Q1 2022 Earnings Call

Company Participants

- Edison Ticle de Andrade Melo e Souza Filho, Chief Financial and Investor Relations Officer
- Fernando Galletti de Queiroz, Chief Executive Officer
- Tamara Leite Ferreira Lopes, Corporate Sustainability Manager
- Unidentified Speaker

Other Participants

- Analyst
- Isabella Simonato
- Rodrigo Almeida
- Thiago Duarte

Presentation

Unidentified Speaker

(Call starts abruptly) (Foreign Language) Translation this tool is available on the globe icon, where you can read interpretation. This is at the bottom center of the screen. Choose your preferred language Portuguese or English, then click on it. For those listening to the video conference in English, there is an option to mute the original audio in Portuguese by clicking on mute original audio.

For the Q&A session, please send your questions by clicking on the Q&A icon in the bottom screen button. If you prefer to ask in person, type your name and the name of your company. And I request it to activate your microphone will appear on the screen. If you do not want to open your microphone, please write your question, so that our operator can read it out loud at the end of the Q&A session. The audio in the slides of this video conference are being simultaneously presented on the internet, and at www.minervafoods.com.ir. The respective presentation can be found on the website for download in the IR section.

Before proceeding, we would like to point out that any forward-looking statements that may be made during this conference call relating to the company's business outlook and operating and financial targets and projections are based on the beliefs and assumptions of the company's Executive Board and on information currently available. They involve risks, uncertainties, and assumptions as they have to do with future events and therefore depend on circumstances that may or may not materialize. General economic conditions, industry conditions, and other operating factors may affect the company's future results.

Thus leading to results, which differ materially from those expressed in such forward-looking statements.

I now turn the floor over to Mr.Fernando Queiroz, CEO.

Fernando Galletti de Queiroz {BIO 15387377 <GO>}

(Foreign Language) Good morning, and thanks for participating in this conference call to disclose the results of Minerva Foods for Q1 2022. We start the year reporting our best performance yet for a first quarter, which strengthens our corporate strategy and consolidates our leadership in South America, as one of the major players in the global beef market.

Strong operational performance together with our financial discipline and commercial expertise were key to enable us to achieve good results in Q1. We posted record revenue and EBITDA record -- and record EBITDA and have a sound and healthy balance sheet. In Q1, our gross revenue grew approximately 25% and totaled BRL7.6 billion. Our EBITDA was BRL646 million, a 33% expansion year-on-year.

Another highlight for the quarter was our balance sheet, which remains sound with a very healthy capital structure. We ended the quarter with net leverage, which was stable at 2.5 times net debt over EBITDA. These attached to our commitment with financial discipline. One of our main strategic pillars is geographic diversification, which again has proven to be decisive to maintain our leadership in exports of beef from South America, where we closed the quarter with approximately 20% of market share.

Our operational footprint distributed throughout the continent has a fundamental role in ensuring our commercial and financial performance something we have been delivering quarter-after-quarter. It attached to our ability to arbitrage in the global market with a focus on profitability and control of risks.

Before giving you more details about our performance in Q1, I would like to talk a little bit about the outlook for the global beef market in the near future, and how our strategy and business model position us in a unique manner to capture opportunities. One of the main points is the beginning of a reversal in the Brazilian cycle for cattle, and the increased this availability of cattle in the country. At the end of 2019, the Brazilian had lower availability of animals for slaughter, which reflected the movement of ranchers that retained females for breeding. With a lower offer of animals, the price of cattle increased. But because we are very successful in passing on the costs and maintaining our profitability, we remained at healthy levels.

At the end of 2021, we saw the first signs and indications relating to a process of reversal of this cycle. For example, there is an increase in the slaughter of cows, which reflects the -- this reflects the fact that the breeding cycle has ended for these animals. Mapa also reported calf vaccination rates in Brazil, which indicates a record volume of animals vaccinated in the last few months. These numbers are a valuable protector of the availability of cattle for slaughter, and these cattle should reach the market in the next few months. Therefore, we are very confident in the growing availability of cattle in Brazil and in a trend, that should consolidate in the next few months, and which naturally will benefit our performance.

Still speaking about the cattle cycle. I would like to talk about the North American scenario. We see signs of the end of a positive cycle and a reduction in the availability of animals, estimates by the USDA indicator reduction of approximately 5% in the production of beef in the U.S. in 2022, which is very similar to what we see in Europe, which should present a nearly drop in its production of beef. In the case of Brazil, the outlook is very optimistic with an expansion of 5% in the annual production, which should make South America a bigger holder in the global market of beef.

There is also a lot of uncertainty relative to the global offer of grain -- grains, which was initially impacted by adverse weather in producing regions, but the difficulties have become even greater due to the recent conflict in Eastern Europe. And this scenario will have an impact on the structure of costs of the global chain of animal protein, specially pork and poultry. But also in beef in those situations where the beef is produced in confinement systems, this will imply an increasing costs and a reduction in the competitivity of products for the -- productors outside a South America.

I would like to highlight our performance in terms of distribution in the domestic market. We have made progress in high profitability segments such as food services, premium, and niche products. Additionally, we are increasing our exposure and the range of products sold by partners and online platforms. This maximizes our commercial performance in domestic distribution.

In terms of innovation. In addition to our progress in digital platforms, which now account 10% of our distribution and allow us to gain better market intelligence and improve our sales. We also have projects in advanced analytics, especially data analytic tools and artificial intelligence. These allow us greater accuracy and speed in the analysis of scenario and arbitrage opportunities. This maximizes our efficiency and our sale of beef.

Corporate venture capital initiatives, which have been taking shape in the last few quarters are gaining more maturity, and of a good perspectives for the next few months. We will continue to develop our innovation ecosystem by looking for external partners such as universities and research centers to unlock opportunities and to put initiatives in place to position Minerva Foods in the Vanguard and increase our opportunities to create value.

South America with its pasture systems maximizes our competitivity in the global beef market, especially considering the current environment with a strong inflationary pressure. It attached to the excellent strategy that we have adopted in terms of geographic diversification.

Now moving on to Slide 2. I would like to start with the gross revenue, which is record and reached BRL7.6 billion in Q1 2021, and BRL30.1 billion in the last 12 months, a strong growth of 35% growth year-on-year. It's important to highlight the performance of our exports, which increased by nearly 30% and accounted for 70% of our gross revenue in the quarter. The growth in exports reflects the consistent demand for beef globally and a test to our expertise in serving the international market.

Speaking about operational profitability. Our EBITDA was record for a first quarter and was BRL646 million, a 33% growth year-on-year with an EBITDA margin of approximately 9%. Our sound performance in this first quarter reflects operational and commercial excellence. And especially, we benefited from our geographic diversification. We have a capacity to arbitrage the markets in a scenario with a lot of volatility. And the last 12 months EBITDA totaled BRL2.6 billion, the greatest ever recorded by the company, and we finished Q1 with an EBITDA margin of 9.1%. In line with our commitment towards capital discipline, our net leverage was stable at 2.5 times net debt over EBITDA. Our liquidity was also very comfortable, and we had BRL5.3 billion in cash, which combined with a duration of 5.4 years of our debt, allows us to have flexibility in view of the opportunities and challenges ahead of us.

We continue to work to improve our capital structure. We have repurchased and canceled approximately $89 million in debt bonds of 2028 and another $42 million relatives to the bond of 2031, totaling $624 million in repurchases and cancelings only in Q1. This illustrates our relentless pursuit of a sound capital structure, which is less costly and has a better risk profile. Edison will bring you a little bit more color about that.

As a result of our healthy balance sheet and our financial discipline, we have been generating value for the shareholders. And this is one of our main focus. In April, the shareholder's meeting approved the payout of BRL200 million in the form of complementary dividends, and these were paid on the 9th of May. This totaled BRL400 million in payouts, which is approximately 70% of the income of the previous year.

And the last few years, the company has been very consistent in terms of allocating its capital with discipline and focus on the relentless pursuit for a capital structure that is increasingly healthy with a better risk profile, and in line with opportunities to generate values to the shareholders, and this is a strategy we will continue to pursue.

Moving on to the other highlights. We continue to develop our sustainability agenda. In Q1, once again we had initiatives that position us as a benchmark in the animal protein sector. As regards the environmental pillar, we have been focusing on the carbon market and we have developed strategic actions to improve the environmental efficiency of our operations. And in the pursuit of a production chain that is -- that has high productivity, profitability, and low emission of carbon.

We are increasingly confident in the opportunities to generate value in the carbon market, such as the development of segmented products, which allow us to access markets which are more restrict and profitable. For example, we had the first export of a carbon-neutral certified products from Uruguay, and its emissions were measured in all the phases of the production chain. The carbon footprint was audited and certified by an international organization and was offset by using carbon credits. We also set up MyCarbon, our business dedicated to the trading of carbon credits. And finally, our operation in projects focusing on decarbonization initiatives, such as our recent partnership with the BNDES and our support to the Floresta Viva program.

In March, we published our 11th sustainability report, and we are the first company in the sector to disclose the results and achievements of ESG throughout 2021. This attached to our commitment towards sustainability and transparency. The complete report of this year and the previous years are available at our sustainability site and at our IR site.

All of these initiatives reinforce our commitment towards sustainability, which is one of the pillars of our business model and is aligned with our pursuit of a more productive and efficient sustainable chain with lower emission of carbon. Tamara Lopes, our Executive Manager for Sustainability is going to give you more color about our ESG agenda.

On Slide 3, we are going to talk a little bit about the operational and financial performance of Minerva in Q1, 2022. We start with the exports. The performance of the company was even more consolidated, and we benefit from our competitive advantage, our strategy of geographic diversification, each increases our ability to arbitrage distortions in the market, and allows us to design commercial solutions that maximize our competitiveness in the global market.

On the right-hand side of the slide, you see greater details on our performance. On Q1, Asia continue to be the major highlight and accounted for 46% of our export revenue with China accounting for 40% of the total. Then comes the Americas with a 16% share, and then the Middle East and NAFTA region with 9% each.

We have an increasing exposure in the North American market. We started this in 2020 and we have been consolidating this in the last few quarters. We currently have 10 plants, which can export beef to the United States as a result of the higher demand in that market, and on the competitiveness of our product and our logistic and commercial capacity.

On this slide, on the right-hand side, we have some information and we breakdown the gross revenue in Q1, 2022. China is the main source of revenue for the company and accounts for 34% of the total. China is followed by other markets such as Brazil, Chile, United States, Middle East, and Western Europe, which together account for nearly 50% of our gross revenue. This scenario reflects our wise diversification in terms of geographies. We have access to virtually 100% of the global demand for beef and it allows us to operate in a fast and accurate way to arbitrage the markets. We are able to tap the best commercial opportunities with a focus on maximizing the profitability of our operations.

Before ending and turning the floor over to Tamara, I would like to highlight our optimism relative to the global beef market especially for South American producers. The outlook for the next few months are very -- is very positive and there is a strong imbalance between supply and demand, which give rise to relevant opportunities. For example, in markets with fast income growth such as Asian countries.

Also, in premium markets, such as United States and Western Europe which together account for 15% of our gross revenue. We also see good opportunities in Latin American countries, Middle East, Eastern Europe, and Africa regions which traditionally have a higher volatility and present excellent opportunities for arbitrage and maximization of value.

We also see signs relative to the increased availability of cattle in Brazil, and this trend will become even more favorable, which is a very different scenario relative to other worldwide producers, who see a lower availability of animals and a greater cost pressure in the production of beef.

In view of this promising outlook, we will continue to focus on producing beef maximizing our competitive advantages, investing in innovation in niche opportunities in management of risks and market intelligence, so that we can have logistics and commercial solutions, which are more efficient and profitable. We trust our corporate culture, our team, and we respect our commitment towards ethics and sustainability.

I now pass the floor over to Tamara, who's going to talk about the sustainability agenda of Minerva Foods.

Tamara Leite Ferreira Lopes

Good morning to all, and thank you, Fernando. The recognition that the sustainability of our business depends on the maintenance of ecosystems that support farming production is at the core of our commitment to sustainability. We focus on our contribution for a healthy planet and prosperous communities, and we support South American producers in implementing practices that stock carbon, protect biodiversity, increase the resilience of their businesses. The company has completed a year, since this -- since its targets what were launched under the pillar dedication to the planet, which took place in April last year, and all the targets for 2021 have been met.

We continue to concentrate our efforts in three major areas: the environmental efficiency of operations, the fighting of illegal deforestation by geospatial monitoring of the supply chain, and we also focus on our low carbon emission in the production chain. This will enable to achieve the target of zero net emissions by 2035.

Q1, 2022 has seen important achievements relative to Renove, our low carbon emission program, and also MyCarbon, a company focusing on the development and trading of carbon credits by through the launching of our first certified product carbon-neutral product in Uruguay. The emissions were offset by carbon credits generated in a project of integrating farming and forest in Uruguay and sold by MyCarbon.

In MyCarbon, we started our interaction with Exchange CBL Chicago, and we bought credits from two other projects of Emsurge Market Place to be included in our portfolio. We also started contacts with tokenization service providers, and we have been closer now to carbon market actors in other countries where the company operates.

On Slide 6, we see our progress in the monitoring of the farms, who supplied directly to us in South American countries. Minerva Foods has pioneered fighting illegal deforestation in the supply chain. And in the first quarter, we expanded geographic monitoring to our operations in Colombia and Argentina. In Colombia, we now monitor more than 30% of our supplying farms and 90% in Argentina.

At the institutional level, we were awarded an important recognition. We were assessed by ranking Forest 500 as one of the protein sectors that has the lowest risks of being linked to deforestation of potential exposure to supply chains exposed to forestry risks. Minerva Food is now one of the five best companies in Brazil in terms of sustainability policies according to the ranking.

It was the second consecutive year, we were the first company of the sector to publish in April an updated sustainability report. The 11th edition brings news, such as the revision of the materiality matrix, the implementation of recommendations by the Task Force on Climate-Related Financial Disclosures, and indicators based on GRI and Sustainability Accounting Standards Board. Check out the results of our ESG agenda as detailed in our 11th sustainability report 2021, which is available from our website. We reinforce our commitment towards the sustainable future of food in the planet with material results, such as these that we have presented today.

I now turn the floor over to Edison, who's going to give you some more color about our operational and financial results.

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

Thank you, Tamara. Let's move to Slide 7. In terms of operational performance and breakdown of gross revenue. In line with our exporting profile, revenues from exports totaled 70% of the gross revenue in Q1, and 68% LTM. In order to give you more transparency about our figures, we now have a breakdown of revenue by origin. Brazil is a highlighted quarter and in the last 12 months is 52% and 44% of gross revenue respectfully followed by Paraguay, Uruguay, and Argentina.

Other here makes reference to the old trading division and the operation in Australia. One of the main competitive advantages of the company's its geographic diversification which gives us the opportunity, not only to redirect production according to international demand but also to arbitrage the markets looking to optimize our operations.

On Slide 8, we have our net revenue and EBITDA. The net revenue was record and was BRL7.2 billion in Q1, 25% growth year-on-year, which reflects the strong international demand, especially with the recent resumption of exports to China, which had a positive impact on prices and volumes. Net revenue was record and was BRL28 billion in the last 12 months, a 35% increase, and this was a record for the company in 12 months.

In terms of EBITDA, it was BRL646 million in Q1, a strong growth of 33% year-on-year, and the highest level ever for first quarter. The EBITDA margin was 8.9%, a slight increase year-on-year. In the last 12 months, EBITDA was record and totaled BRL2.6 billion with a margin of 9.1%. In terms of a longer horizon, our EBITDA has nearly doubled in five years, which reflects the positive scenario in internationally for beef, but also the operational and financial excellence of the company.

Our profitability is in the ability to pass prices on, especially when there is a cost pressure despite the movements of high prices in the cost of capital, which accounts for 80% to 85% in our total cost. We have been able to pass on this cost to clients, especially in the export markets. We have been able to deliver a level of profitability, which is consistent in the last few quarters, despite the higher prices of animals in Brazil.

This is also part of our strategy in terms of risk management. This is one of our values. It is in the DNA of the company, and in a volatile market, it makes a lot of difference in terms of ensuring consistent results. This scenario is now beginning to change. And you can see the first signs of the reversal of the book -- of the Bovine cycle in Brazil. There will be more availability of animals for slaughter in the last few months and years. The scenario is very positive, and this will have a positive impact on the company's performance.

On Slide 9, we have our financial leverage, measured in terms of net debt over EBITDA, this level was 2.5 times in line with our commitment with financial discipline and maintenance of a healthy balance sheet. Despite our repurchases and cancellation of debt bonds, our leverage is balanced and has been so since the beginning of 2020. This contributes to a sound capital structure with a lower risk profile and less costly one.

On the next slide, we're going to see our net income and operating cash flow. We closed Q1 with a net income of BRL150 million, and in the last 12 months BRL454 million. On the right-hand side of the slide, you see the operational cash flow which was positive in Q1 and was BRL840 million. In the last 12 months, the cash flow from operations totaled BRL649 million, despite the acceleration of operations.

On Slide 11, you see our free cash flow, which was negative by BRL173 million with the impact of the FX hedge and the greater need for working capital in the quarter. If we exclude the results of the hedge and we see at recurring free cash flow it was negative by BRL47 million.

If we work on the build-up of free cash flow in the quarter with have an EBITDA of BRL646 million, CapEx BRL173 million basically for maintenance and enlargement of some of our plans especially in Colombia. Then we have the working capital account, which consumed to BRL181 million in a quarter, which was impacted by the suppliers because as we open the Chinese market there was an increase in the volume of slaughter and exports in the beginning of the year. After the resumption of the operations for the Chinese market, it's just natural that working capital increases, but then is stabilized in the next few months, and knows negative surprises there throughout the year on the contrary. Some internal metrics tell us that we can improve the working capital accounts and we should achieve this improvement throughout the year.

In terms of cash flow, the financial result on a cash basis was BRL239 million negative and a recurring free cash flow of BRL47 million negative. Free cash flow in the last 12 months totaled BRL532 million from an EBITDA of BRL2.6 billion, a CapEx of BRL668 million, then negative working capital of BRL142 million, and the cash base financial result was negative by BRL1 billion. If we sum up everything, we have a free cash flow of approximately BRL532 million positive in the last 12 months.

This result excludes the nearly BRL600 million in payout that we distributed to shareholders throughout the last 12 months, that is in the last year and in the form of dividends and JCP. The company paid out to the shareholders approximately 100% of its -- of the free cash generated in the period. We have also repurchased shares and bonds -- and that bonds. So we have distributed practically a 100% to the shareholder and the capital structure is still very healthy.

On Slide 12, we will see the bridge of net debt. Net debt was BRL6.1 billion in Q4 2021, then in Q1, we had a negative cash flow of BRL173 million, excluding the hedge -- or including the hedge. And then we have a non-cash impact of BRL547 million coming from the foreign exchange hedge and this increased our debt. Then, we have the effect of the positive appreciation of the real which was BRL325 million relating to the FX variation of the parcel of our foreign currency-denominated debt. And the net debt is BRL6.5 billion. And the net leverage is 2.5 times.

We continue to pursue a hedge policy to protect our balance sheet. Our policy says that we have to protect 40% of our passive exposure in the long-term and this can be seen in the explanatory notes to the financial statements. Our balance sheet is very much protected, which makes us feel more comfortable to focus on the operational and financial execution in the company to look for value for the shareholders.

I'm now going to talk about the capital structure and some liability management initiatives. On Slide 13, you see that the net leverage was 2.5 times in the quarter, and our final position in Q1, 2022 was BRL5.3 billion in cash. There was a reduction in terms of gross debt, and in the gross leverage of the company. And this is something that I took on to as a commitment. Before the Board and before the analysts, we want to reduce our cash position, so that we can have a positive impact in terms of financial expenses. In terms of debt, 67% of our debt is exposed to foreign currency, and we have a hedging policy which we follow very strictly. Our company has now 40% of its exposure protected in the long term. And this has been very efficient given the recent -- give you the recent volatility of the real. Our duration is 5.4 years and 90% of the debt matures in the long term, especially in the beginning of 2023, as you can see in the amortization schedule.

On the right-hand side of the slide, I'm going to talk about the liability management initiatives. We are very active in the secondary bond market. We are repurchasing bonds 2028 and 2031 whenever there is a good opportunity. We have repurchased and canceled about $132 million where $89 million referred to the bond 2028 and $42 million to the bond 2031 face value. If we look back two years, we have more than $420 million in bonds repurchased and canceled.

And as I said, the result of all these efforts allows us to reduce our gross leverage and debt cost. We were also able to lengthen our debt profile. The most relevant amounts are doing 2028 and 2031. As Fernando said in the beginning, all of our initiatives attest to our relentless pursuit of a less costly and healthier capital structure with a lower risk profile, which reflects our commitment towards financial discipline and generational value in the long term for Minerva Foods.

I now turn the floor over to the operator to start the Q&A session. Thank you.

Questions And Answers

Operator

(Question And Answer)

Ladies and gentlemen, we will now begin the Q&A session for analysts and investors. (Operator Instructions) Our first question comes from Mr.Victor Tanaka [ph] (Foreign Language). You may proceed sir.

Q - Analyst

Good morning. Congratulations for the results. Our first question has to do with the outlook for Q2. The cattle is now at BRL340 per arroba, and it's trending down. Yesterday, we saw a downward trend in Brazil. At the same time, the demand and price in China are accelerating. So I would like to have your take on the second quarter. The margins expected to improve, and then in terms of 2023 given what is happening in the United States with the females being slaughtered? What's going to be the outlook in South America? Would it be possible to think of your having margins in the low-teens? You made a change in the release, and this was a very good initiatives to try to improve the disclosure and having more visibility. What we miss is the disclosure in terms of export and domestic market per country, per region. Could you give some more details about this in the next releases, please?

A - Unidentified Speaker

Hello, Victor. First, I'll take the question on the cycle in Brazil. In Brazil, in the last four years, the breeding females were retained, and the calves now reaching the market as ready for slaughter. There's going to be a cycle of greater supply in the next three years, this is a positive cycle. And in Q1, we felt that our operations have accelerated here in Brazil. We don't give any guidance in terms of margins.

One more competitive arroba, and the appreciation of the FX of the currency and a demand that is bottled up in China because of the lockdowns. So they have more demand now, more orders are being placed, and the buyers believe that in 30 more days they will be back to kind of normal. So the pipeline is going to be recomposed. Additionally, speaking of the United States in the first quarter, there was a record Slaughter of females, and these of course, hurts the production of calves. The United States has a faster cycle than Brazil. So in the next year, you should see a reduction in the supply of the United States. We don't know what's going to happen to the margins, but we do believe that South America as a whole should have a greater share of the international market. And as regards the release, we are trying to have a more transparent release. We listened to what the analysts asked. We are giving a breakdown by country. But as regards, Brazil and the rest of the world, it is something that we can include in the release. We are discussing this internally, and just to give you some more color, Brazil accounted for 65% of the exports, and then you have Brazil in terms of sales. So you can calculate how much the other countries combined exported, that would be around 75. This is information that we can include in the releases in the next few quarters, and thank you very much for your feedback, we try to improve all the time. This was really interesting to hear Victor. Increasingly more, the markets are destinations regardless of the origin of the production. For example, Paraguay exports a lot to Brazil. So we sell Paraguayan products in Brazil, and the arbitrage that we carry out show us what is the destination market that is the best one at that very moment, and the origin market using the disclosure in the presentation.

Q - Analyst

That was very clear. Thank you very much.

Operator

The next question comes from Rodrigo Almeida sell-side analysts for Santander.

Q - Rodrigo Almeida {BIO 20698362 <GO>}

Good morning Fernando, Edison, all the team, there are some points that I would like to explore. In terms of cash generation, I would like to look ahead, you talked about the stabilization of working capital, but what are the drivers for this stabilization of working capital going forward? Can you talk a little bit about CapEx? You talked about the operations in Colombia and increasing CapEx in Colombia. So, what is the number we are looking at, you're talking about expansion, when is this expansion going to be completed? And then in terms of cash generation going forward, when are we going to see a more significant effect of liability management initiatives? And can you give me an idea of the magnitude of that? And just in terms of the change in the report, we try to look at Minerva as a more integrated platform because of the arbitrage, you were able to carry out in terms of origin and destination. I just want to make sure there is no change in the way you manage the business. It is an integrated business, right? I just want to have that very clear?

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

I'm going to take the questions. First of all, that is exactly the message. The management is integrated and this is how we extract value from the platform because of our ability to arbitrage, because of our geographic diversification. In terms of cash generation, working capital for example. The fact that China is accelerating, made us spend more working capital. According to our budget metrics, we see a space for improvement in inventory receivables and suppliers. What can be the magnitude of this improvement?

Working capital won't require an investment in excess of BRL100 million, so there should be BRL200 million in cash generation that would be put back in the operation. In terms of the financial accounts and liability management, we have taken out BRL2.2 billion in terms of gross debt, which had a negative carry of approximately 4% per year. So, this should decrease the financial expense by BRL88 million, BRL90 million, maybe BRL100 million on a nearly basis. So, this is the magnitude of the saving.

And in terms of expansion CapEx, our commitment is towards maintaining a healthy capital structure. We have been very responsible in terms of growth, in terms of payout to dividends to shareholders, and in terms to maintaining leverage close to 2.5x, and a healthy balance sheet. This is all going to be maintained.

So, whatever investment we make into extension, won't be transformational, won't hurt our yearly cash generation and our ability to distribute dividends to our shareholders. We are talking about $20 million, $30 million in Colombia. We did that two, three years ago when we doubled the operation -- the size of the operations in Colombia. So I just want to reassert our commitment towards responsible allocation of capital with a focus on the shareholder and to maintain our capital structure in terms of being light. We are very transparent, very clear. There was a lot of noise so to speak regarding other companies in the industry, but I reassert our responsibility and our predictability in terms of what we're going to do in the company.

Q - Rodrigo Almeida {BIO 20698362 <GO>}

Thank you, Edison. That was very clear. Thank you.

Operator

Our next question comes from Mr.Thiago Duarte from sell-side BTG Pactual.

Q - Thiago Duarte {BIO 16541921 <GO>}

Thank you very much. Good morning, Fernando. Good morning, Edison. I would like to touch upon two main points. First, I think the discussion about the importance of the Chinese market. It is a very strong market you have been betting on this, something I would like to hear from you is, as China has now be composed its swine. Its herd of swine after the outbreak of African swine fever. Can this impact the demand? We discussed that at the end of 2018 at Minerva day when we talked about the African swine fever, and the direction was very favorable for Minerva. But now do you see any impact? And are you feeling this impact in Q1, China has started to buy again. Do you see a maintenance of this healthy level of demand from China? This is the first question?

The second question maybe for Edison, is the following. Edison, help us understand that [ph] bridge, the non-cash impact of the FX hedge is very clear, but the impact of the variation of your dollar denominated that is difficult for me to understand. I only had the picture of 31st of December and 31st of March. I was expecting a greater impact of the appreciation of the real against the dollar throughout the quarter. So this is the second question.

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

I'll take the second question and then I'll pass the floor to Fernando. There are two factors, we have a cash position in dollars, which is extremely high. So, when the real appreciates, that cash position decreases. And then -- so cash is one of the assets. But the other asset that is ex-balance sheet the assets that we bought outside Brazil. When we translate the currency to the balance sheet, and the real appreciates these companies are worthless, so that's a negative impact. And in terms of positive impact we had debt, part of this -- that is held by our controlled companies. Our bonds are in Luxembourg, and the variation of currency you see on the cash flow, but not in the income, because it goes straight to the net worth. If you look at the changes in net worth, you will find the FX variation for those companies that have debt and that are controlled by Minerva. So, if you look at these three demonstrations and you take into account cash and the assets we maintaining dollars, then you will reconcile the debt. If you take the last presentations and you put them side-by-side, you will see the bridge of the debt for one year, for two years whatever the period might be that you want to look at. The currency variation is more complicated because it goes straight to the net worth, and it has to do with our assets in dollars abroad. And with the cash that we carry because that's not 100% on the Minerva, but under controlled companies.

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

As regards China, there was -- there is no strong correlation anymore between swine and beef. So, there is a huge gap there, a widening gap. And beef is now aspirational for Chinese and consumption continues to grow. And despite that, we noticed in the last few weeks reduction in the swineherd in China. So demand has been affected by lockdowns. We expect that by the middle of June or in 30 more days, the market should be normalized in China. The inventories are extremely low, and there is less product being shipped than normal. So we believe that the situation for China is bullish for us in the next few months.

Q - Rodrigo Almeida {BIO 20698362 <GO>}

That is very clear. Thank you both. I can't reconcile that, but I'll follow up on the discussion with Edison. Thank you.

Operator

(Operator Instructions) The next question comes from Mrs.Isabella Simonato from Bank of America.

Q - Isabella Simonato {BIO 16693071 <GO>}

Good morning to all. Can you all hear me ?

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

Yes, please go ahead.

Q - Isabella Simonato {BIO 16693071 <GO>}

Good morning, Fernando, Edison, thanks for the call. My question has to do with Brazil. You have a breakdown per country with a variation of volumes. There is a great variation of volumes between them, and there is an impact of Russia looking to Colombia. We think that might be possibilities to offset that. But how do you see the scenario of ex-Brazil going forward, in terms of performance, especially, in the export side.

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

We see Minerva as a whole. One of our pillars was innovation, and we wanted to have more tools to arbitrage. We now sell products with an option to ship the products from different origins. We are breaking -- we are giving you the breakdown in the release. So you can understand how easy task it is for us to change in terms of origin and destination of markets. So every week, we reallocate all of these possibilities within a metrics and we have options then. What I can say is that, we are accelerating some of the origins ex-Brazil, but again you see the currency changes, the currencies changes, the availability changes, but what we are doing is much more accurate and more speedy in terms of the production basis, the origins and the destination markets.

Q - Isabella Simonato {BIO 16693071 <GO>}

Yes. That was clear. Thank you very much.

Operator

I would now like to turn the floor over to Mr.Ticle, who is going to read out the questions from the Q&A.

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

We have some questions from the Q&A chat. The first one comes from Lucas from Macro Capital [ph].

Q - Analyst

What are your costs like, and what is the pressure in terms of costs?

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

We are living in an inflationary environment, freight for example, is a source of pressure, but most of the pressure is behind us as far as we are concerned. The outlook is positive. We see an important change in the capital cycle in Brazil and capital accounts for 80% of our costs.

So, for the next three years, the outlook in terms of the cost of capital is extremely favorable. There should be more availability of heard for slaughter.

Q - Analyst

The other question is for Fernando to answer, and it is the following. What is the expected impact of China's lockdown on the business. And the consumption was bottled up, the capacity for distribution internal in China was also disrupted, the clearance in the port was also disrupted. So everything has slowed down, but the inventories in China are extremely low -- lower than normal. So, with the resumption of activities, once the lockdown is over, we expect a strong demand in China, and a strong consumption in China. And also, is that going to be a price reduction of beef in China, you have given a response already, no, because the inventories are extremely low. Then another question, is there any chance that the government employees in Brazil may force companies to cap the price of beef in all the markets?

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

No. From our point of view this is not a risk that we envisage, that should be considered. In the case of Brazil, and we export to 25% or 30% of the total produced. So this is not relevant in terms of internal prices. And then spreads and margins in the beginning of Q2, so given the scenario we discussed in the presentation, we see a better second quarter, which should be better than the first quarter. Spreads are better. Margins also are looking better than the margins in Q1. But again, Q2 hasn't finished yet. This is what we see now, and this shouldn't be seen as guidance. It is a fact though that the business indicators in Q2 are looking better than in Q1. These were the questions.

Operator

The Q&A session is now ended. I would like to turn the floor over to Mr.Queiroz, for his final remarks.

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

To wrap up, I would like to highlight our 30th anniversary. This is an important landmark in our history. We have always pursued our journey with determination and constant growth. This has positioned Minerva as a global company, a leader in South America, a benchmark in terms of sustainability and innovation.

Additionally, I would like to thank our 21,000 associates very much. We have only been able to achieve what we achieved, because of the commitment of each one of them. We started 2022 with very positive expectations for the cycle in South America. We are looking at the challenges and opportunities. Volatility may create value for us, and Minerva has always been very careful in managing risk has always being fast and agile. We are a company that focuses on generating value for the shareholders in a sustainable way in the long-term. Thank you all very much for taking an interest in Minerva Foods. We are always available to clarify any questions or any doubts you might have. Thank you very much.

Operator

Minerva's video conference has now ended. Thank you all very much for participating and have a nice day.