Y 2021 Earnings Call

Company Participants

- Marcos Molina, Founder & Chairman
- Miguel Gularte, Chief Executive Officer, South America Operations
- Mr.Eduardo Puzziello, Director, Investor Relations
- Paulo Pianez, Sustainability and Communications Director
- Tang David, Chief Financial and Investor Relations Officer
- Tim Klein, Chief Executive Officer, North America Operations

Other Participants

- Benjamin M. Theurer
- Carlos Laboy

Presentation

Operator

Good morning, everyone, and thank you for waiting. Welcome to Marfrig Global Food S.A. Fourth Quarter and Full Year of 2021 Conference Call. With us here today we have Mr.Marcos Molina, Founder and Chairman; Tim Klein, Chief Executive Officer of North America Operations; Mr.Miguel Gularte, Chief Executive Officer of South America; Mr.Tang David, Chief Financial and Investor Relations Officer; Mr.Paulo Pianez, Sustainability and Communications Director; and Mr.Eduardo Puzziello, Investor Relations Director.

This event is being recorded. And all participants will be in a listen-only mode during the company's presentation. After Marfrig remarks, there will be a question-and-answer session. At that time, further instructions will be given. (Operator Instructions) This event is also being broadcast live via webcast and may be accessed through Marfrig website at https://ri.marfrig.com.br/, where the presentation is also available. The replay will be available shortly after the event is concluded. Those following the presentation via the webcast may post their questions on our website. They will be answered by IR team after the conference is finished.

Before proceeding, let me mention the forward statements are based on the beliefs and assumptions of Marfrig Global Foods S.A. Management and our information currently available to the company. They involve risks and uncertainties because they relate to future events, and therefore, depend on circumstances that may or may not occur. Investors and analysts should understand the conditions related to macroeconomic conditions, industry and other factors could also cause results to differ materially from those expressed in such forward-looking statements.

Now, I will turn the conference over to Mr.Marcos Molina. Mr.Molina, you may begin your presentation.

Marcos Molina {BIO 15363967 <GO>}

Thank you very much for participating in one more presentation of Marfrig's results. On behalf of the company's Board of Directors, I would like to congratulate the entire Marfrig team for the spectacular result achieved in 2021. This year was one of great challenges, and above all, of great accomplishments. Our operational excellence based on a simple and efficient management was fundamental for us to break all of our annual records. Sustained by a profitable operation and with an appropriate capital structure for the company, we remain committed to Marfrig's strategic pillars. Namely, operational excellence, financial discipline, commitment to sustainability, and to the best standards of corporate governance, expansion of the production of processed items and total focus on innovation.

We once again fulfilled our mission to provide essential food to the world, following the strictest health protocols, while maintaining the safety of our employees and with a strong commitment to environmental and social sustainability. We remain focused on our ESG initiatives, initiatives through Marfrig's Verde+ program, a program that has already reincluded more than 2,000 cattle farmers in our supply chain. And that has been progressively recognized by the market and by society as an excellent program.

Finally, I'd like to point out that over the year of 2021, Marfrig invested BRL2.3 billion in CapEx. A large part of these resources were earmarked to strategic and organic growth projects. We invested BRL6.9 billion in BRF shares, which represents 33.25% of the company's total stock. And we also bought back BRL650 million in shares to Marfrig's treasury. We also proposed the distribution of BRL2.2 billion in dividends to our shareholders, all of that due to the excellent results achieved in 2021. In total therefore, BRL12 billion billion were invested. And even so, Marfrig improved its leverage from 1.57 times in 2020 to 1.51 times in 2021. All of this demonstrates the commitment of the management to generate value for all our shareholders.

I now give the floor to the CEO of the North American Operation, Tim Klein, and I take this opportunity to congratulate the National Beef team for the record results in 2021.

Tim, over to you.

Tim Klein {BIO 16522695 <GO>}

Thank you, Marcos. Let's begin on Slide 4, where I will comment on the results for the fourth quarter. Starting on the left, sales volume in the quarter was 0.7% higher than the same quarter of last year. Net revenue however was 37% higher than the previous year, coming in at 3.2 billion. This was driven by continued high prices for beef and beef byproducts and the modest improvement in sales volume.

On the chart to the right, we also achieved EBITDA of 714 million for the quarter, 132.5% higher than last year, with an EBITDA margin of 22.3%, setting a new record for a fourth quarter. The key driver of our performance continues to be strong demand for U.S. beef products, combined with still ample availability of fed cattle. Although cattle prices increased year-over-year, beef and beef byproduct values increased even more, driving higher margins for the quarter.

Please move now to Slide 5, where I will talk about U.S. market data. Starting on the left, industry slaughter levels increased 0.5% from the same quarter of last year. Cattle prices as reported by the USDA averaged $138 per hundredweight, up 21.2% year-over-year on strong demand from packers. The USDA comprehensive cutout averaged 280.34 [ph] per hundredweight, up 30.3% over last year.

At the same time, drop credit values increased 81.8% to an average of 15.49 per hundredweight, led mainly by increases in hide and tallow values. The cutout ratio was 2.16, up from 2.00 last year. Higher box beef and drop credit values resulted in an 84.4% increase in per head gross margins versus a year ago.

Moving now to Slide 6. I will talk about the cumulative results for fiscal 2021. Once again, starting on the left, sales volume was 3.5% higher than last year. Net revenue was a new record and was 23.6% higher than the previous year, coming in at 11.7 billion. On the chart to the right, EBITDA was 2.6 billion for the year, up 78.7% compared to fiscal 2020.

As noted in previous quarterly reports, an ample supply of fed cattle, strong demand for U.S. beef and focused execution of our business plan drove record-high financial results. COVID-19 continue to impact our business throughout the year, albeit not as dramatically as in fiscal 2020. The supply of fed cattle was higher than it would have been, but for the pandemic, while costs for labor and many other inputs were higher as well. As we look forward to 2022, industry fundamentals continue to be in our favor. Fed cattle supplies remain adequate, while beef demand is robust, both domestically and internationally. Margins for the industry should continue to be favorable.

Now, I'll pass to Miguel.

Miguel Gularte {BIO 20767495 <GO>}

Thank you very much, Tim. We will now move on to Slide 7, where I will explain the performance of the South American operations in Q4 2021. As you can see in the first graph on the left, the total sales volume in the quarter had a decrease of 13.6% compared to the sales in the same quarter of 2020, justified by the impact of the self suspension of sales from Brazil to China, which only returned to normality in mid-December. This restriction reduced the volume exported, which was 42% in Q4 2020 to 30% in the last quarter of the 2021.

In the central graph of this slide, net revenue. We can see that we reached this quarter the amount of BRL6 billion, 7.6% above the revenue of Q4 2020. The company's management was able to offset the negative effect of the self-suspension through better pricing of our products, which more than offset that effect.

As you can see, this business model with integrated platforms in the countries where Marfrig operates, provides us with a strategic differential in marketing. And the results are translated into the numbers presented here, which confirm the assertiveness of our model.

And finally, in the graph on the right, that of EBITDA, we reached BRL213 million in Q4 2021 with a margin of 3.5%, 5 percentage points below the margin of the same quarter of 2020, explained not only by the volume-related effect but also by the increase in the cost of cattle in Brazil and Argentina, and partially offset by the drop in the price of cattle in Uruguay, and the captures of the operational efficiency programs that we will talk about later.

Turning now to Slide 8. I will talk about the year 2021 results of the South American Operation. Again, we will start our analysis with the sales volume graph, the first graph that appears on the left hand side of this slide. Here we see a 5.7% decrease in total sales volume, even in the phase of a 7.2% reduction in slaughter volume, that is we were able to offset this slaughter reduction and mitigate volume reduction through the implementation of the operational efficiency program. However, when we analyze the central graph, that of net revenue, we present a revenue of BRL22.5 billion in 2021, 21.4% higher than in 2020.

Despite the lower volume, the average sales price of exports which account for 58% of the year's consolidated revenue, was 28% higher than the average price of 2020. And the average price of domestic sales, which account for 42% of the year's consolidated revenue, was 38% higher than the average price of 2020, always very well monitored by our pricing system.

The adjusted EBITDA, as can be seen in the graph on the right, was BRL905 million and reached the margin of 4%, 7 percentage points below the in 2020 EBITDA margin. This performance is explained by the combination of the self-suspension effect to China, which impacted sales volume and the increase in the cost of cattle in Brazil and Argentina throughout the year.

Turning now to Slide 9. I will talk about the export performance in the fourth quarter of 2021 and the year 2021 results of the South American operation. As seen in the two graphs on the left, referring to the fourth quarter, we can observe a significant variation in the main export destinations when comparing Q4 2020 with Q4 2021 exports. This effect is caused by the limitation in exports to China throughout almost the entire last quarter of 2021. In this scenario, the company was able to change the destinations to markets such as Europe and North America, which minimized the impact of the restriction to the Chinese market.

When we analyze the two graphs on the right, this Chinese impact had a limited effect and was offset by the strong performance of Uruguay and Argentina, which led exports to

Asia to account for 58% of exports compared to 61% in the year 2020.

Turning now to Slide 10, I will talk about the impact of BRL252 million the operational efficiency program had on the year 2021 results of the South American operation. As I have been saying throughout the last few calls, Marfrig has been striving to implement operational improvements through efficiency programs, which involve buying well, processing well, and selling well. As we can see in the graph on this slide, through the implementation of these measures, we were able to capture, throughout the year, operating results that had a positive impact on the company's consolidated EBITDA.

Now, I turn to Tang, who will comment on the consolidated results and the financial highlights of the operation.

Tang David {BIO 18672578 <GO>}

Thank you, Miguel. In the next slides, I will present Marfig's consolidated financial results for the fourth quarter of fiscal year 2021. Starting with Slide 12, in the graph on the left, in Q4 2021, we generated consolidated net revenue of BRL23.9 billion, a 31.1% growth compared to Q4 2020. I point out that more than 92% of our revenue is generated in currencies other than the real, with more than 89% generated in dollars.

In the graph on the right, this quarter, we generated BRL4.2 billion in adjusted EBITDA with a 17.5% margin, a nominal growth of 98.3% and 600 basis points versus the Q4 2020 EBITDA. And of this total EBITDA, 95% was generated in North America. As presented in the previous slides, at the opening of our operations, the North American result is the main driver behind this growth.

In the next slide, number 13, I will comment on the cumulative performance of fiscal year 2021. In the first graph on the left, we see that in cumulative terms, we generated more than BRL85 billion in net revenue, the highest historical revenue for Marfrig and a growth of 26.5% when compared to the year 2020. The graph on the right shows the record adjusted EBITDA of BRL14.5 billion and a consolidated EBITDA margin of 17%. The main factors that justify the increase of more than 50% in the annual EBITDA were the continued excellent performance of the North American operation, mainly in the domestic market; the devaluation of the real against dollar of 4.6%; and the continued operational improvement and efficiency program started in 2019 in the South America operation.

We now move on to Slide 14. On this slide, I will comment on the net financial result in Q4 2021, which was an expense of BRL1.6 billion. The mark-to-market of the BRF equity investment of BRL1.2 billion was the main driver of the expense in the quarter. In Q4 2021, interest expenses were BRL491 million, an increase of BRL41 million compared to Q4 2020, explained by the increase in the basic interest rates in Brazil, given the new debt profile with greater exposure to that in the local market. The exchange rate was negative by BRL122 million caused by the difference between the final P [ph] tax of the periods in Q4 2021, BRL5.58 versus BRL5.44 in Q3 2021.

On Slide 15, the accumulated financial result for 2021 was an expense of BRL2.6 billion. Here our highlight, our interest expense, which even with a higher prime rate in Brazil and a change in the debt profile, remains stable compared to 2020, reflecting the strong liability management and the search for the best capital structure for the company. The impact of the exchange rate variation on the financial result was BRL1.1 billion in 2021.

On Slide 16, we show the net result for Q4 2021. Discounting taxes and minority interest, the net income was BRL650 million, as we can see in the first graph above. Based on this result, the management is proposing a new dividend payment of BRL383 million, which represents approximately BRL0.58 per share to be paid this April.

In the second graph below, we show the net result accumulated in 2021. Due to the excellent operational performance added to the captures of the operational efficiency program and fixed cost control, they resulted in the net profit generation of more than BRL4.3 billion. I highlight that based on this record profitability, we advanced an additional payment of BRL1.8 billion in dividends in 2021. And if we add the new proposed payment, the total distribution amounts to BRL2.2 billion, which represents approximately 58% of the total result for the year after setting reserves aside.

On the next slide, number 17, we present cash generation. We generated in Q4 2021 more than BRL1.5 billion of operational cash flow. Discounting the investments in CapEx and interest paid in the period, the free cash flow totaled BRL104 million, as shown in the graph above. In the graph below, we present the accumulated operational cash flow generation for 2021, totaling BRL9 billion and the accumulated free cash flow generation for the last 12 months totaling BRL5.1 billion. In 2021, more than BRL2.3 billion were allocated to CapEx for important organic growth projects, such as the automation of the Liberal plant and capacity expansion in Iowa, both in the North America operation.

In the South American operation, we invested in the expansion of the deboning and hamburger lines in Varzea Grande, Mato Grosso and in the hamburger plant in Bataguassu, high value-added projects in Brazil. We also invested in the expansions of the Tacuarembo Plant in Uruguay and in San Jorge in Argentina.

In addition to the CapEx of strategic projects, we returned approximately 50% of the cash generated to all Marfrig shareholders with the distribution of dividends in the order of BRL2 billion and more than BRL650 million in share buybacks.

Turning to Slide 18, net debt and leverage. Our net debt at the end of 2021 totaled 3.9 billion. It is important to mention here that the increase compared to 2020 is the effect of the reclassification of BRF shares in long-term financial investments. Until Q3 2021, they were accounted for in short-term financial investments and securities. Therefore. as part of cash, in Q4 2021, given the materiality of the mark-to-market of these shares, the position is now accounted for as long-term and is no longer considered in the calculation of net debt. With this, our leverage stood at 1.45 times when measured in dollars and at 1.58 times in reals, leverage levels below 2020.

In 2021, BRL1.9 billion of dividends were paid to Marfrig shareholders, referring to the 2020 results and 2021 advanced payments; BRL1.8 billion to the National Beef's minority shareholders. At the end of 2021, 80% of our debt was indexed to the U.S. dollar. The increase in our exposure to the real is part of our strategy to better manage our liabilities, taking advantage of the good opportunities in the domestic market.

On Slide 19, I present the details of our debt profile. Starting with the chart on the left, the debt schedule. We ended 2021 with the cash of around $1.5 billion, including the reclassified BRF shares to long-term as explained previously.

Our debt has an average maturity of 5.5 years and an average cost of 5.51% per year. We have available a revolver line of $900 million. In the graph on the right, we see the evolution of gross debt in dollars over the last three years and the constant decrease in the gross debt to adjust EBITDA ratio from 4.47 times in 2019 to 2.86 times in 2020 and 2 times at the end of 2021.

I now turn to Paulo Pianez, who will comment on the sustainability highlights. Thank you.

Paulo Pianez

Thank you, Tang. Marfrig also closed its 2021 with robust results in sustainability. These results confirm it's (inaudible) nearing period and its real commitment to the development of innovative low-carbon and deforestation free livestock farming.

For the second consecutive year, Marfrig is the best ranked company in the sector according to the FAIRR animal protein index, a ranking that brings together more than 300 global investment funds and evaluates the 60 largest publicly traded animal protein companies in the world. Besides improving its core by 8% in relation to last year, ranking 5th, Marfrig is the only company in the beef sector classified as low-risk from the perspective of 10 social and environmental risk factors.

At CDP, disclosure, insights, action, Marfrig is also the only company globally in the industry to make it to the A List in water use, and stands out among the best position companies in climate change and forests.

As to the management of animal welfare, Marfrig is the best position company in the industry according to the latest BBFAW publication, the business benchmark on farm animal welfare. We were classified as Tier 2. The Marfrig Verde+ plan launched in July 2020 to establish a low-carbon deforestation-free cattle production, achieved very effective results in 2021.

Based on the strategy of produce, conserve and include, according to which Marfrig works closely with producers, the objective all our initiatives is the social and environmental adjustment of our supply chain according to our cattle purchasing policy. Along these lines, the company has supported and reincluded more than 2,000 farms in its supply chain, approximately 26% of its active suppliers, which supplied more than 700,000 animals throughout 2021. This is a clear example that the inclusion strategy is the most effective solution to reconcile production with conservation, as all these producers now meet the highest standards of sustainable cattle production.

On the traceability front, including indirect suppliers, Marfrig already monitors 100% of its direct suppliers in the Amazon and the Cerrado, and has reached 67% of the indirect suppliers in those biomes with Visipec, a monitoring support tool, the sample compliance index among indirect suppliers already mapped reached 99.5%, which demonstrates the effectiveness of this process.

In order to make the monitoring system even more robust, Marfrig established a partnership with MapBiomas, one of the most recognized collaborative initiatives in territorial intelligence, which shows the transformations of the Brazilian territory in order to seek conservation and fight climate change. Through this partnership, the company will expand its layers of control and its geomonitoring system.

And finally, another important initiative Marfrig has in the development of solution towards a more sustainable livestock production is the unique support of the unprecedented project, named sustainable calf production, coordinated by IDH, initiative for sustainable trade, that provides technology and technical assistance to nearly 150 small calf producers in (inaudible), Mato Grosso State in the middle of the Amazon. The model has proven to be viable and Marfrig is investing 1.75 million in its expansion.

These efforts, the results achieved with the Marfrig Verde+ plan, as well as international evaluations, are proof of our commitment to generate a positive impact, contributing to the development of a low-carbon economy and to the maintenance and recovery of biodiversity in the territories where we operate. (Technical Difficulty)

Operator

Thank you. (Operator Instructions)

Questions And Answers

Operator

(Question And Answer)

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

Yeah, perfect. Thank you very much and good morning. Congrats on the results. First question I have, I guess, it's for from Marcos. Could you clarify what your stand is currently in regards to the BRF stake? I think, for Marcos. Could you clarify what your stand is currently in regards to the BRF stake I think, not consolidating and how do you plan to work strategically with BRF or not by incorporating it or not into your financials going forward just given also the nature of the change you've just done to for marketable spot into your financials going forward just given also the nature of the change you've just done to for marketable securities into an asset? Thank you. That's the first question.

A - Marcos Molina {BIO 15363967 <GO>}

Good morning, Ben. First of all, has approved it. So this will be in place in the second quarter of 2022 after the new Board is elected. I hope I answered your question. This is an accounting rule and it is required, that it's done that way.

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

Yes, perfect. And then maybe just looking into to understand a little bit the commentary Tim for you on seeing the first quarter better on a year-over-year basis and clearly we've seen January, February doing significantly better. But it's come down a bit in margin, the profitability side. What are you seeing on the short term for the reminder of the first quarter and how do you feel about the cutout levels into 2Q and summer in general?

A - Tim Klein {BIO 16522695 <GO>}

Yes. First on Q1, we expect to come in well ahead of a year ago. Margins have compressed a little bit in March, but not any less than what they were last year. Beef prices have come down and which is a seasonal drop we see into this time of year and we expect to see prices increasing into the barbecue season going forward. So as we look into 2022, we still expect a very strong year, it won't be the same as last year because we had a lot of tailwind with the backlog of cattle, with the flesh restarting. But should be very good low-double digit EBITDA margins for the year are what we expect.

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

Okay. So low-double digit. And then if we put it into perspective with competing proteins, I mean, we're seeing obviously chicken prices have gone significantly up, pork prices as well, elevated as they more immediately reflect the higher grain cost. How do you feel about the higher grain cost that ultimately is going to be feedlot? I mean, there's a little more flexibility with cattle, but how do you think that beef against the competing proteins given the cost pressure in the competing protein side? And how do you think beef is going to fare against that also in light of general inflation?

A - Tim Klein {BIO 16522695 <GO>}

Well, generally. Beef prices aren't impacted all that much by either pork or poultry. Although higher prices for those protein certainly can hurt the story for beef values. So we don't see any downside. To your point, the high grain costs typically changes the number of days that are on feed, cattle end up being on grass little bit longer before they come to the feedlot. So there's a little bit of an adjustment in the flow of cattle, but overall, it doesn't affect the supply to cattle that are out there, that already on the ground at least we have visibility for the next two and a half years.

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

Okay. Perfect. And in South America, my last question. I promise it. That one is I guess for Miguel. If you look into the Brazilian market in particular right now, the domestic market, it continues to face the challenges of very high cattle prices, ultimately driving those high beef prices and we seen profitability somewhat impacted. How do you think about the cattle cycle going forward? When do you think there's going to be some sort of relief on the supply side and when should margins normalize in South America, particularly in Brazil?

A - Miguel Gularte {BIO 20767495 <GO>}

Hi, good morning, Ben. Yes. What we see in the first quarter 2022 already is more constant supply. In 2019, 2020 and 2021, there was a decrease in slaughter here in Brazil.

So that's now left behind us and then 2022 supply has gone back to normal and we have stable prices. On the other hand, in 2021, there were some events that had huge impact on our business. In the first quarter, we had restricted cattle supply in Brazil dropping close to 13% in the first quarter. In the last quarter for the past 101 day, we had a delisting between Brazil and China. So exports to China were out of Brazil's radar. But in 2022, things will still be challenging in terms of domestic sales and that challenging domestic scenario is offset by the food services, which are doing quite well after the pandemic.

Marfrig has 13 plants in South America and we can export to China and we account for 12.5% of beef exports to China. So that has a huge impact for us, that high demand. So obviously we won't have the same problems we had last year, and we have some interesting possibilities for beef in China at the moment.

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

Perfect. Thank you very much. Mr.Miguel.

Operator

(Operator Instructions) The next question comes from Mr.Carlos Laboy with HSBC.

Q - Carlos Laboy {BIO 1506984 <GO>}

Yes. Good morning, thank you. I was hoping you could expand for us a little bit more on both your operating strategy and your capital strategy going forward as pertains to BRF. Thank you.

A - Mr.Eduardo Puzziello

Hi, good morning, Carlos. This is Puzziello. In terms of our capital structure concerning BRF, the company is not allowed to disclose any information before the Board election. So we're not allowed to disclose anything about that before the 28th. Sorry.

Q - Carlos Laboy {BIO 1506984 <GO>}

Okay. Thank you.

Operator

Excuse me. This concludes today's question-and-answer session and thus concludes Marfrig Global Foods S.A. Conference call for today. Thank you very much for your participation and have a nice day.