Q1 2021 Earnings Call

Company Participants

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

Other Participants

- Isabella Simonato, Analyst
- Ricardo Alves, Analyst
- Thiago Bortoluci, Analyst
- Thiago Duarte, Analyst
- Unidentified Participant

Presentation

Operator

Good morning. Welcome to Minerva's First Quarter of 2021 Results Conference Call. Today with us we have Mr. Fernando Galletti Queiroz, Chief Executive Officer; and Mr. Edison Ticle, CFO and 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. Next, we're going to start the Q&A sessions for analysts and investors when further instructions will be given. (Operator Instructions) The audio and slide show of this presentation are available through a live webcast at www.minervafoods.com/ri. In this address you can also find the presentation for download 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, are based on beliefs and assumptions of the Company management as well as 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 to results that differ materially from those expressed in such forward-looking statements.

We would now like to hand over to Mr. Fernando Queiroz, CEO who will begin the presentation. Mr. Queiroz, you may start the presentation.

Fernando Galletti de Queiroz {BIO 15387377 <GO>}

Good morning, everyone and thank you for participating in Minerva's results conference call for the first quarter 2021. Minerva Foods started the year 2021 with a solid operation and financial performance, reflecting the resilience of our team, our quick ability to adapt to complex scenarios, and especially the consistency of our strategy that combines operational and financial discipline with profitability. In this first quarter '21 we consolidated our position as one of the main players in the global market, and leader in the export of beef in our continent.

The focus on operational execution, combined with our financial discipline, our risk management model were fundamental for Minerva Foods to reach the good results of the first quarter with profitability, cash generation, and a solid balance sheet. Coping with the pandemic continues to generate greater complexity and volatility to the market. However, it is at times like this that our geographic diversification plays a fundamental role in our strategy, reducing risks, but also expanding opportunities and thus consolidating the importance of our export platform from South America.

In this sense, I want to highlight our ability to arbitrate in the markets, accelerating and decelerating operations, maximizing results and neutralizing risks and volatility, despite the traditional seasonality of the beginning of the year and the important challenges still imposed by the pandemic. The first quarter 2021 was yet another quarter with good export performance.

The global beef market remains very heated and continues to be driven by both the consistent Asian demand and the beginning of the cycle of resumption of consumption worldwide, as vaccination progresses. We also have an upsurge in African swine fever, with new outbreaks of contamination in China, in other Southeast Asian countries in addition to Eastern Europe further amplifying the supply shock and imbalance in the global animal protein market and providing more and more opportunities for exporting countries.

Given this context, the global scenario remains very attractive for the coming periods, which combined with the advance of vaccination against COVID-19 and the consequent resumption of the world economy should further encourage the strong international demand for beef directly benefiting South America and consolidating the region as a major supplier of bovine protein to the world.

Now let's move on to Slide 2 to start the presentation of our results. Let's start with net income, which reached approximately BRL260 million in the quarter, totally BRL685 million in the past 12 months. Minerva continues quarter-after-quarter, delivering solid results, and in line with our strategy of creating shareholder value. Free cash flow, one of our priorities was positive for the 13th consecutive quarter, totaling BRL309 million in the first quarter

2021 and accumulating BRL1.3 billion in the past 12 months, reinforcing Minerva Foods operational excellence and financial discipline.

Since 2018, the Company has accumulated almost BRL4 billion in positive free cash generation. Gross revenue reached BRL6.1 billion in the first quarter 2021 and BRL22.2 billion in the past 12 months.

In this context, I want to highlight the performance of our exports, which accounted for approximately 68% of gross revenue, both in the quarter and in the accumulated of the last 12 months, the natural reflex of the strong demand for the international market and the great location of Minerva Foods in beef exports. Still on profitability, Q1 '21 EBITDA even in the face of market challenges reached BRL485 million, a strong growth of 27% in relation to the previous year and the highest historical level for the period.

In the accumulated result of the past 12 months, another record was broken by our team with Minerva's EBITDA totaling BRL2.2 billion, an expansion of almost 25% on the annual basis and delivering a solid EBITDA margin of 10.7%, as in the previous periods and confirming Minerva Foods discipline in its financial management. Another major highlight of the quarter was the solidity of our balance sheet. We ended Q1 '21 with leverage, measured by the net debt over EBITDA indicator at 2.4 times a reduction of 0.5 times compared to the first quarter of the previous year.

Our cash position remains very comfortable with BRL6.4 billion at the end of the period which guarantees us a great deal of tranquility and flexibility in the face of challenges and opportunities over the times.

Still talking about our balance sheet, I want to highlight the efforts that we continue to make managing our liabilities. Since the beginning of the year, Minerva has been working on initiatives to manage financial liabilities such as the buyback of bond 2026 and the issuance of bond 2031, which significantly reduced the cost, and also extended the term of our relevant portion of our indebtedness. Thus, we are reinstating our commitment to capital discipline.

Other initiatives were implemented with the same goal to improve our capital structure. Throughout our results presentation, Edison will bring a bit more detail on those efforts. In this quarter we also advanced in our corporate venture capital strategy with investment in the online retail platform Shopper and also with the development of joint venture with Amyris. These are initiatives aligned with the objectives of our innovation area, maximizing opportunities and advancing in the food industry's value chain.

In addition, we continue to strengthen our corporate management. The evolution program of our organizational culture continues to be solid every day, as an important instrument in the integration and alignment of Minerva Foods strategy. And finally, I would like to highlight our work on the topic of sustainability where we recently disclosed Minerva Foods commitments and goals in fighting climate change and protecting the environment. Sustainability has always been the central pillar in our strategy, so much so that more than 10 years ago, we created an area specialized in the topic. And year after year we have moved forward with initiatives that allow us to guarantee more a sustainable production throughout our value chain from producer to our end-customer.

We have constantly reinstated our purpose of feeding the world in a more sustainable way, providing safe food through a business that combines expansion and global competitiveness, innovation, ethics and quality with the decisive social environmental criteria in our industry. And we understand that we can and must go further and further increase the efforts in tackling climate change and protecting our planet.

For this reason, and reinforcing Minerva Foods' commitment to sustainability we assumed public commitments that allow us to further advance the ESG agenda with effective actions involving our channel production chain with investments of approximately BRL1.5 billion by 2035. Still in this conference call, our Sustainability Director will speak in more detail about our ESG project and also about the commitments made by Minerva Foods with the sustainability agenda.

Now let's move on to the next slide to comment on Minerva's operating performance in the quarter, starting with the exports. First quarter '21 we strengthened our leadership position as the largest beef exporter in South America with 20% market share in the continent. This is the result of our geographical diversification in the region and supported by our 16 international offices that provide Minerva a great competitive advantage, in addition to a prominent position in the export of beef.

When we look at the export performance by region, Asia continues to stand out, representing 57% of export revenue in the past 12 months in Brazil, a strong growth of 15 percentage points compared to the same period in the previous year. The Asian market was also the main export destination for Athena Foods, with 38% of the total exported by the division in the same period. The performance of exports makes the region's growing demand for beef increasingly evident, especially from China, but also from other important markets such as Indonesia, Malaysia, Thailand and the Philippines.

Another highlight is our growing exposure to the North American market, both from the Brazil Division and Athena Foods, a market with high income capacity which has already shown strong signs of recovery in the economy and consumption with the advance of vaccination.

To conclude, I would like to emphasize once again that the fundamentals, the market prospects remain very solid. We have a combination of very positive factors for the forthcoming periods. The international demand for beef remains quite consistent in emerging markets, especially in Southeast Asia. We have today the advanced vaccination and the resumption of the global economy that give strength with the reopening of markets and prints a movement of strong recovery of consumption, especially in the food service segment that has been strongly impacted since the beginning of the pandemic.

In addition the problems in beef production in Australia continue to imbalance the world supply and encourage the opening of markets which especially benefit South American exporters. And of course, as I said before, we cannot fail to emphasize the persistent impact of African swine fever on the global animal protein market driving demand for beef and impacting export volumes and prices.

In this way, it is increasingly expanding the range of opportunities for exporting players from our continent. Given this promising horizon Minerva Foods strategy is to continue maximizing our competitive advantages, investing in innovation, niche opportunities and in risk management and market intelligence, to achieve a crystal [ph] efficient and profitable commercial and logistical solutions, always valuing our team and respecting our commitment to ethics and sustainability.

Now I will hand over to Taciano, who will talk a little more about Minerva Foods sustainability agenda. Taciano.

Taciano Custodio

Good morning, everyone and thank you Fernando for the introduction. The recognition of sustainability of our business that spans on the maintenance of the ecosystem to support agricultural production is at the heart of Minerva Foods' commitment to sustainability. We recently announced our strategy against the effects of climate change and monitoring supply chain, committing ourselves to bold and pioneering goals focused on actions and backed by public results from those who lead the sustainability agenda in beef production in South America.

The Minerva Foods commitment to sustainability is guided by the contribution to a healthy planet and prosperous communities, supporting South American producers in the implementation of practices that sequester and store carbon, protect biodiversity and increase resilience. We expect to invest BRL1.5 billion in diversified approaches to reach the goal of zero net emissions by 2035 in Scopes 1, 2 and 3. And we will work on three major fronts, the environmental efficiency of operations, fighting illegal deforestation through geospatial monitoring of the chain. And finally, our low carbon program. Environmental efficiency of operation will reduce the intensity of green house gas emission in Scopes 1 and 2 by 30%. At June 2030 we will maintain our carbon-neutral energy matrix. This means zero net emissions in Scope 2, a goal that we reached in 2020, geospatial monitoring of the supply chain. Our goal is zero illegal deforestation in all South American operating countries by 2030, including in direct suppliers and thereby reducing Minerva Foods carbon footprint in Scope 3.

We will achieve a 100% geographic monitoring of direct supply farms in Paraguay by December this year, in Colombia in 2023, in Uruguay, 2025 and the expansion to other countries in South America by 2030. We will also apply the monitoring program for indirect supplier farms in all countries of operation in South America by 2030, including the integration of WIZI Pack 2 [ph] in the geographic monitoring system in the Amazon by December of this year and the availability of the app for verification of indirect supplier farms in Brazil in partnership with Nice Planet, [ph] Geotechnology until December 2021 taking to the hand of producers the same technology that ensures Minerva Foods the best monitoring result publicly certified by the Federal Attorney's Office. It's worth checking out, it's public.

Our performance is based on results and commitment. And lastly, the third-axis is the low carbon program in the production chain, which we will explore now on Slide 5. The beef production value chain is one of the most relevant socioeconomic activities in South America, representing an important local development mechanism for communities. Minerva is presently in 23 cities with industrial operations in Argentina, Brazil, Colombia, Paraguay and Uruguay having an annual relationship with over 12,000 rural producers. We recognized that technology logically profitably and environmental responsible agricultural activity has a unique opportunity to transpose its role in providing quality food to the world. It also represents combating climate change through carbon sequestration and storage practices.

The protection of native vegetation, carried out by suppliers that are part of the supply chain of Minerva Foods, combined with soil conservation and pasture management practices. Intensification and integration systems can represent large carbon reservoirs that help to combat changes in the climate in the Amazon in Brazil. For example Minerva Foods suppliers preserve more than 1 million hectares of tropical forest within their private properties, according to the forest coverage data from the National Institute for Space Research, in the low-carbon emission Minerva Foods has a partnership with research institutions that are references in South American Livestock to measure carbon balance of our suppliers in all countries of operation, working with primary data in the MRV model measurement reporting and verification, defined by the United Nations Framework Convention on Climate Change.

Our goal is to have 50% of the beef suppliers registered in the Minerva Foods program for low carbon emissions by 2030 and we expect preliminary results this year.

To conclude on Slide 6, we bring the highlights of our 10th sustainability report 2020, the first published in this sector sharing updated information about ESG events in a holistic and transparent way. We've adopted the content in line with TCFD, Task Force on Climate Related Financial Disclosure addressing the governance and management of risks and opportunities in the financial, operational, supply chain markets, sanitary conditions and trade barriers social and environmental issues and climate changes.

In addition to the strong performance of Minerva Foods in the communities, which we operate with actions to deal with the pandemic of the new Coronavirus, we report important advances in different areas of sustainability, some of which are the highlights, leadership and combating illegal deforestation with 100% of direct supply of farms with geo-reference maps in all regions of operation in Brazil. We are therefore the first company to monitor (inaudible) rainforest. And we also have the best monitoring result in the Amazon.

We are geographically monitoring all regions in Paraguay besides Chaco and we already have 75% of the production monitored for illegal deforestation, the overlapping with indigenous and areas of environment protection in the country of Brazil. We lead the indirect monitoring agenda with levels of above 99.5% of compliance for level one indirect supplies in the preliminary result of WIZI Pack [ph] and we became the first company to actually be direct monitoring in the Amazon of monitoring.

We present important advances in the water management, with more than 13% in water consumption in Brazil and more than 7.5% reduction in other countries, zeroed in Scope 2 emissions through the purchase of renewable energy certificates and became the first company in the carbon-neutral sector in Scope 2 and the percent of our operations were analyzed for corruption risks, 100%, were also analyzed covered by quality assurance programs.

In animal welfare, we achieved 99% compliance in third-party audits. And lastly, we have a 30% reduction in the rate of occupational accidents in 2020. Check out these and more ESG results in the 2020 sustainability report available on our website. We also reinstate our constant evolution in a year of great learning and our commitment to present materials results today now contributing to the sustainability of our planet.

I would like to hand over to Edison who will detail the operational and financial results. Thank you.

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

Thank you, Taciano.

Now let's move on to Slide 7. Let's start by talking about the operating performance and the breakdown of the share of the divisions of Minerva's gross revenue. In Q1, '21 Athena Foods expanded its participation and already accounts for 50% consolidated gross revenue while Brazil Division took 44% and the Trading Division was 6%, complementing the total revenue.

Speaking of operations, first quarter, we operated at a capacity of approximately 70%, reflecting the negative impact of the expected seasonality at the beginning of the year, particularly in Brazil, and also operational difficulties imposed by the pandemic. In Athena Foods, the level of use remained stable at approximately 73%. It is worth noting that this is the first quarter, with full operation of our second unit in Colombia, the Vijagual plant.

In Brazil division the utilization level was 63%. As we have already indicated the consolidated use remains at a level below our historical level of 80%, and which should be resumed over the next years with the progress of vaccination process and the end of the pandemic.

On the right hand side of the slide, we highlight our consolidated exports by region, both for Q1, '21, for the accumulated results of the 12 months. As Fernando mentioned Asia continues to play a measured role representing 44% of exports in the quarter. In the past 12 months the share of the Asian continent totals 46% of Minerva's exports with China currently, the major global importer of beef representing 36% of exports, and increasingly consolidating itself as the main destination for our product.

Moving on to Slide 8, we'll start with net revenue, which reached BRL5.8 billion in Q1 '21, strong expansion, more than 39% in the annual comparison and a record amount for the company even considering the seasonal impact of the beginning of the year. The composition of the revenue as I mentioned early, we highlight the positive moment for our exports, which reached the share of 68% of total revenue.

Speaking of profitability Minerva's EBITDA Q1 reached BRL485 million with EBITDA margin of 8.4%. It's worth noting that strong 27% year-over-year expansion on our nominal EBITDA even in the face of very challenging scenario and sharp increase in the price of cattle in Brazil in past 12 months, EBITDA totaled about BRL2.2 billion, record level for Minerva with EBITDA margin of 10.7% almost 50 base points higher than when compared to the annual basis.

It is quite clear on this slide, the operational dynamics of our company, which is a spread business that is, our profitability enables us to transfer prices, especially when we have a scenario of cost pressure. Despite the recent upward movements in the price of cattle which correspond to 85% of our total cost, company has been very efficient in transferring these increases to customers, especially in the export market, which is the main focus of Minerva Foods.

As a result, we have been able to deliver consistent level of profitability over the past quarters, even with the upward movement in the price of the animals. And I also want to highlight our geographical diversification, especially when we talk about Athena Foods which despite the more complicated situation in Brazil in terms of livestock supply, Athena Foods has a much calmer situation in countries like Paraguay and Colombia, where profitability has improved. In the first quarter, there was very significant export growth in these countries, as well as the revenue that increased and also helped to increase the revenue of Athena Food that was spectacular first quarter.

Obviously, the exchange rate devaluation helps to consolidate Athena Foods revenue. But we really had an extremely positive performance in other geographies other than Brazil. And that is why Athena Foods accounted for 50% of our revenue in this quarter.

Moving on to Slide 9, talking about financial leverage, our leverage ratio, measured by the net debt-to-EBITDA indicator for the last 12 months may remain stable at 2.4 times, in line with fourth quarter 2020 but 0.5% lower when compared to first quarter 2020. Minerva's current level of leverage results [ph] in our commitment to seeking and maintaining a more efficient less costly capital structure with lower risk profile fully aligned with our financial strategy. On this slide, I also want to emphasize that we still have BRL314 million in outstanding warrants that must be exercised by the end of this year and will reinforce the company's cash.

In other words, as soon as the exercise occurs these resources go into cash and if we adjust this cash with the effect of these funds, our net leverage ends up being even smaller, dropping to 2.2 times. It's worth mentioning that if we measure the net leverage dollars, it would be 2.3 times today.

Let's move on to the next slide, where we will talk about net income and operating cash flow. Q1 was another quarter of positive results, net income reached approximately BRL260 million. In the past 12 months it reached BRL685 million. The result reflects a commercial and financial strategy over the past years, total focus on generating free cash, risk management and mainly debt reduction, pillars that have been a priority for the company and have contributed significantly to the results we have achieved quarter by quarter.

Moving now to operating cash generation, operating cash flow in the quarter was positive by almost BRL1.1 billion with net income adjustments, returning BRL914 million in cash and the change in working capital. We're consuming BRL124 million in cash, impacted basically by the explosive topline growth in the quarter. In the past 12 months the cash flow from operating activities totaled BRL2.6 billion.

Now let's move to slide 11 to talk about free cash flow. Q1 free cash flow remained positive for the 13th consecutive quarter, reaching BRL309 million. It's been almost four years in a row with positive cash generation. Excluding the effect of foreign exchange hedge free cash flow remains positive at approximately BRL80 million in the quarter.

Making free cash flow build [ph] up in the quarter, we start with an EBITDA before nonrecurring items of BRL475 million, CapEx was approximately BRL73 million. It is worth remembering that within the BRL73 million we had an investment of BRL29 million on the retail platform Shopper through our venture capital fund. Then we look at the working capital accounts in the flow, which was negative by BRL124 million and the cash-based financial result, which was negative BRL208 million.

Excluding non-recurrent effects of approximately BRL10 million due to social expense we had in actions against the pandemic, we had reached a positive recurring free cash flow of BRL80 million in the first quarter, which added to the positive cash result of the hedge policy exchange rate of BRL229 million we reached a free cash flow in the quarter of BRL309 million.

Speaking now of the past 12-months, free cash flow totaled BRL1.3 billion. We start from an EBITDA of BRL2.2 billion, CapEx in the past 12 months BRL332 million, which was impacted also by the acquisition of the Vijagual plant in Colombia and by the corporate venture capital initiatives. The change in working capital was negative by BRL61 million in the past 12 months and the cash-based financial result was negative by BRL540 million.

We have BRL43 million of non-recurrent items related to the pandemic. So we reached a free cash flow of BRL1.3 billion accumulated in past 12 months, reflecting the excellent operating and financial performance of Minerva Foods in the period.

Now onto Slide 12 to understand the bridge of our net debt. At the end of the previous quarter our net debt totaled approximately BRL5.1 billion. Q1 '21, we distributed BRL22 million in JCP to our shareholders, so interest on our own capital. We had a free cash flow for the quarter adjusted by positive impact of non-recurrent item, BRL70 million positive.

In addition, we had a positive impact of hedge instruments in the cash concept of BRL229 million. We also had a positive impact of BRL225 million with a non-cash effect also hedge instruments. And then we have the non-cash effect of BRL705 million, related to the impact of exchange rate variations on the portion of our debt that is backed to foreign currency.

So adding all these accounts and setting up the bridge, Minerva ended the quarter with a net debt just over BRL5.4 billion level, practically stable in the annual comparison, even considering an exchange rate depreciation of approximately BRL0.43 or more than 8% over the past 12 months. This position confirms the commitment of the -- to continue reducing the level of indebtedness and mainly to gradually improve Minerva's capital structure.

I want to emphasize that our current hedge policy continues to require that we have at least 50% protection for long-term passive currency exposure. And this can be seen in the notes to our financial statements.

Just like our balance sheet, our foreign exchange exposure is also very protected, making us even more comfortable to continue focusing on the execution of operation and financial performance and to continue looking for a way of generating value for our shareholders. On the next slide, we will comment a bit more on the capital structure and the recent liability management initiatives.

So on slide 13, as mentioned earlier, we present our leverage ratio, measured by net debt-over-EBITDA ratio over the past 12 months, which ended the quarter stable like 2.4 times. Our cash position at the end of the quarter was quite comfortable in the order of BRL6.4 billion. Speaking of indebtedness, about 80% of our debt is exposed to exchange rate variations. But as I've just mentioned there is a commitment to protecting the balance sheet.

So we have a hedge policy that determines that we have to have at least 50% of the hedged long-term foreign exchange exposure and we have been very disciplined. And this has been proving quite efficient, given the recent exchange rate volatility in Brazil. Currently, our duration is around six years, with 77% of our amortization concentrated from 2024.

In the picture of the balance sheet of first quarter, the main maturities are located in '26, '28 to '31. This scenario will remain even more comfortable in the coming quarters. We can also notice on the slide, that in addition to the traditional amortization schedule, based on the closing balance sheet of first quarter '20 we also published a pro forma scenario with base date of May, which considers all the efforts and initiatives of liability management that company has been implementing since mid-2020. So in the first quarter, we can highlight some initiatives such as the $1 billion issuance of new bond due in 2031 with interest rate of approximately 4.3% a year.

Proceeds from this issue were used for early repurchase of approximately 76% of the bond. 2026 issue more expensive debt that has an interest coupon of 6.5% per annum. With this operation we achieved a reduction of more than 200 basis points in dollars in the annual cost of this portion of the debt.

It is worth mentioning that the '24 [ph] remaining that were open in the market at the end of the quarter were redeemed on April 30 through the exercise of the make whole option. We are talking about an option exercise in the order of $290 million, or approximately BRL1.6 billion. In other words, we reduced, not only the cost but also the gross leverage of Minerva Foods.

In the second quarter, '21 to continue with this liability management process, we made a recent issue of CRA in the local market in the amount of BRL1.6 billion. The first series BRL1.2 billion with maturity seven years, the second series of BRL400 million maturing in 10 years. Both series were swapped. They were issued in IPCA plus coupon, but it was swapped for CDI. So the final cost of the instrument will be equivalent to 128% of CDI for both series.

The proceeds from this operation will also be used to strengthen our capital structure with focus on reducing foreign currency debt that have a higher cost and so we expect an additional reduction in the cost of indebtedness of this portion of approximately 250 basis points per year. And to close the matter we also made some repurchases in the open market. We bought back $41 million from bond 2028, something like BRL235 million, which were canceled now in May.

The result of all those initiatives is very clear on the pro forma amortization schedule, where there's a chart on the right where we can see the stretching of our net debt profile with the most relevant maturity being moved forward with the main amortization '28 and '31, but most importantly, this new debt amortization structure is considerably less costly than the old structure, and this is all the result of all these liability management initiatives that we've had in recent months starting mid-2020 and ending now in the month of May.

Obviously, this whole effort of liability management reinforces our commitment to financial discipline in search for an increasingly healthy capital structure less costly with a lower risk profile, mainly very aligned with our value generation strategy.

I now hand over to the operator to start the Q&A session. Thank you very much.

Questions And Answers

Operator

Ladies and gentlemen, we will now start the question-and-answer session for investors and analysts. (Operator Instructions) Our first question comes from Ricardo Alves from Morgan Stanley. You may proceed, Ricardo.

Q - Ricardo Alves {BIO 16840901 <GO>}

Hello. I have problem on my line. But I hope you can hear me. I have two questions, if you allow me. Athena surprised us in consolidated margin that comes from Athena. I'd like you to comment specifically on Paraguay, 30% of topline and Uruguay, if I'm not mistaken there's growth of 70%. So if you could talk a bit about the evolution of those two countries in the quarter, what drove this performance? If you have something specific that you can mention in addition to what is the performance of April and May?

And with my second question coming to Brazil, this evolution of the dollar price increase 10% year-over-year in the foreign market, certainly above what we expected. Have you -- do you have any market to highlight apart from China, looking at second quarter, second semester in a few months because from what I see the supply is quite restricted globally. I don't know if there are expectations of more opening for markets here in Brazil, if there is market outside China that has been driving this number. These are my questions. Thank you.

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

Ricardo, actually operations outside Brazil have surprised us based on their volume. But what is important as we mentioned on our call is our arbitration capability, different plants in different countries have different sanitary licenses, as the great investments of Minerva Foods is in the part of analytics that allows us to analyze which plant to speed up and which plant, we can consider to decelerate. We certainly have consolidated by country and this work is very fragmented, identifying each one of the plants.

In this quarter undoubtedly countries like Uruguay have increased the volume. If you look at Paraguay, Uruguay actually had export volume record. In the past two years it grew the volume of exports by 51%. We -- with the plants and units that we have, we have served the way we can, and capture those values. What's important to highlight is our arbitration capability. This may happen in a country today and tomorrow at another plant in another country tomorrow. And this is what differentiates Minerva Foods.

Regarding your second question of markets opening, South America is increasingly consolidating itself. We've mentioned the destinations, the main destinations we have because of the pandemic and COVID cases, especially in India. Other markets, in addition to China, like the Middle East, started having highlight in the past few months, and there is a market opening. There is a gain in South America, greater share in the international market and obviously Minerva with this diversification, that is unique with the plants that is unique, we can capture this value and provide more predictability and less volatility in the margins that we generate.

Q - Ricardo Alves {BIO 16840901 <GO>}

Thank you very much.

Operator

Our next question comes from Thiago Duarte from BTG Pactual. You may proceed.

Q - Thiago Duarte {BIO 16541921 <GO>}

Hello, good morning everyone. Good morning, Fernando. Good morning, Edison. I'd like to go back to this topline topic of Athena. Actually the intent here is to try to understand the recurrence of those volumes, especially in Athena or if we should think, as you suggest, when you talk about arbitration, we should look at the volume in a more consolidated volume of the Company, partially I'd like to consider the capacity use of Athena. When we look at this volume growth of slaughter of almost 40%, it doesn't seem to dialog with this capacity use of Athena, that based on the number you comment on it seems to drop year after year. There has been the incorporation of the new plant in Colombia, they will see impact of the second plant, if I'm not mistaken in Argentina, but I still cannot reconcile it. If you could address these two points, both of sustainability of those volumes as to what would be capacity, effective capacity use, I would be grateful. Thank you.

A - Taciano Custodio

Hi, Thiago. This is Taciano. I'm going to answer your second question. Regarding capacity we always do the math based on net capacity. We exclude the plants that are shut down or stopped. If we make an adjustment, the size and puts comparable things the problem is that first quarter of 2021 is not comparable to the first quarter of 2020, because there are different plans that are open/stopped in three countries, Colombia, Uruguay and Argentina.

And Colombia has an expansion, indeed with the acquisition of a new plant that leads the installed capacity to be greater. If we adjust that, we did the math because we actually thought this could be a question in the called 73 [ph] that you see in the first quarter 2020 would be comparable to 72.5 and a number of 77. Actually, there was an increase of 77 to 72.5, first quarter '21 against first quarter '20.

This adjustment occurs because the calculation is made based on net capacity use. If we take first quarter 2020 against 2021, we have a difference in Uruguay. We had two months first quarter 2020, with the cold storage of COSCO [ph] stopped. And this makes a difference when we consider capacity. First part of the question. I'm going to hand over to Fernando.

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

Thiago, one of the technologies that we have developed within arbitration has been within Brazil. So many times if we analyze individual plants, you will see the chains being accelerated vis-a-vis Goias, Rondonia, decelerated Mato Grosso and this is a constant practice of ours. Increasingly what Minerva Foods does is to analyze this in all its Latin America or South America operation. So we've had records in some plants, like the one in Dalen [ph] and Paraguay, that was all-time high.

On the other hand, some plants if the profitability is smaller, they've been decelerated replaced to where profitability is more favorable. So what we reinstate for Athena Minerva separately, because they are legal, separate legal entities, but the analysis should certainly be seen of the top line as a whole. The greater the market volatility, the greater the currency volatility, cattle price etc., more the instrument is used, the protection instrument and instrument of value generation.

So there are 25 plants that are analyzed in depth, and of which portfolios, which countries to which destination should we sell vis-a-vis from where we should source the capital within that. So we have developed project of acceleration, deceleration there are very efficient, that allow us to respond increasingly faster to the market demand and the market, that is increasingly more volatile. When I told Ricardo, it ensures more stability, as Ricardo said actually, more stability within the margins, right.

Q - Thiago Duarte {BIO 16541921 <GO>}

This is very clear. Thank you very much for your answers. If I could bring up a second topic regarding the use of capital and capital allocation, looking at the next year, I'd like you to comment a bit, taking the minutes of the Board meetings. We see actions towards China. You are changing from what I understand the domicile of Athena from China to Spain last year, as somehow you hinted the interest -- of actually there is an agreement with SALIC of moving into Australia.

And on the other hand, the company with the smaller leverage is allowed itself based on last year's results to pay much more robust dividends, I'd like you to comment a bit Fernando as to how we should think this trade-off between the growth platforms, which should we expect to materialize in the short term, vis-a-vis the intent of continuing maintaining leverage below 2.5%, so that you can pay a higher payout. If you could discuss this, it would be interesting too.

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

Okay, let's go on point-by-point to what you brought up. So the tax domicile of Athena, it's an attitude simply, having tax efficiency. We carried out a strategy that keeping headquarter of the holding in Chile compared to maintaining it in Spain, Spain brings us many more benefits, especially in the part, taxes, the dividend distribution etc., then maintaining its headquarters in Chile. Because of that we decided to move it's simply domicile, move to improve our tax balance for the company.

Regarding Australia we've already talked about this openly, there is the intent of having a JV with SALIC in Australia and the CapEx of this JV has been disclosed, is about $20 million. If you take CapEx of the past 12 months, about BRL330 to BRL140 [ph] million and we believe that this year we will have CapEx very close to what it has been in past 12 months of what it was in 2022 even including those $20 million of JV in Australia.

If you remember the CapEx in the past 12 months has $17 million of acquisition in Columbus. It's just as if we traded the acquisition in Colombia for the investment in the JV in Australia to keep the same order of CapEx in 2020, is the same number in the past 12 months. Third point regarding dividends, our policy of dividends continues as applicable.

The Board has approved January, February last year and we continue with this policy and practice. At end of the fiscal year our leverage, our net leverage is equal or greater than 2.5%, the dividend distribution is 50% of net profit considering all of that prospect, the results that have been presented that have been disclosed now, considering what we see in the market in the second quarter similar to what we've seen in March it was by far the best month in the quarter.

We strongly believe that we will be able to maintain controlled leverage levels. Therefore, we're going to distribute dividends in line with the policy minimum 50% of net profit at the end of this fiscal year. Adding to what was said, you talked about the JV, there is a part that we see where we have put and also the other thing on the distribution, in China, it is part of our strategy of the downstream with -- where with more capillarity, more knowledge having more market information we undoubtedly increased the profitability. So this JV does not entices or implies any fixed assets, only working capital, which is normal for a redistribution.

Q - Thiago Duarte {BIO 16541921 <GO>}

Clear. Thank you very much.

Operator

Our next question comes from Isabella Simonato, Bank of America. You may proceed, Isabella Simonato.

Q - Isabella Simonato {BIO 16693071 <GO>}

Thank you. Good morning. Thank you for the call. I have two questions. The first one in terms of Brazil, if you could give further detail sequentially within the quarter, the margins, what they were like, give me a bit more taste between exports and domestic market and beginning of second quarter. And if you can give me an update on Argentina as well, price dynamics there. Internal and external after government announcements, we've seen dynamics of processed meats there was quite strong. If you can talk a bit about more about Argentina that would be really nice. Thank you.

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

Well, Isabella, speaking of Brazil, as we've been commenting and we mentioned on our release, January and February were much weaker months than March, especially because exports started gaining more momentum as of March. The data show that we had weaker volumes in January, February, recovery in March and April, major growth. Obviously this impacts the margins of the company that is mostly an exporting company Brazil, two-third of our production was for exports.

Curiously enough January had a quite different phenomenon than previous years. The domestic market prices were still quite high, very close to the levels of the end of year. That usually doesn't happen. Seasonally January is a sort of hangover month after the end of year blanket holidays. So in January, we managed to have very good margins, much better than we expected. February was a disaster, both in terms of exports and domestic market. March, domestic market continues pretty poor but exports improved a lot. April we've had internal market recovery, but obviously the great highlight is exports, both in terms of volume and dollar prices.

You have the data in terms of the increase in dollar plus foreign exchange depreciation brings a greater value in terms of appreciation in the beginning of the quarter. And this is a bit of the scenario of what happened in the first quarter. So April is better than March. And we don't see any changes in the short-term horizon for this good scenario especially for export.

Second question on Argentina, it's interesting to comment on the following. First, there was a lot of noise regarding Argentina, but in practice, the measures taken there were good for professional companies, well established that follow all the rules, that don't try to bypass government regulations. In our case we fit all these requirements, I've just mentioned.

Therefore the measures that export activities more control the government with greater supervision, especially regarding bringing in resources that brought us a gain [ph] that turned the exports club even more restrictive. So there are few companies that check all the boxes to continue exporting. This has brought price gains, volume gains to us in exports, and as I've mentioned a long time ago, mostly the volumes produced in Argentina, are for exports. Regarding domestic market, the price increases happened there are due to high inflation rates.

We made some decisions that I consider tactically quite clever, which was to change the mix of products, so that we can have products that can actually penetrate in lower income, bracket and so smaller retail prices, and expanding the margin we have in those cheaper products, processed food, hamburgers, sausages, etc., that are cheaper to process, and cheaper in the unit prices, production costs that is lower, that does not worsen our margins.

So we are actually serving quite well in this difficult -- volatile scenario in Argentina. So we have quite diversified plant complex that allows us to actually move about all areas of the consumption -- consumer market. And perhaps, we are the most professional, best established that complies to all the rules established by the government in the country.

So adding to what you said, in Argentina, we have a formalization that the government is sponsoring all industries. So this ends up being positive for companies that are well0established that's follow all the procedures. Within the internal market, both in Brazil and Argentina we see two interesting phenomena, migration to much cheaper products on one hand, and others for a much more expensive prices, the intermediate products are those that are suffering, but those are the ones that we export most. Brazil, we had a drop of these as a whole, because of the crisis, 29 kilos per inhabitant a year approximately, which is the smallest in the past 25 years. And this leads the companies to -- that have an exporting platform to have a mix that is more geared to export as Gino [ph] mentioned previously.

Just to close Isabella, if you want to discuss further details of all the measures of the Argentinean government and how the impact to the market and the industry and why they are beneficial to a company like ours, we are available. Well there are dozens of measures, but all of them are actually intended to professionalizing and improving competitiveness of companies that are serious and professional in that market.

Q - Isabella Simonato {BIO 16693071 <GO>}

Very clear. Thank you.

Operator

Our next question is from Barbara, JPMorgan, Barbara, you may proceed.

Q - Unidentified Participant

Hi, good morning. My questions have been answered. Thank you.

Operator

Our next question is from Thiago from Goldman Sachs. You may proceed.

Q - Thiago Bortoluci {BIO 20909105 <GO>}

Hi, everyone, for taking my questions. We have -- I'd like to talk about Brazil. First, you've been talking that you expect consolidated capacity use over the year. So I would like to understand a bit how you expect to have the curve in Brazil. And if you can actually comment and open up, how the gap between capacity gross and net with the 2020. First question is still in Brazil. What are the outlook for short-term to measure these things from now on, especially, if you could comment on the retail dynamics and service, how one channel can offset or not an increase in the others? Those are the two questions please. Thank you.

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

Thiago Brazil, we don't have many secrets. Just read the newspaper. You have a negative livestock cycle that has been worse in then the first months of the year because of the rainfall, and then we had rainfall that should come in March, April. So it should come May, June, July, depending on how drains -- on the rainfall, etc. So this is one of the point I made, the supply should be more restricted because of the turn in the livestock cycle should be turn specifically more restricted in some states like Mato Grosso.

So naturally, because of the arbitration dynamics that we have internally, as mentioned we ended up reducing slaughter in some plants and increasing in others. With the hatchery capacity use in Brazil in the first quarter ended up dropping to that level, 63%. How this is going to evolve over the year is never -- you expect as you have an offer that is a bit more uniform of animals for slaughter, we accelerate the capacity over the year.

Remember that this use is lower based on the measures that have been taken because of the pandemic. We changed the layout of the lines. They are a bit slower because of distancing and this led the use of capacity to actually drop, regarding the pre-pandemic levels. But we are optimistic that over the year, we'll be able to increase capacity use in

Brazil. As we said the target for the company as a whole to go back to a level close to 80% and this may happen probably in the forthcoming four quarters.

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

Thiago just to add to what Gino said about cycle, in addition to weather part, the other factor that reduced the supply in Brazil was the great profitability that breeders started having. So cattle breeding in the past month was quite favorable, quite profitable and led breeders to hold the slaughter house that was greatly reduced.

So what actually happens is that these females are producing more cows and we have record birth and that's the cattle that is going to come to the market in late '21, '22, '23. So you have a situation that is quite interesting in the part of Brazil that only shows that Brazil is consolidating increasingly more as a producer main world beef producer.

Regarding domestic market, we should see reopening with the advance of vaccination, and reopening, gradual reopening of markets, an increase in demand. But it is happening as I told Isabella in two extremes, very special products and special niches, expensive products and very competitive products, lower prices too.

So is it Angus that is growing and the hamburger that is growing. So those are the two fronts illustrating in a simple way that we see it the domestic market. This reinforces the importance of exports and how the strategy -- the exporting strategy that we have in Brazil and around South America of conquering markets that is increasingly sound.

We have some questions from the webcast. Sorry. I had some questions on the webcast. I'm going to read them and we'll answer them.

First from Jon Uberga [ph], why has there been reduction of margin EBITDA for first quarter to 8.31%. If we have some outlook of improvement. I think it's practically answered. Reduction of the EBITDA margin obviously is related to the increase in cattle price, especially in Brazil. There was reduction of slaughter in Brazil, considering the scenario greater scarcity of animals that I've just described in some states specifically. But as a whole, Brazil moved into a part that is more of female retention, fewer animals available for slaughter, and we had rainfall season delaying and being stranded.

And this actually reduced the number of slaughtered animals. Outlook for improvement, yes. Animals they were not slaughtered first quarter should come to the market to second quarter probably. So you do have an outlook of improving the supply of animals in short-term. So is that fair to ask for IPO, if there is an outlook of IPO of Athena, as I said no. The IPO of Athena had another context of locking value, but actually you are helping in the deleveraging with the free cash flow that we've had in over $3 billion since 2018. We managed to get the deleveraging levels much faster than we expected. So there are no more plans for IPO of Athena Foods.

Third question, from Joao Pedro. And what about Argentina with exports? As I said there is no restriction of exports. There is a strictening. The rules are more strict or stricter. So if you want to export beef in Argentina, you have to follow stricter rules than before. And you have to comply with resource generation rule. So you have to have your own plant there for slaughter and in export there are several rules that are stricter that are being enforced any benefit. They benefit companies like ours that are totally in compliance with the rules that have been established. So the export club has become even more restricted. That opens up greater opportunities for us, not only in terms of volume and also price.

Last question from webcast, Ricardo [ph], I'd like to know if you have any views or expectations of reducing cattle price in Brazil and Latin America as a whole. We have to look at country by country, the cycles in each one of the countries. In general, we have some countries that are in a very positive cycle and then you have perhaps two countries that are in a cycle that is a bit more negative.

Speaking of Brazil specifically, whilst we see a cycle that is more negative, perhaps we don't actually see a drop in the prices, which is not a problem for a company that is interested in gaining that. So we have the acquisition of the capital and then we slaughter and sale. So when we see the scenario of imbalance of supply and demand of beef in the world market, we see great spaces for us to continue to transfer prices, increase prices in exports. With this, we can not only ensure our margin, but also to have an important outlook of improving our margins over this year.

Those were the questions.

Operator

So we now conclude the question-and-answer session. Now I would like to turn the floor back to Mr. Fernando Queiroz for his closing remarks.

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

I would like to end this conference call by thanking very much the entire Minerva team. This past year of 2020 has been very challenging and the challenge has continued in 2021. Their dedication drive focus and discipline, we managed to have allowed the company to reach the results that are so significant and actually sailing in very rough seas allowed us to be profitable.

The year 2021 brings us a lot of hope. We see many places in the world, the evolution of vaccination and it will happen in South America. It is moving forward, the economic activities are resuming and recovering. We see a great global outlook for this year with the start of the recovery this year. And this allows us in our industry to have a comparative advantage regarding production than in any other part of the world, makes us feel very confident regarding our strategy and how Minerva is positioned within this market that we are still firm, and looking at the opportunities, the comparative advantages, so that we can in a sustainable way we maintain our production, that we maintain our space within the international market increasingly more relevant.

I thank everyone for your interest in Minerva Foods call and we remain at your disposal for any questions, and any clarifications. Thank you very much.

Operator

Minerva's conference call is closed. We thank you all very much for your participation and wish you a good day.