Q3 2021 Earnings Call

Company Participants

- Edison Ticle, Chief Financial Officer and Investor Relations Officer
- Fernando Galletti De Queiroz, Chief Executive Officer
- Unidentified Speaker

Other Participants

- Guilherme Palhares, Analyst
- Ricardo Alves, Analyst
- Rodrigo Almeida, Analyst
- Thiago Duarte, Analyst
- Unidentified Participant

Presentation

Operator

Good morning. Welcome to Minerva's Third Quarter 2021 Results Conference Call. Today with us, we have Mr. Fernando Galletti de Queiroz, Chief Executive Officer and Mr. Edison Ticle, CFO and Investor Relations Officer. We wish to inform you that this presentation is being recorded and all participants will be in listen-only mode during the company's presentation. (Operator Instructions) The audio and the slide show of this presentation are available through a live webcast at www.minervafoods.com/ir. You can find the presentation for download on the webcast platform IR section.

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. Investors should understand that general economic conditions, industry conditions, and other operating factors can also affect the future results of Minerva and could cause results to differ materially from those expressed in such forward-looking statements.

We would now like to turn the conference call to Mr. Fernando Queiroz, CEO, who will begin the presentation. Please, Mr. Queroz, you may start the presentation.

Fernando Galletti De Queiroz {BIO 15387377 <GO>}

Good morning, everyone, and thank you for participating in Minerva's Earnings Conference call for the Third quarter of 2021. Minerva Foods reaches the end of the first nine months of 2021 reporting on outstanding operating and financial performance, with revenue and EBITDA at record levels, consistent net income and cash generation in addition to maintaining a balanced capital structure.

Even in the face of a challenging scenario, the company's performance in this quarter reflects the good fundamentals of the global beef market, resulting in an accumulated growth of 42% in our gross revenue and 10% in our EBITDA when compared to the previous year. Our geographic diversification plays an essential role in our performance, because it allows us to arbitrate markets with greater agility, accelerating our operations when necessary. And thus, reducing risks, volatility, maximizing our operating efficiency and financial profitability. In this context, the operations of Minerva ex-Brazil continues to be highlighted this year with its gross revenues reaching BRL10.8 billion in the nine months of 2021, an expressive growth of 69% when compared to the previous year.

Our operational footprint distributed throughout South America is one of the main pillars of our business model, playing a key role in maintaining our profitability and also acting as an important risk mitigation agent, in line with the maintenance of this strategy and as previously informed to the market, in the third quarter 2021, we evolved with our first initiative in the Oceania market in partnership with SALIC, announcing the acquisition of two lamb slaughter plants in Australia. This initiative is in line with Minerva's proved strategic direction and uniquely complements our operations in South America, maximizing commercial opportunities and operational synergies, reducing risks and contributing to our strategy of consolidation in the animal protein export market, always respecting our commitment to financial discipline and a solid and balanced balance sheet.

The COVID-19 pandemic is not over yet and it continues posing challenges to the world population. However, the global beef market remains in high demand with emphasis on Asia, which remains firm as a major demand driver and largest global beef importer. In a scenario, that should become even more stressed in the coming months due to recovery of the global economy, which opens up more opportunities for exporters in South America. Prospect for the end of the year and beginning of 2022 are increasingly positive with the global scenario returning to normality and the advance of vaccination, stimulating reopening of economies and supporting the resumption of important segments such as tourism and food service. We see a scenario of consumption acceleration, not only in the foreign market, but also in the domestic markets in South America, reflecting in an extremely positive situation for products and especially for beef exporters in our continent.

In the third quarter '21, we made progress in innovation area where we launched My Beef em Casa, our online sales platform within iFood where we started to make our products available to users of the app. In this first moment, My Beef em Casa will continue serving consumers here in the City of Sao Paulo and yet another movement that brings Minerva Foods closer to the final consumer of beef.

We also announced another corporate venture capital initiative with the investment in Traive, a startup in the agricultural sector that with the support of artificial intelligence, advanced data analysis seeks to offer a set of financial solutions such as credit, insurance, and other services for small and medium size rural producers reducing bureaucracy and contributing to more transparency and less risk in the agro market. Currently, with operations in United States and Brazil, Traive's product portfolio encompasses solutions for the supply chains of the main agricultural commodities such as soybeans, corn, cotton, sugarcane, coffee, and wheat. And supported by Minerva's track record and expertise of Minerva Foods, we are also going to advance in the new opportunities in livestock and the beef chain.

Now let's move on to Slide 2 to start the presentation of Minerva Foods Q3 '21 results. We start it with net income, which remains positive for the eighth consecutive quarter, reached approximately BRL73 million in Q3 2021. Year-to-date, net income is positive by BRL449 million. Considering the last 12 months, Minerva's net income totals approximately BRL563 million. Free cash flow, which is one of our priorities has been positive for the 15th consecutive quarter, totally BRL83 million in the quarter and BRL849 million in the 12 month period. 2021, our free cash generation totaled BRL817 million.

Since 2018, the company has accumulated more than BRL4 billion in free cash generation, confirming the consistency of our operational and financial management, which reflects our robust cash generation, which we continue to report quarter-after-quarter. Growth revenue reached a record level of BRL7.8 billion in the quarter and BRL26.6 billion in the last 12 months, a strong growth on annual basis of 43% and 36%, respectively.

I would like to highlight the performance of our exports, which accounted for approximately 70% of our gross revenue, both in the quarter and the past 12 months, as a natural result of the strong international demand for beef and these reflect of our export DNA at Minerva Foods.

Now, talking a bit about our operating profitability in Q3 '21, our EBITDA also reached a record level, reaching BRL648 million, an increase of 17% year-on-year with an EBITDA margin of 8.8%. In the past 12 months, Minerva Foods' EBITDA has also been a record, totally approximately BRL2.3 billion and delivering a solid EBITDA margin of 9.1% in the period.

As in previous periods, another highlight of this quarter and one of the main pillars of our management continues to be the solidity of our balance sheet. We ended Q3 '21 with net leverage stable at 2.4 times net debt over EBITDA and in line with Minerva Foods' capital discipline. Our liquidity also remains very comfortable with BRL8 billion in cash at the end of the period, which combined with the duration of 5.6 years of our debt and guarantees is great tranquility and flexibility in the face of future challenges and opportunities.

Still talking about our balance sheet, I want to stress that we continue to improve our capital structure. In this context, I want to mention some initiatives such as the reopening of bond 2031 at the beginning of the quarter. Now more recently in October, we also had the 11th issue of debentures of the company in addition to the redemption and cancellation of approximately BRL384 million related to portion of 2028 bond as we announced this week. Through our presentation results, Edison will provide a little more detail about all these initiatives.

Now let's talk about the other highlights of the quarter. As approved by our Board of Directors and as a result of the good operational and financial performance of Minerva Foods, we announced the payment of prepaid dividends in the amount of BRL200 million or approximately $0.35 per share, representing approximately 45% of the year-to-date profit. When we add the current distribution with the proceeds paid previously throughout '21, we reached BRL304 million or BRL1.12 per share in earnings distributed to our shareholders in the current year. This represents an expressive dividend yield of approximately 12% based on the closing of October. The recent distributions of earnings reflect Minerva Foods' commitment to generating value for its shareholders, while respecting our capital structure as it is worth noting that the company's financial leverage remains stable, around 2.5 times even after the payment of the aforementioned interim dividends. Another interesting highlight which took place in the exercise window beginning of October was the cash reinforcement of BRL252 million referring to warrants subscribed by or undertaken by the controlling group, further improving Minerva Foods' liquidity position. It is worth remembering that we still have BRL60 million in subscription warrants that are available in the market that should enter the company's cash by end of 2021.

Finally, I must talk about the evolution of our sustainability agenda and I would like to highlight two main initiatives. The first was the launch of the app PROSPEC, which allows rural producers throughout Brazil to carry out geospatial surveys and access historical and social environment analysis of supplier farms. This way we are transferring the highest technology used in our analysis and monitoring systems to the producers' palm or hand, contributing to the reduction of deforestation risk and livestock chain.

The second highlight goes to the result audited by the Federal Public Ministry in the state of Para where Minerva Foods reached the 100% social environmental compliance, being the only company among the major players in the sector to present such excellent performance. It is noteworthy that the Federal Public Ministry audit is the main public tool for transparency on practices to combat illegal deforestation in the Amazon. In addition for being very proud, the excellent results achieved by Minerva Foods confirm the pioneering spirit and seriousness of our work when the topic is sustainability. During the presentation, Tatiana [ph] will bring further details about this and other important advances by Minerva in relation to the ESG agenda.

Now let's move to the next slide to comment on Minerva's operating performance in the quarter, starting with our exports. Q3 '21 consolidated our leadership position as the largest beef exporter in South America, with approximately 20% market share in the continent. Minerva's leading role in beef exports is the result of our geographic diversification in the region, which is supported by our 16 international offices and providing us with a great competitive advantage and prominent position in the international market.

It is worth mentioning that the geographic consolidation of Minerva Foods in South America protects our profitability from the long-lasting and consistent upward movement in international grain prices. This is due to the model of cattle raising predominant in our continent. And thus, the upward movement of grains in the international market ends up having a reduced impact on our operations.

On the right side of the slide, we have the performance of exports by region. Asia is still highlight, representing around 63% of the export revenue in the past 12 months in Brazil, an expansion of 7 percent points compared to the same period of the previous year. It is worth highlighting here 10% share that we placed in the NAFTA region as the -- the main destination USA, which reflects the strength of this market and reopening to Brazilian beef.

In the case of the operation of Athena Foods further down on the slide, the Asian market has been the main destination for our exports, 37% of the total exported by the division in the past 12 months, followed by the Americas region, which accounted for 29% of the total exported.

I want to take the opportunity to highlight the assertiveness of our geographic diversification strategy and the benefits of our operational footprint in the main beef producing and exporting countries here in South America. You all know that the end of Q3 '21 was impacted by China's restriction to Brazilian beef and this ended up reflecting on our operational and financial performance. However, as a result of our geographic diversification, we redirected Chinese demand to four of our plants in Argentina and Uruguay, which include a daily slaughter capacity of around 6,000 heads a day, approximately 60% of Minerva's consolidated exposure. This way we continued to serve customers in China through operations outside Brazil, which has allowed us to reduce risks and mitigate impacts inherent to this type of jurisdiction. Worth mentioning that we're still waiting the resumption of exports to China from Brazil and we expect this situation to normalize soon.

Returning to the quarter's results, the performance of export makes increasingly evident the growing international demand for beef and the unique competitiveness of South America, especially from Asia, where we noticed that the consumption of beef protein has increased consistently and as a reflection of changes in the population's eating habit, which increasingly considers beef as an essential item in their daily diet.

Another highlight in our current portfolio is the growing exposure to the North American market, especially here in Brazil, a market with high income capacity and which due to the advanced stage of vaccination has already been showing consistent signs -- the resumption of economic activity and consumption level.

Finally, I emphasize once again that the fundamentals and prospects of the global beef market remain very solid in the short and long term. We have a combination of factors that are very positive for the coming periods, which will benefit beef producers in our continent. Demand for beef protein remains quite consistent in emerging markets, especially in Asia. In addition, we have the advanced vaccination and recovery of the global economy which gained strength week after week with the reopening of markets and it prints a strong recovery movement in consumption, especially in tourism and food service segments that were strongly impacted since the beginning of the pandemic that we already have signs of strong recovery in most developed countries.

Finally a word about the rise of grains and the persistent restriction in the supply of beef from Australia, which continues unbalancing the world market and particularly benefiting exporters -- promising horizon, Minerva Foods' strategy is to continue to maximize our competitive advantages, investing in innovation, niche opportunities, risk management, market intelligence to achieve increasingly efficient and profitable commercial and logistical solutions, always trusting corporate culture, the work of our team and respecting our commitment to ethics and sustainability.

Now I hand over to Tatiana who will talk a bit more about the sustainability agenda of Minerva Foods.

Unidentified Speaker

Good morning, everyone, and thank you, Fernando. When it comes to sustainability, combating illegal deforestation, and climate change, Minerva Foods stands out with results. Our backing is not advertisements and long-term goals, our balance is measurable result publicly disclosed and supported by the main public audit processed in Brazil. The audit of the commitment in beef in Para. The audit supervised by the Federal Public Ministry or General Attorney's [ph] Ministry is the only official third party verification audit in Brazil where all the data for analysis is provided by the government. All the results are publicly disclosed and can be verified on the website of the General Attorney's Ministry of -- as well in the presentation link.

And for the third consecutive year of the audit, Minerva Foods stands out for its results with 100% compliance to verify illegal deforestation, land grabbing, slave labor, invasions of environmental conservation units, indigenous and quilombola lands; environmental and land tenure regularization. This is a real commitment to combat illegal deforestation in the Amazon, result of the commitment of the Minerva Foods team and rural producers' commitment that extends to all states we operate and also outside Brazil. In Paraguay, we geographically monitor 98% of all purchases and we maintain our commitment to reach 100% of the purchases monitored by the end of the year.

On Slide 5, we present SMGeo Prospec in partnership with Niceplanet Geotechnology we launched on October 21st, the most innovative agribusiness application. It is the transfer of technology from those who have the best results in geographic monitoring of the chain to the hands of producers. The application allows you to carry out detailed geospatial service throughout the national territory with a simple use of QR code of the rural environmental registry, the CAR. Producers can now verify the social environmental compliance of their business partners with simplicity and agility with no complications. The app is available on the App Store and Google Play. It's worth checking the launch of the application on Minerva Foods YouTube channel with the details of how the tool works.

On Slide 16, we'll talk about Minerva Foods' low carbon emissions program in the production chain. The world demand changes and the rule is to keep renewing. There are (inaudible) accompanying these changes go beyond. It is to engage and collaborate with the production chain in the implementation of low carbon production prices. It is measuring and monitoring the carbon balance of farms. It is to facilitate the access to payment for ecosystem services and the carbon market. It is recognizing the advances of modern tropical livestock, which protects environment and develops people and geographies. All this in collaboration with research institutions, agents of organized civil society companies and producers using internationally recognized methodologies. We are proud of the path Minerva Foods is taking, a sustainable meat production. We will be at COP telling more about Renove. Follow Minerva Foods on social media and learn more.

I will now hand over to Edison who will detail the operating and financial results.

Edison Ticle {BIO 15435343 <GO>}

Thank you, Tatiana. Let's move on to Slide 7, let's talk about operating performance and the breakdown of division's shares. And Minerva's gross revenue in this Q3 has been the case throughout the year. So Athena Foods continues to -- once again expanded share and the revenue accounting 56% of consolidated gross revenue for the quarter, while Brazil division reached 38% and the trading 6%, complementing our total revenue.

Now, talking about capacity utilization Q3 '21, we operated on a consolidated basis with the capacity of approximately 77%, still reflecting the operational limitation imposed by the pandemic. At Athena Foods, the level of utilization grew almost 5 percent points compared to the previous quarter. This is the result of our geographic diversification, which at the end of the quarter allowed us to redirect part of production to -- that would have been destined for China from plants of Uruguay and Argentina since exports via Brazil were restricted in September and thus we accelerated operations at Athena Foods and kept supplying our main destination markets.

As Fernando commented, this move confirms one of Minerva's main competitive advantages, geographic diversification, which gives us a unique opportunity to arbitrate markets, always in search of operational and commercial optimization of the production chain. In the Brazilian division, we had a slight drop, 70.4%, mainly impacted by the lower volume for the Chinese market at the end of the quarter. As we mentioned previously, consolidated utilization remains below our historical level of 80% and should be resumed over the next few periods with the events of vaccination process, recovery of the global economy and the end of the pandemic. It's worth mentioning that in our analysis we considered a concept of net utilization, reflecting working days on operation of each of the plants operating in our portfolio.

On the right hand side of the slide, we highlight our consolidated exports by region for Q3 '21 and last 12 months. As Fernando mentioned, Asia continues to be the major client with a major role, representing 46% of exports in the quarter. In the past 12 months, the share of the Asian continent remained at 47% of Minerva Foods' export, that is -- continue to be our main export destination.

Moving on to Slide 8, let's talk a bit about financial results, starting with net revenue, which reached the record level of BRL7.4 billion Q3 '21, strong expansion of more than 43% compared year-over-year. When we look at it from the past 12 months, we have a robust year-on-year growth of nearly 36% totaling more than BRL25 billion of net revenue in the past 12 months in the composition of this revenue as I mentioned previously. So it's worth highlighting the good moment for exports, which reached their share of approximately 70% of total revenue, both in the quarter and the past 12 months.

Speaking of profitability, Minerva's EBITDA reached a record level this quarter, reaching BRL648 million, an increase of 17% year-on-year. In the past 12 months our EBITDA totaled approximately EUR2.3 billion, an increase of approximately 8% on an annual basis. And once again, record level for the past 12 months. It is very clear on this slide the operational dynamics of our company, which is basically spread business. It's a business spread. That is, our profitability is based on the ability to pass on transfer price, especially when we have scenario of cost pressure. Despite recent increase in cattle price correspond to 80%, 85% of our total cost, company has been very efficient in transferring these increases to especially in the export market which is main focus of Minerva. As a result, we have been able to deliver consistent level of profitability of the past quarters despite the upward movement in animal prices, especially July, August and September. I want to highlight again the benefit of our geographic diversification, especially when we talk about Athena Foods which despite the more complicated situation in Brazil in terms of cattle supply, Athena has a much smoother situation and continuous to contribute a lot to the growth of the company's revenue and also profitability, which I mentioned on the previous slide. This division represented 56% of consolidated revenue in the quarter.

In Q3 '21, Athena Foods was even more important with the restrictions imposed by China at the end of the quarter, blocking exports from Brazil. We continued to serve our customers through Athena Foods operations in both Uruguay and Argentina. This makes clear the fundamental role that our geographic diversification has had and continues to play an Minerva Foods business model.

Before moving on to the next slide, due to this temporary movement in China which partially impacted the numbers for the quarter, I want to talk a bit more about the month by month performance in the third quarter. As you know, the end of Q3 turned out to be atypical due to China's restriction to Brazilian beef and this ended up impacting the performance in the quarter as a whole. When we stratify the analysis month by month, we can see a very positive performance both in Brazil and in the Athena Foods operation.

If we take month by month, for example, July, the consolidated EBITDA margin was already running at a low two-digit level, impacted by the strong demand and reflecting the acceleration in beef prices in the international market. This scenario ended up being maintained in August with a slight negative variation in Brazil due to the off-season period which ended up pushing the price of the animal in August, but Athena Foods continued operating in a very resilient way. And thus operating profitability in August also ended up at a very attractive levels very close to the low-double digit level. And then we get to September and China ended up blocking Brazilian beef, which ended up impacting the end of the quarter.

I will be repetitive and comment again. But in the case in the Minerva Foods, we have the benefit of the operational footprint distributed by the main beef producing countries in South America and that due to this geographic diversification, we were able to mitigate the impact of the absence of China to Brazil and redirect large part of Chinese demand to Athena Foods. However, even with this initiative to mitigate risk, the Brazil operation ended up feeling some effects of some cargo off late had to be redirected to less profitable markets. And we also have impact on the cost of expenditures, such as the entire rescheduling and export logistics. In addition, the price of the animal has (inaudible) does not recede immediately, right at the beginning of the receipt. So part of the cattle we had already bought ended up being purchased at a much higher price and this meat produce was not for a market that was as profitable as the Chinese market. We had to redirect to other markets. And with that, the profitability was somewhat compromised. All of this affected the EBITDA margin in September specifically and impacted our profitability in the quarter.

So in September, Brazil had a major drop in the EBITDA margin of about 50 to 70 basis point, but at Athena Foods we managed to keep the margin levels above double digits. So when we look at the quarter as a whole, we managed to maintain a very healthy EBITDA margin and more importantly, EBITDA cash generation much higher than what we were planning at the beginning of the year.

Looking now the last quarter in October, we continue with the absence of China for exporters, but we already have an important recovery scenario. Margins returning to the high single digit level in August. This is talking about Brazil. Why this happens? Because the sales operational schedule is already better reflecting the restriction imposed by China. We had a major drop in the price of animals at the end of September and throughout October, which ended up being absorbed by the industry. And obviously ended up benefiting our profitability level in Brazil, with the profitability levels which was very low has returned to the levels of July and August.

In this context, it is obviously still early. We still have November, December to follow, but we have great expectations of delivering the last quarter of the year performance superior or higher to what was seen in the Q3 because it will reflect, first, positive impact of year-end seasonality. Two, strong price movement in the international market. And three, the price of cattle here in Brazil, which ended up dropping between 15%, 20%, 30% depending on the market during the month of October. And compared to the previous quarter, it is at a much more attractive level for the industry.

So, in the worst case scenario, we think that the fourth quarter even considering restrictions imposed by China will have profitability level at least the same level, but very likely, higher than the profitability we've seen in the third quarter. We're still awaiting for the resumption of our Chinese exports. We could believe that this will happen soon. But given the scenario I've explained above, even considering that China does not return, we remain very confident to have the fourth quarter, even better than the past quarter.

Let's move on to Slide 9 to talk about financial leverage. We show our leverage ratio measured by the net debt to EBITDA ratio for the last 12 months remained stable at 2.4 times. The company's net leverage indicator has remained stable since the beginning of

2020 even considering disbursement of BRL210 million in the share buyback program and another BRL541 million in distribution of dividends paid throughout this period. Minerva's current level of leverage reflects our commitment to seeking and maintaining a more efficient capital structure, less costly, with lower risk profile and fully aligned with our financial strategy. It is worth mentioning that discounting the amount of BRL200 million related to early dividends, which would be effectively be paid now by the end of November, the company's net leverage remains practically stable between 2.4 and 2.5 the ratio net debt over EBITDA.

Let's move on to the next slide to talk about net income and operating cash flows. Q3 '21 was another quarter of positive results. Net income reached approximately BRL72 million in the quarter and has already accumulated approximately BRL450 million in the nine months of '21. If we consider cumulative past 12 months, net income totaled BRL563 million. This result is a reflection of our commercial and financial strategy over the past months and quarters to focus free cash flow generation, risk management, especially reducing indebtedness, pillars that have been priority for the company that have contributed to or very relevant to the results that we have achieved quarter after quarter.

Moving now to the right hand side of the slide, we see operating cash flow positive 3Q reaching BRL412 million, even considering variation of working capital that consumed BRL204 million in cash this quarter, where the main impact came from the accounts receivable row. In the light of the last 12 months, cash flow from operating activities totaled BRL1.8 billion positive.

On slide 11, we talk about the greatest priority of the company, which is free cash flow. On Slide 11, we see in the bridge of third quarter Q that free cash flow remained positive for the 15th consecutive quarter, reaching BRL83 million after the result of the foreign exchange hedge. It has been almost four years in a row with positive cash generation, making the free cash flow EBITDA up in the quarter. We start with an EBITDA before non-recurring items BRL639 million, CapEx of approximately BRL179 million, mainly concentrated on investment in maintenance and expansion of our -- some of our plants and also reflecting the anticipation of some investments foreseen in the schedule for the next such as additional investment in the modernization and expansion of operational capacity in Colombia.

Then we have the working capital count which consumed BRL204 million. As I mentioned previously, impacted by the accounts receivable line and the cash base financial results, which was negative BRL212 million after non-recurring effects of approximately BRL9 million due to social expenses charge that we have with the (inaudible) we reached a positive recurring free cash flow of BRL53 million in Q3 which after positive cash result BRL30 million due to foreign exchange hedge policy, we reached the free cash flow in the quarter of BRL83 million.

Talking about the past 12 months, free cash flow totaled approximately BRL850 million. Start from EBITDA of BRL2.3 billion, CapEx in the past 12 months BRL400 million, which was impacted by the expansion and improvement of several plants in our operational chain and also by our corporate venture capital initiative. And in addition, the working capital variation negative by BRL148 million in past 12 months and cash-based financial result negative by approximately BRL898 million. We also have BRL32 million non-recurring items related to the pandemic and adding up, we reach a free cash flow of approximately BRL850 million positive in the past, reflecting an excellent operational and financial performance of the company in this period.

On Slide 12, we present the bridge of the net debt. At the end of the previous quarter, net debt totaled BRL5.3 billion. Now we recently had a cash inflow of BRL252 million, referring to the exercise of controlling group subscription bonus as a subsequent event which obviously adjust the net debt down. During the quarter, the cash flow before the result of the foreign exchange hedge was positive BRL53 million. We also had the impact of the hedging instrument that ended up reducing our debt by BRL30 million in the cash concept, another BRL170 million positive with accounting effect only. We also have cash effect negative impact of BRL759 million related to exchange variation on the portion of our debt that is paid to the foreign -- to dollar. So adding all these accounts and setting up the bridge, Minerva ends the quarter with a net debt of approximately flat, around BRL5.5 billion, even considering that the exchange rate moved from BRL5 to BRL5.49 at the end of the quarter.

I want to emphasize once again that our current hedge policy continues to require that we have at least 50% potential for long-term passive or liability exchange exposure. That -- this can be seen in our explanatory note to our financial statements as well as our balance sheet. Our foreign exchange exposure is half, so highly protective, making us more confident to continue focusing on the company's operating and financial execution, seeking path of generating value to our shareholders.

On our next slide, we'll talk about the capital structure and Minerva Foods recent liability management initiative. As I said before, our leverage ratio measured by the net debt over EBITDA ratio for the past 12 months ended up for the quarter at 2.4 times. Our cash position at the end of the quarter remained very comfortable around BRL8 billion, adjusted by inflow of subscription warrants from the controlling group, but also impacted by the repurchase and partial cancellation of the 2028 bonds as highlighted on this slide.

Speaking of indebtedness, about 71% of our debt is exposed to exchange variation. As I mentioned previously, this management is committed to protecting our balance sheet. So we have a hedge policy that determines the company must have at least 50% of its long-term forex band exposure hedged and this has proven to be very efficient, given this recent foreign exchange volatility in Brazil. Currently, our duration is around 5.6 years with almost 90% of our indebtedness in the long term and 65% of (inaudible) concentrated only from 2028 as you can see in the chart below.

On the right hand side of the slide, I also present a few more details, the liability management efforts that we've been implementing since mid 2020. More recently, we can highlight the buyback and cancellation of $70 million or approximately BRL385 billion of the 2028 bonds, contributing to the reduction of our gross debt and obviously, the cost of debt in July. We had the 2031 retap, raising an addition of BRL400 million in addition to anticipate -- in order to anticipate some more expensive debt rollover that would occur in the short term in our balance sheet.

The following October, we had the 11th issued debentures by the company in the amount of EUR400 million, maturing in five years, yielding CDI plus 1.6% per year and worth mentioning that the proceeds from this offer will be used to pay our sixth issue of debentures maturing on May 2020 and yielding CDI plus 1.80% per year. Therefore, we're going to have an extension of the debt profile and a reduction of the annual cost of our debt, which ends up translating into a lower level of financial expense. The result of all these initiatives, in addition to reduction cost of our debt and gross leverage also reflected the stretching of our debt profile with most relevant maturities being concentrated to 2028 and 2031. The liability management efforts reinforce our commitment to financial discipline, pursuit of capital structure, sounder more -- less costly, with lower risk profiles, especially well aligned with our shareholder value creation strategy.

Let's move on to the last slide of the presentation and talk about early distribution of dividends, which is obviously one of the ways to generate and deliver value to our shareholders. On Slide 14, as Fernando commented at the beginning of the presentation, generating value to our shareholders is one of the main priorities of this management. Thus, in line with the excellent operating and financial performance we have achieved in the recent quarter with the consistent execution in our -- of our average reduction process, we announced yesterday the distribution of interim dividend in the amount of BRL200 million, which gives a dividend of approximately $0.35 per share.

If we take the earnings already distributed over 2021, we have first JCP in January in the net amount of BRL19 million; two, complementary dividends in April in the order of BRL384 million; and now this distribution dividend of BRL200 million, we reach a total approximately BRL600 million or BRL1.12 per share in dividends we actually pay in 2021. We are talking about the significant dividend yield of over 12% considering the asset price at the end of October. This scenario has only been possible without the dedication and effort of the Minerva team in the recent years and our priority has always been very clear, focus on cash generation, reduced debt, and level of leverage, create conditions for Minerva Foods to manage and deliver value consistently and relevantly to its shareholder.

Finally, it's worth emphasizing that this scenario for distribution of complementary dividend does not compromise Minerva's strategy of maintaining a healthy and balanced level of leverage. You can see on the bottom right of the slide there, if we do the leverage account considering the cash outflow related to these BRL200 million dividends, the net debt over EBITDA ratio for the past 12 months is stable 2.5% as I mentioned earlier. In other words, with this distribution, we still have a comfortable balance sheet, a solid balanced capital structure and much less cost with lower risk profile, which ends up providing opportunities like this to generate and distribute even more value to our shareholders.

Let's move on to our Q&A session. Thank you very much.

Questions And Answers

Operator

Ladies and gentlemen, we will now start the Q&A session for analysts and investors. (Operator instructions) Our first question comes from Ricardo Alves from Morgan Stanley.

Q - Ricardo Alves {BIO 16840901 <GO>}

Good morning, Fernando, Edison. Thank you for the call. I think the result itself has positively surprised. We wanted to know about the strength considering your comments on the performance of October, really impressive. In this sense, considering that demand is so strong, our base case and the market is that there will be a normalization of China in 2022. When you think about next year, in addition to this volatility of the fourth quarter, in 2022, do you see a scenario that is doable of more margin, operating at low double-digit, a bit over 10% considering that the Brazil margin is running at pre-suspension levels? So considering that you have very sound levels in the sense speaking about margin of the year a bit ahead, if you had some specific of global prices, this will help you. Thank you.

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

Ricardo, I'm going -- well, first, I'd like to take the opportunity of your question to make a correction. I've described the performance of the company in the quarter month by month, something that I don't usually do, because I thought this quarter may change because the ban on China occurred in September. To recap, in July and August, we had Athena operating at two-digit and Minerva one high-digit when we have the ban in September, because the cattle price was high. We had to reprogram logistics in Minerva margins in Brazil for 500 and 700 basis points, not as I mentioned previously in the call. So for levels 9% and move to levels below 4% in August and September, actually

On the other hand, the margins of Athena continue very healthy, sound level of low two-digit and we closed the quarter at 8.8. It was quite important performance. When we move to October, the margins in Brazil recovered to levels of July and August and Athena keeps the same level. Therefore, October, we had a margin that was very similar to what July and August were, which were the best months in the third quarter. Even in a scenario in which we do not have China and the fourth quarter, we should have our performance in the worst case scenario like the first quarter, but much like -- more likely the -- better than the third quarter if the conditions given now or given in October are capped until the end of the year.

So how do we look at '22? Very difficult to give you prospect of margin in 2022, because there are many things happening. For example, we have major pressure in terms of freight prices reflected in this quarter's renegotiations of contract and matured in our expenses, sales. We are in the process of drafting our budget. I cannot give you a reference or margin prospect, but if everything happens the way they are happening, we will repeat in 2022 the performance of 2021 in the worst case scenario. So the balance of supply and demand of beef tended to get worse, more tighter. Economies tend to recover more strongly, removing the Brazilian economy, economies abroad. We see, especially in Asia, greater movement next year than in 2021. So, this certainly drives more consumption of beef which reflects in price.

Second point, we have a major change in terms of livestock cycle next year. We've been mentioning this since 2018-19 and that our base scenario from the second semester

2022, we would have a change in the cycle. The good news is that we see a huge amount -- number of animals that were born in this period. They probably will be available to the market before we expected. This should support the scenario of cattle prices on average in 2022 lower than 2021, even assuming this recent drop of September in which prices moved from that level of 315, 320s and above and came close to 260, 270. Even considering this in the average, we're going to have cheaper cattle than we had in 2021. With these drivers put on the table, it's very difficult for us to have a scenario for 2022 in which the margins would be worth in 2021. It's actually the contrary, the amount of improvement is hard to measure at the moment.

Adding to what Edison said, we've noticed our -- that our thesis of investment based in South America, how much we are making in markets worldwide, so apart -- the part and the thesis of being produced beef in the region, the plant which is most competitive, gains strength, space and it has increased. We have a favorable cycle in Brazil for next year as Edison has described. And you have the recovery of economies with a stronger demand, especially driven by the southeast of Asia. So we are very optimistic, not mentioning the margins with indication that the next two, three years we're going to have a reality that is quite favorable in South America.

Q - Ricardo Alves {BIO 16840901 <GO>}

Perfect, thank you, Fernando. Thank you, Edison, for the clarifications

Operator

The next question is from Rodrigo Almeida from Santander.

Q - Rodrigo Almeida {BIO 20698362 <GO>}

Good morning, Fernando. Good morning, Edison. Thank you for your presentation. I'd like to touch some points. First talk about capital allocation. So you have very sound cash position, BRL8 billion, even considering the bond buyback and dividends announced, your position is quite strong. I'd like to understand what you can think in terms of capital structure from now on, the additional dividend. So do you have a more robust buyback strategy, so you see certain limitation. So I would like to hear from you cash allocation focus and the strategy in terms of reduction of gross debt going back to the point of the previous question. So prospects for fourth quarter. Short term, how can we think about your level of growth? So you had levels for Athena, can we think that you can have a higher level, the Athena Foods. How do you think this can impact the cattle prices in countries like Uruguay? And still on this point, in terms of expenses, so it's grown a lot, so quarter against quarter. So you talked about logistics, I'd like to understand how this impacts the normalization. If this has a relation to go more challenging global scenario? I would like to understand how all of it is impacted and possibilities -- and if you have any sort of views on M&As et cetera in Athena Foods? Could you comment on that?

A - Edison Ticle {BIO 15435343 <GO>}

Rodrigo, I'm going to answer the first and the third and Fernando will answer the second. Talking about the third, as SG&A -- what drew the prices were freight expenses. You can see that throughout the world we have logistics cost. We had some contracts that were signed that matured. In the third quarter, we re-signed the contract at a high level, so, therefore, we have an effect that happens once in the quarter. From now onwards, we should not expect additional increases. There was an increase of expenses with freight and in third quarter, we (inaudible) and this is going to be permanent or maintain next year. So in terms of capital structure, so BRL8 billion that we have in cash, our commitment of $400 million is debt buyback or roll over. $400 million is something like BRL2.200 billion about. This will be used in the next few months and quarters and buyback/rollout when I say, we've issued the bond, I'm going to use the money to amortize the debt. Then I have 400 million with debentures that we've issued. They are going to be used to redeem a series that will mature in May and we're going to have anticipated redemption probably by the end of November. The specific date will depend on the best economic ratio in terms of fee and anticipated redemption.

There is a clause that from a certain date in November, the fee has dropped significantly. We're just waiting for the date because from the financial standpoint. It's worthwhile waiting two, three weeks to redeem the amount. Major -- mostly the excess cash we have, the policy of case there is, have about three months, we should have BRL5 billion, between BRL4.5 billion, BRL5 billion. We have 8 -- the 3 additional billion, 3.5 billion additional to 2.6, 2.8 will be used for prepayment of debt/rollover and anticipated amortization.

Regarding dividends, we are anticipating payment of dividends, follow the policy defined by the Board previously. We will wait for the end of the year depending on the conditions of capital structure leverage. And net income at year-end, we should have complementary distribution of dividends after the disclosure of -- close balance sheet of 2021.

I'm going to hand over to Fernando to answer the second question.

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

Rodrigo, what I highlight here is the ability and instruments the Minerva has of arbitration, the various sources in various plants. We've made an administrative change that we're going to add a bit more colors of next year, which is LatAm, North Brazil, Paraguay and Colombia and LatAm South between Uruguay and Argentina. So this division has to do with market access and especially the type of raw materials, type of cattle we have in those markets. With this change, we have gained great speed, more integration between the portfolios between the possibility if you are allocating from one country to the other. So what we've seen at Athena is that we've had some countries that were highlighted or stood out in this allocation. This happens weekly based on the cattle supplies, currency access to market and obviously as is mentioned here in the presentation, with sanitary changes that we've had as was the case of China, the speed we moved and that today we prepare through the instruments of analytics, AI and portfolio analysis, they allow us to allocate and reallocate when events happen, very quickly our portfolios and production especially operating area. So our action is very strong. So if China is back, we have contingency plans already established. If it doesn't resume, we move on. We are prepared for whatever scenario we face ahead.

Q - Rodrigo Almeida {BIO 20698362 <GO>}

Perfect. Thank you very much. Thank you, Fernando. Thank you, Edison. Have a good day.

Operator

The next question is from Thiago Duarte from BTG Pactual.

Q - Thiago Duarte {BIO 16541921 <GO>}

Hello. Good morning, Fernando, Edison, everyone. I think that more than the discussion of the margin that have been discussed, in one of the previous questions, I think one of the point that has been drawn attention most, the share is dynamics of top line, the strength of growth in revenue. In this context, I would like to discuss two points. First, when we talk about export mix to the market to Asia, obviously without China it's been showing the strength, some in the past few quarter. When we look at Brazil and Athena, the performance of NAFTA in the case of Brazil and Americas in the case of Athena. I'd like to -- and this helps to explain in addition to Asia. It helps explain a lot these dynamics of the average price quite strongly in the past quarter. I'd like you to comment if you can a bit, which markets in these various geographies? It seems that the US we know has had great performance in terms of beef demand. That is important part of the answer. But if you could comment a bit on this. I think these are two geographies that are drawing our attention in this situation. As I made an interesting comment on -- regarding top line in his presentation where he showed the evolution of EBITDA and margins over the past quarters, mentioning that this is a -- as the level spread, you operate this very well, have been operating quite well over the past years. In this dynamic of top line that is very stronger margin, showing some performance regarding top line quite strong, I'd like you to discuss a bit the space that you have if you have for average prices to continue growing as they have. It's quite impressive especially when you see average prices in dollar at a high that is quite steep for the past quarters. I'd like to hear that in this level of spread on revenue that is very strong if it makes sense that the revenue has more space to grow or not, because if you take Brazil, this recent drop in the price of cattle, we assume that is going to impact average prices of beef. I would like to ask you this question on the top line in couple of aspects, geographies, space for high and additional prices. And the other one was CapEx, we've seen the CapEx of growth. If you can give some direction on these levels, on sustainable levels of CapEx in the next quarters and next year.

A - Edison Ticle {BIO 15435343 <GO>}

Thank you. I'm going to talk about CapEx and then Fernando can give a better color for CapEx. We acquired Colombia a year ago. We discovered that we were going to invest to increase capacity production in those clients. As we had made in the first acquisition and the investments we made, we increased lines and slaughterhouses. We can double production capacity in one, two year period. We are adopting exactly the same tactics. Colombia has become a market in addition to quite important to us in terms of top line, in terms of profitability. It started accessing some markets that it did not before. And we have become an even more relevant player there.

It makes all sense from the standpoint of attracting synergies, having more value in the operation to anticipate this CapEx that was going to be made this year and next year, we decided to bring it earlier. For the third and probably fourth quarter, we continue with this head of maintenance CapEx in this range of approximately if you take our history, BRL300 million roughly a year, plus something of expansion. There was a program for Colombia over two years. That we are bringing forward for third, fourth and probably first quarter next year.

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

Adding to Edison saying, this organic growth that we see in some of the origins, balancing a bit more. Each one of the countries that we have in a proportion of the available cattle and market access, this highlight of Colombia acquisition gave is quite relevant.

On your two questions, Minerva has always had this DNA of risk management and this leads to a strategy of opening of more openings that are possible or more openings that are possible of markets. China is very important when you consider that Southeast Asia is quite relevant. So other markets like Malaysia, Philippines, Indonesia, Singapore, Vietnam are relevant to us as well. We -- with diversification in the Middle East, we have a base for various countries where we operate. NAFTA and Americas and especially Chile also become very important destinations. Going back to Colombia, Colombia has had recently the approval for -- to export the meat and beef to Chile. We are not only pioneers, but the branding of Minerva, you can quickly leverage markets in those places. So geographic diversification in both in origin and destination, considering internal domestic markets are quite relevant, all of this allows us that within this is business spread, moving to your second question, allows us to have options, allows us to have alternatives to redirect our production and our sales according to the market.

So what do you have in this matrix? Great opportunity with investments we have made in the past two years of analytics. They allow us to identify opportunities and the opportunities are quickly transferred to operational areas so that we can reduce the changes and keep stability of margin. The other thing you've mentioned about prices on the international markets, it's not us. It's the market itself, seeing food inflation, beef inflation in all areas and all consumer markets. What we believe that there is an imbalance. Looking at what happened in other producing countries, we have a reduction of supply which maintains beef at high levels.

Just to reinforce one of the positive surprises that we've had has been how China has changed its habit quickly and less flexible, less sensitive to price. If you analyze what is happening, beef has become an item that is aspiration now of the middle class in China. And this, you can imagine the power this has. So even with high price rise and price demand, maintains reasonably stable. So we see good prospect from now onwards. But I reinforce what I said in the previous question with Rodrigo, the strength, that arbitration has that -- so that within the spreads we can be increasingly more efficient.

Q - Thiago Duarte {BIO 16541921 <GO>}

Very good. Thank you very much.

Operator

The next question is from Gustavo Troiano [ph] from Itau BBA.

Q - Unidentified Participant

Good morning, Fernando, Edison. My question is more focused on the impact of exports from Brazil to China, looking at the use of capacity and level of slaughtering in Brazil. And you've just curbed quite well the dynamics of profitability month by month. I would like to know about the use of capacity, if you can give it month by month considering that the use of Brazil had a slight drop in the fourth quarter considering the third quarter. Can you give more granular view over the third quarter especially focusing on September, when we should see any impact of the ban of China on the slaughter? And I'd like to know about -- qualitatively about the use in Brazil on October, not to know about the impact, the use risk at the end of the fourth quarter was in October or is it a bit more flat October, November? Thank you very much.

A - Unidentified Speaker

So, capacity utilization has been -- in August the revenue of this curve. The number is, of course we have average capacity for the quarter. Athena and average was over 80% in the three months. I cannot give you a precise number 8.2, (inaudible) on average over 80, accumulated 81% on average. Brazil did not. Brazil had a greater utilization in July and August, dropped a bit below 70, the levels were about 72%, dropped below 70 in September. But in October it got back to September level. So we are operating in an average that was the previous quarter and considering seasonality, it's accelerating. This is what I can tell you, because we actually have a quarter seasonably more favorable in Brazil in the fourth quarter. Again just making the various (inaudible) use of capacity is always calculated adjusted by working day of each month, each quarter, okay.

Q - Unidentified Participant

Thank you, Edison. Perfect.

Operator

(Operator Instructions) The next question is from Guilherme Palhares from Bank of America.

Q - Guilherme Palhares {BIO 20879946 <GO>}

Good morning, Fernando. Good morning, Edison. I have two brief questions adding to the China, regarding on the impact on the domestic market. You see cattle prices, in September you have high prices and price of beef more resilient at that. So, to what extent can we -- looking at fourth quarter, not only considering seasonality what we have.

Operator

I think it's been cut. Connection has been dropped, excuse us. We have the backup lines. So you can proceed. Guilherme, could you please repeat the question, because our connection has been interrupted. Mr. Guilherme Palhares has been disconnected. Could you please continue with the webcast questions.

A - Unidentified Speaker

Well I'm going to read few questions from the webcast and try to answer them. First question, an agreement to revenue margin, fourth quarter considering China, Brazil, I think I've answered this question over the presentation. So the buyback of the ventures will happen in November. Yes. The date will be considering the subscription. So we have a day from which we have the fees that are lower. We're going to look at that and we're going to perform that is most confidently -- economically for the company or financially for the company.

How much of volume can be directed to amongst the geographies? This is a question or a decision we make quickly. As Fernando said, we have a matrix of optimization that is weekly where we take all the prices that we can sell all the cuts produced in all the plants weekly. So we make this optimization of this matrix and then we get to the idea point considering all the variables involved, logistic costs, working capital, foreign exchange rate, freight, specially conditions of each one of the plants. When I put Brazilian plants to run the matrix, with the ban of China, obviously, China is no longer possible destination. China becomes a possible destination to be maximized from other geographies. So, I cannot give you a color as to volume. All volumes are produced weekly. They are sent to the geographies according to the optimization matrix.

The impact of the ocean freight for the company, we use -- ocean freight, as I said, have been increased. We had some contracts that have been renegotiated, some of them in the third quarter. It could have an impact on our financial statements of increase in SG&A. An additional point on ocean freight. Of the proteins, the most expensive is beef. So therefore in terms of percentage, the impact is lower on beef and for example, on chicken and other animal proteins, so the situation of China and also pork. So the pork price has increased. We've seen this two weeks ago, so there was a drop and pork is no longer true. Beef is still at a level that is quite high and pork has started to increase again. So we continue having the same supply/demand for next year, especially considering consumption growth that should continue to happen in Asia.

Just a question on lamb. It's not in Brazil. Well, actually it's lamb. Lamb is not in Brazil. It's on Australia. We do not intend to have lamb in Brazil. So commenting on the swine cattle in China, some mentioned it dropped 30% of what it was, because of crisis and they had great recovery, because 2019, 2020 this reflects, by the way, the increase of consumption of grains in China to feed the herd. The herd issue has reached 75%, 80% what you used to be before the ESF crisis, still 20%, 25% lower, but there has been a major recovery. Why is this good? Because effect of this important recovery of the swine had herd, the growth, beef does not stop despite of that. We can see that based on volumes and prices practiced in the domestic Chinese market.

Going back to the question he asked, whether the drop of prices in beef brings an impact to volume in Brazil, beef has very high income. So the price need is lower. What happens when the protein prices grow? So we have replacement between proteins. Since our proteins become -- became expensive, so you have this happening to the domestic. If beef drops and our proteins may keep the same level, you have an increase in volume to arbitration and replacement. If the movement is more or less equal and coordinated, there will -- what will determine the volumes is the income volume.

So if the ban from China is over, there is the price -- purchase price of China will improve in Athena. If the ban of China is over, we'll round the weekly matrices. Considering that Brazil can export to China, what will happen? More volumes from Brazil will be directed to China and Athena the volumes that were from other countries, for example, US and Chile that was -- Brazil will continue to be served by the Athena plant and the final mix in terms of margin will be better than what we had in September. I think I made this very clear during my presentation. When everything was open and all the plants maximizing their return, we had Athena operating in low to double-digit and Brazil in high single-digit. When China closed, Athena continued operating low double-digit and Brazil had a drop in the single-digit.

In October, Brazil continued ban by China. But with the drop in cattle prices, this low single digit in Brazil became high single-digit and we had margins in October close to what we had in July and August. Therefore, if we have China by this scenario that we see in July and August, should happen November, December with a positive effect of seasonality on one hand and also another positive point, which is the drop in cattle prices on the other side. I think this is it. Thank you.

Operator

Ladies and gentlemen, with that, we conclude the session of Q&A. I'd like to give the floor to Mr. Fernando Queiroz for the final remarks.

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

I would like to close this conference call by thanking the entire Minerva team for their dedication and outstanding performance during this period, especially how they faced this difficult scenario. So this is commitment to our values based on our focus on results, commitment, sustainability and all the part of innovation, they make Minerva a company that is differentiated regardless of the environment that we have. The moment is still challenging. We will continue to face this together where we can have conducted our business with our DNA. The prospects for the vaccination should be advanced faster and fill us with hope with the expectation of the end of the pandemic and a new normality and a new market. We are dedicating increasingly towards broad, closer to suppliers, to our customers regardless of where they are in terms of geographies.

One of those pillars that I've mentioned to our culture is sustainability. Increasingly, this is a differential for companies that want to be global players, for companies that are placed in different markets, in different geographies. So we keep on being -- paying attention to the global market of beef and more than ever confident in the power that we have in South America. Our corporate values reinstate our commitment to capital discipline and ethical and sustainable practices. We believe this is the best way to generate sustainable valuable value in the long term.

Thank you very much for your interest in Minerva Foods and we remain at your disposal for any questions, clarifications so that we can be increasingly stronger and closer to you. Thank you all very much.

Operator

Minerva's conference call is ended. We thank you for your participation and we wish you a very good day.