# Q3 2015 Earnings Call

## Company Participants

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

## Other Participants

- Jeronimo De Guzman, Analyst
- Jose Yordan, Analyst
- Lauren Torres, 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 Third 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.

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

### Fernando Queiroz {BIO 15387377 <GO>}

Thank you. Good morning, everyone, and thank you for participating in the teleconference of Minerva 2015 third quarter results. Before starting the presentation, I would like to point that the third quarter of 2015 showed excellent export opportunities for the beef sector mainly due to Brazil's economic activity [ph] reduction where 65% of our operations are located. This deceleration limited price increases of our main raw material while depreciation of the real benefited the revenues from exports. From this scenario, Minerva showed its capacity to anticipate itself at several economic movements, focus on consistency and on the strategy of maintaining discipline when executing its business as we detail from the slide show on the presentation.

Let's go to Slide 2 where we have the highlights. In the third Q of 2015, we generated record net revenues that reached BRL2.4 billion, 32% higher than the net revenues in the third Q of 2014. We directed 76% of our sales to exports. The highlight was the revenue from the exports of fresh meat, 62% more than the revenues in the same period of 2014. The EBITDA for the quarter totaled BRL278 million, 56% higher than in the third Q of '14 EBITDA. The third Q '15 margin reached 11.7%, 190 bps above the margin of the third Q of '14 and 200 bps higher than the margin in the previous quarter.

By executing our strategy, we managed to generate a free cash flow of BRL404 million. In the last 12 months, the free cash flow was positive BRL326 million. Again, we presented a return on invested capital that's referenced in the sector of 22%. In the last 12 months, the net revenue was close to BRL8.9 billion, allowing to maintain the net revenue guidance for the 2015 fiscal year disclosed to the market in March this year between BRL9.5 billion and BRL10.5 billion. The leverage measured by the multiple net debt/EBITDA of the last 12 months was 4.8 times at the end of September 2015. While the same multiple using the analyzed EBITDA of the third Q '15 in order to exclude the impact of exchange rate changes and to capture the benefit of recent integration was 3.8 times.

In late September, our cash position totaled 3.6 billion. Excluding the buyback bonds that are part of disposition, we would still have a position of liquidity at approximately BRL3 billion. The Company ended the quarter with approximately 18% of total debt maturing in the short term and 77% of the debt exposed to the US dollar, where the duration of the debt is currently six years. With all this, the structure of our capital leaves the Company better prepared and management more confident for the delicate current macroeconomic scenario.

And last but not least, I believe it's worth highlighting some points that we observed this year with more intensity in the third Q of '15. Through disciplined execution of our strategies over the past few years, we are able to remain prepared to anticipate times as the present one. We will continue to focus on the growth and diversification of our operations in South America in order to mitigate exogenous risk to our operations with health in economy.

The constant search for efficiency in our production units, establishing benchmarks, and capturing synergies from recent acquisitions have also been the Company's priorities. Since last year, we have implemented a new matrix model which has already showed higher speed in the decision making not only operational, but also in the sales channels of both the domestic and foreign markets. We will continue obsessed on the focused discipline and consistency of our execution, which has been the great differentials of the Company.

Let's have a look on Slide 3 where we have the global supply scenario. As we already described earlier, two of the main players in this market have currently faced problems in the production and marketing of beef. The first player is Australia, which has felt the effect of three consecutive years of drought in its livestock areas. According to projections of MLA, Meat and Livestock Australia, the country's agriculture agency; Australian livestock may suffer a contraction of up to 3 million heads in 2016 reaching the lowest level since 1995. Consequently, exports will also suffer with the decrease in production and projections indicate a reduction of up to 27% of the country exports.

The other main player, the United States, which sees the government beginning to stimulate biodiesel production from corn and the droughts added to this last year, is also presenting reduction in their livestock, which currently reached the lowest level in history. These effects have directly impacted beef production and due to the decrease in production, the USDA estimates that by the end of this year the country will accelerate the beef import process reaching a net amount of imports up to 524,000 tons as we can see in the lower right chart. Meanwhile South America countries have showed different behavior, an increase of livestocks especially Brazil as we can see in the next slide.

Let's move to Slide 4. Also according to the USDA estimates, the Brazilian livestocks, which is consistently growing can reach approximately 220 million heads in 2016. This consolidated growth of the South America livestocks that shows increasingly that the region is able to meet the imbalance between the lack of supply and the increasing global demand for beef.

Let's move now to Slide 5 to talk about a sector overview in Brazil. The industry slaughtering volume decreased by 8% in the third quarter of 2015 compared to the same period of 2014. This move corresponds to the industry's strong adjustment that started earlier this year, responding to favorable macroeconomic factors that affect the country.

As you can see in this chart in the upper right corner, this adjustment also impacted the average price of cattle in the third Q of '15 which suffered a 4% decrease compared to the previous quarter even in the off-season when prices are naturally higher. We also observed over the years that the effect of increased use of pasture supplementation technology and semi-confinement added to the offer of feedlot animals which is usually higher this time of the year have provided regular supply of animals and higher productivity gains for the industry, what means more beef per animal.

In this quarter, Brazilian exports had their best performance of the year as can be seen in the lower right chart. Revenues generated by exports totaled approximately 1.3 billion with a volume of 276,000 tons, 7% higher than in the second Q of 2015. The performance is explained by the devaluation of the real against the dollar, which benefit exporters' margin combined with the unbalance between the global supply and demand for beef. However, if we analyze exports compared to the results of the same period of last year, we observe a decrease of 90% in the volume and in revenues. This decrease is explained by the industry adjustment, which result in lower availability of beef for export.

Also the average price of beef in US dollars this quarter was 10% higher than the price of second Q '15 while the average price in reals registered the record of BRL16.1 per kilo, which is explained by the dollar appreciation on average of 15% compared to the second Q of '15 and 55% compared to the third Q of '14 and also by higher pricing power of the South American exporters.

Finally, in this quarter we continued to see the direct impact of the current Brazilian macroeconomic scenario in the domestic market consumption due to the high inflation and tighter credit. Although the prices of cuts have been kept firmer as we detail in the next slide. This was another quarter of demand impacted by the macroeconomic situation of the country.

Let's move to Slide 6 that we have an overview of the domestic market. Going through the Slide 6, we can observe that a rising inflation which impacted population, real purchase power, high interest rates, tighter credit, and families' lower consumption intention together eventually induced consumers to migrate to cheaper cuts such as forequarter cuts or other proteins such as poultry and pork.

However, some factors contributed to support the average price of the quarter cuts such as the industry capacity readjustment, which resulted in the reduced beef supply in the local market; the higher volume of exports directed to consuming countries of the fore cuts such as China, Egypt, and Iran; and third, the bird flu in the United States which reduced the world's supply of chicken benefiting this protein exports from Brazil resulted in an increase in the domestic price of chicken.

Meat prices of hind cuts as you can see in the two charts on the right have reached the seasonal high in this quarter and contributed to a better margin for the industry. This happens due to three factors. First, the industry capacity readjustment as already mentioned; lower elasticity to macroeconomic impact of Class A and B consumers who demanded these cuts; and three, the industry focus on improving distribution channels.

Let's move on to Slide 7 where we talk about a sector overview in Paraguay. Paraguay is at a positive cycle moment which added to a regular off-season this quarter allowed a 10% increase in the slaughtering volume compared to second Q 2015.

However, as this slaughtering was more intensified in the month of July and August, in September some players felt the pressure of the sector margins and interrupted operations. Thus the average cattle price fell by 2% compared to the previous quarter. Only in September, the average cattle price reached the minimum of the year at $144.5 for 100 kilos, down 12% compared to August. The country's export volume was 18% higher than the volume of the previous quarter due to the increase of demand from Chile, which increased its share in exports by 12%. Along with Chile, Brazil and Russia remain as the main destination of Paraguay in exports.

On Slide 8 we will talk about Uruguay markets. In the third quarter of the year 516,000 heads of cattle were slaughtered in Uruguay, a volume 16% higher than in 3Q of '14, a factor explained by the moment of good availability of animals in the country. However, slaughtering decreased by 9% compared to the previous quarter due to the seasonality. Thus the cattle price appreciated by 11% compared to the previous quarter, but remained stable regarding third Q of '14.

On the export side, the country increased by 10% the volume of fresh beef exported in the third Q '15 totaling 64,000 tons. We can see in the lower left corner chart that China's share in exports more than doubled compared to the same period of last year, reaching 33%. We also highlight a strong growth of exports to the United States, which grew from 14% in the third Q of '14 to 20% in the third Q of '15. The mix of Uruguay in exports contributed positively in this quarter and allowed to increase the average price of export by 4% comparing to second Q '15.

Moving on to Slide 9, we will look in more details how Minerva results were in this quarter, starting by exports. In Slide 9, in the third Q of '15 we remained again among the leading beef exporters in the countries where we operate as shown in the superior chart of the slide. Minerva's participation in Brazilian exports revenues grew 3% when compared to the third Q '14 and reached 20%. If we observe Minerva's performance in Brazil exports volume as shown in the lower right chart, we can see that exports growth was similar to 2014 at 3.3 percentage points.

It's worth mentioning that comparing to the second Q '15, our participation was affected by the strike of federal inspectors in September which delayed a shipment of products that were already in the port. We highlight that those shipments were already normalized in October. Another point that I think is worth highlighting is that if we compare Minerva exports market share in the accumulated nine months of 2015 against the same period of 2014, the growth was of 6.6%, reaching 22.6%.

In Paraguay, we reached our record market share of 21.5%, 5% higher than in the third Q of '14. In Uruguay our market share remained stable compared to the previous years. In this slide we also present the Minerva export mix by region. This was another quarter when Asian [ph] stood out. The region has shown constant growth in our export market share, in particularly in this quarter. China intensified the demand for our products, not only through our operations in Uruguay, but also through Brazil.

In the last 12 months through September 2015, the region increased its share to 22% of the total exports compared to 12% in the same period of 2014 highlighting the exports to China and Hong Kong.

In addition to these markets, we also highlight the growth in exports in South Korea and Singapore, which practically tripled the revenue in the analyzed period. The increased share of NAFTA, which has the United States as their main destination, has also been another highlight. It increased its participation of the region was 2% in the last 12 months of the third quarter of 2015 compared to the same period last year reaching 5% of the total exports. This region is supplied by our plants in Uruguay and this cost of increase of the exports share reflects the current restricted supply situation of beef in the United States as mentioned at the beginning of the presentation.

We emphasize again the existence of expectations on the start of beef exports also through Brazil through United States as announced by the Minister for Agriculture and the USDA in late June. Thus we also believe that other countries that follow the same sanitary requirements of the United States may also open their doors to Brazil and allow great access of Brazilian beef through the world market.

Finally, before giving the floor to Edison, I believe that it's [right] to restate here the strategic pillars of Minerva. These pillars are based on the growth of our operations in South America, a region that has the best competitive advantage for beef producers, proper utilization of risk management tools, and prioritization of our business strategy both in the international markets and in the domestic market where we focus on the small and mid-sized retailers and the food service segments.

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

## Edison Ticle {BIO 15435343 <GO>}

Thank you, Fernando, and good morning, everyone. The financial and operational highlights are from Slide 10 of the presentation. So, Slide 10. The net revenues in 3Q 2015 as mentioned by Fernando at the beginning of this presentation was again a record of BRL2.4 billion, a 32% growth compared to three quarter 2014. The EBITDA of the quarter reached BRL278 million, an increase of 56% compared to the EBITDA reported one year ago. The EBITDA margin reached 11.7%, 190 basis points above the margin of 3Q '14 and 200 basis points above 2Q '15.

Regarding the export mix, we benefit from the extremely favorable time in this quarter and through our decisions made during risk management meetings, we raised our export sales percentage which reached 76% of the total gross revenues in 3Q '15. It's worth to mention that a year ago our export sales represented 64% of total sales, what shows the commercial flexibility of the Company and the efficiency of our distribution channels. This was another quarter where we presented a high return on invested capital of 22%, 2% above the rate of the previous quarter and of the previous year, which kept as a reference, as a benchmark in the industry.

Let's move now to Slide 11, we're going to talk about adjusted net results. In this quarter we reported a net loss of BRL446 million. However, if we exclude the effect of the exchange rate variation without a cash impact, the impact of income tax and social contribution; the adjusted results of the Company would be around BRL233 million positive. In the last 12 months ended in September, the net profit adjusted to the national defects would have reached approximately BRL368 million.

Let's move now to Slide 12 to discuss operating cash flow. In this quarter cash flow from operations was positive at BRL665 million and in the last 12 months, it reached BRL1.2 billion. This performance was the result of the impact of the positive variation on working capital accounts that reached BRL197 million. Within this line is the highlights for first, suppliers, which brought back BRL74 million to the operations due to our strategy to increase -- actually we reverted the strategy that we used in the second of paying more cattle in cash. Now in the third quarter, we used last this strategy so we were able to increase the maturity of the payments especially with the cattle suppliers.

The second reason is the inventories, they contributed with BRL54 million. We reduced inventories that were upsided in the second quarter due to our strategy of being long in beef because we had a view that the prices would go up in the quarter.

The third reason is receivables that had a negative contribution of BRL126 million especially because of the increase in exports. The fourth reason is customers' advanced payments that is in the lines of other accounts payable that reached BRL257 million in this quarter and it is explained by a seasonal change in our customers' profile. What means that in this quarter the sales were redirected to more risky customers, which we required larger amounts of advanced prepayment.

Now let's move to Slide 13 to discuss the generation of free cash flow in the quarter. So as we mentioned in the previous slide, the working capital this quarter contributed to our cash flow of BRL197 million. CapEx with cash effect reached almost BRL70 million, it includes the first installment of BRL19 million of the acquisition of Frigorifico Red Carnica in Columbia.

The financial net result with a cash effect was almost zero and it's a result of the hedge strategy adopted by the Company over the past few quarters. In fact it's worth highlighting the proper and responsible management of our balance sheet hedging policy without assuming disproportionate risks and without the speculative position developed to preserve financial soundness and effectively managing risks related to the operation trying to protect the balance sheet and the long-term liability capital structure of the Company in a proper way.

As a result, the free cash flow in the quarter was BRL404 million and in the next slide we will show the same calculation for the last 12 months. So, CapEx in the last 12 months including the acquisition of Frigorifico Carrasco and the first installment of the acquisition of Red Carnica reached BRL255 million.

The financial result with cash effect in the last 12 months was negative approximately BRL405 million. While the variation of working capital needs where we had a positive impact of BRL107 million. Thus the free cash flow over the last 12 months reached BRL326 million positive.

Let's move now to Slide 15 to talk about the Company's capital structure. We ended the quarter with a cash position of BRL3.6 billion, about 2.6 times higher than the short-term maturities, so a very comfortable liquidity position. Excluding the bonds buyback, the Company's consolidated cash position at the end of the quarter was approximately BRL3 billion. Short-term debt represented less than 18% of the total debt at the end of the quarter and it's worth highlighting that we again used a few lines of trade finance before the maturity in order to reduce the average cost of our debt.

Another highlight is the exposure of the total debt to FX change, which on September -- which on the end of the quarter was 77% in line with the breakdown of our revenues that showed exports representing 76% of the total sales. This policy brings us a natural hedge between the exposure on the debt and the share of exports on our revenues. Finally, on the Company's liability structure, it's worth mentioning the comfortable situation of maturities. At the end of the quarter, the duration of our debt was around six years and the majority of the maturities was concentrated in 2023 bonds.

On Slide 16 we present the position of the bonds that we bought back in the market. So at the end of the quarter, we had a position of $198 million of bonds that were bought back in the past quarters, which is around BRL786 million of our cash that was invested in our own bonds.

On Slide 17, we can see the effects of this bond buyback in our capital structure. So at the end of the quarter, our total gross debt was BRL7.9 billion. If we exclude the bonds that were bought back, the gross debt is around BRL7.1 billion and the cash availability excluding these bonds would be BRL2.9 billion.

Finally on Slide 18, we're going to talk about the net debt structure and the bridge of the debt from second quarter to third quarter. When we draw the bridge of the net debt in the second quarter to the third quarter, we see that the net debt at the end of September reached BRL4.2 billion representing a leverage of 4.8 times or an analyzed net debt of 3.8 times. The foreign exchange variation, which has no cash effect was the biggest impact on this account reaching BRL1.1 billion due to the third quarter of 2015 FX close that was 28% higher than the previous quarter.

We highlighted the difference between what was reported in the income statement of BRL640 million and the BRL1.1 billion shown in this bridge is due to the variation between the quarters of all the positions of assets and liabilities in foreign exchange held by our subsidiaries overseas and they are due to the accountability principles, part is reflected in the income statement and part is reflected directly in the balance sheet. So if you take the net position of BRL3.6 billion at the end of last quarter, add the BRL1.1 billion of FX expense and FX variation, take out the BRL404 million of free cash flow and take out the BRL34 million of other non-cash items; we arrive at BRL4.2 billion of net debt at the end of the quarter.

Now, I'll give the floor back to the operator to begin the Q&A session.

## Questions And Answers

### Operator

Thank you. We will now start the question-and-answer session for investors and analysts. (Operator Instructions) The first question will come from Lauren Torres of UBS. Please go ahead.

## Q - Lauren Torres {BIO 7323680 <GO>}

Yes. Hi everyone. My first question is on your thoughts about cattle prices coming down at least the pressure alleviating a bit. If you could just walk us through the components of what you're seeing and I guess any initial read going into next year with respect to where you see cattle prices going to?

And my second question just relates to your export business, China and with US becoming I guess more relevant for you next year. Could you talk about your ability to supply these markets? Do you have to do anything in preparation for this? And I'm not sure if you have any incremental benefit flowing through or any guidance you could give us as far as what these markets could mean for your business next year, that would be helpful? Thank you.

## A - Fernando Queiroz {BIO 15387377 <GO>}

All right. On cattle price, the cattle price is driven by the consumption on the Brazilian local market. What we are seeing on the Brazilian scenario is a slowdown on the consumption and this shall translate into a stable or a slightly down movement for the cattle price. You have a good prox [ph] if you look at BMF that's the Brazilian Futures Markets, that there you see stable prices. On the top of that, we see some pressure coming from the other proteins that are more available in the local market.

So all these factors together lead us to believe that the cattle price shall be stable or slightly down. On exports to China and US, these are big markets as I presented. United States will import about 600,000 tons to cover its deficit, to cover the gap of consumption and production especially while the economy is going up.

China also has a big gap to be covered because of the increase of consumption that we are seeing nowadays over there. So, there are special segments, special niche markets that we work like our organic beef for the United States and special programs to China. So yes, there are special preparations that allow us to extract more benefit from those particular markets and we see these markets becoming even bigger and more important as there is a lack of supply from other origins especially as I presented on the third slide what is happening to Australia. So, we see the perspectives of exports as very favorable for South America.

## Q - Lauren Torres {BIO 7323680 <GO>}

And can I just as a follow-up to the first part of your answer to my question on cattle price. I guess there's no reason to believe going into next year that demand should remain weak or even weaken further and I guess, you are seeing some early indication that prices are coming down already, correct?

## A - Fernando Queiroz {BIO 15387377 <GO>}

No, depends on demand where. The demands in the local market, yes, we are seeing it going down. Demands on exports we see it increasing, but the club of exporters that are allowed to export out of Brazil is a small club. The majority of the beef produced in Brazil, 80% of the beef produced in Brazil is consumed in Brazil. So, definitely we see this as an opportunity for the export strategy that we now have.

## Q - Lauren Torres {BIO 7323680 <GO>}

All right. Thank you.

## Operator

The next question will come from (inaudible).

## Q - Unidentified Participant

Hello, thank you for taking my questions and congrats for the solid results. My first question will be about the domestic market in beef division. Considering volumes, we saw this quarter a 30% decrease in fresh beef, a 300% increase in processed beef and a 36% increase in others products. Can you explain us a little bit about these dynamics? Why people increased the consumption in other products and processed beef products and what do you expect in future? Considering also export volumes you had an increase of 17.8% year-over-year this quarter. We know the international demand has very good percentage in (inaudible) quarters, but do you think these levels of growth are sustainable in future or there will be an increase in margins?

And my second question would be about net leverage. We saw this quarter an increase of net leverage, it was 4.4 times in 2Q 2015 to 4.8 times this quarter. What will be your plan? Do you plan leverage management, what do you expect in future? Thank you very much.

## A - Fernando Queiroz {BIO 15387377 <GO>}

First on the dynamics on the domestic market. Consumers in the Brazilian domestic market are price sensitive as in most of the places. What we saw is that first, they traded down, they moved to cheaper products in the beef protein and then part of them also moved to other proteins like chicken. This is what affected the Brazilian local market. Processed products represents another segment that does not have a direct competition. Of course that there are some correlation, but that doesn't represent a direct competition for the proteins. These dynamics affects the price of the cattle as I said in the last question. Cattle price is a function of the local consumption and this allows us and this is the reason why Minerva went from 65% to 76% of its revenues coming from exports. On the top of that, what I said the dynamics of the export markets with lack of supply from other origins also presents a favorable scenario for South America.

On the leverage, I will hand over to Edison.

## A - Edison Ticle {BIO 15435343 <GO>}

Leverage went up because of the currency depreciation. You have to bear in mind that the increase in leverage was much lower than it would be if we did not have a good cash flow generation neither a hedging strategy for the quarter. If you take the analyzed EBITDA of the quarter and calculate the net debt, the leverage would be around 3.8

times. So if the currency reduced a little bit, if the currency stays between BRL3.90 and BRL4, there will be no additional expense on the FX side on the debt and the amount of cash flow that the Company will generate will be much higher than the amount that the Company generated in the past 12 months.

So as a result, leverage will go down further. We estimate leverage can be around 3.5 times by the end of '16 and our target is to have a leverage below 2.5 [ph]times in two years' time.



## Q - Unidentified Participant

Okay. Thanks a lot.

## Operator

The next question will come from Jose Yordan of Deutsche Bank. Please go ahead.

## Q - Jose Yordan {BIO 1496398 <GO>}

Hi, good morning everyone. One was about Uruguay, your competitor mentioned at a conference call earlier this week that in Uruguay there were government efforts to control inflation and that led to somewhat lower or at least stable prices in that market. Did that affect you in any way or are you exporting most of your volume in Uruguay? So, any comments to that?

And then my second question was just about this equity valuation and the cumulative conversion line item in your cash flow. Just like to understand that a little better, I assume it has to do with your earlier comment about some of the translation impacts going into the balance sheet directly, but any color you can give me that would be great?

## A - Edison Ticle {BIO 15435343 <GO>}

Jose, could you be more specific in your doubt regarding the balance sheet and I couldn't understand the question?

## Q - Jose Yordan {BIO 1496398 <GO>}

No, just the equity valuation and accumulated conversion line item in your cash flow. Just what the nature of that is? Is that something only that we've seen this year and it didn't seem to impact the first quarter?

## A - Fernando Queiroz {BIO 15387377 <GO>}

Okay, it's related to the net equity of all the subsidiaries that are not in Brazil, that are outside Brazil where the functional currency is not reals. It's related to the translation of the variations in those subsidiaries to the account principles in reals. So, it has no cash impact on the cash flow generation of the quarter, but it has to be translated into Brazilian currency.

## Q - Jose Yordan {BIO 1496398 <GO>}

And so how come that didn't appear in the first quarter where there was also a significant slide in the real?

## A - Fernando Queiroz {BIO 15387377 <GO>}

Well, I can take a look, but I think it has also appeared.

## Q - Jose Yordan {BIO 1496398 <GO>}

Okay. I can take that offline. Any comments on the Uruguay situation, that would be great?

## A - Fernando Queiroz {BIO 15387377 <GO>}

On Uruguay, practically all the volume that we produce in Uruguay goes to the export market. I haven't seen the comments of my competitors. But for us, what we saw is a very normal cycle of the operations in Uruguay.

## Q - Jose Yordan {BIO 1496398 <GO>}

Okay. Thanks a lot.

## Operator

Next question will come from Jeronimo De Guzman of JPMorgan Stanley. Please go ahead.



## Q - Jeronimo De Guzman {BIO 15888043 <GO>}

Hi, good morning. Just had two separate questions. One was when I look at the domestic division revenues, there is a big decline in the others division, so I just wanted to understand what drove that and why it was a much more pronounced decline than what we saw on the beef side?

And then the second question was on the export side and I wanted to understand now that you've had kind of already an increase in the exports to China, what has been your experience so far in terms of the margin or the pricing uplift when you're redirecting exports from going through Hong Kong to going directly to Mainland China?

## A - Fernando Queiroz {BIO 15387377 <GO>}

Starting from the second question first. Mainland China, it's definitely a market that presents much better margins than Hong Kong. So it's a market that is much more segmented, there are niche markets, it's a market that it will go directly on the final users. So, it's much more favorable. We see price differences that goes from 3% to 8% for the same product prices in China or prices in Hong Kong. So, definitely Mainland China represents a good opportunity.

On what you saw the reduction on the others division on the domestic market is mainly due to hides that we redirected, more hides to the exports following the same dynamics and the same competitiveness that we saw on the beef that we give more emphasis. All the other products, they are redirected to China. On the top of that, some of the products that are on the distribution that goes to the Brazilian local market also have a reduction on its demand. So, this is only reinforced what we've said before that the local market tends to move sideways and is likely now affecting the price of the cattle.

## Q - Jeronimo De Guzman {BIO 15888043 <GO>}

Okay. Thank you.

## Operator

(Operator Instructions) And having no additional questions, we will conclude the question-and-answer session. I would like to turn the floor back to Mr. Fernando Queiroz for any closing remarks.

## A - Fernando Queiroz {BIO 15387377 <GO>}

Thank you very much. I would like to thank you all for participating in our conference call. The third Q figures is a result of the consistency, the focus, and efficiency of our strategy based on the diversification of our footprint in South America, the quick flexibility of our commercial channels, and the proper utilization of our risk management tools. Also I would like to thank the entire Minerva team for their initiative and their possibility of adapt to the most challenging scenarios allowing us to together reach the excellent results. Finally, I want to say that we are available for any questions and clarifications. Thank you very much.

## Operator

Thank you. This concludes today's presentation. You may disconnect your line at this time. Please have a nice day.