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Bloomberg Transcript

Q3 2017 Earnings Call

Company Participants

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

Other Participants

- Botir Sharipov, Analyst
- Isabella Simonato, Analyst
- Lauren Torres, Analyst
- Pedro Leduc, Analyst
- Soummo Mukherjee, Analyst

Presentation

Operator

Good morning, ladies and gentlemen, and thank you for waiting. At this time, we would like to welcome everybody to the Minerva's Third Quarter of 2017 Results Conference Call. Today with us, we have Fernando Queiroz, Chief Executive Officer; Edison Ticle, Chief Financial Officer; and Eduardo Puzziello, Investor Relations Officer. We wish to from you that this event is being recorded and all participants will be in listen-only mode during the company's presentation. (Operator Instructions) The audio and slides for this presentation are available through a live webcast at www.minervafoods.com/ir and MZiQ platform. The slide show can also be downloaded from the webcast platform in the Investor Relations section of this website.

Before proceeding, we wish to mention that forward-looking statements may be made during the presentation relating to Minerva's business prospects, operating and financial estimates and goals. They are based on the beliefs and assumptions of the company management and on information currently available. They involve risks, uncertainties and assumptions, because they relate to future events and therefore depend on circumstances that may or may not occur in the future.

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

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

Fernando Galletti de Queiroz {BIO 15387377 <GO>}

Good morning everyone, and thank you for joining Minerva on the conference call for the results of the third quarter of 2017. We will begin by presenting the third quarter highlights detailed on the slide two. One of the main highlights was the free cash flow to equity that totaled BRL344 million in the third Q of '17, excluding the Mercosur CapEx of BRL1.1 billion. In the last 12 months, the free cash flow amounted to BRL52 million, also excluding the acquisition effect.

Gross revenues reached 3.7 billion in the -- third Q of '17, a quarterly record. Last 12 months, gross revenues also recorded an amount of BRL11.5 billion. Net revenues in turn totaled BRL3.4 billion in the third Q '17, while last 12 months net revenue including proforma revenues for the Mercosur operations amounted BRL13.3 billion.

Third quarter adjusted EBITDA came to BRL312 million, accompanied by an adjusted margin of 9.1%. It's important to mention that the third quarter margin was impacted by the operation that are still in ramp-up phase, and whose margins are different from the traditional Minerva's company.

We took advantage of the scenario with good animals availability in lower supply of beef and increased our unit capacity utilization rate to 77.1% in the third quarter. In the third Q '17, the company focused its sales on the internal markets, especially in South America. Followed by a healthy demand, sales volume grew by approximately 45% over second Q '17 and 43% over third Q '16, this is also due to Argentina's performance that was focusing on the local market.

On the company capital structure, we end up the quarter with leverage measured by net debt-EBITDA -- last 12 months EBITDA ratio of 4.2 times, which is likely higher than in second Q '17, despite the payment for the acquisition of the Mercosur unit is held on August 1. At the end of September 2017, Minerva cash position amounted at BRL3.2 billion, which is sufficient to amortize the debts through 2023. The company's debt duration at the end of the quarter was approximately 5.4 years.

About the other highlights, it's worth to remember that our operational results were consolidated with those of the units acquired in the Mercosur as of August 1. Therefore, this new operation, we already recorded in our quarterly results for August and September. Another fact worth mentioning is the reopening of Mirassol D'Oeste plant in the state of Mato Grosso with daily slaughtering capacity of 1,100 heads, taken advantage of the good animal availability and improved beef consumption.

Lastly, it's important to highlight the movements of reopening -- in opening some markets for the region. As an example, the reopening of Argentina market for Brazilian beef, the approval of Paraguay beef by the United States, this represents an important recognition for Paraguay. Also, we could mention the Japan that are in the eve of approving Uruguay, the reopening of US for Brazil, corroborating the South American producers are even more prepared to supply the global beef market.

Let's now move to slide three, where we talk about the industry overview, slide three. The slaughter volume totaled 6.5 million heads in the third quarter, that's approximately 8% higher than in the second Q '17 and third Q '16. The higher than usually slaughter volume in the third quarter appear that usually shows lower availability was caused by the events in the second quarter that affected the industry and has lower down its capacity utilization. As a result, certain animals were held in the farms and additional volume was distributed through the third quarter, particularly in July and August.

In addition, we observed resumption in the local consumption, particularly in July and August, while exports begin to increase as of July, affected also contributed to the growth in the slaughter volume. Consequently, the average arroba price recovered in the third Q '17 and came to BRL134 per arroba at the end of the quarter, remaining stable over the second Q '17, but reducing by approximately 12% over the previous years.

Regarding the excellent export performance in the third Q '17, Brazilian beef export has grew approximately 31% over the second Q '17, and 32% over the third Q '16, with exports revenue increasing in line with the volume growth. This performance reflects the recovery in countries which are important consumers of Brazilian beef, mainly China, Hong Kong and the Southeast of Asia, which you can see from the lower left chart posted a year-on-year combined growth of 11 percentage points as a percentage of Brazilian exports. This good performance also influences the average price of beef that was up 2.4% over third Q of '16.

Local consumption had already strongly recovered in line with picking up of the Brazilian economy. Price of hindquarter cuts increased, particularly in the wholesale market, followed by the seasonal consumption. However, the industry scenario was once again volatile at the end of the quarter, a fact that it contributed to reduce the supply of slaughter and consequently increase prices which remained high in the last month of the quarter.

It's important to emphasize that the local markets is expected to remain strong in the coming months due to the seasonal effect, a fact that should boost the beef consumption in the first quarter. This can be proved by the strong sales in the month of October. In addition to the seasonal effect, the industry is also expecting to grow in 2018, in line with the Brazilian economic recovery. In other words, we are optimistic, we are very optimistic regarding the Brazilian industry performance in the coming quarter.

Let's now have a look on the slide four and talk about the sector overview in Paraguay. Paraguay after the acquisition became an important country for us. In the third quarter, Paraguay's slaughter volume grew 3.5% over third Q '16 and 2.3% over second Q '17. Cattle price increased by 4% year-on-year and remained stable over the previous quarter. The slightly higher slaughter volume and the increase in the average price of cattle were caused by the strong export performance as third Q '17 export volume grew 11% over second Q '17, and 3% over third Q '16. Chile remains as Paraguay's main export destination, accounting for 36% of the total exports revenue.

Note that, a few months ago, Paraguay was recognized by Chile as a country free of foot-and-mouth disease due to vaccination. In addition to Chile, Brazil, and Russia continued to be among the country's main export destinations. It's important to note that a new country is appearing on the graph that is Iran. Iran is also becoming an important market for the Paraguayan industry.

As I said in the beginning of the presentation, it's also relevant to mention that once again -- that United States recently approved Paraguay for exports. The first step was the country's approval in the certification of the plants and it's now expected to begin. In other words, the USDA veterinarians will begin analyzing which plants are in fact ready to export to United States. This process will take a few months, but we cannot deny that this is a huge step for Paraguay beef sector and a great recognition for the industry, which has been steadily advancing and improving. Besides the domestic market in Paraguay, it has also been growing. IMF estimated that for 2018, a local per capita consumption of 35 kilos per person, an increase of 4% comparing to the estimates of 2017, following the growth of GDP trend and inflation and unemployment reduction.

Let's now move to slide five and talk about Uruguay. Uruguay slaughter volume totaled 519,000 heads in the third quarter, reducing by 9% over the third Q '16 and 15% over the second Q '17. The reduction in slaughter volume reflects a series of strikes as it took place in the country in recent months, and the effect from this off-season. Consequently, the average price of cattle grow 7% over the previous quarter but remains stable over third Q '16.

Export volume performance is in line with a slowdown in the production, contracting by 6% over third Q '16 and 10% over second Q '17, accompanied by the export revenue of approximately $377 million. China and United States were once again the main destinations for Uruguay exports, jointly corresponding to more than 50% of the export revenues.

Let's now take a look of the next slide that will talk about Argentina. This is the first quarter that we effectively operate in the Argentina market. For that reason, we decided to add a slide dedicated to Argentina main highlights in order to show the country's current development status. Argentina's past government put contingencies on exports. As a consequence, the country's herd reached low levels of around 48 million heads in 2011. In this period, Argentina moved down from the 3rd biggest exporter to the 13th biggest exporter in the world ranking of beef exporters. This is in less than 10 years, they dropped tremendously their exports, and this had a consequences on the production.

However, it's also notable, how the country's herd has been recovering recently due to the current government incentives as of 2015. Currently, a larger share of production stays in the country with fairly 10% of the beefs are being exported. Even if the percentage of production allocated to exports is still low, prospects remain very positive for Argentina. According to the USDA estimates, disclosed in October, Argentina exports are expected to reach 350,000 tons in 2018, 60% more than in 2016 and 30% higher than in 2017.

As shown in the lower left chart, China accounted for 28% of the country's revenue between January and September 2017, increasing by 6 percentage points over the same period in 2016. European Union which has started being a strong client of Argentina beef, correspond to one-third of the country's exports in the first nine months of 2017. Note that, Argentina has the highest share of the Hilton Quota, the quota that stipulates the limit exports volume of high quality cuts with lower taxes. The country alone has a quota of 29,500 tons, reflecting the European Union trust in preference.

Let's move on to slide seven to present the estimates of the United States Department of Agriculture. We also decided to add a slide with USDA Estimates for 2018. According to the USDA, global exports will increase by approximately 2% in 2018. The main exports highlights our Mercosur countries, particularly Brazil and Argentina, in addition to the United States and Australia. Considering only the Mercosur countries, Brazil, Argentina, Paraguay and Uruguay, the bulk exports are expected to increase by approximately 4% in 2018, consolidating the region position as the world's main beef exporter in supporting our growth strategy.

On the beef demand side, imports from East Asian countries are also expected to increase with China, Japan, South Korea among the five importing countries. The USDA expects that the combined share of China and Hong Kong to grow by more than 6% in 2018 over 2017. It is important to mention that despite the increase in US exports, these countries imports are also expected to rise. One effect will literally offset the other and United States will remain as a net importer of according to the USDA.

Now we will go a bit deeper on Minerva's performance and results. On slide eight, you can see that we have remaining among the main exporters in the countries where we operate. Minerva's share of Brazil exports increased to 20% of the total country. It's worth emphasizing the company's share of Paraguayan exports, which was already high, but now after the recent acquisition of new units, Minerva consolidated its leadership in the country, with a historical share of 32%. The company's share of Uruguay exports in turn accounted for 16% of the total.

This slide also shows Minerva's exports in the last 12 months end of September 2017 by region. Exports to the Middle East accounted for approximately one-fourth of the company total in the last 12 months ended September 2017, with the region becoming our main export destination. This is an important region with constantly growing demands and strong potential for beef imports. Note that the sales to Saudi Arabia alone expanded by more than 70% in the period. Other highlights of the region are the United Arab Emirates, Israel, Lebanon among others.

Asia, another region which more exports has been -- is another region where exports have been consistently growing, accounted for 22% of Minerva total sales. Part of the cuts are located in this region where rerouted to the Middle Eastern countries and therefore the region share of the company exports fells by 5 percentage points over the previous year.

The share of Americas is once again worthy of mention, corresponding to 14% of our exports. In the last 12 months ended September, up by 400 basis points over the same period of 2016. The share of Chile in the region, a main destination has been consistently growing through our units in Brazil, Paraguay and Argentina now, so that country expanded by more than 30% in the period.

Last, we would like to highlight the growth in the NAFTA region, represented mainly by United States as a percentage of our total exports. In the last 12 months ended September 2017, the region accounted for 6% of the total exports versus 4% in the same period last year. As you can see, the Minerva chart of exports is much more diversified that has been reducing the risks and have been showing the company policy on being present on the main markets, it's an investment that was worth doing.

I will now pass on the floor to Edison, who will comment on the financial and operating highlights.

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

Thank you, Fernando. Good morning to all. Let's present Minerva's finance and operating highlights, I'll start with slide nine. In the third quarter of ' 17, Minerva posted net revenue of BRL3.4 billion, a new quarterly record for the company, as Fernando has already highlighted at the beginning of this presentation. This result reflects the additional revenue from the new acquisition, the reopening of the Mirassol D'Oeste unit in July and the higher capacity utilization rate in all other units of Minerva, especially in Brazil.

Third quarter adjusted EBITDA reached BRL312 million, 25% up when compared to the third quarter of '16, and 12% up when compared to the previous quarter. This total excludes the non-recurring effect from the new acquisition, amounting to BRL15 million. The adjusted EBITDA margin came to 9.1% in the third quarter, impacted by the consolidation of the recently acquired plants. We managed in June this quarter to take advantage of the good animal availability and strong export sales. So increased our capacity utilization through more than 77% in the third quarter, which is 240 bps higher than the capacity utilization rate of the previous quarter.

At the end of September, leverage stood flat at 4.2 times when compared to the previous quarter. So despite the payment for the new -- for the acquisition of the new Mercosur units, we were able to keep our leverage literally in line, literally flat with previous quarter based on a strong free cash flow generation and also assuming the proforma EBITDA and revenues from the units that we acquired. Useless to say that from now on we will focus on deleveraging the company's balance sheet, especially in the next 12 to 18 months.

Let's move now to slide 10 to talk about the period's net results. So in slide 10, we can see that the net income after taxes and contributions reached approximately BRL86 million in the quarter, posting a net margin of 2.5%. In the last 12 months, net income reached approximately BRL45.

Let's now move to the next slide to discuss operating cash flow. In the third quarter of '17, operating cash flow was positive by almost BRL500 million, a very strong result. Adjustments to net income reached BRL117 million, while the variation in working capital was positive by almost BRL300 million. So commenting on the working capital lines to better explain this results, in the third quarter, we had a negative impact from receivables of approximately BRL184 million due to the strong increase in sales volume and the consolidation of our new Mercosur plant.

On the other hand, our supplier payment period widen at the end of third quarter, generating positive result -- positive cash of approximately 178 million in the supplier's line. Working capital was also positively impacted by the other accounts payable line due to the prepayment of some clients from certain countries. In third quarter, we rerouted a large share of exports through Asia and the Middle East, thus generating a positive variation in this line of approximately BRL331 million.

Let's move now to slide 12 to talk about free cash flow. Third quarter EBITDA was BRL312 million, while CapEx with cash effect excluding the acquisition of Mercosur plants and including maintenance and expansion of our current plants was BRL72 million in the quarter. The net financial result with cash effect was negative by BRL189 million, while the variation in working capital as we have already mentioned was positive by BRL293 million. As a result, free cash flow was positive by BRL344. If we include the amount paid for the acquisition of the Mercosur assets which was around BRL1.1 billion, the company's cash consumption in the quarter came to approximately BRL770 million.

Analyzing the same numbers in the last 12 months, free cash flow was negative by almost BRL900 million, including the acquisition of Mercosur. However, if we exclude this acquisition, the company generated a free cash flow of approximately BRL240 million in the period.

Let's move to slide 13 to discuss capital structure and leverage. So at the end of the third quarter, leverage measured by the net debt-to-EBITDA ratio stood flat comparing to the previous quarter at around 4.1 -- 4.2 times. Cash position at the end of the quarter was BRL3.2 billion, which leaves the company in an extremely comfortable position, allowing us to amortize the company's debt in 2023. It's important to highlight that according to our minimum cash policy, assuming the new plant -- the new size of the company, the minimum cash policy equivalent to three months of purchase of capital would be today around BRL2.6 to BRL2.93 billion, so we are very, very close to the minimum cash policy.

We talked in the previous quarter that we had a goal to reduce our cash policy, our -- liquidity in order to reduce the carrying cost on our cash, but the way that we increased the size of our operations allowed us today to be very, very close to the policy, with a small correction, which is healthy considering the scenario, considering the size of the company and considering the carrying cost of the liquidity. In the end of September, approximately 75% of Minerva's debt was exposed to the FX variation, and the debt duration was approximately 5.4 years.

I will now pass the floor back to the operator to begin the Q&A session. Thank you very much.

Questions And Answers

Operator

Thank you. We will now start the questions-and-answer session for investors and analysts. (Operator Instructions) Our first question comes from Isabella Simonato with Bank of America Merrill Lynch. Please go ahead.

Q - Isabella Simonato {BIO 16693071 <GO>}

Thank you. Good morning, Fernando, Good morning, Edison. My question is, actually I have two questions. First of all, looking at the results, if you could try to split and look at the organic margins for Minerva before the acquisitions of JBS assets, at what level that would be, and what can we expect for 2018? And also, regarding the free cash flow generation, we saw the positive contribution for the other payables, right, and how can we think about this line going forward, especially in Q4? Thank you.

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

Isabella, regarding the first question, it's almost impossible to have the margins of Minerva on the quarter -- on the three quarter as a whole before integrating the JBS Mercosur plant. For a simple reason, when we started to integrate this plant, the export team started to sell beef from any plant from Argentina or any plant from Uruguay or any plant from Paraguay. So it doesn't matter if it was produced by ex-JBS or by Minerva. So in that sense, it's impossible to separate the margins that we're getting the new assets and the assets that we were making in our operation. But I can tell you is that, before integrating the operations, the total margin of Minerva in July, which was the last month in the quarter that we were alone without the JBS Mercosur operations, margins were above 10%, 10.5%.

Going now to your second question, again it's a matter of the optimal breakdown of sales. It's a decision that we've taken on a weekly basis and based on this decision, we have the credit rating for each country, for each client, and based on this model, we have a framework that requires a certain amount of prepayment or not.

So to give you an example, if we decide to sell more in Europe, normally the clients in Europe are less risky, so we require less prepayment or normally no prepayment. If we go to countries like Egypt, which we believe the risk -- the credit risk is much higher, we normally require prepayments that can be from 30% to some countries, some regions, it can be up 100% in advance. So it's hard to say, because it will depend on the markets that we are going to sell our products and the choice of market is directly related to the best margin, overall margin that we can get in our operations.

Q - Isabella Simonato {BIO 16693071 <GO>}

Perfect, thank you.

Operator

The next question comes from Lauren Torres with UBS. Please go ahead.

Q - Lauren Torres {BIO 7323680 <GO>}

Hi, everyone. I guess, it's just first a quick follow-up on the question on margin. You noted that synergies and the integration is going well, so the 5% to 6% margin that you noted for the acquired assets should improve. Just wondering if you have a timeline on how that's progressing and how quickly the margins of those assets could reflect those of your existing assets? And then secondly, if I could also ask about the new market openings, there's a lot of good news flowing through here. So just curious, if there's any way to kind of quantify what that benefit could be and how you are prepared for this increasing global demand, it seems like there could be more costs associated with it. So just curious on your exposure to these markets and your ability to serve it once it all comes into play. Thank you.

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

On the first question, what we estimate is that the period of three quarters to four quarters we will be able to implement all the synergies. What I can tell you is that the integration process is going very well, it's going much faster than we plan it, especially on the commercial side, both on exports, local market, and on the cattle sourcing. So the integration is moving well.

But we expect-- we are also benchmarking all the operations and the procedures that former company was having when comparing to ours. So there are benefits on it, and of course, there are the logical integration of rationalizing the support areas. So we believe that the three to four quarters are enough for us to capture the majority of the synergies.

When the market -- this is a very important and also a very good news that we are having. We are seeing Japan opening to Uruguay. We are seeing Paraguay moving towards the American market. Argentina following the same way. Brazil is looking at a new market in the Southeast of Asia. So there is the re-approval of United States for Brazil as well. Indonesia is on the radar, especially markets that are short of supply because of the reduction of Australia. They are looking for new opportunities to supply. To quantify that, it's hard, but it will give us more choices where to place our products.

Some of this markets are premium markets, and some of them have international levels -- the international price levels that are higher than the ones that we are doing. So -- but I cannot quantify in terms of percentage how much it will improve the EBITDA. One thing that I can tell you is that definitely the margins will be more stable and we've the tendency to grow.

Q - Lauren Torres {BIO 7323680 <GO>}

And just as a follow-up, your ability to supply these markets, the existing and new capacity that you have. I know there's more plant openings on schedule, but your ability to service this demand is good now and you're comfortable with that?

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

Definitely, Minerva has investors on the -- on having plants that are approved to all the demanding and all the markets that have requirements -- special requirements. So if there is a company that's ready to take benefit of the new market openings, we are one of them.

Q - Lauren Torres {BIO 7323680 <GO>}

Very good. Thank you.

Operator

Next question comes from Botir Sharipov with HSBC. Please go ahead.

Q - Botir Sharipov {BIO 16759043 <GO>}

Hi everyone, A couple of questions from me if I may. One is, I know if you could maybe share with us what's your utilization rates are across your several markets in LatAm and also whether you have any plans to reopen some of the Argentine plants given still -- what appears to be still challenging environment in Argentina? That's the first question. And the second one, I will ask, I guess after you answer. Thanks.

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

We don't have this data available now by region what is the capacity utilization. Regarding Argentina, our plans is to see how the environment will develop. There are big effort from the Argentina government to opening new markets and to have more stable rules internally. So we have this option, but that we don't have a timeline on when we're going to open them.

Q - Botir Sharipov {BIO 16759043 <GO>}

Thank you. And the second question is, I think you mentioned on the second quarter call that you guys plan to be, I want to say about 250,000 tons per month -- the capacity of 250,000 tons per month in the second quarter -- by the end of Q3. I was wondering whether you guys were able to accomplish that -- reach that --

the milestone and what your expectations are for, I guess, for the end of the year?

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

Sorry. Could you repeat the question?

Q - Botir Sharipov {BIO 16759043 <GO>}

In second quarter call, you mentioned that you guys are planning to increase your slaughtering capacity to 250,000 tons I believe by the end of the third quarter and about 300,000 tons -- I'm sorry not the 20 -- you plan to ramp up your production capacity by the end of second quarter and third quarter. Now I just wanted to see how that's progressing?

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

Yeah, we had some organic movement. So we were restarting the plant of Mirassol. We were increasing the production in Brazil and the results you can see on the new volume that we're producing. So the volumes are -- were up exactly 42% -- 42.5%, the volume of production are up.

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

Compared to the third quarter '16 and if you compare to the second quarter, volumes were almost 45% up.

Q - Botir Sharipov {BIO 16759043 <GO>}

Do you -- I guess a follow-up question, do you -- is sort of a run rate that we can expect going forward or do you expect further increases maybe in the fourth quarter and early next year?

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

We can have further increase but they will not be to two digits. So what we got by the end of the third quarter, it's a good basis for the next year.

Q - Botir Sharipov {BIO 16759043 <GO>}

Okay. Perfect. Thank you so much.

Operator

The next question comes from Soummo Mukherjee with Mizuho. Please go ahead.

Q - Soummo Mukherjee {BIO 6619902 <GO>}

Hi, good morning. I had two questions. First just in terms of the Brazil export, kind of market share gain trends if you could comment, especially in terms -- if you have taken advantage in terms of the JBS situation and what you're seeing in terms of the kind of potential further gain in terms of the market share position on the export market?

And the second is related to the guidance that you shared at the time you bought the Mercosur assets where you highlighted that if you had a range in revenues of 13 billion to 14.4 billion by next year and EBITDA margin of 9.5, you could get to 2.5 times net debt-to-EBITDA by next year, if that's still achievable at this stage? Thank you.

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

Yes. Well, let me start for the second question. Yes, all the guidance, all the scenarios that we shared with the market in the second quarter are still in place. So if you take a look at the last 12 months revenues, considering the proforma revenues of the acquired assets, we will be around 13.3. If you take the third quarter revenues and make it times 4, it will be in the range as well. And even if you add one month more to predict what will be fourth quarter revenues and times -- 4 times if you analyze it, it will also be inside the guidance, in terms of revenues.

In terms of leverage, we keep following the scenario that we shared with the market. If we are successful in extracting the synergies in the next 12 months, considering that range of revenues, we will be able to deleverage the balance sheet of the company and be in a leverage very close to 3 times at the end of -- in 12 years -- in 12 months period, and below 3 times in an 18-month period.

Regarding your first question, yes Minerva gained a market share, but bear in mind that the total exports of Brazil increased by almost 30% in the quarter. So we were able to grow more than the growth of the Brazilian country. Unfortunately, we will not speak in details about any competitor. But if you want to talk about Minerva, yes, we did a great job, because the markets increases and Minerva was able to take market share from competitors.

Q - Soummo Mukherjee {BIO 6619902 <GO>}

Thanks. Just a follow up. Could you just comment then on what was your exports market share a year ago, and what -- did you see how much it increased?

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

In terms of share, it was 18, but what's more relevant is that the increase of the size of the total exports. So we had -- we have grown almost 40%.

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

40% on the exports in total, in terms of volumes.

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

Volume vise. And also that happens if price increase. So the exports have grown and the price also increased more than what exports has grown, the exact number is 44% in --

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

Year-on-year.

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

Year-on-year.

Q - Soummo Mukherjee {BIO 6619902 <GO>}

Thank you very much.

Operator

(Operator Instructions) The next question comes from Pedro Leduc with JP Morgan . Please go ahead.

Q - Pedro Leduc {BIO 16665775 <GO>}

Hi, everybody. Thank you for taking the question. Just to explore a little bit on the gross margin, we saw a smallest sequential drop as well as year-over-year, just trying to reconcile if it's -- what is related to the new assets in Mercosur or is it perhaps that you're taking some of the lower cattle cost slacks and sharing with the consumer in order to gain share

And then last on this line, if you are able to lock in cattle prices at the recent dip, perhaps take advantage of it now in what is seasonally a stronger fourth quarter and should we see that for you as well? Thank you.

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

Pedro, the reduction on gross margin is a matter of, first, the integration of the new Mercosur plants that have EBITDA margins, and also obviously gross margins lower than we were presenting. Second, if -- when you take a look at the cattle prices in one year, they are practically flat. So the reduction on the gross margin comes from the revenue side. So it comes from the reduction on beef price in domestic market, especially in Brazil, and also some reduction in reais in the export prices when you compared to one year ago. The reduction on exports for an instance, they were around 10% in reais comparing to one year ago. And in the domestic market, it was around 15% comparing to one year. So the reduction on the gross margin has to do with the revenue side not with the cattle price side.

Q - Pedro Leduc {BIO 16665775 <GO>}

Okay. And are you seeing any healthier pricing environment in the, say, oil price is going up, maybe seasonally stronger fourth quarter, should we see an sequential improvement at least?

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

Yes, in the domestic market, we're talking about especially Brazil and Argentina that we have much more supportive macroeconomic scenario. We are -- in fact in Brazil, we've already seen recovery on volumes in the domestic market and also in prices, especially in the last quarter of the year that seasonally is the best quarter for pricing for beef.

In domestic -- in the external market, the increase in volumes in the Brazil volumes of more than 30% with also reduction, a relevant reduction in dollar prices shows how strong is the demand for beef in the world. So the prospects for the next quarters, both in the domestic markets, in the most important domestic markets that we have which are Brazil and Argentina, and also in the export market are pretty supportive. So we believe beef prices has a strong probability to continue going up in the coming quarters.

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

As we said Pedro, October was a month of record sales in the domestic market. So this shows the demand and this goes in line with the improvement of the macroeconomic ratios and indexes. So we are seeing the market improving domestically and externally.

Q - Pedro Leduc {BIO 16665775 <GO>}

Great. Thank you very much.

Operator

This concludes the question-and-answer section. At this time, I'd like to turn the floor back over to Mr. Fernando Queiroz for any closing remarks.

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

I would like to close this conference call. Once again, thank you Minerva, entire team for the great work, effort and dedication, which contributed to our healthy results. Without the dedication of our team, we would have not got the results that we are presenting you. Also, I would like to point the importance that this team had on the integration. It was a challenge objective, it was a challenge goal that we set it and the team performed. I will also thank you all for the interest in the company and we will remain at your disposal for any question and clarification.

Operator

Thank you. This does conclude today's presentation. You may disconnect your lines at this time. Have a nice day.