second half of the year. We are still working with the same budget of US$392 million, assuming that beyond the contingencies, there will be an increase that may be in between 10% and 25%.

I could provide the number today, but we decided not to do so, because the level of uncertainty is a problem. There is also the fact, that FX has been offsetting the capex. I don't know if you are following up, but exchange rates in Brazil, they moved really fast along the last four months. Now reais against U.S. dollars are almost at 6. So in most of the projects we are running, are in reais, the Brazilian currency. So the combination of those factors, we believe it would misguide anybody looking at the project. So we decided, let's wait and see how the productivity in the site moves on, given the impact of COVID-19. How the exchange rate will be impacted, in order to be able to come up with a new number. That's why we decided not to setup, where we will be able to do this.

The second half will be very important for us, because of the productivity of the sites, of the construction. And hopefully the exchange rate will have more stability sometime after this momentum has passed, right.

Question – Absolutely, yeah. OK, that makes sense. Thank you. Can I ask also about your cost savings program, Nexa Way, I know the last quarter you've given us an update on how much that program has cost you? Are you able to give an update on how much the cost savings program has cost you so far in consultant fees and things, and how much you've realized in savings so far, beyond what you highlighted in the release for things like FX or reduced travel because of COVID? Is there anything that's more specific to the…

T - No, no, no, a correction, Jackie. The extra savings are not related with Nexa Way, the additional US$20 million are not related. We have had some gains and those gains are not specifically related with cost savings. They also are related to some KPIs and performance improvement. That's what we are saying that the US$120 million we were expecting to see along 2020, may not be achieved until 2021, because of the parameters we were using, they were affected. When you calculate the potential gains that are made improving from some recovery in one of your plants, has to do with the price you're using to define that.

As prices dropped dramatically and some of the external factors are affecting our results, the numbers became a little bit massive. We are still assuming that we can get reach US$120 million in gains with Nexa Way, but not only with cost savings and not necessarily only in 2020. In the first quarter, those gains were US$21 million, they are embedded in the results of the first quarter. The savings we will have with the SG&A, the US$20 million, will happen along the year. And we are not expecting to pay additional fees until the end of the year. The reason for that is due to the problem. The definition of the fees is based on where you identify, you characterize the gains you may have. So last year, we paid on a significant amount, but we generate -- we almost match the amount paid. This year, almost everything that will be generated will be -- will go to the company without any fees being paid, because we paid already last year.

Question - OK. Thank you. That's all I had. Thanks.

T – Thank you.

P - Our next question comes from Oscar Cabrera with CIBC. Please go ahead.

Question - Thank you, operator. Good morning, everyone. Best wishes for you and your families to stay healthy in this abnormal times. I have three questions and let me start with the smelting segment. Approximately 46% of the feed for the smelters come from third parties, and with elevated treatment charges, have you had any discussions with companies that may not be able to continue operations and therefore you may have lower feed for your smelters?

T - Hi, Oscar. Thank you for asking this. Yes, we are monitoring most of -- all of our suppliers. We have long-term contracts with the main suppliers, our acquisition, the short in the spot market is very small. Actually, if we were operating in normal times, we would not need to actually to buy anything from the spot market. We did that last month, because of the shutdown in Peru. So some of our suppliers were not able to supply, so we had to look for stocks available from other sources. We are really comfortable about our raw material. We are not expecting to see -- even if there is a disruption in one of the main suppliers, we already have to get the assurance from others, that we should have the concentrate available.

Regarding the TCs, all the contracts, they cover the year supply. No, we have not had any discussion about the change in TCs. Our average TC is around US$300 for the year, and should remain there. There is no apparent concern about it. Even when we talk -- because we deal with the larger producers. So, not at all. Nothing about that submission so far.

Question - OK, that was great to hear Tito, because this shows the counter cyclicality of your smelting business in these tough times. Second question, can you please remind -- I mean, a lot of companies are benefiting from depreciation of local currencies. Can you remind us the amount of cost or the percentage of cost in local currency for your Peruvian and Brazilian operations please?

M - Hi Oscar. This is Rodrigo here. We have around 80% of our costs in Brazil denominated in reais, and we have been sharing with you all, the sensitivity analysis we periodically do. We have approximately a US$7 million to US$8 million EBITDA impact for each $0.10 of FX in the Brazilian reais devaluation in the FX rates, approximately. Is that covering one after you were asking?

Question - Yeah, that's for Brazil. For Peru?

M - In Peru, it's the other way around. It's approximately 80% in U.S. dollars. As you know, the Peruvian economy is much more dollarized than Brazilian one. So in Peru, we have less impact of the FX rate -- because of the FX rate, and the FX rate there will rise a lot less, just to have a comparison ever since the beginning of this more volatile times. The Peruvian currency has varied like US$0.15 from US$3.30 to US$3.45 approximately. On the other hand in Brazil, you have seen where we are. So we are coming up to those levels to 6 reais per dollar. So it's really different by the mechanics.

Question - Right. Thank you. Then on the sustaining capital deferrals of around $40 million, can you just give us an idea of where those savings are coming from and how should we think about the -- when you will be spending this capital, things return to normal in the second half of this year?

M - Hi, Oscar. What we did was a broad exercise to maintain everything that is essential, right? So everything that is legally -- were legally binding to us, such as tailing dams, such as other investments to maintain the main operations at a safe level in all of our units. So everything that relates to increasing capacity or expansion, besides Aripuanã and also the final investments of the deepening of the Vazante mine, we have postponed all the investments with regard to growth we have postponed. We are maintaining for example, in mineral exploration, we are maintaining the fees for mineral rights and things that are unavoidable, and would maintain our business healthy. But in the plans, we are -- the teams have reassessed all of the investments, and we are maintaining things for basic maintenance in our lines. We increased health and safety expenditures of course for the new protocols. So everything is been brought down to the minimum level that we should preserve cash flow. That is covered?

T - I should say minimal, but enough to keep the sustainability of the operations, right, this is one concern we have.

M - All that is essential.

Question - All right. But I mean, so can I assume from your comments that the amount that you have outlined on slide number 14 is not only for maintenance, of all the operations?

M - Yes, it is.

Question - OK. Thank you very much and best of luck.

M - Thank you, Oscar.

P - Our next question comes from Lucas Yang with JP Morgan. Please go ahead.

Question - Hi, this is Lucas. First of all, thank you for the opportunity and I hope you and your family is doing well. I have just one question on byproducts, we noticed that the majority of the byproducts production rate in 2019 came from your Peruvian operations. So besides lower zinc production, is it fair to assume a very sharp decrease in byproduct volumes in the second quarter, or are there inventories that can compensate that? Thank you.

T - I would say that, what's happening is, mostly the basic impact in the first quarter of our byproducts has to deal -- we had a reduction in copper production in Cerro Lindo, yes. But the most -- the significant impact came actually from price. So the production, in terms of volume, was less impacted than the reduction in price. Menck, you want to add anything? Roberta?

R - No demand impacts, yes.

Question - My fear was that, like 98% of the -- like beside lower prices, like almost all your byproducts production will be halted for the period of the lockdown, right? Is this like a correct assumption?

M - Yes, it is. For the Peruvian mines, yes.

Question - OK, very clear. Thank you.

P - Our next question is a follow-up from Carlos de Alba with Morgan Stanley. Please go ahead.

Question - Yeah, thanks again. Tito, I wanted to explore a little in more detail the 17% decline -- potential decline that you see in demand in Nexa's home markets. Could you maybe elaborate if this 17% applies to all of those end markets or it is more -- or you see differences between auto sector and construction or some of the other important sectors?

T - All sectors, because what happened is, mostly all -- our main customers are the steelmakers, right? And they are the suppliers to the different sectors, automakers and construction and so on. All of them were, in some ways affected. For sure, automakers were the main ones, because almost 100% of the Brazilian production was shut down for at least a month. I was reading yesterday, sales in April in the auto business was down 98%, they went back to 1954, the year of 1954, its amazing. But we know for sure, that steelmakers also closed, those who supply to construction or infrastructure. And the direct use of zinc was also affected, I mean on the die casting and everything was affected, everywhere. Again, through LatAm, everywhere.

Question - OK. And then Nexa continued to pay dividends in this past quarter. How should we think about dividends in the -- for the remainder of the year, given the situation which we are all leading and in which the company is operating?

M - Hi, Carlos, this is Rodrigo. For this year, no more payments. We usually pay once a year in March. So when we had this deliberation by the Board in February, we were far from this volatile times that engulfed us, and once we disclosed it, it was already a commitment to the market, right. So we paid it and now we don't have any more expectations of paying in the rest of the year.

Question - OK.

T - And there we have to see what's going to happen along 2020, right? The year that should never happen.

Question – Exactly, I know. So just two final questions very quickly. What is the average capex of Aripuanã that is exposed to BRL? And second, we saw a big decline in El Porvenir cash cost in the second quarter, how do you see that in the coming quarters?

M - OK. First of all, Aripuanã, the expenditures are mainly in reais. So overall in the project we had approximately 20% of the overall costs exposed to dollar. At that point in time, when we began the project, we hedged the flow at the dollar disbursements, right. So this is -- its pretty much what remains is pretty much in reais. OK. On the El Porvenir cash costs, I will pass to Roberta, she has more detail.

R - So Carlos, we provide information in terms of the cash cost for the year and so, we are not seeing -- in terms of year-over-year, not so many changes and in terms of the first quarter, as been mentioned so it excludes item of El Porvenir, and you also have byproducts here that affected our cash costs. But year-over-year should be aligned with the guidance that -- sorry for the year, should be aligned with the guidance that we provided, in El Porvenir. But actually, we see a little bit of increase in terms of the -- what we are considering in terms of the higher treatment charges and lower byproduct credits as well, because of the lower metal price.

Question - All right, excellent. Thank you very much everyone. And stay safe.

T - Thank you.

R - Thank you.

M - Thank you, Carlos.

P - This concludes our question and answer session. We will now hand over to Tito for his final remarks. Mr. Martins, please go ahead.

T - Thank you. Before we end this call, I would like to call your attention for three important points, some of them were kind of mentioned here today already, but I think its very important to call your attention to that. The first one is, our mine costs they were affected, they've been affected into 2020, mostly because of the TCs. And it is very important to note that. Looks like the integration we have with the smelters, not necessarily turns to be important, when you look at the picture. The TCs has had a huge impact to the mines, but on the other hand, we were benefiting these smelters and we hope it will keep it. As I said before, that TCs should -- since it were negotiated at the beginning of the year, they should remain up for the rest of the year, it's about $300 per ton.

The second point has to do with the guidance, the new guidance we provide. We actually decided to be very conservative, as was said today, and it has to do with the level of uncertainty, we still have in terms of how many people will be able to return to the operations in Peru, how long we will be able to operate and how fast we reach to full capacity. There was an interview given by the Head of the Mining Association in Peru a couple of days ago, saying that, most of the mines are coming back, assuming that they will be producing around with 80% capacity. We did pretty much that. I mean, we wanted to be conservative, instead of actually throwing numbers that we don't know today, they would be achievable or not.

I hope we can make more than within the guidance exactly because of that, it has to do with the challenges we have to face in the return and coping with the protocols we have to follow to keep our people healthy.

And the third point has to do with Aripuanã, I explained already today, why we did not come with a new capex for Aripuanã, but it's important to note that Aripuanã is a very good project. It's in the second quartile of the industry, is moving OK in terms of the development, we already performed 39% of the project. We see Aripuanã has a lot of potential. We have not come up with a new technical report, but we keep drilling there. Just remember remind you, the project was approved considering 13 years of reserves, and we potentially can go beyond 20 years, given what we know today, and we are committed with the project. The future of Nexa is a challenge, but we can overcome it and we believe we can do it.

I would like once more to thank you for being here with us and wish you all the good and we can go out of this bad situation. I mean, the abnormal life we are having very soon. Have a good day. Thank you.

P - [Operator Closing Remarks]

Call Duration: 63 Minutes

Participants of the Q&A:

Carlos de Alba – *Morgan Stanley*

Isabella Vasconcelos – *Bradesco BBI*

Orest Wowkodaw – *Scotiabank*

Jacqueline Przybylowski – *BMO Capital Markets*

Oscar Cabrera – *CIBC*

Lucas Yang – *JP Morgan*