Y 2014 Earnings Call

Company Participants

- Edison Ticle de Andrade Melo e Souza Filho, Chief Financial Officer
- Fernando Galletti de Queiroz, Chief Executive Officer

Other Participants

- Andrew De Luca, Analyst
- Christina Ronac, Analyst
- Jeronimo De Guzman, Analyst
- Jose Yordan, Analyst
- Mauricio Martinez, Analyst
- Unidentified Participant

Presentation

Operator

Good morning, ladies and gentlemen, and thank you for waiting. At this time, we'd like to welcome everybody to Minerva's Fourth Quarter and Full-Year 2014 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 a listen-only mode during the Company's presentation. (Operator Instructions) The audio and slide show of this presentation are available through a live webcast at www.minervafoods.com/ir. The slide show can also be downloaded from the webcast platform in the Investor Relations section of this website.

Before proceeding, we wish to mention that forward-looking statements may be made during this presentation relating to Minerva's business prospects, operating and financial estimates and goals. They are based on the beliefs and assumptions of the Company's 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 that are expressed in such forward-looking statements.

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

Fernando Galletti de Queiroz {BIO 15387377 <GO>}

Thank you very much. Good morning, everyone, and thank you for participating in Minerva's conference call on the results of the fourth quarter and full-year of 2014. I would like to begin by showing that the company closed 2014, having reached its growth and -- in integration targets. The result presented today is the main indicator of the consistency, assertiveness, and discipline of the goal established.

Throughout 2014, we took important steps in the Company's growth plan with expansion of our operations to the state of Mato Grosso and Minas Gerais in Brazil; also the acquisition of another plant in Uruguay, in -- a good moment for the industry in that country. Two weeks ago we announced our memorandum for the acquisition of a plant in Colombia in a pioneering movement for the country, which has a large herd and a great growth potential both in terms of domestic and export market.

Minerva has been consolidating its leadership position in South America in a focused and disciplined manner, in line with the plan announced to the market at the end of 2012. It's the beginning of 2015 with a more diversified and efficient industrial complex. In 2014, we reached very satisfactory results from an operational and financial standpoint as we will discuss moving on to slide two.

Slide two, the highlight this quarter was our free cash flow generation, which totaled R$159 million, positively impacted by the release of R$165 million in working capital thanks to the Company's successful strategy of maintaining higher inventories in the third quarter in order to benefit from the higher prices in the fourth quarter and the improvements in other accounts payable. As a result, the cash conversion cycle came from 29 days in the third Q of '14 to 23 days in the end of 2014, lower than the year's average.

Return on invested capital remained high, reaching 21% in 2014, in line with 2013 reinforcing management's commitment to focus on shareholders' return. In the fourth Q of '14, we posted record net revenues, 47% higher than in fourth Q 2013; super passing the market of R$2 billion in a single quarter as a result of the new capacity added, most of which concentrated in the last quarter, but also due to organic growth.

In 2014 revenues grew by 28% to 7 billion fueled not only by the Beef Division, which moved up to 26%, but also by Others Division; which includes the live cattle exports, leather, Minerva Fine Foods and recorded a 40% increase in revenues compared to 2013. Considering the pro forma figures of the Mato Grosso and Carrasco operation, net revenues came to R$8 billion in 2014, a significant growth of nearly 50% when compared to 2013.

EBITDA adjusted for non-recurring items totaled R$196 million in the fourth Q 2014, 28% up year-on-year with a margin of 9.2%. In 2014, considering the pro forma figures, EBITDA totaled R$760 million, 38% higher than in 2013 with a margin of 9.5%. In 2014, exports accounted for approximately 65% of the company total revenues reflecting growing demand and reduced the beef supply from other players in the international market. The result of our focus on risk management and efficiency of channels was reflected in our export performance.

Minerva was among the largest fresh beef exporters in South America in 2014 and its sales grew by 80% [ph] over 2013. In the domestic market, revenues growth was even higher, 39% over 2013 supported by our distribution expansion plan with a focus on the small and medium retailers and especially on the food service. In regard to debt management, the company closed the year with only 14% short-term debt and a cash position of R$2.5 billion leaving the company prepared for a more adverse macro economical scenario that eventually can happen in Brazil.

Finally, I would like to highlight that in view of the company's growth and in order to make the decision making process quicker, we have adopted a new corporate model with the creation of our four business units led by COOs. The business units are Beef Brazil, Beef South America, Distribution and Logistics, and a division of Others.

Let's move on to slide number three to discuss the industry overview and cattle supply in Brazil. In 2014, the average arroba price increased by 23% over 2013 as shown in the graph on the top right. The upturn was explained by a number of factors. First, the industry maintained accelerated slaughter pace observed in 2013 as a result of the combination of healthy demand for beef in the domestic market and another record year in exports. In addition, we had atypical weather event in 2014 with drought in the harvest season and more pronounced rain shortage in the offseason.

Finally, lower grain prices encouraged feedlot operators to maintain the cattle in the feedlots for a longer period. These factors pressured the cattle price, however buoyant demand for beef in the domestic market combined with new export records in Brazil allowed good profitability in the sector.

Let's move now to slide four and we will analyze the performance of the Brazilian exports. In 2014, Brazilian beef exported posted record volumes and revenues totaling approximately $6 billion, 8% up on the revenues recorded in 2013. Exported volume totaled 1.2 million tonnes, 4% more than in 2013. In 2014, the highlight in export was the 4% upturn in the average price in dollars of the Brazilian beef compared to the average price of 2013. Thanks to the improved competitiveness and better pricing power of the Brazilian producers, who have benefit from restricted supply by the main global producers.

Another highlight is the evolution of Brazilian exports by definition analyzing the mix of 2007 before the global crisis, more than 60% of exports were concentrated in Russia and in Europe. In recent years, the sales distribution has become more balanced. This was due to the opening of new markets, the reversal of embargoes, the progress of sanitary status in several states, and the ongoing initiative of the government and the private sector together in addition to the ever-increasing demand and the fact that Brazil is prepared to meet this growth in consumption.

As a result, in 2014, Asia became the second main market for exports with 22% share against only 6% in 2007. Americas share, especially Chile, grew 5% in 2007 to 21% in 2014. This shows the wide variation in the destination of Brazilian exports in growing demand from emerging countries.

Let's move on to slide five, which presents our performance in the domestic market. Domestic beef consumption remained strong throughout 2014. Although the Brazilian economic environment was more volatile, beef demand remained resilient, which was reflected in a price increase mutually on par with the upturn in arroba prices. As you can see in the graphs on slide five, both the average price of forequarter cuts, which are normally cheaper and that of hindquarters cut increases over 2013 when beef prices had already gone up.

We would like to mention the expansion of the food service segment in Brazil, which has substantially increased beef consumption. According to the Brazilian Association of Food Industries, this segment grew 15% per year in the last five years. This performance is higher than that of traditional retail channels. In addition, Brazilian food consumption outside the home climbed from 19% in 1995 to 33% in 2013. These figures reinforce Minerva's strategy of focusing distribution in the food service segment.

Now, let's have a look on slide six and we will discuss the industry in Paraguay. After a period of adjustment in late 2013, the Paraguayan industry presented a very balanced behavior in 2014 with a very solid operating margins. Slaughter volume was an all-time highs, 12% up on 2013 mainly fueled by exports. Paraguay has continued to obtain healthy prices for its beef in the international market benefiting from the favorable movement in terms of external demand and becoming an increasingly important global beef supplier. Despite the strong slaughter volume, the average cattle price remained virtually flat compared to 2013 benefiting profitability. In the Paraguayan export mix, you can see the shares of Brazil and Chile increased reducing the dependence on the Russian market. In addition, there is an increased profitability that new markets will open such as Europe, which is expected to happen in the first half of 2015.

Let's have a look on slide seven, where we will discuss the industry in Uruguay. Uruguay, 2014 was an important year for Uruguayan beef industry. Margins remained favorable throughout the production chain. In 2014, exports revenues was 10% higher than in 2013, totaling approximately $1.5 billion. The share of the United States increased to 15% of the total. Uruguay has benefited from a privileged position in the global beef market. Among the factors that explain this positive dynamics we highlight. First, the cattle cycle is in a very favorable moment with high cattle availability, which enabled the slaughter of more than 2 million heads in 2014, 6% more than in 2013 with stable cattle price.

Secondly, Uruguayan beef has access to a higher number of niche markets such as United States, Canada, and South Korea as well as the fastest growing market such as Mainland China allowing higher beef prices. Finally, industry maturity brings more rationality to the operations and therefore more sustainable margins.

Let's move to slide eight, where we will discuss the Minerva's operation and its results. Slide eight, in 2014 the company's slaughter volume totaled more than 2.1 million heads and the utilization rate stood at 71% excluding the operation of the plants acquired in 2014, which are still in the ramp-up stage. The utilization rate was near 73%, which makes us benchmark for the sector. Taking advantage of the favorable momentum for exports, we recorded a volume -- a total volume of 277,000 tonnes in 2014 and approximately 77,000 tonnes in fourth Q of 2014 on itself. As a result, 60% of the total gross revenues of Minerva came from exports in 2014.

Let's have a look on slide nine, which presents the company export strategy in detail. In 2014, the company remained the second largest exporter of beef in Brazil. Minerva accounted for 16% of exports in Uruguay and 15% in Paraguay. The slide also shows Minerva exports trend. In the period you can also see a more balanced distribution of sales between the regions. I would like to draw your attention to the increased share of Asia in the company's exports and the continuous growth in demand from this region, which in 2014 accounted for 15% of our total exports, 300 bps above the figure reported in 2013.

The main destination have been not only Hong Kong and China, but also other countries such as Malaysia, Singapore, and Philippines. This has demonstrated the increase in beef consumption in this region. We have also absorbed a 200 bps increase in exports to the NAFTA countries led by United States. This region is served by our plants in Uruguay and these increases in exports confirms limited supply in the United States.

In slide 10, let's present the revenues growth in Minerva main business units. The beef division accounted for 77% of the gross revenues in 2014. In this segment, the export market grew by 19% over 2013 while the domestic market moved up a substantial 39% over 2013. The company has been making a series of adjustments to the domestic market distribution with the simplification of the strategic guidelines, team training and capacity building, increased focus on the food service segment, and execution discipline.

We are already able to see the first result in the fourth Q of 2014 with a 40% increase in the revenues compared to the fourth Q of 2013. The Others division represented 23% of total gross revenues. The highlight in this division was 56% upturn in revenues from live cattle exports. In 2014 we began new operations in Chile and intensified our operations in Uruguay focusing on dairy cattle exports to Asia branching out from the conventional live beef cattle exports.

Now, I would turn to Edison, who will comment on the financial highlights.

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

Thank you, Fernando. Good morning, everyone. Slide 11 and 12 presents our financial highlights. We ended 2014 with net revenues that includes the pro forma results of the Carrasco and Mato Grosso plants of around BRL8 billion, a 47% growth comparing to 2013. In the 4Q 2014 net revenues exceeded BRL2 billion, a quarterly record. Adjusted EBITDA considering the pro forma figures of Carrasco and Mato Grosso plants reached

R$760 million, 38% higher than in 2013 with a margin of 9.5%. In 4Q 2014, EBITDA adjusted for the non-recurring items reached R$196 million, 28% higher than in 4Q 2013 with a margin of 9.2%. It is worth noting that quarterly EBITDA was also impacted by the consolidation of the operations of the plants in Mato Grosso whose margins are still lower than Minerva's consolidated margins and the natural ramp-up process at the Janauba plant that was launched in October 1.

Moving now to slide 12. We also again recorded high return on invested capital of 21%, in line with 2013, keeping our position as a benchmark for the sector. Leverage measured by the net debt to EBITDA ratio stood at 3.7 times at the end of 2014. Despite the dollar increase, which has direct impact on the company's dollar-denominated debt, leverage was in line with the previous quarter.

This result was due to the company's efficient risk management by having an active hedging policy combined with the positive impacts of the recent acquisitions and more important the free cash flow generated during the quarter. Operating cash flow reached R$341 million in 2014. We will discuss later on the main lines that impacted this account. The cash conversion cycle closed for Q4 2014 at 23 days, 6 days shorter than in the previous quarter. The average for the year of 2014 was 25 days. I would also like to mention that the company has a target of keeping its cash conversion cycle in the range of 15 days to 20 days, which was our average in 2012 and 2013, and we will pursue this target during 2015.

Moving on to slide 13, we will present the net result. The 13% appreciation of the dollar to the real in 2014 generated an FX variation on the dollar-denominated debt of more than R$460 million. Only in 4Q 2014 the foreign exchange impact reached R$251 million, its worth to mention that it is a non-cash impact. In 4Q 2014 the company also decided to join the REFIS program, which is our refinance of debt with the tax bureau, in order to speed up the ratification of tax credits as of 2015. So by joining the Brazilian government's program, the REFIS program, will allow the company to speed up the monetization of credits especially the export credit on 2015. The impact of this REFIS program was around R$111 million, R$36 million of which referring to the principal and R$75 million to fines and interest. Excluding these two effects with the impact of income tax and social contribution, the company's adjusted result would be a positive R$156 million in 2014 and a profit of almost R$27 million in 4Q 2014.

Let's go to slide 14 to talk about operating cash flows. Operating cash flow was a positive R$256 million in 4Q 2014. Working capital released R$165 million led by inventories. We reduced our inventory turnover from 39 days to 33 days in the last quarter of 2014. This was the result of company's risk management strategy of benefiting from higher beef prices in 4Q 2014, keeping higher inventories at the end of the third quarter. We would also like to add that most part of the animals of the cattle acquired from BRF in the second quarter were already slaughtered, which is the reason why the biological assets line showed an improvement.

These are all (inaudible) that in absolute figures given price increases thanks to the combination between the 40% upturn in the company's capacity and the annual upturn in cattle price. Therefore, these accounts should be analyzed comparing to revenues generated in the quarter, which shows a reduction in terms of days of inventories more clearly.

Let's move to slide 15 to talk about free cash flow. In the last quarter of the year, the free cash flow after CapEx, interest payments, and working capital reached R$159 million. As I mentioned, working capital contributed with R$165 million; investments, CapEx which are cash impacts reached R$64 million; and cash financial expenses were R$138 million in the quarter.

On slide 16, we will present the company's capital structure. Minerva closed 2014 with a cash position of approximately R$2.5 billion. Excluding the bonds that were repurchased in 2013 and '14, the company's cash stood at R$2.1 million -- R$ billion, which is enough to pay down all the debt until 2022. We would like to draw your attention to the fact that despite the environment of high exchange rate volatility, which resulted in 80% [ph] appreciation of the dollar in the quarter, the company was able to keep net leverage, net debt to adjusted EBITDA ratio of 3.7 times, pretty flat when you compare to the third quarter. Short-term debt reached 14% of total debt.

The increase over the 3Q 2014 is in line with our strategy to reduce the average cost of debt using short-term trade finance lines and complies with our financial policies to keep a maximum of 20% of the total debt maturing in the short term. 77% of our debt was denominated in dollars. It's also important to mention that the company has an active hedging policy and in 2015, one of the tools that we used to protect the balance sheet was the repurchase or the bond buyback of our 2023s in the open market especially when the bonds were trading down and reached 93%, 94% of face value.

Now, let's move to slide 17 to present leverage. Considering 100% of the perp bond as debt, the company's leverage stood at 3.7 times as I have already mentioned. However, if we take into account that these bonds the company has the option to never redeem these bonds, it's an option that the company has, and you exclude the perp bonds in the leverage calculation, the net debt to EBITDA ratio would fall to 2.7 times. This shows the flexibility that these instruments brings to the company's capital structure especially in a scenario of more restricted and more costly credit.

Now, I will turn back to Fernando who will comment on Minerva's investment plan.

Fernando Galletti de Queiroz {BIO 15387377 <GO>}

Thank you, Edison. In 2014 we concluded expansion of our operations in Brazil with the acquisition of the two plants in Mato Grosso, the only state that we were not present. We remain focused on expanding our production platform outside Brazil and in line with our global goals, we acquired the Carrasco plant in Uruguay. And two weeks ago we announced the pioneering moment for a Brazilian player, our debut in the Colombian market with our Memorandum of Understanding for the acquisition of Frigorifico Red Carnica, a plant in the Cordoba region in Colombia. With these acquisitions, we reiterate our strategy of expanding our operations in South America, which has a unique competitive advantage for beef producers worldwide. Also, we opened a distribution center in Paraguay and a sales office in China. As a result, we are aligning the capacity expansion with the logistic optimization and distribution channels.

Let's move to slide 19. Now, we can discuss the recent acquisitions in Colombia in further details. Colombia has a great potential for the development of the meat packing industry whose current business model is different from the way that the industry is structured in Brazil, Paraguay, and Uruguay based on the service agreement with cattle producers and the retail chains. Minerva's entry in this market is based on a number of factors.

Colombia currently has a herd of approximately 25 million heads compared in size to that of Australia, therefore very meaningful. The Cordoba region where the Frigorifico Red Carnica plant is located is the most important beef producing region with large cattle availability. Although it has various permits to exports through Middle East, Asia, Hong Kong, and Russia among others; Colombia is not yet focused on exports as Uruguay and Paraguay are.

Colombia also has a Free Trade Agreement with the United States and there is a possibility that other markets will open to Colombia. The domestic market also has attractive growth potential. Currently, global retail chains are already present in the country so there is a great demand for consolidation [ph] in the industry. Minerva entered into a MoU for the acquisition of Frigorifico Red Carnica for a total amount of $30 million including the assets that we purchase, future investments, and working capital that's required.

The acquisition is part of the company's strategy of geographic diversification in addition to bringing competitiveness advantage, mitigates risks and allows increased arbitrage between markets. So, this concludes the business plan that we presented for the market in 2012 that we had as it goes for the year of 2015. Now, let's have a look on the scenario for 2015 and what is different now.

The global imbalance between beef supply and demand will continue in 2015 given that important producing countries are going through recession cycles, which is affecting beef availability. On the other hand, demand remains positive and influenced by emerging economies such as Asian countries, but also developed markets that depends on imports and are increasingly demanding regarding beef quality. The imbalance has improved the pricing power of South America exporters and has translated into higher beef prices in the international market. In addition, the prospect of a stronger dollar contributes to increasing the profitability of exports. In this environment in 2015, our efforts in Brazil and the rest of South America will be first, move on with our growth plan in South America looking for accretive opportunities with quick payback of its investments, acquisitions that have neutral or positive impact on our leverage.

Second, speed up the decision making process. In this context, we redesigned our corporate business model with the creation of four business units as I have already mentioned. Third, focus on cost control, operating efficiency, benchmarks among our units, integration of the acquired plants in order to capture our synergies. Fourth, stronger efficiency in the purchase of cattle, which represents 80% of our costs. Sales channels optimization in both domestic and export markets.

Fifth, focus on free cash flow generation as this remains as our main goal in order to reduce the leverage. And sixth, keep developing training and qualifying our team building a solid and motivated team. The recent movements of appreciation of the dollar also brings even more competitiveness to the Brazilian exporters, supports the opening of new markets, and allows the Company to generate further cash flow.

Additionally, I would like to comment about the export data released by Secex for January and February 2015 as it should be carefully analyzed. In our view, the reduction in beef prices should not be seen as a change in the fundamentals of the market as this is suffering a direct impact of the change on the sales mix and this is affecting the average price. Also, does not reflect Minerva performance in the beginning of the year.

Our volumes are stable year-over-year. In this context, yesterday we announced our 2015 net revenues guidance in the range of R$9.5 billion to R$10.5 billion as a result of the relevant capacity increase following the acquisitions as well as the organic growth of our operations. This guidance reinforces the strength of our activities and the positive prospect for the sector.

Now to clarify any other point, I will turn over to the operator to begin the Q&A session. Thank you.

Questions And Answers

Operator

Thank you. We will now start the questions-and-answers session for investors and analysts. (Operator Instructions) Our first question comes from Andrew De Luca from Credit Suisse. Please go ahead with your question.

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

Hi, Fernando and Edison, thank you very much for the call. I just have a question on the point that you just made on the export data. Can you just provide us with some additional color, specifically what you've been seeing in January and February and could you just exclude the Uruguay and Paraguay assets, so just to get a feel of what you guys are really seeing in terms of demand from the Brazil assets? Thank you.

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

We're seeing -- the main change that we saw in the first two months of the year is an increased demand of the Middle East. Some of the countries, especially in the Gulf, they are representing a much bigger share so the Middle East is playing an important role. As we now have a strong policy in these areas, we are able to remain stable our volumes on this basis.

Therefore, even though Brazil is decreasing its volume, Minerva with stability we are increasing our share. Another relevant factor that we noted in the first two months is that Southeast Asia is also moving well. The countries that are suffering is really Russia and Venezuela. We are seeing down trade so they are buying products that are cheaper and we are seeing this is, after what I put in the presentation, affecting the average growth of the Brazilian exports.

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

Okay. And then just moving on to your expansion to existing markets, I think you mentioned that you continue to plan to expand into Colombia, Uruguay, Paraguay. But I was wondering can you rank us with where you see the most value and the greatest opportunities between Brazil, Colombia, Uruguay, and Paraguay?

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

Colombia definitely there is much more upside. It's a market that is more virgin, is a market that the price gap on the cost of cattle is the widest so there is a potential of Colombia, but there are some bottlenecks on the infrastructure that we are dealing with. So, this is what presents the best opportunity. The three markets that you mentioned, they are in different states. Uruguay is more consolidated, a more stable market; on the other hand, any M&A implies higher multiples. Paraguay has a growing base of supply, it's moving well so Paraguay is another area that we see with big potential. But if I have to rank, I will put Colombia on the top of the rank.

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

Okay, great. And then just one last question. You mentioned that you purchased some of your bonds in the fourth quarter, but did you continue to purchase any in January and February as well?

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

Yes. We didn't purchase in the fourth quarter. We purchased during 2014, specifically in the second quarter. We purchased during 2013 and we did some purchase also in January and February.

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

Okay. Can you give us the amount and were they also in 2023s [ph]?

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

I just can't say that it was 100% in the 2023s.

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

Okay, great. Thank you very much.

Operator

Our next question comes from Mauricio Martinez from GBM. Please go ahead with your question.

Q - Mauricio Martinez {BIO 16363988 <GO>}

Hello, everyone, thank you taking my question and congratulations on the results. My question is regarding the REFIS program non-recurring expenses, I would like to know if this is a one-time charge or if we should expect further expenses on this matter in 2015. And also if you can share with us about your expectation on beef revenues in the domestic market and if we should expect the strong figures witnessed during this quarter or if the new plants acquired should increase its exposure to exports going forward?

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

Could you repeat the first question, please?

Q - Mauricio Martinez {BIO 16363988 <GO>}

Yeah. The non-recurring expenses that you registered in this quarter, if this is only a one-time charge or if we should expect further expenses on this matter during 2015?

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

It's a one-time charge.

Q - Mauricio Martinez {BIO 16363988 <GO>}

Great. And the second question?

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

About the breakdown of the domestic and exports, we are seeing the local market moving sidelines. Minerva is very focused on exports and if the Brazilian economy keeps without any growth for the GDP and the currency keeps appreciating, definitely we shall see slightly more exports. So if we have to make a forecast, I would say two-thirds exports, one-third local market. But this number is revised in a weekly basis based on the market changing conditions.

Q - Mauricio Martinez {BIO 16363988 <GO>}

Great. Thank you.

Operator

Our next question comes from Jose Yordan from Deutsche Bank. Please go ahead with your question.

Q - Jose Yordan {BIO 1496398 <GO>}

Hi good morning, guys. I have a couple of questions. The first one is about cash conversion. In the past couple of years, we've seen cash conversion spiking during the first quarter versus the fourth by four or five days whereas in the prior four years to that, it typically goes down. And I was wondering what we should expect for the first quarter of 2015? I know in the last two years this was a voluntary thing, but any color you can give us as to whether those spikes that have occurred in the first quarter are a thing of the past or whether it might happen again this year?

And then my second question was, I mean, you mentioned Colombia not being focused on exports. Does the recent devaluation and obviously increasing competitiveness of that market change anything or are those bottlenecks that you're talking about impairing any substantial increase in volumes available for export?

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

Jose, about your first question; well, as you have pointed, the first quarter is normally the weakest quarter during the year. So, normally working capital needs may normally increase in the first quarter, because it's a tool that we use to maximize returns and to preserve profitability. However, it's too early to give you more deep color on what will be the first quarter in terms of working capital. What I can tell you is that you're right on saying that the first quarter is normally the weakest quarter of the year every year four years from now.

About Colombia, Colombia they have been in the past that focus -- the only country that they were focused on exports was Venezuela, so therefore they didn't develop the relationship with the customers outside there. There some volumes that we saw moving last year, but we see that the kind of cattle that Colombia have, the developments that we are seeing on the supply side on the cattle breeding and the cattle fattening side, the increase of productivity makes Colombia a very big potential in the global scenario of meat trade. So, we shall see Colombia playing a more important role on exports from now on.

Q - Jose Yordan {BIO 1496398 <GO>}

But I mean, if you come in and use your relationships that you already have et cetera, are you able to -- will you have enough volume to do so or it will all depend on who pays up the highest price?

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

Well, definitely Minerva sales structure sells not only Brazil; but also Uruguay, Paraguay, Colombia will be another origin to be added to these countries. Take an example, we have strong work on the Egyptian market, we can right away place Colombia beef on the Egyptian market. Russia is another example, even though the Russian market is decreasing, the volumes of Colombia can be easily absorbed by our sales force. So, there is a lot of synergies that will leverage the Colombia exports.

Q - Jose Yordan {BIO 1496398 <GO>}

Great. And if I can have a third question, please. You talked about a change in your organizational structure, et cetera. If you can give us a little more color on that, whether it will have any significant impact in the way we see the numbers, number one and number two, what are the advantages you look to, I mean, is this more of an internal reorganization to be more productive et cetera or is there more to within that?

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

No, you're not going to see any changes in the way that you see the numbers. This is a change on the structure to give more agility, to give more speed on the response for the market, to increase the exchange of best practices benchmarks among the units. So as I said, there will be four units. The Brazilian unit will oversee Brazil that takes care of purchase, production, and sales both in the local and export markets. Another one exactly the same on the rest of the South America on the (inaudible).

A third one for logistics and distribution, that's a separate business unit and the fourth one on the Other business like hides, like cattle, feedlots; that represents another area. Each of these areas they have below them the buyers, the sellers, and the production. And what they have is a matricial structure that supports them in the terms of finance, HR, administrative controls that gives them the full support to be standardize the procedures, is much more internal restructuring empowering the team and giving them more tools to act in the speed that this market requires.

Q - Jose Yordan {BIO 1496398 <GO>}

Great, very clear. Thanks a lot.

Operator

Our next question comes from Christina Ronac from HSBC. Please go ahead with your question.

Q - Christina Ronac {BIO 6623815 <GO>}

Hi, thank you for the call. I just have a couple of quick questions. First of all, thank you for the disclosure on your gross cash and debt versus how much you've bought back. So just to clarify on the 2023s, I saw in Bloomberg original outstanding of $1.050 billion so then I think you bought back $150 million so that brings me to $900 million, but you're recording that bond on a gross basis already at R$2.400 million which is about $900 million. So, is the true amount of outstanding $900 million or $750 million?

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

You are right in your calculation, the total amount that was showed was $1.050 billion that is outstanding. We bought back roughly $150 million so we have $900 million outstanding. However, as we are considering the bonds that were purchased in our cash, when you go to our capital structure and to the debt amortization schedule, we consider the whole $1.050 billion outstanding to draw the chart.

Q - Christina Ronac {BIO 6623815 <GO>}

Right. So I reduce my cash, but the true amount of outstanding on the 2023s is $900 million because when you show the gross and the buyback, maybe it's still misleading because the gross debt on your balance sheet is showing the 2023s at $900 million already?

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

It has to do with the accrued price that premium of price that we paid when we issued the 2023s and we bought back the 2017, 2019 and 2022s. So there's nothing misleading the market, there's nothing wrong in the balance sheet. It's completely in line with the IFRS criteria of accounting.

Q - Christina Ronac {BIO 6623815 <GO>}

Understood. And that's why gross debt will continue to go up, got it, because you're recording it below face value, understood. Okay, by $150 million about, which is a pretty big number. Second follow-up, if you don't mind, is you were talking about the working capital cash cost -- cash days and I was looking at your accounts payable and other suppliers in your balance sheet increased by R$235 sequentially. Just wondering is that something that's sustainable or could that really help your free cash flow for the quarter? Thank you. That's it.

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

On the payable that -- well, the account of payable that increased is related to the prepayment of clients in the export market. As we have already disclosed in the second quarter and we give a complete explanation, I would suggest you to go back to the release of results of the second quarter to have more color and understand what is in this account. It is related to our credit policy with countries and specific clients that we are requiring down payments when we deal export. To give you an example, some countries like Venezuela, we are just selling if we have 100% advance payment. In the case of Egypt, Russia; it can range from 15% to 50%, 60%. So, all the money that is down paid in our balance sheet is in this account of other payables that you are referring to.

Q - Christina Ronac {BIO 6623815 <GO>}

Okay. Thank you.

Operator

(Operator Instructions) Our next question comes from Paul Trejo from BlackRock. Please go ahead with your question. And Mr. Trejo has disconnected. We'll move on to our next question, (inaudible) from Nutrimenta.

Q - Unidentified Participant

Thank you. Debt increased 55% during the year, how much of this increase is explained by the currency depreciation? And does gross debt amount include any outcome of hedging activities? And last, do you any guidance for operating margin and working capital requirements for this year? Thank you.

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

The debt increased -- the growth debt -- the net debt increase was 75% to 80% related to the currency depreciation and 25% related to working capital needs in the year. What was your second question?

Q - Unidentified Participant

Does gross debt amount include any outcome of hedging activities? Is it net of derivatives?

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

Yes, it's net of derivative.

Q - Unidentified Participant

In which amount?

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

So, all the derivatives are market-to-market to the fair price so honestly, I don't have the amount here. But if you go to the notes on our balance sheet, you will find all the derivatives that we have opened, all the results of them, and how they are impacting the gross debt.

Q - Unidentified Participant

Alright. And last, do you have any guidance for operating margin and working capital requirements for this year?

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

No guidance. What I can tell you is that in terms of cash conversion cycle, we ended the year at 23 days and we have a target to get back to a range between 15 to 20 days.

Q - Unidentified Participant

Alright. Thanks a lot.

Operator

(Operator Instructions) Our next question comes from Jeronimo De Guzman from Morgan Stanley. Please go ahead with your question.

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

Hi, good morning. Thanks for taking my question. I wanted to go back to what you mentioned on the exports. You mentioned that at the beginning of the year your exports have been flat and to me, this seems like a big deceleration versus the fourth quarter level and also would imply that given that you have almost 40% higher capacity that you are increasing the share of the domestic market at the beginning of the year.

So, I'd like to better understand what is driving this change and is it also that are you not able to divert some of the supply to new export markets or are you able to find better opportunities on the domestic market for these volumes?

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

Well again, there is a different mix that was exported during the first two months of the year, but Minerva hasn't increased its total volume. That means that we are gaining share on exports, because as Brazil decreased and we remain stable, our share has been increasing. The local market represented no problem on absorbing the different kind of products that was last year mainly due to our strategy of the diversification for these more medium-sized retailers in the food service. So the total of course that we are not disclosing the numbers of the first two months, but the operation remains volume wise and breakdown wise exports versus local markets very stable comparing to the previous months.

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

Okay, thanks that's helpful. And then going back to Colombia, I just wanted to see if you could give us additional color. You mentioned that the model is different right now with the retailers in many cases being involved in the slaughter and the operations. So, just wanted to get your sense of how easy it is to change that -- kind of that business model or the behavior of the industry, is there a lot of willingness to change or could this be something that takes some time to adjust?

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

From what -- from our the researches and from our studies that we have been conducting for the last two years, we see a big willingness for the retailers or for the industries that are there to change their model. They are going to a model that is the model that is consolidated in all the rest of the world. And especially if we bring the export technology, the exports know-how; this helps on accelerating this process in making the retailers more competitive and making the industry more competitive. So, there is a gain for everybody that is linked to the chain.

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

Okay, great. Thank you.

Operator

And ladies and gentlemen, at this time and not showing any additional questions, I'd like to turn the conference call back over to Mr. Fernando Queiroz for any closing remarks.

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

To conclude the presentation, I would like to thank Minerva's team who devoted their efforts to achieving these solid results in 2014 and who have been continuously committed to the pursuit of the sustainable growth, great efficiency, and opportunities that led us to better results. We remain at your disposal for any further clarifications that you may need. Thank you very much.

Operator

Ladies and gentlemen, that does conclude today's presentation. You may now disconnect your telephone lines. Have a nice day.