

Q3 2020 Earnings Call

Company Participants

- Edison Ticle de Andrade Melo e Souza Filho, Chief Financial and Investor Relations Officer
- Fernando Galletti de Queiroz, Chief Executive Officer
- Taciano Custodio, Sustainability Director

Other Participants

- Isabella Simonato, Analyst
- Joao Soares, Analyst
- Luciana Carvalho, Analyst
- Ricardo Alves, Analyst

Presentation

Fernando Galletti de Queiroz {BIO 15387377 <GO>}

(Starts Abruptly) This was the third -- Minerva's consolidated growth revenue is about BRL2 billion in free cash flow in the last 12 months and reflects the Company's solid operation and financial performance.

Minerva's consolidated gross revenue came to BRL5.4 billion in 3Q '20 and last 12 months the Company record was BRL19.7 billion. We'd like to say that this accounts for the Minerva exports, which is 70% of the gross revenue in the last 12 months, which reflects high worldwide demand in Minerva's focused on beef exports.

Now the third quarter came to BRL554 million and a notable 22% increase over 3Q '19, was 10.8% in the last 12 months. As a result of this performance, we have this past quarter, adding to a sweeping total of BRL583 million in the first nine months of the year.

Another highlight of this quarter was the strong financial position. As of the close of the quarter, our leverage ratio, that is the net debt to EBITDA ratio over the previous 12 month was 2.2, the lowest since 2008 and right in line with our strategy to reduce leverage and improved capital structure. Minerva ended the quarter with a comfortable cash position of BRL7.3 billion, which gives us breathing room amidst the challenges of the times and perfectly aligned with our conservative cash management strategy. Another 3Q '20 highlight is related to the operations in our second plant in Colombia, in Vijagual plant that which can slaughter 700 heads a day is in the ramp-up phase and expected to double operation volume in Colombia through 2021, contributing to the Athena Foods performance.

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I would also like to take the opportunity to highlight other recent achievements. The first one is our investment in Clara Foods. Clara Foods is a new innovative start-up in Silicon Valley and a pioneer in developing animal-free protein through fermentation. Our \$4 million investment in Clara Foods follows the guidelines of our venture capital fund to invest in start-ups and technology companies. And this brings us new opportunities to Minerva.

More good news two of the largest international credit rating agencies upgraded our ratings this past quarter; Fitch and Standard & Poor. This is a clear reflection of reliable financial management for many years running, leading to a reduction of debt and improved capital structure.

Another very important achievement and as a result of Minerva's excellent performance in 2020, the Board of Directors has voted on advanced dividend payments to shareholders, representing to 25% of the cumulated net profit year-to-date, BRL138 million. This movement, as well as the recently approved share buyback programs underpins management's commitment to generate value for the Company's shareholders.

Lastly, I would like to point out that with us on this conference call today we have Mr. Taciano Custodio, Director of sustainability at Minerva Foods. He will be discussing some of the Company's initiatives and achievements in terms of sustainability, one of the pillars of our business model and our main competitive advantages.

Let us move on to the next slide to talk a bit more about Minerva's operational performance this past quarter, starting with exports; Slide 3. In this third quarter 2020, we strengthened our position as the largest beef exporter in South America with a market share of approximately 18%. These numbers reflect our geographic diversification through the continent, which together with the help of our 16 international offices gives us a competitive advantage and favorable position in global beef exports.

Now, let us dive down into regional export performance for the Brazil Division. Asia accounted for 56% of export revenue with 12-month, a tremendous increase of 31 percentage points over the same quarter last year. Asia was also the primary destination for us in food exports this quarter, accounting for 38% of the Division's total exports. The export performance has made it abundantly clear that there is growing demand for beef in Asia, especially in China. So, but also for other markets such as Singapore and Philippines. And Malaysia, we expect heavy growth in these markets in the forthcoming quarters.

Finally, I believe it's important to stress that market forecasts continue to be quite positive. We expect a number of very encouraging economic and market factors to positively affect our business. The first is African swine fever virus, which continues to impact Chinese pork. Bear in mind that the outbreak is not limited to China and has spread throughout Asia and parts of Europe, recently hitting Germany, the second largest pork producer.

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Additionally, we are witnessing changes in eating habits in the Southeast Asia as a result of growing urbanization and higher income. And also we have persistent offers in some relevant suppliers, the world's biggest beef suppliers, which is Australia this opens us more doors for South American beef producers in markets in Asia and the Middle East.

In light of this promising outlook, Minerva strategy is to continue maximizing our competitive advantages to invest in innovative niche opportunities, risk management and market intelligence to ensure increasingly more efficient and profitable commercial and logistic solutions.

We have aspired and pursued all of this while honoring our commitment to sustainability. This sets us apart for the competition and increased business opportunities.

I'd now like to turn the floor over to Edison Ticle.

Edison Ticle de Andrade Melo e Souza Filho {BIO 15435343 <GO>}

Thank you, Fernando. I'd like to start with Slide 4. Starting with the operating performance and the breakdown of the Company's gross revenue by division in 3Q '20. The Brazil Division accounted for 48% of the Company's gross revenue. Athena Foods accounted for 44% and division trading for the remaining 8%. This quarter we noticed a slight improvement in the Brazil plant and thus operating capacity increased to approximately 5 points over the last quarter nearly 68%. The best rates thus far this year.

Now in Athena Foods, we operated approximately 77% capacity, higher than the previous quarter and a reflection of growing export volumes to China in our plants in Argentina and Uruguay. As a whole, the company's plants operated at 73% capacity this quarter. As mentioned earlier, these rates are still below historic operating rates, about 80% that are expected to remain below par for the duration of the pandemic.

Finally, on the right-hand side of the slide, we've included consolidated exports by region this third quarter, as well as for the 12-month period ending September. As Fernando already mentioned, Asia is our leading export destination in response accounted for 42% of the consolidated exports and China alone 31% of total exports in the last 12 months. The Asian continent accounted for 47% of Minerva's exports.

Moving on to the Slide 5. There was the net revenue of BRL5.1 billion in the third quarter, 14% over the third Q and in LTM third Q net revenue totaled BRL18.6 billion and a 10% increase year-on-year and an EBITDA margin of BRL554 million, a solid 22% increase year with an EBITDA margin of 10.5%.

Let's now talk about leverage. Well, this is measured by the net debt to EBITDA ratio over the previous 12 months was 2.2, the lowest ratio (inaudible) despite nearly 40% depreciation of the dollar over a year-to-date basis in dollars, our leverage ratio at the close of the quarter was 1.9. Minerva's leverage ratio today reflects management's commitment to a more efficient balanced less burdensome and lower risk capital structure. This is an issue that we've been discussing and communicated since our follow-

on in January, and that we have done very well. And we are being able to show level of deleverage way above market expectations.

I would like to also take this opportunity to point out that this quarter there is an important warrant exercise including those held by (inaudible) adding BRL397 million to our cash balance this quarter. We still have BRL381 million in warrant of BRLs that must be exercised by year-end 2021. Once exercised, these warrants enter our cash flow and this helps in our leverage adjusting the leverage of Minerva though it will be reduced to two digits.

Let's talk about net earnings and operating cash flow, Slide 7. We saw net revenue came to BRL58 million after calculating for income and social taxes. Net revenue totaled BRL583 million in the first three quarters. As Fernando mentioned, the Board of Directors approved dividend paid. So we have accumulated legal reserve of 5% and amount to be paid as dividends will be BRL0.26 per share excluding treasury shares.

I would like to point out that following our dividend policy guidelines approved earlier this year after a year the year-end results the company will complement the dividend payout considering the anticipation laid on November. So the dividend policy states that every time our leverage level measured by the net debt, debt EBITDA LTM and the fiscal year in the level equal below 2.5 times the minimum dividend payment will increase 50%, from which 25% mandatory dividends and 25% are complementary, therefore Minerva is anticipating part of the dividend and by year at the end with 2020 financial results, the Company will announce the total dividend value for the entire year discounted anticipated amount.

Minerva shares will trade ex-dividend since November 9 and advanced dividend payment will be concluded in November 13. This reflects not only the excellent performance, but also our solid risk management model, which has been key in reducing leverage and building a solid capital structure. And this generates value to our shareholders.

Let us move to our cash position. Cash flow from operations came to BRL955 million this past quarter, and working capital came to BRL491 million in Q3 due to a positive supply line variation of BRL796 million. So the operating cash flow for the last 12 months stands at a positive BRL3.6 billion.

On Slide 8, we will now talk about free cash flow. So the third -- it was positive for the 11th quarter running totaling BRL595 million in the third Q '20 building up EBITDA this quarter, not adjusted for nonrecurring items totaled BRL540 million, and investments came to a BRL131 million. Keep in mind, as Fernando mentioned, that we acquired Vijagual meat packing plant in Colombia, which is for a total of approximately BRL75 million, which is included in the BRL131 million account.

Cash basis, income came to a negative BRL319 million and especially impacted our bonds interesting considering a depreciated for FX rate working capital expenses totaled BRL491 million. Excluding nonrecurring items totaling approximately BRL14 million designed to address the novel coronavirus from BRL2.1 million, with a total of CapEx to last 12

months, cash basis were came to BRL226 million and a variance of cash flow needs to come -- came to a positive BRL450 million.

And if we add these two, the BRL39 million for nonrecurring items will reach a free cash flow of BRL2 billion in the last 12 months, a reflection of Minerva's solid economic performance. With the period to the EBITDA in the same period and the cash flow came to BRL2.2 billion. So the cash conversion ratio comes to 95%. This means that Minerva can safely use EBITDA as a proxy for free cash flow. I think as defined in this industry and other companies has a conversion cash rate so high, as the one that we were able to obtain in Minerva in the last 12 months, which was 95%.

I will now talk about the bridge of the net debt, it was BRL5.4 billion in the last quarter in this third quarter a free cash flow stood at BRL595 million, owing BRL14 million for nonrecurring items, BRL397 million from exercise of warrant, BRL18 million from hedging and this forex variation affecting our debt, bringing our debt to BRL291 million in this quarter. So our debt with this quarter BRL291 billion this quarter when we add everything up and said that the bridge we end up with a debt from BRL5.5 billion to BRL4.7 billion by the quarter's end. Even in spite of forex depreciation totaling approximately BRL0.16 over the previous quarter. So we have been continue to improve the capital structure. Our hedge policy will continue to be -- to protect the 50% of long-term forex. So we continue very well protected in our balance sheet is what will ensure that we continue delivering solid operation and financial performance.

In the next slide we'll talk about a little bit more about capital structure. As we already said, the leverage ratio, that is net debt ratio over the previous 12 months ending third quarter was 2.2, it's lowest since 2008. The Company's cash position was BRL7.3 billion on September 30, the highest ever recorded for Minerva. This is due to a hedge policy that requires that we keep a significant part of our cash in US dollars. So this is a protection when there is high volatility, speaking about the profile, 79% of our debt with positive exchange rate variation and it will come due in approximately five years. We have to remember that our hedging policy requires to protect 50% of our long-term FX exposure partners like to highlight the recent rating upgrades from both agencies Fitch and Standard & Poor's. The upgrade reflects Minerva's efforts to improve its capital structure, solid liquidity position, decrease of our leverage level and consistent free cash flow generation. That's notably reduced the Minerva's risk perception. This of course shows a better perspective for the risk agencies.

I would now like to give the floor to Taciano, our Sustainability Director, who will talk about Minerva's ESG initiatives. Taciano, you have the floor.

Taciano Custodio

Good morning and thank you for joining us on this earnings call. This is an excellent opportunity to review the Minerva Food ESG agenda, and how we address sustainability in South America.

Sustainability of Minerva Foods is based on three main pillars. Dedication to the planet: This is reflected on on-the-ground actions to combat climate change, monitor the supply chain for social environmental impact and pursue operational efficiency like energy management, waste management, greenhouse gas emissions and water consumption.

Benefiting our people: Our presence can be felt beyond the consumption of our products, and prosperities for all it is essential to our Company. This pillar represents the dedication and commitment of the more than 18,000 families who make up our labor force whether it's providing jobs and income over 36 cities throughout the continent or whether it is supporting communities during the pandemic. Minerva Foods actively contributes to local and community development everywhere we operate.

Finally, product quality and respect for life: Pillar that addresses the safety of the food we produce and export to over 100 countries, as well as business and care for the animals we handle.

Before we go into the challenges facing our industry, I would like to provide a little bit more context on agricultural production in Brazil. Brazil is an agricultural powerhouse and has a lot of conservationist forest law. More than 65% of the country consists of major flora with more than 30% protected conservation area or indigenous.

And more than 20% (inaudible) private property, according to the EMBRAPA data. Minerva Foods has submitted publicly to not employing slave or child labor, and not contributing to deforestation. We have invested heavily in a social environmental monitoring platform in cooperation with (inaudible) and we rank top in Brazil and South America in terms of supply chain monitoring. In fact, recently corroborated in an audit by the Federal Prospector's office. Our monitoring platform consists of over 10,000 farms in Brazil and Paraguay that together come to over 9 million monitoring hectares in the Amazon Brazilian savanna region called Cerrado and Paraguayan semi-arid region called Chaco. Their technology and monitoring will review a 100% of our purchases in Brazil for environmental restrictions and illegal deforestation against off-limit areas. We also check of all our purchases against slave labor list.

And you can see a sample image of our monitoring system and we can see the maps of Minerva suppliers in blue, red the occurrences of deforestation, and according to the National Institute, the Space Research and in greenhouse areas of this environment conservation and in yellow the indigenous lands as Minerva's does not buy animals from supplier farms that overlaps with indigenous lands, conservation units, nor does it buy animals from suppliers whose properties are related to deforestation. By zooming in on our monitoring platform, we can identify a property that does not meet Minerva Foods sustainability criteria, because you can see with the suppliers property identified by blue as restrictions related to deforestation, which means this is a supply which is blocked by Minerva Foods system. The integration of our cattle acquisition with the geographic monitoring ensures greater security and transparency to this process.

On Slide 6, we have an example of the report generated by Minerva system containing the information that disables and blocks the purchase of animals from the mentioned

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suppliers. The supplier property, which does not meet the sustainability criteria is automatically blocked in Minerva system until the presentation of official documents approve the property is regular again. In this sense, we work proactively with our own sales team guiding suppliers to regulate this property with the upward authority support. The use of the best geographic monitoring tool combined with the systems integration and the commitment of our team provide safety and transparency in our cattle acquisition process.

Slide 7 we have Minerva Sul's commitment to society is reflected in the recent audit report produced by the PARA federal prosecutor's office. PARA is one of the region's most impacted by cattle protection. I would like to stress that this is the state government that provides the database with the audit, which ensures the transparency and authorities of audit and findings and corporate commitment to no deforestation. Minerva Foods stands receive the best score of all large scale companies are 100% compliance following an audit of a 100% of company purchases.

In the first review and 99.7% compliance following the audit is 97% of company purchases in the rest second review. The NGO Friends of Terra recently published a status report. On the occasion of 10 years, since the signing of the consent decrees in the state of Para publication included and we have seen the excellent results, and Minerva outstanding performance. There is no doubt, the sustainability is the first run for our corporate business model.

One of the biggest challenges in our industry is monitoring our suppliers, especially those who make up the first weeks of the supply chain. In other words, those who supply the animals to our direct suppliers.

I would like to give you a bit more context and show how this affects the Company's food chain in general Minerva, whose business model is geared towards the export market. And according to a study by Nice Climate Geo-Technology 90% of deforestation occurs on farms. No larger than 500 hectares and 65% of the deforestation is on the actually limited to farms no bigger than 100 hectares.

If we look at yields in Brazil, the cattle production and farms, no bigger than 100 hectares, is quite small. These farmers deliver at just 36 heads per year, which directly limit the operational profitability and their ability to invest in technology to improve production systems on their farms. So there's very small farmers who have farms no larger than 100 hectares, they cannot qualify and cannot supply significant scale of livestock to meet the quality, the safety requirement of international markets.

Characteristics like maximum age, weight, pH levels and marbling can only be ensured with investments in field health, nutrition, animal welfare, pasturing and intensification system. Those that do not have enough profitability are not in -- cannot get into the export markets. When it comes to indirect supplier, Minerva once again has proved itself a pioneer sustainability as it pursues alternatives and seeks solutions to this problem. We are the first company test Visiprec, a tool for tracing indirect suppliers and one that focuses risk assessment. The preliminary results all the test applied in the state of Mato

Grosso and Rondonia are very positive with 99.9, meeting the criteria this established by the indirect suppliers work group. 3,314 farms were assessed and listed as potential indirect suppliers to the three plants considering our test sample.

The test using the Visipec tool is another way in which Minerva Foods together with various players of the Brazilian based supply chain aims for greater transparency and safety in cattle sourcing now in the savannah region called Cerrado each one of the 2020 supply has been included in monitoring system for the (inaudible) in the state of Sao Paulo. And inroads are being made the supply chain for the palmeras degree general plants in Minas Gerais. Our target is to have every one of the 2020 suppliers registered in the margin platform by December of this year. Yet another example of the important advances in Minerva Sul supply chain management and we just beyond Brazil as well. More than half of the suppliers of the semi-arid region Paraguay the Chaco are now monitored for compliance with sustainability criteria.

You can read the results on an independent audit of our monitoring process on our website Minerva Foods commitment, the sustainability is backed by concrete actions and results non-empty promises with magical results in some distant future. We are working in the present with the best tools available making everyone on board to confront the challenges to our value chain.

As a final point, I would like to stress our commitment to social responsibility and to highlight our recent activities in this month to the Coronavirus (Technical Difficulty) donated over 42 (Technical Difficulty) the beginning of the pandemic. This includes hundreds of tons of beef, thousands of PPE items, personal hygiene products, thousands of medications and hospital equipment and leaseings mobile ICUs for the housing communities in which we operate. We have also set BRL32 million support fund to help our customers in these difficult times.

Animal welfare here is a key pillar in the food supply chain, we treat very seriously and we heavily invest in training our employees updating our plants and maintaining certification. Proper animal management ensures better quality products and more profitable suppliers. Our plants are certified and our team is trained by top quality instructors like Dr. Temple Grandin, an international renowned expert in animal welfare.

As I mentioned in the beginning of the presentation, Minerva Foods is an example of sustainability in South American cattle industry. Our pioneering spirit in leadership in addition to serving as one of the pillars of our business is supported by important partners like IFC, which is the International Finance Corporation, which is recognized the world over for pushing sustainability governance and social responsibility for demanding such as the company in which it invests Minerva Foods is the only cattle company in Latin America that is partnered and received investment from IFC.

Finally, wrapping up, I would like to encourage all of you to visit our sustainability website, which includes all the Company's commitments to sustainability as well as audit reports of our Brazil and Paraguay supply chain, our greenhouse gas inventories, the only independently audited in greenhouse gas inventory in the industry and social

responsibility policies and programs that guide company operations and of course our sustainability report, which we have been publishing on annually since 2012. We at Minerva Foods are committed to the agribusiness and are proud to produce beef as dietary staple in a way that is ethical, sustainable and socially responsible, so that we could supply high quality safe foods for our customers world over.

Thank you for your attention and I turn back to Edison.

Edison Ticle de Andrade Melo e Souza Filho {BIO 15435343 <GO>}

Thank you for your presentation, Taciano. This concludes our presentation. And I will now give the floor to the operator to start the Q&A session.

Questions And Answers

Operator

(Operator Instructions) The first question is Luciana from the Bank of Brasil, Luciana?

Q - Luciana Carvalho {BIO 18724665 <GO>}

Well, good morning, Fernando and Edison. Thank you and congratulations for your results. I would like to talk a little bit about China.

(Technical Difficulty)

A - Edison Ticle de Andrade Melo e Souza Filho {BIO 15435343 <GO>}

(Foreign Language)

And from the numbers that we see in this fourth quarter, we see a margin in Minerva and not only in Athena. So, Athena Foods has a very high competitiveness due to the cost and the price of the cattle, because at the point of sale, they are present in markets very similar to Brazil and they pay higher price for the product.

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

Hi, Ricardo. I would like to add to what Edison said. We can also talk about diversification in South America. This strategy makes it possible for us to have an arbitration in the -- always be present with competitiveness and Athena Foods shows this, Athena with Brazil shows this even stronger. This represents more than 40% of world exports and with competitors that have a price gap significantly higher. If you take into account the large majority of competing markets have, as the grain, the base of cost with the price of grain increasing and the way we produce here in semi confinement and feed loss, this gives us a competitiveness which is not comparable. So it shows that the Athena model and diversification of Minerva is extremely sustainably in a more sustainable world and more competitive.

Q - Ricardo Alves {BIO 16840901 <GO>}

Thank you, Edison; and thank you, Fernando.

Operator

(Operator Instructions) The next question is from Isabella Simonato from the Bank of America.

Q - Isabella Simonato {BIO 16693071 <GO>}

I have two questions. The first one is exploring a little bit of the cattle cycle here in Brazil. I understand that the demand has been very important to pull the price of the arroba, which is the fifth. We also will see the price of the calves (Technical Difficulty). Going forward, how do you see the availability and the cycle? This is my first question.

The second one has to do with working capital. There was a very good improvement coming from suppliers. Can you tell me a little bit more about the quarter and looking at the fourth quarter, how this should behave, arroba the 15 kilos?

A - Edison Ticle de Andrade Melo e Souza Filho {BIO 15435343 <GO>}

Well, we have been talking about this for a long time. We see the cycle in Brazil since 2020 in the beginning of '21. It's very well aligned with what we expected, our forecast and the price of the 15 kilo called arroba has -- so it's very aligned to be expected. This change in cycle we have to focus less on the price of the cattle and more on the spreads.

And I always repeat this in all the call because independent of where the price of the 15 kilo arroba if we can this can be re-tasked to the sales price and maintained the spread in the margin. We have shown that the situation of the unbalance of demand and supply of beef in the world has given it a bargaining power, which is very important and we have been able to keep the margins above two-digits.

If we look at our data quarterly our average in the last 12 months was above the 9.5% above 10% at least in these 8 last quarters. So this shows that we have had a good bargaining power with our clients and although the arroba, the 15 kilos is the BRL150 has gone up to BRL200, we have kept our margins in a very healthy level and free cash flow. So looking forward, there is no reason to be concerned about the scenario. There is a less favorable cycle here in Brazil with some pressure, but this has not been anticipated in this second semester and the price of cattle, there is no reason why we shouldn't believe that we have the bargaining power and therefore we can re-task the prices and keep up revenue in the level of two-digits.

Talking about free cash flow, well, in (Technical Difficulty) of the suppliers, this case through a financial tool that we set up in which we have the financial institutions paying down payments, with a discount up to 2% and using up to 90 days, charging between 0-30 to 0-40 a month. So we are 22% discount and we pay 1.20 or 1.5 of cost and we have positive effects because it helps us in our margins, because for this, the financial cost of this goes directly to our CMV.

And the second benefit is the money that was in working capital that helps us reduce our indebtedness. And therefore, reduces the margin plus the financial expense. So with the accounting, it's very -- it has, it's very profitable from the financial point of view, we have a smaller debt and with the possibility of free cash flow.

Q - Isabella Simonato {BIO 16693071 <GO>}

Well, that's very -- sounds very clear, the person and the idea is to keep this going ahead. Or was this only for this quarter?

A - Edison Ticle de Andrade Melo e Souza Filho {BIO 15435343 <GO>}

No, it's ongoing. This is a program that we have in place with several institutions, and I don't think this is going to grow, because there is a limit to purchase a (inaudible) with the discount of this magnitude. So probably will come to our limit. But there is no reason why we should go back. So we do have this gain in the third quarter and it will continue to be ongoing in the coming quarters.

Q - Isabella Simonato {BIO 16693071 <GO>}

Thank you very much. I understood your answer.

Operator

The next question is from Mr. Joao Soares from Citibank.

Q - Joao Soares {BIO 17386703 <GO>}

Good morning, Fernando, Edison and everyone. I would like to understand about the long-term growth of the Company. I think (Technical Difficulty). I would like to understand the situation in Australia. It was -- do you -- I would like to understand if you're giving financing to finance the growth in Australia.

A - Edison Ticle de Andrade Melo e Souza Filho {BIO 15435343 <GO>}

Well, this is part of the average medium and long-term plans of the Company. We have proved here that with the strong operational free cash flow we can meet the metrics of de-leverage suggested and in fact, we're doing this earlier than the market expected than our business plan was pointing at. So if we can keep the cash generation operational as we have done in the last 11 quarters, we can reduce the leverage to a comfortable level below twofold in a short period of time. We'll be able to comply with the dividend policy, which is to distribute 50% of the profit at the end of the year and we'll have a business growth business plan and something nothing transaction or it's something is quite difficult like we did in Colombia, we use BRL75 million to buy this plant and we have a positive BRL600 million positive cash flow. So this is how we're going to be managing the capital. Besides the business plan, we have an estimate which is Ian. Ian is very knowledgeable in Australia.

So we're going to use all his knowhow at the right moment without committing the capital price of the Company. One of the fundamental points that we have a difference is also

the risk management that we have. So with more geographical diversity, we can have more efficiency, so we are is that this DNA of Minerva diversification and risk management does geographically diversification, I can tell you that all the plans we have or that we already had shows the consistency in our plans.

Q - Joao Soares {BIO 17386703 <GO>}

Thank you very much, Edison. I would like to add the working capital, something Isabella brought up, could you tell me how much does this represent in financial expense the cash in this structure, looking at the analyzed cash flow?

A - Edison Ticle de Andrade Melo e Souza Filho {BIO 15435343 <GO>}

Well, this structure is we have the gain of the onsite discount, and also the financial expense of increasing the terms and that is reducing my CMV I only use 2% minus the cost of the financial product. This is an operational offer. And this is considered in the CMV.

Q - Joao Soares {BIO 17386703 <GO>}

Okay. Thank you. That was very clear. Thank you very much and congratulations for your excellent result.

Operator

(Operator Instructions) There is a question here from the webcast from Raphael Sama [ph]. He says, could you talk about there is a BRL64 million negative that was depreciated. Could you talk about the working capital of the supply? The second part of the question has been answered about the foreign trade hedge.

A - Edison Ticle de Andrade Melo e Souza Filho {BIO 15435343 <GO>}

When the exchange went beyond disclosing of the second quarter, we had to protect cash that was more than BRL1 billion. That we won with the hedging policy, transferring things this in a call, how could we do we had dollars, I'd love to put and we booked between 520 and 540 and the exchange rate was 554, so we lost the premium. The results of the hedge was negative, and it gives hedge of 16 cents plus the carryover price, which is 2% per quarter.

So it's easy to do the accountability. And you eliminate the cost of the options that were not as impacted may come to this negative in small negative results in the quarter although we have lost a little bit, I think the strategy was right, because it brought an enormous inventory to our position of hedging, especially after the movement of the exchange from going to 4 to 5.2 at the end of the second quarter. This was an impact of an impact of BRL1.4 billion in this period, so that was it. Total transparency and (inaudible) we have made and give a call and these options one and they hedge policy continue the same way.

Operator

We are now going to close the Q&A session. And I will give the floor to Mr. Fernando Queiroz for the final comments.

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

Before I would like to close this teleconference, I'd like to thank everyone and the Minerva team for their performance and their dedication in this quarter. I would like to highlight the resilience and the dedication of what we are facing this year and very happy to see that our team has new working habit in all office, keeping the same level of dedication, and commitment, focus and discipline during this period was fundamental for us to transform adversity to an opportunity.

We're going to continue watching and being the leaders and with being ethical and sustainable, because we believe this is the best way for value generation in the long-term. Thank you very much for your interest in Minerva and we are available for any questions or any comments with transparency, clarity and inclusion, always generating more value for the shareholders. Thank you very much.

Operator

Minerva teleconference is now closed. We would like to thank all of you for your participation and have a wonderful day.

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