Q1 2020 Earnings Call

Company Participants

- Marco Antonio Spada, Chief Financial and Investor Relations Officer
- Marcos Antonio Molina dos Santos, Founder, Chairman of the Board of Directors
- Miguel de Souza Gularte, Chief Executive Officer
- Rafael Braz, Investor Relation
- Tang David, Chief Administrative Officer, Chief Financial Officer and Investor Relations Officer
- Timothy Klein, CEO, President and Director

Other Participants

- Barbara Halberstadt
- Benjamin M. Theurer
- Felipe Vieira
- Isabella Simonato
- Joao Soares
- Leandro Fontanesi
- Luciana Carvalho
- Robert Dickerson
- Thiago Duarte
- Victor Saragiotto

Presentation

Operator

Good morning, ladies and gentlemen. At this time, I would like to welcome everyone to Marfrig Global Foods S.A. Conference Call to present and discuss its results to the first quarter 2020. The audio for this conference is being broadcast simultaneously through the Internet in the website, www.marfrig.com.br/ir. In that address, you can also find a slide show presentation available for download. (Operator Instructions)

Before proceeding, let me mention that forward-looking statements are being made under the safe harbor of the Securities Litigation Reform Act of 1996. Forward-looking statements are based on the beliefs and assumptions of Marfrig management and on information currently available to the company. Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions because they relate to future events, and therefore, depend on circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of Marfrig and could cause results to differ materially from those expressed in such forward-looking statements.

And now a message from Mr.Marcos Molina, Founder and Marfrig Global Foods' Chairman. Please Mr.Molina, you may now begin the conference.

Marcos Antonio Molina dos Santos {BIO 15363967 <GO>}

Good morning, all. And thank you for participating in another Marfrig's earnings result conference call.

Before handing it over to our CEOs, Tim and Miguel, who will comment on the excellent results achieved during this quarter. I would like especially to thank our more than 30,000 employees who are working diligently at the highest safety levels, taking all measures to ensure that our customers receive Marfrig's traditional quality beef standards.

It was a challenging quarter, and we are very proud to have delivered a great result. I would also like to congratulate and thank our executives that both in North America and South America were highly efficient in leading the company in this new world.

Now I'll hand it over to Tim Klein, CEO of North American operations.

Timothy Klein {BIO 16522695 <GO>}

North American operations posted record first quarter earnings during the first quarter of 2020. Net revenue was $2.185 billion, up 7.5% compared to the first quarter of 2019. The revenue growth was explained primarily by one: increased availability of fed cattle which led to additional throughput in the beef plants; two, continued strong demand for U.S. beef products; and three, improved volumes in our case ready and direct-to-consumer businesses.

Now if we go to Page 6, I will comment about the gross profit and EBITDA. Gross profit in the quarter was $229 million, up 29.1% from the same period of 2019. Fed cattle prices average 118.78 per hundredweight, down 5.2% year-over-year on a per hundredweight basis. The USDA comprehensive cutout averaged $215.55, down 1.3%, while the drop credit declined 1.7% to an averaged of 8.86 for per hundredweight, led by weakness in high and variety meat values. As fed cattle prices declined more than beef values, the cutout ratio increased to $1.82 versus $1.74 last year. The combination of increased throughput and higher per unit margins resulted in increased gross profit versus the first quarter of 2019.

In addition to the above drivers, our results in the first quarter were positively impacted as a result of the coronavirus pandemic that began to impact the U.S. economy late in the first quarter. As consumers build their freezers in response to the shelter-in-place orders that were announced by federal and state governments, we saw a dramatic shift from foodservice sales to retail. Due to the surge in demand, beef prices moved sharply higher, further expanding processing margins.

Beef processing operations, such as ours, are considered essential infrastructure businesses, and just two weeks ago President Trump issued an executive order in order to ensure meat processing plants would remain open during this pandemic.

Our primary concern continues to be the protection of our employees who work in our plants. To that end, we have taken several measures to achieve an increased level of protection, such as deep clean and increased sanitation, daily temperature checks and surveillance of workers, mandatory PPE equipment, such as face shields and masks. And we have also installed workstation partitions to further isolate workers. Thus far, our efforts have worked to minimize exposure in our plants.

As the U.S. starts to reopen non-essential businesses, we are well positioned to make the necessary adjustments to supply food service sector as demand improves.

Now I move on to Miguel, who will comment on the South American operation.

Miguel de Souza Gularte {BIO 20767495 <GO>}

Thank you so much, Tim, and good morning, everyone. On Slide 7, I would like to highlight the excellent performance of the South American operation, and the factors that led to a net revenue of BRL 3.8 billion. This is a growth of 26% vis-a-vis the same period of the previous year as noted on the second chart. This performance was anchored in an export higher volume as seen on the first chart on the left and mainly revenue growth in more than 65%, which is presented in the second graph.

In the next chart, in green, you can see that export revenues now represent 60% of our turnover. And I would like to highlight the last chart on the right, where we see a perfectly balanced portfolio taking into account the current world demand for protein.

The creation of the integrated commercial platform in South America, which is supported by a solid scientific pricing system has allowed us to anticipate and capture various commercial movements that occurred during the quarter. We anticipated the logistic challenges caused by the global increase in demand and the negative effect of the pandemic.

In the next Slide 8. I comment on how the strategies mentioned were reflected on the operation margin. I begin by highlighting the second chart, n EBITDA of BRL 464 million, which was 3x higher than that of the first quarter of 2019 and a 12.3% margin, which is a new record for our operation. This performance is explained by two major factors: the export results mentioned in the previous slide, and the program for operational improvements and cost management that started in 2019.

Among several initiatives that we carried out, I here highlight the footprint review that resulted in the closure of less efficient plants and transferred its activities to plants with better performance and better qualifications, which allowed us to produce and sell more with a smaller number of units. Additionally, we obtained improvements in performance in all operations, through a high performance management program and best practices, an integrated structure based on capturing opportunities and the competitive benchmark between operations, allowed us to achieve greater productivity and to compensate with the surplus the new level of raw material prices.

I would also like to thank the entire Board of Directors, who in this challenging scenario, were able to make decisions that simplified and gave more agility and greater independence to our operations. This was fundamental in order to face the turbulent moment with serenity and focus.

Now I hand it over to Tang, who will comment on the consolidated result of the transaction.

Tang David {BIO 18672578 <GO>}

Thank you, Miguel, and good morning, everyone. We now move to Slide 10, where I will talk about the consolidated results and then the financial highlights. Based on the factors previously mentioned by Tim and Miguel, and the appreciation of the dollar against the real, we show in the first chart to the left, the net revenue of BRL 13.5 billion in the first quarter of 2020, which considerably increased 26.6% in comparison to the first quarter of 2019. Here, I would like to highlight an important characteristic of the company's revenue makeup, as you can see in this chart.

Today 72% of our revenue is generated by the North American operation, which translates into significant exposure to the U.S. domestic market and some of its importing countries such as Japan and South Korea.

Now on the center chart, when we look at revenues by currency, we see that 89% is generated in U.S. dollars. That means three things. This total is the sum of the natural generation from North America and South American exports. That is, only 8% of Marfrig's revenue is originated in BRL, something that very few people pay attention to. And moreover, our revenue from now on has the potential to be much higher as the average dollar rate in the quarter was BRL 4.46, this is 16% below the closing dollar, and much lower than the current level.

Moving on to the chart on the left, we have the adjusted EBITDA, which reached a total of BRL 1.2 billion, a record for the first quarter. It's a 112% growth vis-a-vis the first quarter of 2019, was due to what was explained by Tim and Miguel, and the devaluation of the BRL against the dollar. The EBITDA margin in turn was 9.1%, 360 basis points higher than the previous year, another very positive result. As well as in terms of revenue, it is important to highlight the composition of our EBITDA, where 64% comes from the North American operation. This is slightly below the first quarter of 2019 due to the great expansion of the South American margin in this quarter. Later, this ratio should be around 70:30.

Now looking at the total EBITDA, approximately 90% is generated in dollars, which is an important differential for Marfrig's financial strength. Furthermore, this means that our EBITDA has an even greater growth potential given the current level of the exchange rate.

Now we move to Slide 11, to see the cash flow. Traditionally, the first quarter of the year due to its seasonality, impacts our free cash flow, but this year was different. We took advantage of a strong operating result and more efficient management of our working capital. We continue to settle the working capital operations that burden our financial results. We settled a BRL 938 million figure in operations, a very important milestone, and I will demonstrate its positive results later on.

Finally, in this quarter, we had a positive recurring free cash flow of BRL 243 million, which doesn't take into account the specific items of the quarter, such as settlement of working capital operations and the payment of bonuses linked to the North American operations.

Now onto Slide 12. Net debt and leverage. Regarding our net debt, we ended the first quarter of 2020 at a level of $3.7 billion, 13% above the fourth quarter of 2019. This is basically due to the effects of the free cash flow that I mentioned on the previous slide in addition to BRL 169 million write-off in senior notes repurchased from the 2023 in January. Our leverage in dollars, which is measured by the net debt in relation to the LTA adjusted EBITDA was 2.84x, slightly above the 2.74x of the last quarter.

We would like to highlight that we focused on dollar indebtedness considering that both our revenue and our EBITDA are almost entirely concentrated in this currency. Our leverage measured in reals, which is affected by the exchange variation of BRL 4.2 billion and the mismatch in the average exchange rate that translates into EBITDA stood at 3.56x.

Now please let's move to Slide 13. Debt profile. Today 97% of our debt is in U.S. dollars, and this is where I would like to remind you what I said earlier. 89% of our revenue, and approximately 90% of our EBITDA, is in U.S. dollars. This allows Marfrig to strongly differentiate itself regarding the balance of the capital structure. And speaking of structure, we have a structural record on this slide.

The average cost of our debt reached 5.81% p.a., a reduction of 16% or 113 basis points compared to the first quarter of 2019 when we were around 7%. This record is the result of the financial team's continued efforts to execute our liability management strategy defined by the Board of Directors, which now will be closer to the operation at the same pace.

Now please move to Slide 14, our net financial results. Here is the recent history of our net financial results. As you can see, this quarter had a record and a structural reduction in financial expenses of BRL 135 million, or 31% compared to the fourth quarter of 2019. This structural reduction was essentially due to the settlement of working capital operations and the reduction of BRL 616 million in tax debts, that also burdened this group.

Additionally, I remind you that in January of this year, we prepaid with our cash the senior notes that are due or mature in 2023, which had an outstanding balance of $446 million. This early settlement generated an on-time expense of BRL 244 million, of which BRL 169 million with no cash effect were write-off the amortized issue cost.

Now please move to Slide 15, net result. Finally, I would like to highlight the net results of the first quarter of 2020. The chart on this page shows mainly how the exchange variation of BRL 632 million impacted the results for this quarter. Therefore, we can see that the result was positive by BRL 32 million when adjusted by the exchange variation and the write-off of the cost of issuing the senior notes. Here we have a good indicator that the operational and financial actions are following the right path to achieve relevant profitability. And that during this quarter, it was not possible to demonstrate this because of some isolated effects.

Now I give the floor to the operator, so we can entertain our Q&A session. Thank you very much.

Questions And Answers

Operator

(Question And Answer)

Our first question is from Isabella Simonato.

Q - Isabella Simonato {BIO 16693071 <GO>}

Good morning, everyone. I'd like to congratulate you for your results. I would like to learn a little bit more about the environment in the U.S. We have seen a lot of volatility in the sector and the margins in general have started growing as of recently. I'd like you to further explore these margins and their sustainability. I would also like to know what this new form of operation will impact the company? And also how that will be managed? Thank you.

A - Timothy Klein {BIO 16522695 <GO>}

Yes, this is Tim Klein. I'll answer the first part of that series of questions--

(Foreign Language)

First of all, seasonally, we see a margin expansion from the first quarter to the second quarter. This year would be no different. It's typically the barbecue season where our demand for beef cuts is greatest. And we would expect that to be the situation today. We have seen significant volatility in the cutout values recently driven by the shift from food service to retail demand and shelter-in-place orders that have caused consumers to stock up on beef. So we've seen significant price increases, as well as decreases in a very short period of time. So as we go forward from here, we expect as businesses reopen, restaurants reopen that will -- some of that volatility will moderate.

(Technical Difficulty)

A - Miguel de Souza Gularte {BIO 20767495 <GO>}

(Foreign Language) dollars and the South American operations. And it's important to say that in the beginning of last year, we established a platform system where we have started using the best practices, which has shown to be very efficient. But if we think of commercial aspects, we have taken a series of measures related to price strategy. And when we thought that China would have a complicated logistic development with an increase in exports, we decided to go to other markets. When COVID was added to our logistic problems which was already expected, we reformulated our

-- we extended the delivery terms and we haven't changed our price system what was available during this moment. that we are the company with the highest amount of inputs and the highest amount of plants that have been approved in China. And when the market recovered in China at the end of February, we returned with speculative prices. And in the second moment, these prices were replaced by market prices. In this current moment, we are positioned positively. So we had a success in the commercial strategy of the first quarter that came from -- was guided toward Uruguay, Argentina, Canada, the United States and we also focused on Europe and Middle East. When China recovered we repositioned ourselves.

Now answering the second part of your question, we did not have logistic problems because of the decision of carrying out a commercial alternative we didn't focus on China. And the Chinese market started to recover at the end of February with strength. And as I already mentioned, the prices were speculative prices. These prices suffered an adjustment. The market flow and China started remaking their inventory. And now we see a Chinese market that is balanced. And there is a good -- there is a reasonable supply and the market is absorbing this supply in a fluid way. So this is important to mention. It's important to say that the Chinese market recovered before the other markets. And so this balances the export program and then this improves the footprint. And this is something that we can see and we maintain it during the second quarter. I'm going to ask Tim to answer the question about the United States.

A - Timothy Klein {BIO 16522695 <GO>}

I'm sorry, which question was that you're referring to? Can you hear me?

A - Marcos Antonio Molina dos Santos {BIO 15363967 <GO>}

Could you please ask the question?

I'm going to repeat the question. The question is, how are the national beef utilization levels compared to the industry in the past two, three weeks? And how does he see the balance between the increase of production cost? And on the other hand the increase of the price of the beef, if he believes that this is constructive and if this is good for the gross margin of the company in the future?

A - Timothy Klein {BIO 16522695 <GO>}

Regarding the utilization rates, our plants are currently operating at around 85% utilization last week. The rest -- the industry in total was somewhere around 75%. We think this week we'll be closer to 80% across the industry. So as we go forward here, it looks like everybody's coming back online and increasing that utilization rate. We expect that by the end of June into July that the industry will be operating north of 90%.

(Foreign Language)

In regards to the COVID related cost, these costs are fully absorbed in our pricing and will be offset. So we don't expect that the COVID related cost will have a negative impact on margins.

Operator

Our next question comes from Ben Theurer, Barclays.

Q - Benjamin M. Theurer {BIO 17248534 <GO>}

Hey, good morning, everyone, and thanks for taking my questions. So a little confused now with some of the Q&A before. So please apologize if I repeat a question that was already asked. So for Tim and specifics, so you said just now that you're running at about 85% utilization rate and the industry, 75%, you expect this to be 80%. But can you just confirm you said late June, late July, slightly above 90%. So that means in two months' time we're not going to be back at 100%, just a to follow-up because I didn't catch it quite well.

A - Timothy Klein {BIO 16522695 <GO>}

Yes. It's hard to predict where we're at. But if we just look at what we've done here the last several weeks as an industry, my expectation would be that by the end of June into July, this industry will be operating somewhere 90%, 95% of utilization.

(Foreign Language)

Q - Benjamin M. Theurer {BIO 17248534 <GO>}

Okay. Perfect. And then, just to understand a little more of the medium to long-term implications, so you also said that obviously the cost that is currently you're occurring due to COVID is going to be absorbed for pricing and no impact on margins. But how do you think about structural cost increases that you might have because of all the investments you've been doing: PPE, the shields that need to replace, potentially higher cost of deep cleaning going forward? Do you think there's going to be a structural increase in cost not only for you, but for the industry in general which could also result in most likely making beef a more -- an even more premium price and more expensive product, and ultimately, in the case of a more severe recession becoming -- getting somewhat under pressure from a demand perspective just as people may have to downgrade on the demand side within beef or within different proteins?

A - Timothy Klein {BIO 16522695 <GO>}

Right. Well, there's two segments to the cost. One are the onetime costs such as workstation partitions that were probably the most costly of anything that we've done. The rest of it is the PPE equipment, those costs are real but they're minimal. And as time goes on, I think they'll become more economical as supply availability increases. So I don't see ongoing costs due to COVID being anything significant going forward.

Q - Benjamin M. Theurer {BIO 17248534 <GO>}

Okay, perfect. Thank you very much.

Operator

Our next question is from Felipe Vieira from Credit Suisse.

Q - Felipe Vieira {BIO 21817128 <GO>}

I would like to know about the rest of the year? Do you believe that the BRL60 million per quarter makes sense? So there is space to -- for more spread. Now for Tim, a second question, something that really drew our attention was the growth in volume of National Beef. This is 5.1%. I would like to ask Tim to elaborate about the drivers that allowed National Beef to grow. And if you could talk about the capacity of National Beef, so what are the drivers of volume growth in National Beef?

And for Miguel, I would like to ask him about possible absenteeism in Brazil because we don't see this as something very relevant?

A - Timothy Klein {BIO 16522695 <GO>}

Yes. Regarding the third quarter volume, we were able to operate our plants at near capacity. We had ample supply of live cattle and very good demand for beef products. So we ran our plants for the most part as much as we were able to.

Q - Victor Saragiotto {BIO 19504427 <GO>}

I would like to talk to you about the closure of plants. And if we have an efficient footprint so this cost in the upcoming months will drop. We shall -- we will not increase this.

A - Marcos Antonio Molina dos Santos {BIO 15363967 <GO>}

I'm going to turn over to Tim.

A - Timothy Klein {BIO 16522695 <GO>}

I'm sorry?

A - Marcos Antonio Molina dos Santos {BIO 15363967 <GO>}

Please let Tim know.

Operator

We're turning over to you, Tim.

A - Timothy Klein {BIO 16522695 <GO>}

Okay. What was the question?

A - Marcos Antonio Molina dos Santos {BIO 15363967 <GO>}

(Foreign Language) Can you repeat the question for Tim, please, so that we can translate?

Q - Victor Saragiotto {BIO 19504427 <GO>}

Well, I wanted to know about the increased volume. We had an increase of 19.5% compared to 5.1% in the average. So I'd like to learn about the drivers of this higher volume, if you have used the cuts better or what were the drivers?

A - Timothy Klein {BIO 16522695 <GO>}

Primarily, the volume was up because of ample supply of live cattle and very good demand for beef during the first quarter. And so we ran our plants at increased volume levels for the quarter.

I'm sorry the other big -- I forgot to mention this. The other big change is due to Tama. Tama was not in the numbers last year first quarter. So that was part of that increase year-over-year was the addition of the Tama plant this year.

A - Miguel de Souza Gularte {BIO 20767495 <GO>}

They didn't here. They were more confident and absenteeism was not impacted by it. Another important factor was that, we're doing essential work. This was understood and we realized that we had to clearly show it to our employees. Another important factor was that we decided to donate 2.5 kilos per week per employee and this was only fair. Those who were working with essential services to put beef and the homes of Brazilians and people elsewhere is very important. And it's also important to keep in mind that these family had their children at home and not at school where meals are usually made and that helped us avoid absenteeism. This allowed us in our case to record the lowest historical levels of absenteeism.

And as to the second part of your question and whether we're going to go through the same problems they did in the U.S. That's very difficult to anticipate. We do not know enough to give you an accurate answer. This is a difference between what is possible and what's likely. It's not likely that it will happen, but it's possible. We're paying close attention.

We're taking every preventive measures, all of the precautions, so that if this happens we can have contingency plans.

There are two important factors regarding to your question. First of all is that in our industry people are used to dealing with sanitation rules, washing their hands, washing their boots, and this is something they take to their lives to their daily lives. Another important factor is that we've taken preventive measures to avoid having people with problems in the plants. There is a protocol where masks must be worn. They measure their temperature. They wear masks on while they go. We clean the buses. There are no lines, no gathering in the common areas. We took some measures to avoid problems before they actually happened and we started ahead of the U.S.

Q - Victor Saragiotto {BIO 19504427 <GO>}

Thank you very much. Clear answer.

Operator

Our next question is in English from Rob Dickerson, Jefferies.

Q - Robert Dickerson {BIO 17963496 <GO>}

Great. Thank you so much. So two questions. One is just as we think about the second quarter, I guess, and the go forward for the year, in North America it seems like a given your comments on the improvement in utilization rates that volumes would not be down. They would likely be up despite the increase in pricing that we're seeing in the market. That's the first question.

And then the second question I have is just around the shift in the organizational structure. I know you've called that out in the press release. It seems as if it's a bit more siloed. It also seems as if you say the CEOs of the two regions now will kind of report more to their respective boards. If you can just give some more clarity as to kind of why that occurred, who those boards are as a company and just increasingly decentralized, that would be helpful. Thanks.

A - Timothy Klein {BIO 16522695 <GO>}

Yes, this is Tim Klein. I'll answer the first part of that question. In terms of volumes, even if we get back by the end of summer to 90% to 95% utilization rates, we will be processing fewer cattle than we were a year ago. Typically this time of year, the industry runs at full capacity because of the availability of cattle and margin structure. I don't think we'll be back to full capacity. So numbers will not be up.

One thing that's important to remember though is that during this time period when processing volumes have been cut back, we estimate there's significant number of cattle, probably one million head or more that will be pushed farther out into the third and fourth quarter. So in terms of the overall supply of cattle should be very good for the rest of this calendar year certainly. Miguel, do you want to answer the second part of that, the second question there?

A - Miguel de Souza Gularte {BIO 20767495 <GO>}

Yes. Thank you, Robert. Marfrig has simplified its structures to make it faster and simpler. This started last year. We established two operations with autonomy. One of them is the board and the other is the holding. At the end of the year, Marfrig decided to eliminate the holding process and do as it is done in North America, the two operations report directly to the board and its committees. This has proved to be very well adjusted to today's reality. We ended with some hierarchical areas speeding our ability to act.

We only tried to simplify the way we worked with a more direct communication. We like to do it more directly and this is a situation that we have to deal with, not only the operations in North America and South America, but also within each one of the different operations. In South America, for example, we have operations in Argentina, Uruguay and Chile. And the system is very unified in terms of administration, IT, sustainability. This has proven to be adequate with excellent results at a moment, which is unprecedented as the one we're going through now with a lot of challenges for the operation, for the directors and for the employees.

Q - Robert Dickerson {BIO 17963496 <GO>}

Okay, super. And just a quick follow-up for Tim. Again, I guess, just to clarify, it sounds like volumes to be down a little bit just given kind of the current environment. But is the feel that the pricing also should improve, right? Because we're seeing and what we saw in Q1, there's some effects coming from the COVID shift so to speak, but that was really the tail end of the quarter. For Q2, there should be much more of an effect. So my feel, maybe I'm wrong, is that capacity goes down a bit in the second quarter, so maybe volumes are a little bit light, but obviously the pricing environment remains very strong. That's all. Thank you.

A - Timothy Klein {BIO 16522695 <GO>}

That's correct, what you said. We expect margins with fewer -- lower level capacity, margin should be somewhat higher than they were a year ago going forward.

Q - Robert Dickerson {BIO 17963496 <GO>}

Okay. Thank you so much.

Operator

Our next question is from Thiago Duarte, BTG.

Q - Thiago Duarte {BIO 16541921 <GO>}

Good morning. Thank you all, and thank you for the opportunity. I wanted to ask you two questions. First of all, I wanted to go back to the discussion about the conditions in South America. Miguel, you talked a lot about China and the company's position regarding the benefits that it apparently entails. But I'd like you to talk about two other things. In the beginning of your presentation, you talked about a mix. I wanted you to tell me a little bit more. I want to know whether that's limited to China only or whether there are any other components, more especially processed goods?

And I also wanted you to talk a little bit about Uruguay. Uruguay is an important market for you and it was significant in the margins for the last couple of years. I'm under the impression that the results improved a lot in the first quarter and I wanted to know a little bit more about this.

And then, finally, regarding your dividend policy for National Beef. In the past, you did have a dividend distribution policy, but I'm not sure whether after you purchased the additional stake by Marfrig. I'm not sure what this policy is like. Have there been any changes? Or has it been maintained? I'm asking because I did not see those figures for the first quarter and I wanted to better understand how it's going to be going forward?

A - Miguel de Souza Gularte {BIO 20767495 <GO>}

Thank you, Thiago. Thank you for your question. Regarding the mix for South America, it's important to keep in mind that Marfrig used to be a 50%-50% company. We had 50% of domestic market and 50% for exports. But in the last quarter, we had 60% for exports, and now the company has over 70% in exports. Regarding the mix, we were able to choose better destinations for the export. Processed goods is another important factor. Marfrig decided last year that it was going to invest in this area. First of all, because Marfrig has a department with an expressive capacity for processed foods. And therefore, in the first quarter when compared to the first quarter of 2019, we had a growth of 87% in processed foods. This is a trend that is here to stay,

also in terms of hamburgers in the Varzea Grande unit. In April 2019 when we acquired it, it processed about 5,000 tons with 1,000 animals. And today, they have doubled -- actually, I'm sorry there was a 25% increase in processed foods initially, and the trend is for it to continue.

Now regarding the mix, this is what we see in the practice. The internal market is very lean. We have this position in this case, for -- we have 30% in the domestic market and therefore we have to choose where and who to sell. This makes it easier for us to have a better adjusted mix. You also have a situation where we sell to buy instead of the other way around. So in the practice, we do not have any mix differences. And basically every month we adjust purchase and sales in South America. We do not really have a lot left. This is a trend based on precaution. I do not see any opportunity for anything different and we will keep following this track. We're trying to improve our efficiency as you mentioned in your -- in the first part of your question. This is an ongoing process and we'll move on. We have logistics, efficiency, recurring processes that will run, and there is an opportunity for improvement.

And regarding Uruguay, it is a leader in exports. We have about 25% to 27% of the activities in the country. And in the case of Marfrig in Uruguay, we decided to work with added value. We are very -- we're large exporters to the U.S. and now in the U.S. is significantly demanding exports from South America. And organic products have had a significant increase. And so we're making good use of the situation. And in Uruguay, we see a situation which is different from what we had last year. There is an inventory recovery, but this is a slow process. Everything in Uruguay moves on slowly regarding the cattle inventory and increased production in this area. But this is an ongoing process and the expectation is that after the first half of the year, because they are usually slower in the first half in Uruguay and the second half is a little bit faster and therefore we expect to have very good performance there. We have demonstrated this recovery process in the first quarter and now we're halfway through the second quarter.

Regarding the dividends policy, Marcos will complement my answer.

A - Marcos Antonio Molina dos Santos {BIO 15363967 <GO>}

Good morning, Thiago. I want to make something clear. In our contract with National Beef, we had to distribute 66% of dividends. Today, we no longer have this obligation. But we are maintaining this policy. The dividend policy remains at 56%. It's good for Marfrig as well because this cash which is generated will be used to decrease our debts later on.

Q - Thiago Duarte {BIO 16541921 <GO>}

It is clear. Thank you very much. Marcos, so this dividend payment, will it be done at specific time points every half of the year or every year?

A - Marcos Antonio Molina dos Santos {BIO 15363967 <GO>}

It is determined at 56% per quarter. And so distribution will be made in July? That's the next one. So it's done every quarter at 56% of our results?

Q - Thiago Duarte {BIO 16541921 <GO>}

Excellent. Thank you very much.

A - Marcos Antonio Molina dos Santos {BIO 15363967 <GO>}

This quarter we haven't done it. Because of the coronavirus we postponed it and it will be done in July. We wanted to have a better idea of the current situation before we paid dividends. And because everything is going okay we'll do it in July. We have chosen to be more conservative.

Q - Thiago Duarte {BIO 16541921 <GO>}

It is clear. I understand it now. Thank you very much.

Operator

Our next question is from Luciana Carvalho, Banco do Brasil.

Q - Luciana Carvalho {BIO 18724665 <GO>}

Good morning, everyone. Congratulations for your results. And I thank you for the opportunity. I have two questions. I wanted to know about the exports to the U.S., and

Miguel quickly talked about it. I wanted to know about more details. What is the potential you see for a market growth? I also wanted you to comment, how you're integrating the business operations, since we've had some advances in the North America and South America operations?

Another question is about investments. So during the first quarter and with the pandemic, we've observed that as uncertainties increased, everybody was trying to protect cash. And of course there was probably opportunity for M&M in the sector, but I wanted to know how you see the future? Can you use this opportunity for acquisitions? Or are you going to prioritize cash to sustain leverage? Thank you very much.

A - Miguel de Souza Gularte {BIO 20767495 <GO>}

Thank you, Luciana. Well embarkment to the U.S., I'd like to remind you that Brazil started operating smoothly with the U.S. in March. So at the end of the first quarter what we've seen now is that everything is moving very smoothly especially in April and May. But initially, it's not going to be an expressive volume. We have better destinations. In our case, Brazil can use part of the products for industrialized products with a better margin. In the case of the U.S., we're using the synergism with National Beef, which has been excellent for Marfrig.

We have an opportunity to negotiate using the U.S. platform which is National. This gives us opportunities to give visibility to our products in the U.S. This demand is ongoing and we are operating normally. It started slowly. Brazil had had some problems in the past. So we're trying to be as careful as we could. We have been operating constantly with this market. This is a rationale that can be used for Argentina and Uruguay. Uruguay was pioneer of South American exports to the U.S. since 1995. There was a time that they would export even bone and meet. Now we have tried to regain some space. Australia has decreased its offer to this destination which gives an opportunity for Brazilian, Uruguayan and Argentine.

Regarding investments, as expected, we have a more conservative stance. We understand that the COVID situation is something that requires reinforced cash. We have to be careful. Of course, we're paying attention to opportunities. We have evaluated possibilities, but nothing relevant has come up, just something that will be complemented to our structure, our footprint, but of course we haven't closed our doors.

Q - Luciana Carvalho {BIO 18724665 <GO>}

Thank you very much.

Operator

Our next question is from Joo Soares with Citibank.

Q - Joao Soares {BIO 17386703 <GO>}

Good morning, everyone. I'd like to congratulate you for your results. I have two quick questions. The first one is a follow-up regarding processed foods. The U.S. has improved its mix occasionally, but I analyze the consolidated results of the company. We have 10% coming from hamburger. So how can we see these figures now not only hamburgers, but processed foods in general? What does it represent for the company right now?

The second question is that in the last call, Martin talked about value in the U.S. I would like to know whether this is -- has remained the same? What are your plans for the future? And whether you have any specific timing for this?

A - Miguel de Souza Gularte {BIO 20767495 <GO>}

Thank you, Joao. I'm going to answer your -- the first part of your question. Our plan was to have 10% to 12% of our revenues resulting from processed foods. In the first half of 2020, we're starting two new hamburger lines in the Varzea Grande unit. It will increase our productivity in this area and it makes sense. In Europe, with the COVID system, they have decreased their demand, but they have not decreased their demand for processed foods. The culture of the British to buy canned foods is once again confirmed and we've seen opportunities not only for the Brazilian operations, but also for our Uruguayan operations.

Regarding the second part of your question, Marco will answer you.

A - Marco Antonio Spada {BIO 20767498 <GO>}

Good afternoon. Well regarding the values and blocking these values, we have defined Marfrig's strategy. We're going to focus on beef. And so the first thing we started doing in the second half of last year was number one, eliminating the holding so that in the future in the U.S., the holding was something that was not compatible. And therefore with the elimination of the holding we decreased our expenses in 50%. And now we have improved the operational activities, especially when Miguel joined our team and we've been working together for year and half. We also invested in CapEx and improvements, all of the operating investments are seeing in this first quarter. Our strategy includes increases in processed foods. Processed foods is more profitable now. With the 10% of processed foods we would have about 12x our overall, which is not seen there. And this is homework for us. We have to improve processed food margins and that will improve our overall margins efficiencies, simplicity of the operations and also focus.

In the fourth quarter of last year, we decreased our expensive financial operations with our capital that was maintained, but had high -- costs a lot to the company. We had a decrease of almost BRL 1 billion. All of this reduction is in itself a preparation for the company to be simpler and more focused. Things have to be natural. We have to do our homework and we're now trying to be ready. If we have an opportunity in the U.S. And if the market is better there and paying better, why shouldn't we evaluate this possibility? We must be ready to make this decision and, therefore, the Board has determined the company should be ready to go. This is a decision that we'll make later on, not now,

with the a COVID around. We still have future quarters to really demonstrate Marfrig's value. I don't know whether I answered your question thoroughly.

Q - Joao Soares {BIO 17386703 <GO>}

Marco's you did. But there's one aspect regarding processed foods. Do you have a percentage rate regarding the revenue you want to have to start a process that would make sense in the face of everything you said?

A - Marco Antonio Spada {BIO 20767498 <GO>}

Well, I don't think that one thing is attached to the other. What really matters is a strategic plan. We have our own strategic plan in the mid and long term, 20%, I could say. But this is not attached to this decision, the strategic plan is something that we will carry on anyway. Processed beef is where we can really add value.

Operator

Our next question is from Barbara Halberstadt, JP Morgan.

Q - Barbara Halberstadt {BIO 18022271 <GO>}

Thank you very much for your -- for this opportunity. I would like you to talk a little bit more about the nature of these financial operations that had an impact on the working capital. Also in terms of refunding, you were talking about the funding used to purchase National Beef. Could you please comment what the status of this refunding is?

A - Miguel de Souza Gularte {BIO 20767495 <GO>}

Barbara, good morning. Regarding the working capital, we have expanded our vendors, clients, we have liquidated everything. Because this had an impact on our financial expenses, but it's no longer there. We are not going to go back there either. Now regarding the negotiations, we are moving forward. We are at an advanced stage and will go on for three years. This will place our debt at 85% in the long term and much lower in the short term.

Q - Barbara Halberstadt {BIO 18022271 <GO>}

Okay. Thank you very much.

Operator

Our next question is from Leandro Fontanesi, Bradesco BBI.

Q - Leandro Fontanesi {BIO 20270610 <GO>}

Good morning. Thank you for the opportunity. As a follow-up to the last question and talking about liquidity, if I'm not mistaken, you had about BRL 7.5 billion in cash and some for amortization of debt in the future. But I wanted to know how you see cash liquidity and eventually the extension of this amortization?

The second question regarding cash generation, the operational improvements have been made clear, but I wanted to know about the conversion and a stronger cash generation?

A - Miguel de Souza Gularte {BIO 20767495 <GO>}

Good morning. Regarding the liquidity of the loans, as I mentioned before, we will have -- we will go from 85% to 15%. We'll have an extension. And therefore we do not have any short-term debt volume. Regarding cash generation, we are a robust operation. I do use my working capital to optimize the operation. And therefore I better buy, I better transform, and I better sell. This is our focus. This is our strategy for cash generation.

Q - Leandro Fontanesi {BIO 20270610 <GO>}

Thank you.

A - Rafael Braz

This is Rafael, I am from IR. Throughout the call we've had some technical problems which did not enable us to exchange some questions and answers. Therefore, myself along with the IR team will be available individually to clarify any questions you may have about our excellent results for this quarter. I thank you very much, and I end our Q&A session right now. Operator?

Operator

We now close the Q&A session. I now turn over to Marcos Molina for his final considerations. Please Mr.Marcos, proceed.

A - Marcos Antonio Molina dos Santos {BIO 15363967 <GO>}

Well, as you followed the presentation, we had a strong performance in this first quarter. I do believe that we're going to deliver much better results in future quarters. We're committed right now with our strategy and our simple and focused structure. We believe that this is the way to go to put us closer to our objective. Our objective is to pay our shareholders their dividends. Marfrig has adequate capital structure with a low cost and we are prepared to face the challenges of this new world scenario.

In this scenario of uncertainties, our priority is the health of our employees. We are not sparing resources to provide the highest standards of best safety practices in the world. Furthermore, we are socially committed with the communities we work at. In many of these cities, we represent the main source of income. Right now it is our duty to help find a solution to this crisis and contribute with measures that will contribute to lessen the impact of this pandemic. We have reactivated an alcohol and drug unit, to be provided to our employees in local medical sites, and other areas where they needed our support.

In Marfrig's DNA social commitment is a priority. Different measures were used to mitigate the impacts of the pandemic to structure plants which are very important to lessen the impact of the pandemic. We should also be focused on our sustainability goals, our financial sustainability, above all, and environmental which have always guided the company's objectives. Our hope is that this situation will be over as soon as possible and that we're all safe.

Count on Marfrig. Marfrig has an important mission, which is to feed the world which cannot stop. And I thank you all for your attention.

Operator

Thank you. Marfrig's teleconference, Marfrig Global Foods S.A. is now over. We thank you all for your participation and hope you have a wonderful day.