Q3 2014 Earnings Call

Company Participants

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

Other Participants

- Alan Alanis, Analyst
- Andrew De Luca, Analyst
- Gabriel Lima, Analyst
- Jeronimo Contreras, Analyst
- Jose Yordan, Analyst
- Juan Carlos, Analyst
- Pedro Leduc, Analyst
- Unidentified Participant

Presentation

Operator

Good morning, ladies and gentlemen, and thank you for waiting. At this time, we would like to welcome everyone to Minerva's Third Quarter of 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 listen-only mode during the company's presentation. (Operator Instructions) The audio and slideshow of this presentation are available through a live webcast at www.minervafoods.com/ir. The slideshow can also be downloaded from the webcast platform in the Investor Relations section of the 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 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 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 and good morning, everyone. First, I'd like to thank you for participating in Minerva's third Q '14 results conference call.

Let me start by the slide 2. We will cover the highlights for the quarter. The third quarter of 2014 was an important milestone in the company's growth plan. At the end of July we started operations in Mirassol D'Oeste and Varzea Grande plants in the state of Mato Grosso under a service agreement while we concluded the acquisition of the plants from BRF.

Therefore, the figures presented in this quarter included the results of operations of this plant, it's still operating under a service agreement and not 100% held by Minerva and not reached 100% of Minerva efficiency. In this context, the utilization rate stood at 68%, affected by the Mato Grosso plants which operated at a capacity utilization rate lower than the quarterly consolidated figures.

Excluding the volume we slaughter in those plants, the utilization rate was 72%%, a benchmark for the sector in Brazil. Net revenues totaled BRL1.8 billion, 21% up on the third Q of 2013. Domestic market revenue posted a robust growth of 41%, mainly due to a higher concentration of sales from the Mato Grosso plant to the local market. This effect explained a 64% share of the export market in the total revenues, slightly lower than in the third Q of 2013.

We expected that as we move forward with the integration of this plants, the share of exports tend to increase again, getting closer to the company's consolidated figures, which has been close to 70% of the total revenues.

EBITDA totaled BRL178 million in the third Q of 2014, 9% more than in the same period of 2013. The EBITDA margin remained close to 10%. EBITDA growth caused the return on invested capital to increase to 19.8% above the amount reported in the third Q of 2013. This quarter, the company generated operating cash flow of BRL163 million and free cash flow of BRL10 million.

Regarding our debt management, we issued 200 million through the reopening of notes of 2023 at a cost lower than the original. We used about 100% of the proceeds to pay debt, reducing the short-term portion to 9.5% of the total. Despite the strong exchange variation on that exposure to the dollar in the quarter, leverage remained virtually stable over in second Q of 2014.

In relation to subsequent events, after approval by CADE, the Brazilian antitrust on October 1st, we held an Extraordinary Shareholders Meeting that approved the acquisition of Mato Grosso plants. As part of the operation, BRF has became our relevant shareholder of the company, as well as we will discuss further in details later on.

Finally, it's worth highlighting that the Janauba plant began operations at the end of September and will impact Minerva's consolidated figures as of 4Q of 2014.

Now, moving on to slide 3, we will talk about cattle supply in the quarter. In the third quarter cattle supply was directly impacted by the off-season period which this year was intensified by a lower rainfall volume in a period that's typically dry. Also, the decline of grain prices encouraged feedlot operators to extend the animals fattening period. Consequently, we expect an increase in cattle supply in the second feedlot round during the fourth quarter.

In this scenario, the slaughter volume fell by more than 2% year-on-year, while cattle price increased. It's worth mentioning that beef prices also rose, as we'll show later on.

Let's move to slide 4 that will analyze Brazilian export trends. These exports once again performed well bringing in revenues of $1.5 million, 8% up year-on-year, 12% more in the second Q of 2014, and a new record for the country. Russia recovered its substantial share of export mix, accounting for 31% of the total. This was due to the reopening of some plants, the authorization of the payment by other plants and the embargoes imposed on Australia, Europe and in the United States, directing volumes to Brazil -- redirecting the volumes to Brazil.

Honk Kong remained as the second most important destination with a 20% share. The main highlights this quarter was the attractive prices on the Brazilian beef prices in the export market. On average, the pricing dollar was 11% higher year-on-year. This reinforces our view that Brazilian beef industry has became increasingly strong and important international market and reinforce our strategy of focusing on exports.

Now, let's move on to slide 5, which presents our performance in the domestic market. In slide 5, the domestic market presents substantial sales volume in the third quarter. In July, we also had a positive impact of the World Cup and the consumption proved resilient in August and September.

As you can see in the graphs on the slide, beef prices increased substantially for the main cuts in the domestic market due to the increase in raw material prices, but also to the lower availability of some cuts, mainly forequarter and trimmings, which were allocated to exports.

On slide 6, we will discuss the industry in Paraguay. The Paraguay operations continued to perform well in the third Q of 2014. Export revenues moved it up by 33% over third Q of 2013; and was 25% higher than in second Q of 2014, which was a very impressive result that shows the growing importance of Paraguay in the global beef market.

It's worth mentioning the significant improvements we have seen in Paraguay cattle industry with our growing cattle herd grounded on much more professional environment. The slaughter volume was 15% higher than in the second Q of 2014% and 9% up on the third Q of 2013. Thanks to the favorable export scenario and increased demand for cattle, prices increased over the same period last year. Russia and Chile remained the main destinations for Paraguayan exports.

Let's move to slide 7 that will discuss the industry in Uruguay. In slide 7, the beef industry is moving in Uruguay with a positive dynamic throughout the entire production chain. In addition to the net capital availability, the maturity of the industry and the unique beef price in the export market guaranteed health margins for the whole sector. Uruguay differentiates its beef industry from other producing countries because, in practice, a higher number of market, whose demands is increasing considerably; at the same time it reaches niche markets.

All this together contributes to our higher pricing of its products. As a result, revenues from export declined by 22% in the third Q of 2014 over the same period last year, led by an upturn of more than 50% in sales to the United States. Besides the important share that China is occupying.

In slide 8, we will detail Minerva operating results in the third quarter of 2014. At the end of July we began operations at the two plants in Mato Grosso under a service agreement while we agree completing the acquisition of this plant from BRF. The deal was approved by the antitrust in August and finalized in October. As a result of this service agreement, Minerva consolidated utilization rate stood at 68% in the third Q of '14. Excluding the volumes slaughtered in Mato Grosso plants, the utilization rate would have been 72% in line with the company's historical average and the benchmark of the industry.

In the consolidated results, exports accounted for 64% of the company total revenue. It's slightly less than in previous quarters, these are due to the start up of the Mato Grosso plants which are more exposed to the local market. It's worth mentioning that during the third quarter of 2014 countries like Russia, Iran and Egypt suspended its ban of importing beef from Mato Grosso state, which will benefit our position in the state starting from the fourth quarter.

I'd like to remind that as we move forward with the integration of this plant, the percentage of exports tends to increase approaching the company consolidated figures of around 70% in recent quarters.

Let's move onto slide 9, which present the company export strategy in detail In the last 12 months ended September 2014, Minerva remained the second largest beef exporter in Brazil, and Uruguay. In Paraguay, we remained the leading exporter with 15% of market share. This slide also shows Minerva exports trend. In the period and analysis, we can see a more balanced sales distribution among regions. The share of the Commonwealth of Independent States, in particular Russia, declined from 28% to 22% in the 12 months to September 2014. However, exports to Russia grew by more than 30% year-on-year on the third Q of '14, thanks to the authorization of plants in the sanctions imposed on some beef producing countries like Australia, United States, and Europe, which increased South American exports to that particular country.

The Middle East consumed a substantial amount of beef, especially in niche markets led by countries with religious certification, including halal and kosher. Also for chilled beef, historically the company has concentrated part of its sales in the region. In the last 12 months exports to the Middle East increased from 15% to 19%. Paraguay as well as Brazil allocates part of its volume to this region. We have also observed an increase in exports to Europe in the last 12 months, especially due to the strong demand and attractive beef prices in the region. As a result, Europe's share of Minerva export mix increased from 10% to 13% in the last 12 months.

Finally, I would like to highlight Asia, its region share is at 12% of the total exports. Although the main destination in this region is Hong Kong and China, we noticed sales growth in other countries like such Malaysia, Singapore and Philippines due to the increase of beef consumption. This also shows a decrease of Australia in this region.

Let's move to slide 10 that presents our revenue growth in Minerva main business units. In the Q3 of 2014, the company gross revenues increased by 21% in relation to the third quarter of 2013. This division grew by 90%, led by sales in the domestic market, which declined by 42%, impacted by the volumes from the plants in Mato Grosso, as previously mentioned. The other division moved up 29%, leading by the live cattle, resale and leather operations as shown in the slide.

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

Edison Ticle {BIO 15435343 <GO>}

Thank you, Fernando. Good afternoon, everyone. Slide 11 presents our financial highlights. This quarter the figures include the service agreement of the Mato Grosso plant, as Fernando has already mentioned at the beginning of the presentation.

Net revenue reached BRL1.8 billion, 21% more than in the third Q '13. EBITDA reached BRL178 million, 9% up when compared to third quarter '13, with a margin of 9.8%. Now that the margin this quarter was impacted by the service agreement at the Mato Grosso plant.

In addition to the natural ramp-up process of new assets, the margins at the Varzea Grande and the Mirassol D'Oeste plants are currently lower than Minerva's consolidated margin, which explains the margin reduction when you compare to 3Q '13 and 2Q '14. The third Q '14 return on invested capital was close to 20%, roughly one percentage point higher than in the third quarter '13. The average represented by the net debt to EBITDA ratio, it stood at 3.47 times, relatively stable when you compare to the indicator presented at the end of the third Q '13.

In relation to second quarter '14, in spite of the 11% appreciation of the dollar in the period, the company was able to keep leverage, practically flat, thanks to the Company's hedging policy.

It's important to remind you that 30% of our long-term dollar exposure was hedged at the end of the second quarter of '14. And the decision was took in discussions with our Board. It's also important to highlight that the recent acquisitions also contributed to keep leverage practically flat on the quarter.

Let's move to slide 12 to present our net results for the quarter. The company recorded a net loss of BRL194 million in the third quarter '14. That was -- the result was directly affected by the non-cash expense that came from the exchange rate variation that impacted our debt and reached BRL290 million in the quarter. The net result adjusted for the effect of the currency depreciation and adjusted for the payment of income tax reached nearly a positive BRL108 million as you can see in the table.

If you also adjust for the revenues that came from the hedging policy that were round BRL90 million, the company would have posted a positive figure of around BRL20 million to BRL30 million of net profit in the quarter.

Moving to slide 13, we'll discuss operating cash flow in the quarter. Operating cash flow was a positive BRL163 million, working capital consumed BRL58 million, and I would like to highlight some of the main reasons.

The first one, the receivables. You can see that the negative variation in this account was partially offset by the improvement in the other accounts payable line where we recorded advance from clients, advance payments that comes from clients that were higher this quarter because of the increase in exports. Even though as part of the company's risk management and operational management strategy of benefiting from higher beef prices, we maintained higher inventory levels at the end of the third quarter, which had a negative impact on working capital, by allowing the company to increase profitability by concentrating sales in early October. October export prices were up more than 5% in dollar term, so keeping inventories high at the end of the September to be sold in October was successful strategy in terms of bringing more profitability for our operations.

If you go through the data recently disclosed by Secex for October, you can see an increase of approximately 25% in export volumes in relation to September followed by a higher average prices in dollar terms. So this shows the effectiveness of our strategy of keeping inventories in September to be sold in October.

Moving onto slide 14, we discuss free cash flow in the quarter. Cash flow, after CapEx, financial expenses, and working capital, was a positive BRL10.3 million in the quarter. It is worth mentioning that this quarter investment reached BRL63 million, but the cash portion was only 44 million. The balance will refer to the exchange variation of the assets of the subsidiaries outside Brazil that has no cash effect on the company.

In addition, the FX hedging results positively contributed to the cash basis financial expense. So, financial expense on a cash basis was only BRL66 million in the quarter and part of the improvement was due to the hedging policy of our long-term debt.

Now, let's move to slide 15 to present the company's capital structure. In the third quarter of '14, the company issued $200 million through the re-tap of notes maturing in 2023 with an yield of 6.88% per year, lower than the original coupon of the bond that is seven and three quarters. 100% of the proceeds were used to pay down short-term debt. So our short-term debt that was in the second quarter of '14 at around 19% of the total debt was reduced at the end of June to something around 9.5% at the end of the third quarter '14.

The company ended the quarter with cash position of approximately BRL2 billion. If you exclude the cost that were bought back in the market in 2013, the cash position stood at BRL1.6 to BRL1.7 billion, which is enough to -- which is roughly more than three times our short-term maturities right now.

Finally, I would like to highlight that even in a scenario of extremely high exchange rate volatility, which led the real to depreciate roughly 11% in the quarter, the company's liability ratio remained stable, represented by a net debt to EBITDA ratio of 3.47 times. I would also like to comment here that the average exchange rate in the quarter was 228 while the closing rate was 245.

So this effect depreciation took place more deeply in the last 10 days of the quarter. So, had a full impact on our debt on our liabilities. But if you go to the operational cash flow, to the operational impact, we practically did not have any impact during the quarter. So, all of the operation of the company, especially the export operation were closed having reference of exchange rate of around 228, which was the average exchange rate for the quarter. But at the end of the quarter all of the liabilities, financial assets and liabilities of the company were marked as 245.

So there was a big currency depreciation, a big non-cash expense on our balance sheet. But we have to highlight that the operational benefit from a more depreciated currency has not seen in our results yet.

At the same time, the company decided not to adopt hedging accounting policy, as we believe this too does not bring enough transparency to the market. So we are very committed to keep high levels of transparency and corporate governance for investors and shareholders. And we believe adopting hedging accounting is not the best way to reach high level of transparency on reporting our results.

Now, let's move onto slide 16, where we present the calculation of the leverage in view of the issue of the perpetual bonds. So considering 100% of the perpetual bonds at debt, the company's leverage stood at about 3.47 times, as we had just mentioned.

However, if we consider that we did not have the obligation to regain this bond, the net debt to EBITDA ratio would be at 2.47 times. This shows the flexibility this financial tool brings to the company's capital structure.

Moving on to slide 17, we present Minerva's shareholding structure as well as the main changes arising from the conclusion of the acquisition of BRF plant. So on October 1st, the

Extraordinary Shareholders Meeting approved the acquisition of Mirassol D'Oeste and Varzea Grande plants, Mato Grosso plant which belongs to BRF.

As part of the transaction 29 million new shares of Minerva were issued and delivered to BRF.

So the last side of the slide we have the company's shareholding structure as per the share issue. Considering the conversion of 7% of the amount of total [ph] convertible debentures into shares, BRF holds 15.2% interest in the company's capital obviously considering a fully diluted basis. VDQ and BRF have entered into a shareholders' agreement that came into effect after the transaction was concluded and has a 10-year term.

As also part of this agreements, the company's Board of Directors which were component of eight members now have 10 members. Five of them are appointed by VDQ, two appointed by BRF and three independent members, one of whom is appointed by minority shareholder. The Board of Director members are presented on the right side of this slide.

It is also important to mention that 50% of the company's Board of Directors are now independent members, which is substantially higher than the 20% minimum required by the Novo Mercado regulation. This further demonstrates the company's commitment to best corporate governance (inaudible) transparency.

And now, I will turn over to the operator to begin the Q&A session. Thank you very much.

Questions And Answers

Operator

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

Q - Alan Alanis {BIO 15998010 <GO>}

Hi, everyone. Thank you for taking my question. You mentioned in this call and in the Portuguese call that receivables was on a decrease and you were going to accelerate free cash flow. My first question is, that includes already whatever needs of working capital of Brasil Food's the BRF plants will require, correct?

A - Fernando Queiroz {BIO 15387377 <GO>}

Yes.

Q - Alan Alanis {BIO 15998010 <GO>}

Okay. The second question that I have -- thanks Fernando -- we've seen cattle prices moving faster than beef in the last few quarters. How easy or how difficult is it going to be to keep passing prices, the increased prices of beef to the consumer in Brazil considering that right now the ratio between the prices of beef and the prices of poultry seem to be at an all time high of whatever, 2.5 times, beef being more expensive than poultry.

In other words, are you seeing any kind of down trading or should we expect that you are going to focus much more on the export market going forward? That will be my last question. Thank you.

A - Fernando Queiroz {BIO 15387377 <GO>}

Alan, you will see the slides that are reported by the Secex, the Brazilian exports, they are going up. But also in the local market, the prices are adjusting to the cattle prices.

Now, the company operates in a scenario like that. The way that, as I mentioned before that we end the quarter with some inventories. So, in our rising market going long operating these inventories is the most efficient policy to extract value from the volatility. So, this is one of the things that Minerva has been working.

That's why you saw the inventories not only of beef, but also the biological inventory that means cattle that we bought, going up during the year. So, this is the scenario that is not a surprise for us. We are seeing the shortage all over the world. We are seeing the United States holding females, Europe the same. Australia in the second quarter of the year, they started a rehabilitation of females and this is creating a shortage on the supply-demand scenario in the world. And this is why Minerva position itself to take -- to turn that into an opportunity.

So, how I see it forward, I think the prices will keep very high in the export market despite of the price of the chicken. There is a new level, a new -- the elasticity has been smaller than we thought. In the Brazilian local market, we see the market also in a stability. So, I don't expect any big surprises going forward.

Q - Alan Alanis {BIO 15998010 <GO>}

Got it. But I understand that and would you consider that will be the case even though the US cattle is being fed mainly with corn and soy and that we've been seeing some improved profitability in the US. So in other words, you are not worried that you might have increased competition from US exports?

A - Fernando Queiroz {BIO 15387377 <GO>}

This is related to the number of cattle. Of course that having the same thing that the US farmers are doing, the Brazilian farmers are doing, I mentioned that. If the corn and the soybean price is going down, the farmer tends to hold that for longer, the cattle in the feedlots or in the semi feedlots, so this is not only happening in US, but also happening in Brazil and the rest of South America.

Q - Alan Alanis {BIO 15998010 <GO>}

Got it. Thank you so much Fernando.

Operator

The next question will come from Jeronimo Contrera of GBM. Please go ahead.

Q - Jeronimo Contreras

Hello and thank you for taking my question. The question is if you could give us a time frame of how long should it take for Minerva to increase the margins at the Mato Grosso facilities, I mean, closer to the 10% EBITDA margins, right, to the, closer to the consolidated EBITDA margins. And the second question is, is there any advances on the situation of Minerva Fine Foods?

A - Fernando Queiroz {BIO 15387377 <GO>}

On BRF plants, we believe three quarters are enough for us to conclude the integration of the BRF plants. On Minerva Fine Foods the situation is that we hire on financial advisor that is representing for the Board, the options that we have and the possible solutions that we have and we are pursuing though that bring more value for the Company.

Q - Jeronimo Contreras

Perfect. Thank you very much.

Operator

The next question will come from Daniel Stencil [ph] of JP Morgan. Please go ahead.

Q - Unidentified Participant

Yes, hi. Good morning. I have a quick question. So if you look at your (Technical Difficulty) pretty high. In fact you think it's closer, if not record levels. And your short-term debt is pretty low and it seems that you are basically free cash flow positive. So what are you planning to do with part of this cash? Thank you.

A - Edison Ticle {BIO 15435343 <GO>}

Well, firstly, we have a minimum cash policy that obviously increases the amount of cash that we should have because of the growth of the operations. So if you go back one year ago our minimum cash policy would imply R$800 million of minimum cash.

Now it is about R$1 billion to R$1.1 billion. So now we have 1.6 billion in cash. So we have R$500 million more than our minimum cash policy would suggest. The idea is to have cash to finance cattle purchase in cash, if it is the case. If we have problem with the rain again that we -- the same that we had last year, having cash was important to source cattle at better prices and to source cattle at big quantities in a environment where you don't have rain and when you have the farmers keeping their capital in the farm.

It's also a protection against any macro-economical volatilities that we should face or we might face in the next 12 months in Brazil. So I think it's healthy to have high liquidity in order to protect our Company for the very high volatile scenario that we believe will take place in 2015, especially in Brazil.

Q - Unidentified Participant

Okay. Then have you decided what are you going to do with the bonds that you have in your balance sheet? Are you going to cancel them or you just want to give --

A - Edison Ticle {BIO 15435343 <GO>}

Yeah, we are studying -- obviously we are studying to cancel it. We are just studying what is the best way from a tax perspective.

Q - Unidentified Participant

Okay, thank you.

Operator

(Operator Instructions). The next question will come from Jose Yordan of Deutsche Bank. Please go ahead.

Q - Jose Yordan {BIO 1496398 <GO>}

Hi, good morning guys. Just a couple of quick questions. One is about the hedge, given that the real now is at close to R$2.60 [ph] are you still holding the 30% hedge or and if the answer is yes, when at what levels might you be tempted to close that position and stay un-hedged?

And then the second question was about the selling expenses, given the additional operations etcetera, seeing an actual quarter-on-quarter decline in sales expenses was pretty remarkable and you mentioned negotiations on lower freight costs etcetera. I was just wondering, number one, whether there was any one-time item or any sort of rebate form prior quarters that might have made the selling expenses of the third quarter, let's say, non-sustainable or whether this level of selling expenses as a percentage of sales is sustainable in your view?

A - Fernando Queiroz {BIO 15387377 <GO>}

Jose, talking about the hedging policy, as you know, we discuss on a monthly basis with our Board, what if you're going to hedge or not and what will be the size of the hedge if it is the case. At the end of the quarter, we had roughly 35% of the debt hedged. Unfortunately, I cannot give you the information, what is the decision right now, but we visit this decision on a monthly basis during our Board meeting.

Talking about this full year's expense, normally the price negotiations we negotiate price for six month. So we expect sales expense to be at the level for at least one or two quarters more.

Q - Jose Yordan {BIO 1496398 <GO>}

Okay, thank you very much.

Operator

The next question will come from Pedro Leduc of JP Morgan. Please go ahead.

Q - Pedro Leduc {BIO 16665775 <GO>}

Hi, thank you. Thank you all for taking my question. A quick one, just on regarding recoverable taxes, we see them on your current assets rising slightly below what revenues rose this quarter, but still adding up. So we wonder if you guys are thinking about or when discussed leverage or cash flow if you have considered some monetization off of this tax assets and especially now that you have more operations locally. Thank you.

A - Fernando Queiroz {BIO 15387377 <GO>}

It's natural that with more exports, in the first moment the tax credits goes up a bit. What you have -- saw on our forecast we are not considering any different monetization. But in reality what's happening is that, the flow of ICMS that's the state taxes is moving faster than our new systems new regulations that are moving faster. And we are seeing the government, the federal government in the federal taxes finalizing and giving signs that, the monetization will also be faster through fast tracks for at least a meaningful part of the quarter. So we see that exports tends to have more monetization of factors.

Q - Pedro Leduc {BIO 16665775 <GO>}

Okay, thank you.

Operator

The next question will come from Gabriel Lima of Bradesco. Please go ahead.

Q - Gabriel Lima {BIO 16224058 <GO>}

Hi, thank you and good morning and good afternoon. Fernando, can you comment, we got the comments on the cattle prices during the third quarter, but could you comment little bit on your expectations for 2015 regarding cattle supply and if possible cattle prices?

A - Fernando Queiroz {BIO 15387377 <GO>}

We have a good process for what would be the cattle price, at least for what the market is expecting for the cattle price by looking at the future's market. In our view what will happen in 2015, we will have a stable Brazilian local market and even more debts on the export market.

The main reason of the debt is that the United States went into the cycle of holding cattle, holding females for reproduction, same thing in Europe, and now from this quarter on we are seeing Australia in a dramatic increase on cattle price because they are holding the females. So we believe that there will be more space on the international market for meat sourced out of South America.

So we see the cycle as positive and regarding Brazil, there is also a retention of females but we have been breaking records on both [ph] for our cost. So the cost that we have borne in 2013 and in 2012 that they were record over 2010 and 2011, they will be in the market in 2015. So we see the dynamics that Brazil is having as a very positive dynamics, Gabriel.

Q - Gabriel Lima {BIO 16224058 <GO>}

Okay, thanks. And you also mentioned, Fernando, exports to Russia and what is happening currently because we've been seeing a lot of currency volatility and mainly the Russian ruble had depreciated a lot against the USD and, if I am not mistaken, even more than the BRL. So are you seeing any hard time to renegotiate prices or export some volumes to Russia given this high volatility and given the importance that Russia has in the Brazilian export platform?

A - Fernando Queiroz {BIO 15387377 <GO>}

Definitely the ruble getting weaker makes the life of the Russian importer more difficult and the product less competitive but on the other hand, there is a lack of supply. From our point of view, Russia will always be an important market, but it will reduce its weight and this will be taken by the Middle East and especially by the Southeast of Asia, but now is suffering from lack of product, especially coming from Australia. So yes, you are right, the ruble will affect the volume of exports to Russia but there is more and more to be compensated in the Middle East and Southeast of Asia.

Q - Gabriel Lima {BIO 16224058 <GO>}

Okay, interesting. Thanks for the time.

Operator

(Operator Instructions) The next question will come from Juan Carlos (inaudible) of Larrain Vial. Please go ahead.

Q - Juan Carlos {BIO 20630471 <GO>}

Hi, this is Juan Carlos (inaudible) from Larrain Vial. Thanks for the question. Actually my question was for the Russia issue, I think you just answered to Gabriel but to sum up, you will see your volumes or prices going down the Russian front, but you will offset that with more exports to the Middle East?

A - Fernando Queiroz {BIO 15387377 <GO>}

Well, the prices will always arbitrate for the international market. What can happen is that, if the ruble becomes weaker, the Russians will be less competitive. So you will probably see a decrease of volume because the prices they are arbitrated worldwide. So nobody will sell in Russia at 10 if you say you can sell in China at 50. So the prices, they have to arbitrate itself. So -- but really if they were getting weaker I see a switch on the share that Russia is having to be slightly smaller and the share of especially Middle East and Southeast of Asia getting bigger.

Q - Juan Carlos {BIO 20630471 <GO>}

Okay, thank you.

Operator

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

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

Hi, yes, good morning and thank you for the call. My question is with regards to your exports in Venezuela. I was wondering if you could just tell us how you're seeing demand in that market especially as we have been seeing some other protein companies cutting back on their exposure and what would you cite as your main concern in that market? Thank you.

A - Fernando Queiroz {BIO 15387377 <GO>}

Sorry, could you repeat?

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

Sure. So, my question is with regards to Venezuela and what you're seeing in terms of demand since we have been seeing other protein companies cutting back their exposure to that market and what would you cite as your main concern in Venezuela? Thank you.

A - Fernando Queiroz {BIO 15387377 <GO>}

I think everybody that operates in Venezuela, their main concern are the receivables. The way that Minerva operates in Venezuela is 100% through full payment or confirmed LC (inaudible) the Brazilian Central Bank guaranteed. So, yes, we see some concerns in the financial situation of Venezuela but Minerva does not take financial credit risk in this country.

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

Okay, thank you very much.

Operator

This concludes our question-and-answer session. At this time, I would like to turn the floor back to Mr. Fernando Queiroz for any closing remarks.

A - Fernando Queiroz {BIO 15387377 <GO>}

To conclude, I would like to thank you all for participating in this conference call and say that we remain strongly committed to the integration of the new units, is focused on the excellence of our operation and pursuing maximum synergies in the recent acquisitions. I highlighted that the company has consistently executed expansion plan that was disclosed to the market in 2012. The scenario for this industry in South America remain extremely favorable increasing still by the unbalance with the international supply and demand. I'd like to thank the Minerva team who devotedly are focused to achieve these solid results, and who have been continuously committed to pursue a sustainable growth, great efficiency and opportunities that lead to better results.

Finally, I kindly invite you all for the Minerva Day that will be held in New York on November 20. We look forward to seeing you there. Thank you and have a nice day.

Operator

Thank you. This concludes today's presentation. You may now disconnect your lines and have a nice day.