Q1 2015 Earnings Call

Company Participants

- Edison Ticle, Chief Financial Officer
- Fernando Galletti de Queiroz, Chief Executive Officer

Other Participants

- Andrew De Luca, Analysts
- Jose Yordan, Analyst
- Unidentified Participant

Presentation

Operator

Good morning, ladies and gentlemen, and thank you for waiting. At this time, we would like to welcome everybody to Minerva's First Quarter of 2015 Results Conference Call. Today with us we have Fernando Queiroz, Chief Executive Officer; Edison Ticle, Chief Financial Officer and Eduardo Puzziello, Investor Relations Officer.

We wish to inform you that this event is being recorded and all participants will be in listen-only mode during the company's presentation. (Operator Instructions) The audio and slide show of this presentation are available through a live webcast at www.minervafoods.com/ir. The slide show can also be downloaded from the webcast platform in the Investor Relations section of this website.

Before proceeding, we wish to mention that forward-looking statements may be made during this presentation, relating to Minerva's business prospects, operating and financial estimates and goals. They are based on the beliefs and assumptions of company management and on information currently available. 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 Minerva and could cause results to differ materially from those expressed in such forward-looking statements.

I will now like to turn the conference over to Mr. Fernando Queiroz, CEO, who will begin the presentation. Mr. Queiroz, you may start the presentation.

Fernando Galletti de Queiroz {BIO 15387377 <GO>}

Good afternoon, everyone and thank you for participating in Minerva's first quarter of 2015 results conference call.

The beginning of 2015 was marked by on a diverse economic in industry scenario with increased cattle price and reduced its slaughtering in Brazil.

A decline in Brazilian beef exports are slowing domestic market and foreign exchange with high volatility. However the excellent result presented by Minerva today is the main indicator of the focus, the consistent and the discipline execution that has made it such success in recent year, as we will show in more details.

Moving now to slide two, where you have the main highlights. First, in 1Q of '15, the company posted an outstanding performance with regard to each share in the Brazilian beef exports. While the counter as a whole recorded a 24% decline in export volume, Minerva recorded a 11% upturn rising its share of exports by 8 percentage points from '16 in the 1Q '14, to 24 in the 1Q '15, with no reduction in profitability. On the contrary, the company reported free cash flow of R$82 million this was the main highlight in the first quarter which is normally the weakest in terms of margin and cash flow generation.

We will detail our export performance in the following slides. Our return on the invested capital remain in high at 20% in the 1Q of '15 on industry benchmark. Net revenues, once again reached record levels climbing by 54% over 1Q '14, then exceeding revenues in the fourth quarter of 2014, which is normally the highest of the year.

Net revenues stood at R$2.2 million [ph], thanks to capacity increase, most of which was added in the 4Q of '14, but also from the organic growth of our operation with a good performance not only in the export market, but also in the domestic market where our distribution has been achieving outstanding results.

In the last 12 months, pro forma revenues was close to R$8.5 billion which leave us comfortable to reinforce, our 2015 revenue guidance in the range of R$9.5 to R$10.5 billion for the year. EBITDA totaled a R$188 million, 38% up on the 1Q' 14 with a margin of 8.7%.

We increased our shares of our exports, which accounted for 67% of the total revenue.

The company closed the quarter with a comfortable cash position equivalent to 50% of short-term debt and therefore, with a capital structure that leave us fully prepared for a more diverse macroeconomic scenario that may happen.

Finally, I would like to highlight Minerva's main driver in 2015. We are maintaining our commitment to reducing the company's leverage, recording consistent growth while always seeking opportunities that will have positive impact on the leverage.

We will be prioritizing the cost that are pursuit of efficiency in our production units establishing benchmarks and capturing synergies from the acquisitions. We have already noticed a faster decision-making process as a result of the new corporate structure created at the beginning of the year. Though separating the operations of Beef Brazil, Beef (inaudible) distribution and other business.

Lastly, we will continue to prioritize our cash margin and we will maintain the focus discipline and consistence that have made the company such an outstanding player in the sector.

Let's move on to slide three, where we will give an overview on the Brazilian industry. In the 1Q '15 the industry slaughter volume fell by 11% over the same period last year, reflecting the more than 20% increase in the cattle price in the last 12 months and the slowdown in beef prices, especially the domestic market carcass price which was impacted by the seasonal reduction in consumption.

Following a drier January, there was a good rainfall in February and March, which led many producers to maintain their animals in pasture for a longer period postponing the season availability of cattle to May and June. We have observed a firm cattle supply in the last weeks and the arroba price has begun to come down in certain regions.

With regard to Brazilian exports, volume fell by 24% in the 1Q '14 due to the following factors. Firstly, the 11% reduction in the industry slaughter volume in the 1Q '15, which reduced production for exports. In addition, Russia and Venezuela imported less, as we mentioned in our previous conference call, giving the strong currency evolution in both countries.

The slide on oil prices and their social and political prevalence, this reduction was expected. It's worth noting, however that exports begin to pick up as of March, especially to Russia. Thirdly, the difficulty in rising working capital due to a more restrictive and selective credit environment in Brazil, which also acted as a barrier against some smaller exporters.

However, I must point out that Minerva 1Q '15 export performance was extremely different from Brazil as a whole as we have recorded a substantial market share gain. As we will explain in more details later on. Finally, there was a slowdown in the domestic market, although the first quarter is seasonally weaker than the consumption point of view, in 2015 this was compounded by the country's more diverse macroeconomic scenario characterized by the increased inflation and the reduced availability of credit. This became clear from the household consumption intention Index, as shown in the graph.

Moving now to slide four, we'll talk about the industry in Paraguay. In the 1Q '15 the country was marked by a firm cattle supply with typical season behavior, as good rainfall happens. As a result, the slaughter volume increased by 30% over 1Q '14. Exports were impacted by reduced demand from Russia slightly pressuring operating margins, although they remained at healthy levels.

The outlook for the sector remains positive. At the end of the quarter, cattle price returned to levels close to those at the beginning of 2014 and part of exports volume was shifted to other markets such as Chile and Israel.

In addition, European Union officially announced the reopening of the beef imports from Paraguay, which was banned in September 2011. It reinforced the country increasing importance in the global beef market as well as demonstrating the restricted supply in certain major markets such as Europe which will -- which should start importing beef as from mid of May.

Now let's go to slide five, where we will have an overview on the Uruguayan industry. The Uruguayan industry continued to perform well in the 1Q '15. The slaughter volume remained flat over the previous quarter but climbed by 13% over 1Q '14. Uruguay has benefit from its privilege position in the global beef market, mainly due to its access to such important markets as mainland China, United States, South Korea among others. As a result, export revenues increased by 20% over 1Q '14 led by mainland China whose share of total exports moved up from 90% in 1Q '14 to 26% in the 1Q '15, and the United States whose share grew from 13% to 21% in the same period, as shown in the graph.

Let's move to slide six, where we have a look on Minerva performance and results. In slide six, in the 1Q '15, the company was once again among the leading beef exporters in the countries where it operates.

In Brazil, Minerva's market share increased substantially rising from 16% in the 1Q '14 to 23% in the 1Q '15 which will detail this performance on the next slide.

Our market share in Uruguay was 16% higher than in the 1Q '14 thanks to the organic growth and the consolidation of Carrasco operation. In Paraguay, our share reached 20% to 3% gain over the 1Q '14. This slide also shows our export mix by region. The highlight was the increase in exports to Asia that rose from 12% in the last 12 months until March 2014 to 16% in the last 12 months, March 2015.

In addition to sales from Brazil to Hong Kong, Singapore, Malaysia and Philippines, this growth was also followed by sales from Uruguay to Mainland China which practically doubled in this period, showing that beef supply from other producing countries has not been sufficient to meet the increased consumption in the region, resulting in healthier prices in China.

Another highlight was that 300 bps upturn in the sales to NASDAQ [ph] specially in the United States. This region is served by our plants in Uruguay and this increase confirmed the short supply of beef in the US.

Finally, there was an important increase in exports to the Middle East, especially Egypt and Iran, due to the switching of volumes previously sent to Russia.

Now let's have a look on the slide 7, which I have just mentioned contains more details on Minerva 1Q performance in Brazil. According to Secex's statistics, Brazilian beef exports volume fell by 24% over 1Q '14 for the reasons we outlined at the beginning of this presentation. Reduced slaughtering, lower import by Russia and Venezuela and the greater needs for working capital in cooperation with domestic sales. On the other hand Minerva exports increased by 11% in the same period which rated our share in the Brazilian exports by a substantial 8% points from 16% in the 1Q '14 to 24 in the 1Q '15 as you can see in the table.

This performance was due to the company's excellent position in the export market, thanks to its commercial speed, flexibility, efficient access to sales channels and solid financial structure.

All of this was the result of the company's strategy based on a combination of risk management instruments that indicates the best markets for products placement and an export platform that permits quick adjustment in the sale mix thereby improving profitability.

It's also worth noting that despite the recent acquisitions that have substantially increased the company's capacity, the operation of Frigorifico Carrasco are in Uruguay, and therefore outside the scope of this analysis. In addition, the Janauba plant in the state of the Minas Gerais is still in the ramp up phase and with a restricted export license, while the Mirassol D'Oeste and Varzea Grande plants, in Mato Grosso are in the integration phase and their export license are being revalidated.

As a result, a substantial part of their sales goes to the domestic market. It's important to note that today, we just received the approval of Janauba plant to export to Europe. So this opens new possibilities and we should start increasing our export shares out of this plant affecting the total of Minerva.

Consequently, Minerva results were not due to the capacity additions, were due to its unique strategy in the export market.

Now, I will hand over to Edison who will comment on our financial highlights. Edison?

Edison Ticle {BIO 15435343 <GO>}

Thank you, Fernando. Good morning everyone. Our financial highlights are on slides eight and nine of the presentation. On slide eight, we can see that the net revenues reached another record this quarter and were higher than the amount reported in the fourth quarter, which is normally the company's strongest period and the revenues in this quarter reached R$2.2 billion, 54% up when you compare it to 1Q '14.

If you look at the last 12 months and include the pro forma revenues from Carrasco acquisition and the plant in Mato Grosso, net revenues would have come to approximately R$8.5 billion.

In relation to the domestic export sales mix, as Fernando has already mentioned, we maintained our focus on our exports, which accounted for 67% of the total revenues in 1Q

'15. 500 basis points up when you compare it to the previous quarter.

EBITDA came to R$188 million, 38% higher than in first quarter '14 with a margin of 8.7%, an improvement over the same period in 2013 and 2012. Despite being impacted by the consolidation of the plants in Mato Grosso and Janauba which are in the final ramp up phase.

It is worth noting that the 9.7% margin record in the first quarter of '14 was unusual and due to the company's strategy of increasing cattle purchase in cash given the drop period which committed the cattle supply, leading to the need for more working capital in the operation and therefore committing the free cash flow in that quarter.

Finally, I would like to draw your attention to the share of the company's operations in Uruguay and Paraguay in the result, that's shown in the lower right chart. The four plants in this country, currently accounts for 30% of Minerva's total EBITDA.

Given that Paraguay and Uruguay export more than 85% of their beef production and factoring the percentages exported by Brazil, we can affirm that currently more than 70% of Minerva's EBITDA is denominated in dollars. This is very important to our hedge policy strategy, especially in such volatile environment as we have seen in the first quarter of 2015.

Continuing with our highlights on the slide nine. We once again presented a high return on invested capital that reached 20% flat compared to the first quarter of '14 and conforming our position as an industry benchmark.

Operating cash flow reached R$365 million higher, much higher than in the first quarter of '14 and also the first quarter of '13. Working capital also recorded a big year-on-year improvement contributing approximately R$60 million to the operation. Unlike in the first quarter of '14, when there was a greater need for working capital in order to acquire cattle on cash as I mentioned in the previous slide.

We will detail with on the free cash flow slide. In regard to capital structure, Minerva closed the quarter with a cash position of R$3 billion, approximately three times higher than our short-term debt maturities.

Therefore highly comfortable especially in a challenging and volatile macroeconomic scenario. This position allow the company to pay all the debt until 2022. If we exclude the bonds that were bought back in the market, cash would have come to R$2.4 billion, short term debt accounted for 15% of the total debt this was emphasizing that the company has been using certain trade finance lines that are cheaper credit lines maturing the short term in order to reduce the cost of our debts, but always respecting the financial policy of having less than 20% of the total debt due in the short term.

Moving on to slide 10, let's talk about company's leverage. Net leverage measured by the net debt-to-EBITDA ratio, closed the first quarter of '15 at 4.3 times. This quarter, the end of period dollar appreciated by more than $0.50 or 21% in relation to the Real, which leads to a substantial impact on our dollar denominated debt and also on the company's leverage, given that more than 70% of the debt was exposed to the dollar.

On this slide, we show the impact of the exchange rate in the last 15 [ph] months on Minerva's leverage, especially in regard with the mismatch between the dollar at the end of the period which affects the mark to market of the debt in the balance sheet and the average dollar which affects our operating cash flow. As you can see there is a significant difference between the two exchange rates, pushing up leverage without the full benefit of the depreciation of the dollar on our operational cash flow. In the first quarter of '15, the end of period FX rates was R$3.21 per dollar while the average rate was R$2.87 per dollar.

Since the end of 2013, the exchange variation, the FX variation has added R$1.1 billion to the company's total debt. While EBITDA has not moved up in the same extent, given that in addition to the average dollar being consistently lower than the end of period dollar there is a lag for the company's dollar denominated revenue to benefit from a more depreciated currency.

The lag is between two and three quarters, so if we see the volatility of the currency reducing and the average FX becoming close to the end of period FX, it will take an additional two to three quarters of lag to have the full benefit on the operational cash flow of the full depreciation of the currency.

The FX variation in the period in the last 15 months is approximately one-third of the net debt of the company, which is now at around R$3.3 billion. It is equivalent to 1.5 times EBITDA, so we can affirm that the company's net leverage if you don't consider the currency depreciation would be below three times would be around 2.8 times, measured by the net debt to EBITDA ratio.

It is worth noting that all the debt covenants we've seen their established parameters, there are being zero risk of non-compliance with these obligations, just to remember that our debt have incurrence [ph] debt and the net debt EBITDA ratio is adjusted, the net debt to EBITDA ratio calculation for the covenants purpose is adjusted by taking out the FX variation since the inception of the debt.

In the first quarter of '15 the impact of the exchange rate on debt was partially offset by the free cash flow generation that we can see now on the slide 11. The company closed 2014 with net debt of R$2.8 billion due to depreciation of the dollar that we have just mentioned, the exchange variation this quarter reached R$640 million with no cash effect. Part of this impact was offset by free cash flow of R$82 million in the quarter and by other financial items with no cash effect, but with an effect on the total debt that reached to R$22 million. So net debt closed at March at R$3.3 billion or 4.3 times measured in with the net debt to EBITDA ratio.

Moving now to slide 12, we will give you a breakdown of our first quarter free cash flow. In the first quarter working capital contributed a positive R$60 million to cash flow.

The highlight was the other accounts payable item, in turn impacted by advances or pre-payments from our clients, which recorded a positive variation of R$177 million as detailed in our earnings release. This performance was due to the company's credit policy that requires pre-payments depending on the scorecard of each client. Given export growth, Minerva just filed [ph] in these advances, thereby reducing the risk associated with the external credit and positively impacting the quarters working capital variation. We highlighted in the calculation of the working capital, we excluded the positive adjustment of equity evaluation due to FX variation in our investments outside Brazil, which represented approximately R$77 million in the first quarter of '15.

CapEx with cash impact came to R$47 million in the first quarter, most of which allocated to operational maintenance. Total CapEx was R$103 million however, 56 million is related to the FX variation on the fixed assets of our subsidiaries abroad. Therefore, with no cash impact.

The financial result on a cash basis reached R$118 million impacted by the FX hedge P&L, which was positive which was R$48 million positive. During the quarter in spite of our active hedging policy, we decided to protect part of our dollar debt exposure using conventional derivative instruments without leverage (inaudible) non-deliverable forward and swaps. As a result, free cash flow reached R$82 million in the quarter, and if you do the same calculation for the last 12 months, the company generated R$172 million in the past 12 months.

Let's go now to slide 13, that shows our net results. If we exclude the negative non-cash impact of the exchange variation on debt, which is R$640 million and the impact of income and social contribution taxes, the company would have recorded net income of R$55 million in the first quarter and approximately R$200 million in the last 12 months.

To conclude, we will now look at the position regarding the company's repurchased bonds. During the first quarter of '15, as I mentioned in the previous call, we bought back approximately $40 million of the bonds maturing in 2023.

Adding this to the company's other buybacks since 2013 and 2014, approximately R$600 million of our cash is invested in our own [ph] bonds. This is an efficient instrument of hedge and cash return and demonstrates one of the advantages of keeping a high cash position, especially in periods where there is volatility because those periods bring good opportunity to invest our cash, buying back our bonds in the market.

Now I will hand over to the operator to begin the Q&A section. Thank you.

Questions And Answers

Operator

Thank you. We will now start the question-and-answer session for investors and analysts. (Operator Instructions) The first question comes from Jose Yordan of Deutsche Bank. Please go ahead.

Q - Jose Yordan {BIO 1496398 <GO>}

Hi, good morning guys. Had a couple of quick questions. One is a follow-up on the question I was asking in the Portuguese call about margins in the Mato Grosso plants and then et cetera segmenting that and I understand your answer is, you can't really given the restrictions on exports and so, you can't really do that exercise in a consistent way but if you had to say from when you started what the efficiency and profitable of a plant everything else is equal.

To where you want to get to, can you tell us how far you are, are you 30% in terms of doing the integrating and the improvement of margins or 5% -- I would just like to get a sense of kind of where you are in the process and then the second question is just you mentioned that the arroba price was starting to come down in some places, but last time I looked at that, I mean the futures is still showing an increase throughout the rest of this year, at least they were last week, have you seen a big change in the futures trading to reflect the kind of changes that you're implying in the availability over the last couple of weeks?

A - Fernando Galletti de Queiroz {BIO 15387377 <GO>}

Jose, I'll go back to the first question that I replied in the Portuguese call. For us to get the Mato Grosso plant and Janauba plant to the same level that all the Minerva plants are, it will take us about two quarters, so I would not tell in terms of volume of percentage but in terms of timing. So we are about two-thirds of where we want to be, the less third takes a bit longer because it has an influence from authorities, it depends on licenses and things like that are not 100% under our control.

So being on the safe side, I would say two quarters to get there. Well, the -- yes?

Q - Jose Yordan {BIO 1496398 <GO>}

Alright, thank you.

A - Fernando Galletti de Queiroz {BIO 15387377 <GO>}

On the cattle price in the last two weeks, we had a decrease of around R$3 to R$5 depending on the area. It's normal to have the curve still the market is still in gearing [ph] as you can see in the futures, normally the second half of the year, the prices are higher than in the first quarter. And what you're seeing, it's the marketing in the normal carry charge, but the spot market is already down depending on the area between R$3 and R$5 per arroba, per 15 kilos.

Q - Jose Yordan {BIO 1496398 <GO>}

Okay, very clear thanks.

Operator

(Operator Instructions) And we have a question from (inaudible) from Barclays. Please go ahead.

Q - Unidentified Participant

Hi. (Technical Difficulty). Hi, there, sorry. Just a couple of quick questions, one with respect to obviously the word capital gains that you have realized during the quarter, that's something that you expect to continue to do for the rest of the year and what kind of gain can, I guess can we expect for the full year period? And similarly, with respect to the gains on kind of market share around kind of export side of the business is that something that you would again expect to kind of gain pace as we progress throughout the year? Thanks.

A - Fernando Galletti de Queiroz {BIO 15387377 <GO>}

Erica what was the first question, the second one was about market share and the first one?

Q - Unidentified Participant

Was around the working capital that you kind of managed to extract in Q1, is that a sustainable something that you would expect throughout the rest of the year?

A - Fernando Galletti de Queiroz {BIO 15387377 <GO>}

Okay, clear. Well, talking about the working capital, yes it is sustainable. We have a target of reducing our cash conversion cycle to something very close to 15 years, 15 days sorry. So I think we are on the right track and we expect to present further improvements on the working capital side.

A - Edison Ticle {BIO 15435343 <GO>}

On market share gain, we have the numbers of April and seems that our market share remain about the same. Of course that we cannot predict the future, but the company has a well established channels in the main markets. So we believe that due to all the factors that I pointed on the presentation, that is the Minerva's speed, the agility, the risk management and especially the lack of financial lines, the restriction on financial lines we tends to have the export market even further concentrated than it is now.

So we believe that this strategy is on the right track and the numbers that you see in the first quarter they are sustainable for the middle term.

Q - Unidentified Participant

Okay and perhaps, you kind of shared, as a percentage of your total revenues where would you like exports to be relative to revenues generated in domestic market and also do we yet have any update around the possibility of the US market, opening up to some of the Brazilian beefs product?

A - Fernando Galletti de Queiroz {BIO 15387377 <GO>}

The percentage of the revenues that goes to the export market or the local market, this is a weekly decision that we take that's based on what markets are paying, and what's the currency what are the taxes and the logistics and all that.

So we bring everything to the same basis, and we take the most economic decision. Looking at the perspectives that we have for the Brazilian economy and with the increase of the licenses for Brazilian plants to export, we believe that we may see slightly increase on the share on exports on the total revenues being -- that it could reach upto 70 or around 70% of the total revenues.

So the answer, yes there is a space for further increase on the share of exports on the total Minerva revenues.

Q - Unidentified Participant

Okay, great. And then any update around the US opening up?

A - Fernando Galletti de Queiroz {BIO 15387377 <GO>}

US well we see that it is in the agenda of the President of Brazil and Mr. Obama. So I think there are some perspectives I think what's just around the corner, is the opening, the final opening of China to Brazil that we shall receive the visit of the first Brazil we will receive the visit of the Prime Minister of China, in the middle of May and the proactive channels they're working to have the announcement of the final certificate allowing Brazil to start exporting to China.

Besides that, in Paraguay we had the opening of Paraguay to export to EU. So Europe will start taking Paraguay and beef has flown mid of May. So we shall have new markets also opening is not only its EU for Paraguay, it's South America, it's on the trend of opening new markets and this shall further increase the profitability.

Q - Unidentified Participant

Okay, that's great. And then, sorry, one final question if I may. With respect to the beef cycle, is there any anticipation that this will kind of start to turn towards the backend of the year, and obviously margins down sequentially drove (inaudible)a lot that is obviously is attributable to the consolidations of the acquisitions, which are lower margin and you mentioned that you'd expect to be able to bring those in line with the existing operations.

So just trying to get a sense about kind of what margins might look like, for the full year period, if perhaps within (inaudible) potential kind of the cycle at the back end.

And if that gets offset with the improvement in margins from some of the integrated asset.

A - Fernando Galletti de Queiroz {BIO 15387377 <GO>}

Alright. Talking about the cycle, well we are seeing or we are expecting change at the numbers of the cattle to be slaughtered in the year of 2015, there is a decrease of offers of females of cows to be slaughtered but there is an increase of males and this, the animals that are slaughter now they are animals that were born on its majority in 2013 that was our record over 2012 births. So the cattle cycle is not a worrying thing.

On the other hand, there is a consolidation in the market, the market have never been so consolidated, perfectly three companies, they are responsible for 85, depends on the market, but from 80% to 90% of the exports, so it's a pretty consolidated market on the export side. I think this brings more stability to the market as there is no further consolidation or no fight for share.

Q - Unidentified Participant

Okay, that's helpful. So you would expect an improving margin trend in that case over the close of the year?

A - Fernando Galletti de Queiroz {BIO 15387377 <GO>}

Well, and we don't give guidance for margins but considering other factors on the supply side, on the demand side, we see the market with optimism.

Q - Unidentified Participant

Okay, great. Thank you.

Operator

The next question comes from Andrew De Luca of Credit Suisse. Please go ahead.

Q - Andrew De Luca {BIO 18025129 <GO>}

Hi guys, thanks for taking my question. I guess I just want to go back to something you mentioned in your prepared remarks, where you said that the demand from Russia was seeing picking up in March, and I wanted to know if you could give us a little bit additional color on what you've been seeing so far in April?

A - Fernando Galletti de Queiroz {BIO 15387377 <GO>}

Russia, the Russian importers they consume their stocks and they got to the point of buying it again, so what we are seeing from Russia is a down trade. So they are buying products that are cheaper and they are buying much less products that are expensive, there is a reduction in volume, but is not a market that stopped completely. So we are seeing, yes, Russia returning. And our guess is that Russia will return to 40 to 50% of what was the numbers, that they bought in two, three previous years.

Q - Andrew De Luca {BIO 18025129 <GO>}

Okay. Thank you very much.

Operator

(Operator Instructions) The next question comes from Jose Yordan as a follow up. He's from Deutsche Bank. Please go ahead.

Q - Jose Yordan {BIO 1496398 <GO>}

Hi, just a follow-up question on Venezuela. You mentioned in prior call that you don't take any credit risk there et cetera. Just wanted to get an update on whether you still able to obtain the letters of credit and all that stuff to make this possible and in general, kind of as a parallel to what you've been about in Russia, can you describe how the demand curve has changed? Let's say, over the last year when there is a fall off a cliff and how has it recovered yet or where do you expect it to kind of settle? I understand it's a more difficult prediction to make in the case of Venezuela and Russia.

A - Fernando Galletti de Queiroz {BIO 15387377 <GO>}

Venezuela well of course, that with this scenario deteriorating, we are even more demanding and more restrict on our credit policy, so we only sell there if it's confirmed with (inaudible) or if there is advance of money so we are seeing a decrease on volume despite that is peeking up again. But Minerva keeps in a very conservative approach. The markets that are taking the volume that are substituting the decrease of Russia and Venezuela, as we said on the presentation are the Far East, the Middle East and Africa mainly. So these are the three regions that are offsetting the decrease that you see from Russia and Venezuela. But the up sight to that Jose that there is a shortage, a reduction on the world supply of beef.

I mean other traditional countries that used to export, they keep a reducing their volume. And I think one of the big changes is what's happening in Australia, United States catching a down trend, so this leaves South America as the only origin, or the main origin that will be supplying, that will keep supplying the world.

Q - Jose Yordan {BIO 1496398 <GO>}

Understood. So, Venezuela is basically following the same pattern as Russia with the oil decline?

A - Fernando Galletti de Queiroz {BIO 15387377 <GO>}

Yes, with less resources, Venezuela has less resources than Russia, because the economy is more dependent on oil, so yes, while we are seeing the movements from both, but we see both reduction from both, but both are coming back to the market.

Q - Jose Yordan {BIO 1496398 <GO>}

Great, thanks a lot.

Operator

The next question is a follow up from Andrew De Luca of Credit Suisse. Please go ahead.

Q - Andrew De Luca {BIO 18025129 <GO>}

Hi, yes, thanks for the follow-up I was wondering on your cash balance, it seems like you guys are pretty much well in excess of the three pillars, you mentioned and I was wondering if you can provide any additional color on what could you use some of that cash for?

A - Fernando Galletti de Queiroz {BIO 15387377 <GO>}

Well the main reason why we keep high liquidity, high cash, is we should take advantage of opportunities that we see in the market. Opportunity can be buying back our bonds, can be paying capital in cash, or simply having cash as an insurance against the deterioration in the macro economical scenario or in the credit scenario.

So we will keep having high liquidity, high cash and we are following very close all the opportunities, especially in the operational side by cattle in cash, while giving more credit to some clients in the domestic market, small and medium retailers or buying back our bonds if there's a good opportunity in the market.

Q - Andrew De Luca {BIO 18025129 <GO>}

Okay. And then are you guys seeing anything attractive maybe in Paraguay and Uruguay at the moment. I know you've mentioned that you would kind of keep acquisitions in markets where you already have an existing presence, so with the margins that you see in Paraguay and Uruguay are you seeing anything particularly attractive there?

A - Fernando Galletti de Queiroz {BIO 15387377 <GO>}

We are always looking at the opportunity in South America, and everybody knows our business plan. But now we are very, very focused in Colombia, firstly in finalizing the due diligence process of Red Carnica the company that we acquired one month ago. So we are focused on concluding the process of acquisition and start operating this plant and we are also looking at other opportunity in Columbia in order to have a bigger footprint in that country.

Q - Andrew De Luca {BIO 18025129 <GO>}

Okay. Can you just provide us an update on when you expect to conclude that transaction in Colombia?

A - Fernando Galletti de Queiroz {BIO 15387377 <GO>}

We are concluding the contracts and due diligence, I think in two or three weeks, we'll be able to start operating the plant.

Q - Andrew De Luca {BIO 18025129 <GO>}

Okay, great. Thank you very much.

Operator

(Operator Instructions) There are no questions at this time, this concludes our question-and-answer session. I would now like to turn the conference over to Mr. Fernando Queiroz for closing remarks.

A - Fernando Galletti de Queiroz {BIO 15387377 <GO>}

I thank you all for taking part on the call despite the volatility in the challenging scenario had, we remain very positive and confident about our strategy. Besides, our unique export platform, we are well prepared to face weakening environment in the domestic markets in Brazil. We have an efficient distribution in our client base that is less exposed to the slowdown of the economy.

Finally, I would like to thank all the Minerva team for their efforts and support to make the result present today possible. Thank you for participating the conference call and we remain available for any questions. Thank you very much.

Operator

Thank you, this concludes today's presentation. You may disconnect at this time. Have a nice day.