Q2 2021 Earnings Call

Company Participants

- Edison Ticle de Andrade Melo e Souza Filho, Director of Finance
- Fernando Galletti de Queiroz, Chief Executive Officer
- Taciano Custodio, Director of Sustainability, Minerva Foods

Other Participants

- Gustavo Troyano
- Isabella Simonato
- Ricardo Alves
- Thiago Bortoluci
- Thiago Duarte

Presentation

Operator

Good morning, ladies and gentlemen, and thank you for waiting. Welcome to Minerva Second Quarter of 2021 Results Conference Call. Today with us we have Fernando Queiroz, Chief Executive Officer; and Mr.Edison Ticle, CFO and Investor Relations Officer.

We wish to inform you that this event is being recorded and all participants will be in listen-only mode during the company's presentation. Afterward, we're going to start the Q&A session for analysts and investors when further instructions will be provided. (Operator Instructions)

The audio and slideshow of this presentation are available through a live webcast at www.minervafoods.com/ir. Slideshow can be also downloaded from the webcast platform in the Investor Relations section of the website.

Before proceeding, we wish to mention that forward-looking statements may be made during this presentation relating to Minerva's business prospect, 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 results may differ materially from those expressed in such forward-looking statements.

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

Fernando Galletti de Queiroz {BIO 15387377 <GO>}

Good morning, everyone, and thank you for participating in Minerva's earnings conference call for the second quarter of 2021. Minerva Foods reaches the end of the first half of 2021, delivering a solid operational and financial performance does consolidating our leadership in beef exports in South America.

The good performance in the first half of the result, of the resilience of our team and consistency of our strategy which combines operational excellence with profitability, cash generation and financial discipline. The Coronavirus pandemic continues to pose difficulties and generating greater volatility to the markets. In this regard, I want to highlight one of the main pillars of our business model and also one of our main competitive advantages.

Geographic diversification, which allows us to quickly arbitrate markets and ends up playing a fundamental role in our strategy by reducing risk and volatility, but also expanding opportunities, and thus consolidating the importance of our export platform from South America, in which we hold 20% of the total volume exported.

The global market of beef continues to be growing and driven both by the consistent Asian demand and by the beginning of the cycle of resumption of global consumption. And also by the rise in grains, the recovery of the world economy with the reopening of markets, and growth in demand is a movement that gains strength week-after-week with the advance of the immunization process.

The prospects for the second half of the year are equally [ph] more positive. With the word economy returning to normality and supporting important segments such as tourism and foodservice. Thus consolidating an increasingly heated consumption scenario, not only in the market that are under the international level but also in the domestic markets here in South America.

Once again, I stress arbitrage where Brazil growing its consumption in South America, gives us the opportunity to bring products produced within Paraguay, Uruguay and Argentina. The global beef market continues with very solid fundamentals with firm demand and restricted supply. And now, with the global economic recovery movement, we are confident there will be increasingly more opportunities for beach beef exporters in our continent.

Let us now move to Slide 2, to start presenting the results. Let's start with net income, which reached approximately 117 million in the quarter and 376 million in the first six months of the year. If we consider the accumulated results of the last 12 months Minerva's net income totaled approximately BRL550 million. This is yet another quarter which Minerva Foods presents a consistent net result and in line with our strategy of creating shareholder value.

Free cash flow, which is one of our priorities was positive for 14 consecutive quarters, totaling BRL425 million in the quarter and BRL734 million in the first half, reaching around BRL1.4 billion in the 12-month period. Since 2018, the company has accumulated more than 4 billion in free cash generation confirming Minerva Foods consistency in its operational and financial management. Growth revenue reached a record level of 6.7 billion in the quarter and of BRL24.3 billion in the 12 -- in the past 12 months.

I would like to highlight here the performance of our experts, which accounted for approximately 70% of our growth revenue, both in the quarter and in the last 12 months being a natural reflection of the strong international demand for beef and the export D&A of Minerva Foods.

Now talking a bit about our operating profitability in the second quarter 2021, our EBITDA reached BRL545 million with an 8.7% margin in the past 12 months and Minerva's foods EBITDA totaled BRL2.2 billion, an expansion of almost 10% on an annual basis and delivering a solid 9.6% EBITDA margins in the period. As in previous leaders [ph], another major highlight of this quarter and one of the main pillars of our management was the soundness of our balance sheet. We ended second quarter 2021 with a net leverage is stable at 2.4 times net debt vis-a-vis EBITDA in line with Minerva Foods capital discipline.

Our liquidity is also very comfortable with BRL6.3 billion in cash at the end of the period, which combined with the duration of 6.4 years of our indebtedness guarantees is great peace of mind and flexibility face of the current challenges and opportunities.

Still talking about our balance sheet, I would like to emphasize the efforts that company has made to improve our capital structure. In Q2 2021, I would like to highlight the completion of redemption of the 2026 notes as well as the issuance of BRL1.6 billion in the local debt market. These are initiatives that seek to reduce roasting debtness, lengthen the amortization's cashew and reduce the cost of our debt.

Other initiatives were implemented with the same objective to improve our capital structure and throughout our presentation of results, Edison, will provide a little more detail regarding these efforts. The second quarter 2021 was also an important milestone in the evolution and maturity of our sustainability agenda with the disclosure of Minerva Foods commitments and goals, in fighting climate change and protecting the environment.

We announced seven goals of our sustainable agenda, with the actions and involves the entire chain of stakeholders and that projecting investments of 1.5 billion in initiatives that will be completed by 2035. It is worth noting that we have had an early implementation of one of the most challenging goals of our commitment integration of the Visipec tool with Minerva Foods proprietary geospatial monetary system which was originally scheduled for December, and ended up happening now in August, thus Minerva Foods became the first and only company in the sector to integrate Visipec as a risk analysis tool for indirect supplier farms in the Amazon biome.

Later on, Taciano will bring more details about this initiative and other matters on the sustainability agenda. Another highlight of this quota goes to our innovation area which is anchored on three main pillars.

First, advanced data analysis. Second, e-commerce platform and marketplace. And three, venture capital with the objective of reducing risks and maximizing opportunities and advancing in the value chain in the food industry, in the case of advanced analysis, we already have a team of 20 specialized professionals and we are evolving projects focused on maximizing our production matrix and dismantling the animal, and also improving an optimizing our pricing tools.

In addition, our recent venture capital initiatives, such as, Clara Foods Shopper and Amyris are increasingly gaining operational maturity with excellent prospect for the coming quarters. And we do not stop there. We continue to evolve on the topic, seeking external partnerships with universities research centers in addition to the recent installation of our advisory council for sustainability and innovation to advice the company's senior management. These are initiatives that seeks to position Minerva Foods at the forefront of the discussion of this very relevant and strategic agenda.

In the first half of the year, we also have evolved with our corporate management. We started our important leadership development program and move forward with the project to strengthen our corporate culture, which continues to be more solid everyday and as an important instrument in the integration and alignment of the business strategy of Minerva Foods.

Minerva Foods corporate culture is a fundamental pillar of our business model. In order to continue to evolve and go further and further, it is essential to strengthen our five values; result orientation, commitment sustainability, innovation and recognition of our team.

Let us now move to the next slide to comment on Minerva's operating performance in the quarter. Starting with exports. Q2 2022 consolidated our leadership position as the largest beef exporter in South America with a 20% market share on the continent. Minerva's leading role in beef exports is the result of our geographic diversification in the region, which supported by our 16 international offices and are providing us with a great competitive advantage and a prominent position in the international market.

On the right hand side of the slide we have the performance of the exports by region where Asia remains as highlight representing about 60% of export revenue in the past 12 months in Brazil in expansion of our 10% points compared to the same period last year.

It is worth mentioning that 9% of share that places in the NAFTA region as a second main destination, which reflects the recent reopening of the United States of Brazilian beef. In the case of Athena Foods, the Asian market has been the main destination for (inaudible) 37% of total exported by the divisions in past 12 months. Followed by the Americas region, which accounted 26% of the total exported by Athena Foods.

The performers of exports makes increasingly evident the growing demand internationally for beef, especially in Asia and especially in the Chinese market, where consumption habits continue to transform and benefit from beef protein, which is gaining more and more space into the local diet.

Another highlight in our client portfolios growing exposure to the North American market, a market of high-income capacity and which due to the advanced stage of vaccinations already showing consistent signs of the resumption of economic activity and domestic consumption.

I would also highlight the increase in meat prices in local market as a result of the increase in price of grains, leaving a pressure on cost on North American producers.

Finally, I would like to point out that the fundamentals and prospects of in the global beef market are still very sound and attractive. We have a combination of very positive factors for the coming periods that will benefit even more South America. International demand for beef protein remains very consistent in emerging markets, especially in Asia.

In addition, we have the advance of vaccination and the recovery of the global economy that gain strength week after week with the reopening of markets and prints a strong recovery movement in consumption especially in tourism and foodservice segments that were heavily impacted since the beginning of the pandemic.

Finally, we add to this, the high prices of grains, the persistent restrictions in the supply of beef (inaudible), which continues to unbalance the world market and particularly benefiting exporters in South America. Given this promising results in Minerva Foods strategy is to continue maximizing our competitive advantages, investing in innovation, niche opportunities, risk management and market intelligence to achieve increasingly efficient and profitable commercial logistical solutions. Always trusting our corporate culture, the work of our team and respecting our commitment to ethics and sustainability.

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

Taciano Custodio

Good morning, everyone, and thank you Fernando for the introduction. In this first half of 2021, we reaffirmed the word that best described Minerva Foods position in sustainability, pioneering.

Sustainability is consolidated as one of our corporate values along with the result orientation commitment, innovation and recognition. These are our foundations for contributing to the conservation of the planet, the prosperity of people and the well-being of animals.

In a April, we announced the Minerva Foods commitment to sustainability. A (inaudible) backed by those who work with great responsibility in the face of the challenges of climate change and the protection of ecosystems which are the basis of Minerva Foods production chain. It is worth reinforcing the part that has brought us here.

We are leaders in fighting deforestation being the first company in the sector with a 100% of the direct supply of farms geographically mapped in all operating regions. The Savannah, the Amazon, the Rainforest and the (inaudible) in the Federal Public Ministry is ordered the main safest and most transparent audit in the sector, gets deforestation Minerva maintains the best results among large companies.

Result of our commitment to fight illegal deforestation in the Amazon. We are pioneers in the dressing real actions regarding the monitoring of in the right supply of farms in the Amazon region, in collaboration with the University of Wisconsin and National Wildlife Federation and Friends of the Earth, we sped up the integration of Visipec and interact risk analysis do in the Amazon to target scheduled for December was brought forward to August of this year, making Minerva Foods, the first and only company in the sector to analyze the risks of interact farms in the Amazon.

Our pioneering spirit goes beyond the Brazilian board and reaches Paraguay, the country where we have already monitored 8% of purchases for deforestation criteria overlapping with indigenous lands and environmental protection as remembering that our goal is to reach the end of this year with 100% of monitored purchases. In Colombia, we have already started work on mapping suppliers and making geographic diagnosis through buffer zones.

We became the first company in the carbon neutral sector in scope 2 regarding our energy mix. We are also the first Brazilian company to receive the Renewable Energy Seal all our units in Brazil, the seal was issued by the Totum Institute in partnership with the Brazilian Association of Wind Energy and the Brazilian Clean Energy Association.

The works in low carbon production in the chain -- production chain program continues to advantage with carbon balance management in more than 50 supplier for hours in all countries of operation. We are confident that the scientific research using primary data that represent the profile of our producer partners will be decisive for the recognition of sustainable practices applied in our value chain, opening our commercial opportunities in importing countries and opportunities in the growing credit market is carbon [ph].

It is our commitment to support suppliers in implementing carbon sequestration, practices generating benefits that include greater productivity and efficiency, greater resilience and protection of biodiversity for the next few years, we will continue to deliver measurable and transparent results to our stakeholders.

Taking on the challenges that lie ahead and engaging all the links in the value chain to leverage sustainable production practices in South America. We remain confident in our carbon neutral goal until 2035.

On the next slide, we detailed the advances with the integration of the Visipec tool, in collaboration with Amigos De Tejada [ph] National Wildlife Federation and the University of Wisconsin in the United States. We present the result of monitoring indirect supplier farms in our operations in Mato Grosso, Rondonia and Para Visipec is traceability tool that performs the risk assessment by matching data from public databases connecting direct and indirect suppliers significantly improving Minerva Foods decision-making process.

We were the first company in the industry to start testing Visipec from May 2020 and we are proud to announce today that we brought our goal of integrating the tool forward from December this year to August. This means that Minerva Foods is the first and only company in this sector to analyze the risks of indirect supplier farms in the Amazon, in an integrated manner, with the cattle purchase process as of this month and material evidence of our commitment to climate change and ecosystem protection.

The results are motivating and support our pioneering spirit 99.8% of the direct suppliers -- interact supplies in meatpacking plants in Mato Grosso and Rondonia. Our incompliance with the GTFIs, best practices and therefore in compliance with the monitoring of deforestation in farms in the Amazon, there were 7,725 indirect supplier farms verified 2,995 direct farms. A ratio of 2.5 in our ex-farms for each direct supplier farm.

In the coat [ph] or meatpacking plant, see more information Visipec in Minerva Foods. You can see it on our website and also in the results release on the website in Investor Relations, follow Minerva Foods on social media and follow our pioneering spirit.

I now hand over to Edison who's going to detail the operating and financial results. Thank you very much.

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

Thank you, Taciano. Let us move to Slide 6. Let's talk about operating performance and breakdown of divisions, (inaudible) gross revenue into second quarter '21 food. And it's again increase it to share now accounts for 51 our consolidated growth, right and while Brazil division remained with 44%, and the trading division with 5%, complementing total revenue.

Speaking now of capacity of distillation second Q 2021 were operated on a consolidated basis with a capacity of approximately 74%, still reflecting the operational limitations imposed by the pandemic. And Athena Foods the level with (inaudible) remain stable at approximately 77%.

Worth noting that even with the restrictions on exports in the Argentine market that took place in part of second Q. Our geographic diversification allowed us to redirect the scale of production, thus maintaining a level of utilization very similar to the previous quarter. It's movement confirms one of our main competitive advantages, the ability to arbitrate, speeding up and slowing down our plants in the various countries where we operate. Always in search of operating and commercial optimization.

In Brazil division, the (inaudible) was 71% benefited especially by the strong movement of exports. Domestic market is still suffering from the restrictions imposed by the pandemic, both in Brazil and in other countries on the continent. And we believe that the first signs of recovery should start to come up now in the second half of the year.

As we mentioned, consolidated utilization remain below our historical level of 80% and should be resumed over the next few periods with the advancement of the vaccination process, recovery of the global economy and when we move to the end of the pandemic, it is worth mentioning that our analysis, we also -- always consider the concept of net utilization reflecting working days in operation of each one of the plants in activity in our portfolio.

On the right hand side of the slide, we highlight our consolidated exports by region, both for second Q 2021 and for the past 12 months. As Fernando mentioned, Asia continues to play a leading role, representing 48% of exports in the quarter in the past 12 months of share of the Asian continent totaled 46% of Minerva's exports with China currently as the major global importer of beef representing 36% of our exports and remaining the main destination for our products.

Now on Slide 7, let's talk a bit about our financial results with net revenue reached BRL6.3 billion in second Q '21, strong expansion for almost 43% year-on-year, comparison the record amount for the company even considering seasonality that was negative in the first half. When we look at it from the perspective of 12 month, we see a robust year-on-year growth with an increase of almost 28% and totaled BRL23 billion in net revenue in the past 12 months.

Part of this revenue as I mentioned previously, we highlight the good moment of exports which reach the share of approximately 7% of total revenue both in the quarter and the past 12 months.

Speaking of profitability and Minerva EBITDA in Q2 reached BRL545 million with EBITDA margin of 8.7%, which means there's an increase of the 30 basis points when compared to the previous quarter. In the past 12 months, our EBITDA totaled about BRL2.2 billion, an increase of more than 8% on an annual basis and with an EBITDA margin of 9.6% in the period. It is very clear on this slide. The (inaudible), the company that is very clear which is a spread business. That is, our profitability is based on the ability to transfer price especially when we have a cost pressure to narrow despite recent increase in cattle price (inaudible) correspond approximately to 80% to 85% of our total cost.

The company has been very efficient in transferring these increases to customers especially the export market, which is the main focus of Minerva Foods. As a result, we have been able to deliver a consistent level of profitability of the past few quarters, even with the upward movement in animal prices.

If we look at 2021 against 2020, certain peers, we have seen a cost pressure of almost 40% reflected in the price of cattle, even so we managed to keep the margins at the very healthy level with the growth top line and we are managing to deliver EBITDA in cash a lot higher than the market expected.

Now I want to highlight again our geographic diversification, especially when we talk about Athena Foods. Despite the more complicated situation in Brazil, in terms of cattle supply, Athena Foods has had a very highlighted situation, calmer situation and continues to contribute enough with the growth of the company's revenue which as I mentioned in the previous slide represented 51% of the consolidated revenue in this quarter.

Moving now to Slide 8, let's talk about financial leverage. Our leverage ratio measured by the net debt to EBITDA ratio for the past 12 months and remain stable at 2.4 times, the company's net leverage indicator has remained stable since the beginning of 2020. We've been considering disbursement of BRL210 million in the share buyback program and another BRL541 million in the distribution of dividends throughout this period.

Now, the words, we return more the BRL750 million to our shareholders either from earnings or in the form of share buybacks and given Minerva's high level of cash generation we managed to maintain leverage below 2.5 times stable at 2.4 times at a very healthy level that allows us to continue to forecast good dividend distribution to shareholders over the coming quarters.

Minerva's current level of leverage reflects our commitment to seeking and maintaining a more efficient capital structure, less costly with a lower risk profile and fully aligned to our financial strategy.

On this slide I would also like to stress that we still have BRL330 million in warrants self study, which would be exercised by the end of 2021, the strengthening company's cash. In other words, as soon as the fiscal year occurs these resources are added to cash and if we adjust this cash with the effect of these resources, our net leverage ends up being even smaller falling to 2.3 times.

Moving on to next slide, let's talk about net results and operating cash flow. Second quarter '21 was another positive period results net income reached BRL117 million in the quarter and a great accumulated BRL376 million in the semester of 2021. If we consider the accumulated past 12 months, net income totaled practically BRL550 million. This result is a reflection of our commercial and financial strategy over the past few years, total focus of free cash generation risk management, especially on reducing our indebtedness. Because that have been a priority for the company and have contributed to an relevant way to the results we want to achieve quarter after quarter.

Moving to the right hand side of the slide, operating cash flow with positive reaching BRL484 million positive, with if we have net income adjustments impacting BRL39 million and the working capital variation contributing BRL406 million in cash especially due to the good performance in the supplier line. We get to a cash flow of operating activities totaling BRL2.3 billion.

Moving on to Slide 10 to talk about Minerva tops priorities to free cash flow. On Slide 10, we see free cash flow remained positive for the 14th consecutive quarter, reaching BRL647 million, it's been almost four years in a row with positive cash generation, even considering the negative exchange rated hedge where is out in this quarter. Free cash generation remains positive totally BRL425 million in the quarter. Making free cash flow buildup in the quarter, we started with EBITDA before non-recurring items 539 [ph] CapEx of approximately 69 million concentrated on investments in the maintenance of our plants.

Then we have the capital account and turnover that was BRL406 million positive, as I said, benefiting from the line of supplies and we have the cash based financial results, which was BRL235 million negative. After the non-recurring effects of approximately BRL6 million due to the surge expenses in actions against the pandemic, we reached the positive recurring free cash flow of 447 million in second quarter, which added negative cash result of BRL227 million related two foreign exchange hedge policy, we achieved free cash flow in the quarter of BRL425 million.

Speaking now the past 12 months, free cash flow totaled approximately 1.4 billion, we start from an EBITDA of BRL2.2 billion. CapEx in the past 12 months of 352 million, which was impacted by the acquisition of the Vijagual plant in Colombia and also by a corporate venture capital initiatives. The variation in working capital was positive of 547 million in the past 12 months and cash-based financial result was negative of approximately BRL1 billion.

We also have BRL37 million -- billion of non-recurring items related to the pandemic. Thus, we reached a free cash flow approximately BRL1.4 billion in past 12 months reflecting an excellent operating and financial performance of Minerva foods in the period.

On Slide 11, we see the bridge of our net debt. At the previous quarter our net debt totaled approximately 5.4 billion, in the second quarter we distributed BRL353 million in the form of supplementary dividends to our shareholders. We also had a positive cash flow for the quarter before the result of foreign exchange rate which was 640 million, in addition we had impact of the hedging instruments that ended up increasing our debt, which were 222 million in the cash concept and another 73 million negative in the non-cash effect.

We also have a non-cash effect negative impact of the 103 million net related to exchange variation and portion of our debt that is beta foreign currency. So on one hand we have positive impact on the debt from the exchange variation on the other hand, we have a negative impact on my cash in dollars from the same exchange variation and the net effect of this was BRL103 million.

So adding all these accounts and setting up the bridge, Minerva ended up the quarter with a net debt of 5.3 billion, a lower level both in the quarterly comparison as in the annual basis, this position confirms our commitment to continues reducing level indebtedness and mainly gradually improving Minerva Foods capital structure.

I would like to stress that our current hedge policy continues to impose that we have at least 50% protection for long-term positive exchange exposure and this can be seen in the explanatory nodes of our financial statements. And I'm also available for any further clarifications as well as our balance sheet, our exchange exposure is also highly protected make us few more comfortable to continue focusing on the execution of operational and financial performance, and to continue seeking the path of generating value for our shareholders.

On the next slide, we'll comment little more on the capital structure and on the recent liability management initiatives.

On Slide 12 as we mentioned before, we have our leverage ratio measured by a net debt over EBITDA ratio for the past 12 months that ended up stable 2.45, our cash position at the end of two -- second-quarter remain comfortable at BRL6.3 billion.

Speaking of indebtors around 68% of our debt is exposed to exchange variation. The liability management operations allowed us to reduce part of this portion that was exposed to exchange rates, but as I mentioned a while ago, there is a commitment of the management to protect our balance sheet, so we have a hedge policy that determines that the company must have at least 50% of its long-term foreign exchange exposure, hedged -- with this, we protect our balance sheet and this policy has proven very efficient considering the exchange volatility -- foreign exchange volatility in Brazil. Currently our duration is 6.4 years and I highlight that over 80% of our indebtedness is in the long term, almost 60% of our amortization concentrated only from 2028.

As highlighted in the chart and the slide on the right hand side of the slide. I present to you a little more detail. All the liability management efforts and initiatives that company has been implemented since mid-2020, in the second quarter '21, we highlight some initiatives such as the total redemption of 2026 bond, which had a coupon of 6.5 but then (inaudible) the local market amount BRL1.6 billion, first here is BRL1.2 billion maturing in seven years and second series 400 million, due in 10 years, both was swapped. They were issued initially on the IPCA plus (inaudible).

So the final cost of the instruments was equivalent to 128% of CDI for both series. So we locked our cost of debt for seven to 10 years at 128% of CDI for an amount of 1.6 billion which is an operation. I repeat a quite interesting that will help us further reduce the company's weighted-average cost of capital.

In addition, we have the market buyback of 41 million of the 2028 bond, and recently in July, we completed 2031 bond, we purchase raising an additional 400 million which are in cash, they are going to be used for the rollover more -- debt, the result of all these initiatives in addition to the cost reduction of our debt and growth leverage, also reflect the lengthening of our debt profile with the most relevant majorities being concentrated in 2028 and 2031.

Obviously, this entire liability management effort reinforces our commitment to financial discipline and the pursuit of increasingly healthy, less costly, with a lower risk profile, and especially well aligned with our strategy for generating income in the long-term.

Now, I hand over to the operator, so that we can start our Q&A session. Thank you very much.

Questions And Answers

Operator

(Question And Answer)

Thank you very much. Ladies and gentlemen, we will now start the Q&A session for analysts and investors. Before starting we inform you that questions in English will be submitted via webcast and in English only via webcast. (Operator Instructions) We have a question from Ricardo Alves from Morgan Stanley.

Q - Ricardo Alves {BIO 16840901 <GO>}

Good morning, Fernando. Thank you for the call. Can you tell us about the scenario in Brazil? Second quarter, we're seeing prices in dollar ranging quite high. Can you give us an update what you see in terms of July and August, the internal market in Brazil?

Second question. Is the quarter, second quarter, you put over 50% in price and in total your volume maintains quite solid. If you can talk a bit more about the domestic market is the dynamic of supply and demand. If you have anything specific regarding channels that you could comment something more qualitative to explain the domestic market that would help.

And last question, quite briefly, Argentina. We were quite surprised with the results in terms of dollars, considering that we've had these restrictions in the country. If you can give us some color in terms of the results of the quarter, perhaps more interested in how you see the situation now in the country in the third quarter. Thank you very much.

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

Thank you for the questions, Ricardo. Starting on the international market, increasingly markets are interrelated. And what we see in terms of the international market is the increase of all proteins due to the increase in the price of grains, the soybean and corn playing a leading role. Inventory quite low. That increases the competitive proteins. There is also an impact in the production system that we have in the Northern Hemisphere to consignment for beef. So, this only reinforces the thesis that we have at Minerva Foods that is placing itself on a more competitive platform for beef in the world being the largest and most diversified.

Thus, we see in addition to the gray market. There is a large crisis in Australia, where there is -- no, you don't see a production well. The production has dropped over 30%. So, what's happening is that in South America and in various countries, they are taking up spaces of competitors. Demand is positive.

Looking to the demand side. It is positive reduction of restrictions, return to food service, increasing tourism brings a positive dynamic and only consolidates South America. It's worth highlighting that in the past two years, even despite pandemic, there were great opening on major market opening. So, some American countries are taking up more space.

Regarding domestic market in Brazil, the move is interesting. We have a demand for products that are very cheap beef products for industry, for hamburgers and processed foods is growing and products that are more prime products. We're sharing with you that Minerva has a distribution very much focused on special and premium segments. We are launching a campaign now that promotes Estancia, that is our premium brand in Brazil combined means in our premium brand in Argentina and the Angus brand in Uruguay, along with (inaudible). We're going to start a stronger campaign to promote that so that we can consolidate further this work that we have within the domestic market.

In Argentina, what's happened to Argentina has been positive, and we had major results in the mid, long-term. The government, they actually paid attention to this foreign market dynamics, in which there was -- there were price differences between exporters, especially as some that were less formal, keeping part of the funds outside Argentina, so that they could actually materialize the difference from the official foreign exchange rate and what they had in terms of current foreign exchange.

And what they did was to take measures to restrict that. So that was positive. So, what we see in Argentina is a gradual formalization in the industry with clearer rules and that are better established and rules that are more acquisitive for all players. This has been very positive, and we're very excited about Argentina. The product has a very positive image on the international market. And so, you have very good eyes towards Argentina.

Q - Ricardo Alves {BIO 16840901 <GO>}

Thank you very much for your answers.

Operator

The next question is from Gustavo Troyano from Itau Bank.

Q - Gustavo Troyano {BIO 20089359 <GO>}

Good morning, everyone. Thank you for the opportunity. My question is regarding Athena. Can you give me more details in terms of performance by region, not looking at consolidated revolution of slaughter has been quite interesting? I'd like to understand the main driver for this improvement. And if you said that the availability of cattle continues supporting this level of slaughter that we've seen second quarter moving ahead to the second semester. Thank you.

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

Good morning. On page 23 of our release, we have a breakdown by country of Athena revenues, and you can clearly see the countries that contributed most. So, if you see that Paraguay and Colombia, were the great highlights. Colombia, remember, we had an acquisition in October last year, which we doubled the production in slaughter capacity. And the country of Paraguay is actually at a very favorable moment both in the cycle and sales price.

Uruguay too contributed quite a lot for this performance improvement. In Argentina, the expectation is that it would track performance due to all the reasons that Fernando has just explained, ended up being a surprise even though it was quite positive. So, by region, may I highlight, Paraguay, second Colombia, where we see Uruguay with a quite positive outlook for the short mid-term. Gustavo, just adding to what he said, this decision as to how we speed up and slow down. That's a decision that we make weekly based on our analytics data.

So, there is not actually a rule, but actually using the platform that we have to maximize profitability and reduce volatility. So, this is the major work that Minerva has been investing in the past three years.

Q - Gustavo Troyano {BIO 20089359 <GO>}

Very clear. Thank you very much.

Operator

The next question is from Thiago Duarte from BTG Pactual.

Q - Thiago Duarte {BIO 16541921 <GO>}

Hello. Good morning, Fernando, Cassiano and Edison. Good morning, everyone. I'd like to ask three questions. The first, I think, for Fernando, if you could just describe a bit better what happened in this quarter, as Edison mentioned, just now, there was a surprise, the top line performance of Argentina because of those temporary restrictions that have taken place. I understand Fernando, when you say that from the standpoint, regulation part of the changes are positive for the operations like yours. Just to understand, what was the export flow in the quarter that apparently was not only okay revenue, but also volume increase? If you could give some color, explain there was some kind of difference in volumes May, June, that was a restriction. So, it would be interesting to justify the top line performance that was quite strong.

Second question. You don't usually do this, but if you could, even if qualitatively, explain a bit the margins in terms of operation industry Brazil and Athena operations just so that we can try to make up how the consolidated margins break down between these two geographies?

The third question more for Edison about working capital. You've led over BRL400 million in working capital in this quarter, a quarter of strong revenue growth. When we see cash circulation based on the history we have here, it's one of the smallest quarter that we have heard of. If you can talk a bit as to the trade-off between term for receivables and price, if you could explain how the trade-off happened and its sustainability that would be quite interesting. Thank you very much.

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

Thiago, I'm going to start with the last question. In terms of working capital, we have a great focus in holding it. You know it. We have the understanding that this business for you to maintain high levels and EBITDA conversion to cash and you have to have strong working capital. We have an average conversion rate of 80% in the past 14 quarters, which I think is very much out of the curve for the industry.

In the case of receivables, we're always looking for alternatives, be it better negotiations with customers and suppliers and also being creative in operations and financial tools or instruments in this quarter. Specifically, we had a discount policy for supplies and the monthly rate out pay for the bank is lower than what I can pay cash to suppliers. This is applicable to any supplier. I pay in advance, and we have 30, 45 days, I pay cash.

And I can get a discount that is relevant, and I am funded by the financial institution, which lengthens the term for 120 days on average between 60 to 120 on average, 90. And the financial cost of the 90 days is below the discount I managed to get with the partner. So, it makes all says, I am really releasing cash for the operation and the margin gaining some having some positive financial revenue as a whole, enabling growth of the operation with the maintenance of a high conversion rate, EBITDA cash.

On margins, you know that we don't usually disclose that. We may say that Athena this quarter had margins slightly above Brazil. Athena was 31% of our revenue. The trading was practically negligible with 5% of the trading margin is a bit higher than the industrial margin, but it doesn't have such relevant contribution in the final attribution.

Now that Athena was better, a lot of strengths or highlight to Paraguay with two-digit margin, they'll call it quite consistent on. Colombia margin is very close to two digits, and the remaining of operations, 44% for Brazil and the operations with margins that were a bit below consolidated margin of the company.

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

Thiago, just to add to what Edison said. Athena operations also had as one of the major clients, the very distribution of Minerva, the internal work of Minerva Brasil. So, the separation by geography is very relative because when you have the margin made for the place where you sell, the place where you produce, it creates some bias in terms of analysis. Therefore, what we have shown here with the arbitrage policy is how the ensemble becomes stronger. The internal market in South America is Brazil.

Regarding Argentina, we have a very -- a policy that is very much geared to exports. We have put our work very much geared to niches within the foreign markets, benefiting from the positive image that Argentina has. So, we are able to -- even with the restrictions and having within the restrictions the works that have been continued with the government that the government allowed the quota system, we -- since we are very well placed within the export market in Argentina, we are able to react quickly and mitigate part of the restrictions, respecting the rules that was set by the government.

As I've mentioned in the previous question with Ricardo and Gustavo, we see Argentina in a very positive way with a stronger or an increasing formalization in our industry.

Q - Thiago Duarte {BIO 16541921 <GO>}

Very clear. Thank you.

Operator

Our next question is from Isabella Simonato from Bank of America.

Q - Isabella Simonato {BIO 16693071 <GO>}

Good morning, Fernando, Edison, everyone. I think most of my questions have been answered. But however, I have one that I would like to ask. When we look at the slaughter and try to reconcile that with the capacity use, you look at working days. But looking at Brazil, specifically, we see a relevant increase year-over-year. And the volume of slaughter drops at the same time that we have an increase in sales. Could you help us reconcile this maths looking at second quarter of 2020?

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

Well, hi, Isabella. Well, we look at slaughter working days and the open plants. If you remember, we had two plants that were for some period closed during the second quarter, one of them because of maintenance and the other one was we had some precautions regarding COVID pandemic maintenance and lack of supply of cattle and other groups. When we have managed capacity, we look at the plants on the date that we are actually open. And then even having a drop in slaughter, you end up using that resource a bit more once it was -- when it was available. If you want to get details call here, Danilo Luiz and Filipe, they can provide you with the details. But the concept is this one that I've just explained. Is it clear?

Q - Isabella Simonato {BIO 16693071 <GO>}

Yes, it is. But in terms -- when we look at sales volume, this means greater yield. Is that what we can conclude or it's a movement of having greater inventory over the quarter?

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

There is more yield or slaughter that the cattle that we're slaughtering is heavier than first quarter and even more than last year. But we had regions where we had more priority random. So, we had capacity use of over 90%. Rondonia, Rolim de Moura, which is a huge plant. On an average, second quarter, it operated over 90% capacity. So, you have a larger plant operating over 90% with more days running and with a heavier animal. So, you have greater average on the capacity use.

Q - Isabella Simonato {BIO 16693071 <GO>}

Okay. Super clear. Thank you.

Operator

The next question is from Thiago Bortoluci from Goldman Sachs.

Q - Thiago Bortoluci {BIO 17950069 <GO>}

Hi, everyone. Thank you for the call. I have a question regarding the opening of new markets. Over the past weeks, we've seen some headlines suggesting a certain stalemate in the opening of China because of new -- and the opening of new plants in Brazil. If you could comment on what has actually changed? If anything, has changed. What's your outlook for this process? That would be great. Thank you.

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

We don't see any actual changes within the process. Obviously, we follow the news, but we don't have any confirmation, any reality much on the contrary. Speaking to the Brazilian government, people responsible for the opening, all the processes follow normally. So, we should indeed have new openings, new market openings, new licenses for plants. And then Thiago not only in Brazil, we see that also in other countries like Paraguay, Colombia, Uruguay itself with the stronger policy and everything is justifiable.

And with the world's supply demand, thinking about the IMF, it is natural that commercial and also sanitary agreements between South American countries and the main consuming countries that should be intensified and actually sped up.

Q - Thiago Bortoluci {BIO 17950069 <GO>}

Okay. Thank you very much. Very clear.

Operator

(Operator Instructions) Ladies and gentlemen, we're going to move on to the webcast Q&A. We have a question from Carlos Herrera on what we think about the cattle price until the end of the year.

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

We like to trust the market. The market is pointed to an average price of BRL 330 of Sao Paulo base. If we see a future, it's approximately this estimate that we trust. We think that the prices should be flatter the remainder of the year. Again, we are taking for granted what the market is estimated.

Another question on working capital.

Actually, this is our strategy. Our strategy is to generate EBITDA operating cash flow with the smallest consumption possible of working capital that this will improve and maintain high rates of our EBITDA conversion for cash at the end of the line or the bottom line.

As to cash generation and recently, do you think about having a share buyback?

As I mentioned in my speech last year, for example, strong cash generation allowed us to return to shareholders over BRL750 million, BRL250 million approximately was through share buyback over the year and a bit over BRL500 million was through dividend distribution. Probably, there will be a mix. Unfortunately, I cannot answer it because this is a board decision. I can give you my opinion, my personal opinion and recommendation has been to consider the part of the profits that will be distributed to shareholders this year should be made in the more aggressive share buyback.

Why are the share price not following the market prices?

So, we can see that our responsibility is to generate value. The only thing that we control is company's price. The price is something decided by the government cannot influence or make comment on value generation. We have been fulfilling our role. And this is the maximum we can input.

Any forecast resuming export market in Argentina? How much of this impacted our results?

We talked a lot about it over the call. We managed to actually curb difficulties in Argentina and generate a result that it was quite significant. Exports in Argentina have been resumed. So, no forecast. This actually has happened.

Question on Athena IPO. As I mentioned a few times, totally out of the script. We have no need, no plan of pursuing once again Athena's IPO. That was a situation which we had a capital structure that was more burdensome and less balance that made sense from the standpoint of releasing some value and at the same time, rebalancing the capital structure. This happened through the cash -- operating cash generation. We have a structure that is really quite balanced and more calm even at the moment that is more complicated in terms of cattle cycle in Brazil especially. So, it doesn't make any sense for us to sell an asset, especially such a strategic asset as sustained.

Barbara also asks the relation or regarding liability management strategy, capital structure of the company, if we are comfortable with the gross debt and deal cash for the company loss, what we should think about capital allocation.

As we said, we have a clear policy. The distribution of dividends and actually have a clear position minimum that is compulsory distribution is 50% of net profit. So, continue the scenario that we have seen in the past quarters, the company should distribute to at least 50% of its net income. On liability management, we did most of it in the second quarter. And I'd say that we are practically concluded. We've managed to have now much more favorable capital structure less. But in sum, we reduced 200 basis points in the weighted capital structure of third-parties. We actually put 4% rent in 2021 and 2031, we had a readout that we put more money in cash. That is going to be used for us to pay shorter and more burdensome debt we've just had. So the liability management exercise is really ended, unless we have an opportunity very much outside the curve of getting money that is cheaper and longer to refinance our debt.

Gross debt and cash level, we have been reducing gross debt. If you follow our cash flow quarterly, we have been rescuing more debt and rolling them. And what we have in terms of foreign exchange and our hedge policy, we have two-thirds of cash in dollar, and this ends up bringing an increase to our cash. And therefore, you end up feeling less the effect on the gross debt that we have.

Operator

Ladies and gentlemen, please wait for the reconnection of the speaker. Sir, your backup line is open. You may proceed.

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

Okay. How far have you heard me to what part?

My suggestion is for you to repeat the webcast question and answer it again.

So the question is on gross debt, gross leverage and cash. We have been reducing gross leveraging between BRL1 billion, BRL1.5 billion net of gross debt in the next quarters, and this should reduce 0.8% gross leverage. And with this, in the same proportion, the cash should drop BRL6 billion should go below, BRL5 billion, about BRL4.5 billion, BRL5 billion. And so we have minimum cash to imply three months at least of purchase of inputs. This about BRL3.5 billion, BRL4 billion. Now cash should be between EUR4 billion or EUR5 billion to have some room for minimum cash and at the same time, contributing to reducing the growth leverage of the company.

And well, I think the other questions here, most of them have already been answered. We have a question on M&A. We have already said. And the main goal recently the company has been to fix the capital structure and return money to shareholders through dividend payment. We are certainly open and attentive to good opportunities. We had a specific M&A in October. We bought a plant in Colombia. So this kind of specific M&A, is something that we are always keeping in our radar. And any step for M&A that we take it will be towards not complicating or not worsening our capital structure that we have reached since last year. So this is it.

So, we end the Q&A session.

Operator

Thank you. We now close the Q&A session. I would like to give the floor to Mr.Fernand Queiroz for his final remarks.

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

I'd like to close this conference call by thanking everyone and the entire Minerva team for their dedication and all the integration and all their dedication driver to have without minimizing policy and generating value to the company and shareholders despite the difficulties and challenging. And regional differences, we are able -- we have been able to along the period to extract results from our operations. We move even in a very challenging moment, we will continue to face this together and in the way we have conducted in our business with the termination, with exports, good capillarity and being focused in distribution, getting closer to our customers, the great focus on sustainability, on innovation, as we've mentioned during our conference call in our presentation focused in increasingly improving the teams, all the places with training especially with integrations.

If we move ahead, we have a quite positive scenario on the international market based on what we've mentioned, rates, reduction of availability of countries, of competing countries and we continue to move forward on this export agendas along with South America that is increasingly taking up space on the international scene. So, we continue firm and pay attention to the global market opportunities always with the financial discipline with operational discipline with a clear and transparent strategy for the whole market or is generating value and short, midterm and long-term.

And thank you very much for your interest in Minerva Foods, and we are remaining at your disposal for any questions and clarifications that you want to further explore with our team. Thank you very much to you all.

Operator

The Minerva results conference call is ended. We thank you all for your participation, and we wish you a good day.