Q2 2020 Earnings Call

Company Participants

- Edison Ticle, Chief Financial and IR Officer
- Fernando de Queiroz, CEO

Other Participants

- Isabella Simonato, Analyst
- Joao Soares, Analyst
- Lucas Ferreira, Analyst
- Luciana de Carvalho, Analyst
- Ricardo Alves, Analyst
- Thiago Duarte, Analyst

Presentation

Operator

(interpreted) Good morning. Welcome to Minerva about the results of this 2020 results. We have present here Fernando de Queiroz, Chief Executive Officer; and Edison Ticle, CFO and Investor Relations Officer. The call is being recorded. (Operator Instructions) And it is simultaneously in www.minervafoods.com/IR. In this address, you will find the webcast platform for downloading.

Before proceeding, we wish to mention that the forward-looking statements that may be made during this presentation relating to Minerva's business projects, 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 must understand that general economic conditions, the industry conditions and other operating factors can also affect the future results of Minerva, and could cause results to differ from those expressed in the forward-looking statements.

I will now give the floor to Mr. Fernando de Queiroz, CEO, who will begin his presentation. Mr. Queiroz, you may start the presentation.

Fernando de Queiroz {BIO 15387377 <GO>}

(interpreted) Good morning, and thank you for participating at the Minerva Second Quarter 2020 Earnings Conference Call. Like last quarter, before we delve into financials, I think it's important to address these unprecedented times and the situation in which we find ourselves on account of corona pandemic.

Since the emergence of the pandemic, Minerva has followed all the official guidelines, and taken preventive and protective measures to safeguard our primary and most important asset, our team, our people and our employees. We have adopted a number of protective measures to prioritize the workers' health, such as leaves of absence for workers in at-risk groups and working from home for administrative and office personnel.

Furthermore, we are enforcing greater control and prevention in the plants, doing temperature checks when workers arrive and reinforcing distancing measures along the manufacturing lines, like slaughter and deboning, and in meeting areas like the cafeteria.

I would like to point out that these initiatives fully comply with the government authorities, instructions and protocols, and are designed to ensure the safety, not only of the workers, but also of our customers and partners.

We are actively contributing to charitable initiatives in civil society. To date, we have given over BRL42 million in contributions throughout the continent. We have donated over 180 tons of food, such as beef, meat balls and others, and 140,000 hygiene and personal protection items like masks, gloves, hair caps, safety goggles, and have donated over than -- more than 20,000 liters of hand sanitizer, 13,000 medications and 5,000 devices to use in the hospital.

And we did even more, donating 3,500 rapid test for COVID-19 to health secretaries from cities where we keep our units. Minerva has leased five mobile ICUs to aid city hospitals in some of the places we operate, and donated BRL250,000 to the general hospital run by the University of Sao Paulo School of Medicine in the city of Ribeirao Preto, Sao Paulo.

We also donated BRL360,000 to lease a hospital ward on behalf of the city government of Palmeras in the state of Goias and in partnership with the Brazilian Development Bank, Saving Lives Project, we gave BRL150,000 to purchase protection kits for frontline workers in the fight against coronavirus.

We also actively support our partners, especially small and medium-sized business. Together with BTG Bank, we set up the first relief fund for the meat industry in Brazil. We put an initial BRL32 million in the emergency fund. These funds are intended to support our small and medium-sized customers and help them get through the crisis. We are offering working capital loans of BRL30,000 for nearly 1,200 customers in the first stage. By the end of the second stage of the project, we expect to have helped 2,000 customers. Customers have 24 months to pay back the loan trades plus a one-year grace period.

I would like to stress that this is not only for beef purchases, it can be used for general business expenses as dictated by the particular needs of the company. This will ensure the indirect and direct jobs, and are not lost in the pandemic. Social responsibility is part of our DNA and a priority for us at Minerva Foods. This is why we're giving support to many different initiatives throughout Brazil.

Our concern is with the impact of the novel coronavirus, not only in terms of health, but on other areas as well, including the economy. We set up the relief fund specifically to help our partners face these incredible difficult times. Everything we have done reinforces our commitment to society by large, our workers, partners, customers and communities.

I cannot stress enough how critically important our industry, the food industry, is for the world. We shoulder great responsibility, and just as we did this first half of the year, we will continue to work tirelessly to produce food to bring beef, such as basic need, to tables all over the world.

Now let us move on to earnings, starting with the second quarter highlights on Slide 2. Let's begin with the cash flow, one of our priorities. Operating cash flow totaled BRL711 million in the second Q '20 and BRL3.6 billion in the 12 months ending in June 2020.

Free cash flow was positive for the tenth quarter running, totaling BRL177 million, which generated BRL1.2 billion in free cash flow in the first semester and BRL1.9 billion in the last 12 months.

I'd like to point out how our solid operation and financial performance as well as our risk management model proved fundamental to our excellent quarterly performance.

Consolidated gross revenue came to BRL4.6 billion in the second quarter of 2020 and BRL19 billion in the last 12 months, a company record. If we break down gross revenue for the quarter, we get 45% of our revenue or BRL2.1 billion came from the Brazil Division, another 45% of our revenue came from Athena Foods and the remaining 10% or approximately BRL472 million came from the Trading Division.

In the second quarter, Minerva's consolidated exports accounted for 72% of our gross revenue, up to 16% from the second quarter 2019. In the last 12 months, exports accounted for approximately 70% of our revenue. In the second quarter, our EBITDA reached BRL590 million in the second quarter 2020, a considerable 62% increase over the second quarter of 2019, a record for the period. Well, the EBITDA margin was 13.4%.

Our perform -- operating performance in the second quarter of 2020 reflects not only the upswing in exports and growing international demand for beef, but also Minerva's outstanding operations management.

Consequently, we posted a net profit of BRL253 million this past quarter and BRL525 million in the first half of the year. The net profit for the last 12 months came to BRL686 million. In addition to the company's solid operation and financial performance, another highlight was our strong financial position.

At the close of the second quarter '20, our leverage ratio, that is the net debt-to-EBITDA ratio over the previous 12 (technical difficulty) 12 months and right in line with our strategy to reduce leveraging and improved capital structure. Minerva ended with a cash position of BRL6.8 billion, which gives this breathing room amidst the challenges of the times and is perfectly aligned with our conservative cash management strategy.

Finally, I must mention that we must continue to follow our debt management schedule. We finalized the issuance of two local bonds linked to agribusiness receivable certificates, totaling $1.2 billion, with the aim of improving capital structure and extending the duration of our debt. We also decided, in early June, to cancel $97 million in 2026 and '28 bonds, which given the market volatility, were trading below face value, and had been bought back over the previous six months.

We announced our new innovation area, whose scope includes three major initiatives, advanced data analysis for the decision-making; second, developing an e-commerce and marketplace platform, expanding opportunities through our digital channels; and three, an investment arm focused on start-ups and technology companies that relate to our business. Setting up a dedicated innovation area is yet another Minerva initiative aimed at maximizing the market opportunities and making strides in our industry's value chain. At the end of the presentation, Edison will share more details about these segments.

Let us now move to the next slide and talk a bit more about Minerva's operational performance this past quarter, starting with exports. Slide 3. The second quarter of '20, we strengthened our position as the largest beef exporter in South America with a market share of approximately 18%. These numbers reflect our geographical diversification throughout the content, which, together with the help of our 15 international offices, gives us competitive advantage and favorable position in global beef exports.

Now let's dive down into regional export performance for the Brazil Division. Asia responded for 50% of export revenue, a tremendous increase of 25 percentage points over the same quarter last year. Asia was also the biggest market for Athena Foods, accounting for 42% of exports. These numbers remain steady compared to 2019. Now export performance has made it abundantly clear that there is growing demand in Asia, especially in China, but also other markets like Indonesia and Malaysia for beef. We expected heavy growth in these markets in the forthcoming quarters.

Finally, I believe that it is important to stress that market forecasts are quite positive. We expect a number of very encouraging economic and market factors to positively affect our business in the upcoming quarters. The first is the African swine fever, which continues to impact Chinese pork. Bear in mind that the outbreak is not limited to China, and has spread throughout Asian and parts of Eastern Europe.

Additionally, we have seen that there -- in Asia -- Southeast Asia, there is the result of growing urbanization, higher incomes, expanding middle class and a move towards westernized consumer behavior. In addition, we've seen an increase in supply problems for some of the world's biggest beef suppliers, such as Australia, one of our primary competitors worldwide, the U.S. with pandemic heavily impacting U.S. meat production, and more recently, India, which is facing export problems for buffalo meat. This has opened more doors for us in markets in Asia and Middle East.

The current situation is our inroads for South American exporting countries like Brazil, Argentina, Paraguay and Colombia, new markets -- and also Saudi Arabia allows imports from Uruguay, Paraguay and Colombia, more recently, in the late -- in the first part of this year. So the Minerva strategy is to maximize our competitive advantage to invest in innovation, risk management and market intelligence to ensure increasingly more efficient and profitable commercial and logistic solutions.

We have aspired to and pursued all this while honoring our commitment to sustainability, one of our greatest competitive advantages and one that opens the doors to markets that values environmental concerns, animal well-being and social practices. This sets us apart from the competition and increased business opportunities.

I'd now like to turn it over to Edison. He will go into more details about Minerva's operational and financial highlights.

Edison Ticle {BIO 15435343 <GO>}

(interpreted) Edison speaking. Thank you, Fernando. Let's start with Slide 4. Let's start with the operating performance and the breakdown of the company's gross revenue by the division.

The second quarter of '20, the Brazil Division and Athena Foods accounted for 45% of the company's earnings, and the Trading Division for the remaining 10%. We had -- Brazil's plants were impacted this quarter on account of COVID-19 measures. And with this, the capacity decreased -- the division operated decreased 63%. Athena Foods operated at 76% capacity, higher than the previous quarter and a reflection of the growing export volume to China from our plants in Argentina and Uruguay.

So as a whole, the company's plants operated at approximately 70% capacity this quarter. As mentioned earlier, this operating -- these rates barely close to the new normal, and are expected to remain in these ranges as long as the pandemic persists.

Finally, now on the right-hand side of the slide, we've included consolidated exports by region in the second quarter '20 and for the 12 month period in June. As Fernando already mentioned, Asia is our leading export destination. In the second quarter this year, Asia accounted for 50% of our exports, and China alone accounted for 37%, again, of total exports. In the last 12 months, the Asian continent accounted for 47%.

Slide 5. Moving on to Slide 5. Net revenue came to BRL4.4 billion in the second quarter and a 9% increase over the second quarter. In LTM two quarters '20, net revenue totaled BRL18 billion, a 7% increase year-on-year -- year-to-year. And speaking of profitability, Minerva has posted an EBITDA of two -- at the second quarter of BRL590 million, a solid 62% increase year-on-year. EBITDA margin was 13.4%, an increase of 440 bps over the second quarter '19. In the last 12 months, EBITDA totaled BRL2 billion, a record for Minerva.

In the next slide, I want to talk about financial leveraging. Our leverage index, that is net debt-to-EBITDA ratio, over the previous 12 months was 2.6 times despite the nearly 5% depreciation of the U.S. dollar. In dollar, our leverage index at the close of the quarter was 2.2 times. We've started to start disclosing this leverage metric in U.S. dollars following some exporter -- exporting companies that have been disclosing these numbers in this system. So we've decided to publish the two metrics, but obviously, we focused on net leverage in BRL terms, since we disclose our financial statements in our local currency. But just as illustration, it is worthwhile to also take a look at the net debt-to-EBITDA in U.S. dollars is most part of our revenues currently comes from exports.

Minerva's leverage index today is the lowest in the last 12 months, and reflects management's commitment to a more efficient, less costly and lower risk capital structure. And we reduced the financial risk of the company.

I would also like to point out that we still have nearly BRL770 million from the warrants, must -- that will reinforce our cash position until the end of 2021. These warrants have a stock price at BRL6.42. This means that they are keeping the money, which means that they will be exercised with a huge certainty by 2021. As soon as they will be exercised, these proceeds come to our cash and our leverage in BRL after the warrants, then it should be 2.2 times.

Let's move on to the next slide. We'll discuss net earnings and operational cash flow. Slide 7. In the second quarter '20, the net revenue came to BRL253 million after calculating for income and social taxes. Net revenue totaled BRL525 million or in 2020. These results reflect not only our solid operational performance, but also our strong risk management model, which has proven fundamental to safeguarding our balance sheet, reducing leveraging and contributing to this half of the year's stellar net revenue.

Minerva's net profit over the last 12 months came to BRL686 million.

Let us move on to our cash position. Cash flow from operations came to BRL711 million this past quarter, of which approximately BRL659 million were adjustments to the net profit. Working capital came to BRL202 million, and due to the variation of BRL84 million from the receivables, since we directed most of our sales to the export market. And also, a consumption of BRL111 million from inventories in biological asset lines. In the last 12 months, operational cash flow was positive in BRL3.6 billion.

On Slide 8, we wish to discuss the company's -- two of the company's priorities, cash flow and free cash flow. So the second quarter 2020 was posted in the 10th consecutive quarter of positive free cash flow, totaling BRL377 million, including the income of BRL215 million from foreign exchange hedging strategy.

EBITDA this quarter, not adjusted for nonrecurring items, totaled BRL577 million and the investments to BRL50 million. For the second quarter, cash basis income, not accounting for ForEx hedging, came to BRL177 million. Excluding nonrecurring items, totally -- approximately BRL13 million on account of social expenses on activities designed to address the novel coronavirus, recurring free cash flow for the quarter BRL162 million.

Due to the high volatility of exchange rate over the quarter and the benefits from our hedge policy, income from hedging came to BRL215 million, bringing free cash flow of up to BRL377 million at the quarter's close. In the same vein, free cash flow in the last 12 months totaled BRL1.9 billion. Building up, we started with an EBITDA of BRL2.0 billion, with a total of BRL271 million of CapEx. FX hedging cash basis loss came to BRL206 million and a variance in cash flow needs came to a positive BRL330 million. If we add the BRL25 million for nonrecurring items, we reach a free cash flow of BRL1.9 billion in the last 12 months, a reflection of Minerva's solid economic performance over the year.

I'd like to highlight, for these last 12 months' free cash flow result, comparing with the last 12 months EBITDA, we generated BRL1.9 billion of free cash flow, while BRL2.0 billion of EBITDA, which means an EBITDA conversion of more than 90% or 93% to be exact.

If the meaning of this metric, as a proxy of free cash flow in the case of Minerva, is quite valid because after all in the last 12 months, 93% of our EBITDA was really translated in free cash flow for the company. I might even say that in our industry, there's no other company that has this EBITDA cash conversion that Minerva was able to obtain -- produce in the last 12 months.

Let's move on to Slide 9, which addresses net debt bridge. At the end of our -- the total net debt at the close of the last quarter was BRL5.4 billion. In the second quarter, free cash flow stood at BRL377 million which, as I mentioned earlier, was impacted by BRL13 million for nonrecurring items, BRL55 million positive was the effect of the accounting of some hedge in this quarter and for financial liabilities over the quarter.

So the sum of these revenues in doing the forecast, we begin from a net debt of BRL5.4 billion, and go to the same net debt, even considering a dollar appreciation of about $0.28 in the period. So thus, we ratified again the commitment of this management to keep reducing Minerva's leverage level to reduce in our effective and concrete way mainly to gradually improve our capital structure.

Our hedging policy continues to maintain protected at least 50% of our long-term foreign currency exposure. We continue carrying a very protected FX exposure in our balance sheet, which gives us a comfort zone to keep generating excellent operational results, being certain that the financial part will not compromise. Quite the opposite, it will give a strong contribution in the company's margin.

Next slide. Now we're going to discuss a bit about our capital structure. As we already mentioned, our leverage ratio, that is the net debt-to-EBITDA ratio over the previous 12 months ending in the second quarter '20, was 2.6 times, its lowest in the last 12 months. The company's cash position was BRL6.8 million on June 30, the highest ever recorded for Minerva, also as a result from our hedging policy, which obliges us to keep a relevant part of our cash position in dollars.

Therefore, when there is such a high real depreciation, having this amount of cash in U.S. dollars implies having a higher amount of reais at the end of the quarter. This is highly reassuring in these extremely volatile times.

And while we're discussing debt profile, about 78% of our debt was exposed to the U.S. variation with approximately five years duration. Bear in mind that our hedge policy, which requires that we protect at least 50% of our long-term exposure. And this has proven extremely efficient in the light of exchange rate variations.

And the last point I would like to comment on this slide is our constant shift in liability management. We're constantly looking to a perfect capital structure by reducing the cost and extending the duration of our debt. During the second quarter, we issued certificates, totaling BRL1.2 billion that will mature in 2025 and '26. The income from these issues, in addition to helping us maintain a comfortable cash position, allowed us to buyback our 2026 and '28 bonds on the secondary markets, which partially was canceled in part is in our cash position. And so we bought back $100 million that were already canceled, and this represents half of our local bonds.

The other half was directed to debt rollover or to reduce our short-term exposure. And that's why our amortization profile was more favorable. Currently, less than 17% of our debt maturity date is in the next 12 months. This was a onetime opportunity in light of the market volatility, but it could only happen because Minerva was and is highly liquid, which allows us to seize opportunities and use our cash more efficiently and to further improve our capital structure.

Now we're going to Slide 11. Just before we open for Q&A, we would like to talk about our innovation area. As announced last week, we created three main fronts, one, advanced data analysis to further developing and managing statistical data and AI tools to guide our operational, financial and risk management decisions.

As everybody knows, Minerva, since 1992, when it was founded, has been keeping a huge public database of information about the worldwide beef industry, which means we now have a unique data lake to apply modern data analysis tools to both improve and accelerate our management model and decision-making.

So these AI tools will be applied to our proprietary risk desk management and pricing models. We will also use this kind of tool in our proprietary credit model, supporting a more accurate and efficient approach based on quantitative models and to improve our decision making. We are very confident that with these initiatives in doing internal backtesting, we -- that profitability could be improved by 15% to 20%.

So just to explain what is backtesting, we simulate previous decisions, and considering the new quantitative models, and we evaluate which would be the result of our new tools. Well, you see, I take the decisions that were taken. I make a new simulation with these algorithms and see what would have been the decision and what would have yielded as compared to the previous decision. So we can, therefore, see that we can have a gain of about 15% to 20% using more modern tools, but mainly capacity and speed of processing and interaction with the variables much, much better than what we used in the past.

The second front is tasked with identifying and flushing out opportunities for online sales, and we'll focus initially on Brazil, Argentina and Paraguay, developing e-commerce and marketplace platform, which will further strengthen our sales channels. And populate our market intelligence database and, therefore, allowing us to gain new entry to new commercial opportunities. In Argentina, we are in the final stages of the development of these digital initiatives, while in Brazil and Paraguay, we still have a long road ahead.

And finally, the third front involves setting up an investment arm focusing on start-ups and technology companies related to addressing needs in our industry. That is, we're going to try to invest primarily in start-ups that are related to -- core business being related to Minerva's value chain like alternative proteins, logistics, animal husbandry, agritech and food tech, retail and more that show long-term potential to leverage synergies and help unlock unique opportunities for Minerva, which are emerging with new consumer habits.

For instance, we've been noticing an important increase in digitalization services, not only financial services but also e-commerce opportunities, a clear change on consumer behavior. We know that there are several start-ups that are focused on capturing these changes. And so nothing better than using venture capital structures to give values for everyone.

We expect a maximum investment of $30 million in order to support no more than 10 companies with investments ranging from $1 million to $5 million per company. This tireless pursuit of innovation is part of the Minerva Foods DNA. And this new department is yet another initiative through which we will continue to contribute to the food industries and technological changes, and offer new products and new opportunities to the market, our shareholders and our partners.

Well, we conclude the quarterly earnings presentation. I will now give the floor to the operator to open the floor for your questions.

Questions And Answers

Operator

(interpreted) (Operator Instructions) The first question is from BTG Pactual Bank.

Q - Thiago Duarte {BIO 16541921 <GO>}

Good morning, Fernando and Edison. I would like to ask two questions. The first one has to do with volumes. It becomes very clear that using capacity, Edison mentioned that would be the new normal while we have this coronavirus. I would like to ask about the drop in sales volume that dropped a lot more than the slaughter. So why did this happen?

Because we've heard a lot of information in the second -- of difficulties, we saw some logistics and others. So if you could explore this about the margin sustainability, when we look at the price of the arroba, which is already at a higher level if we look to Brazil, we see a difference in the price of dollar. So how do you see this margin, the gross margin? We have the impression that it is very high. I would like to see how you see this margin going forward.

A - Edison Ticle {BIO 15435343 <GO>}

(interpreted) Fernando will answer the first question. I'll answer the second one.

I would like to remind you a few comments that I made about the first quarter. First of all, we have, in our budget, BRL200 per arroba. We thought the prices would be below this. And then for one or two months, it would be close to this, and then it should go up by October between the seasons. And this is happening exactly what we forecasted in our budget. According to our budget, we would have the possibility of having a two-digit margin this year.

So what do we see, the prices in dollars and reais are much higher. So with the cost in the budget and the sales price much higher. This will imply in more expanded margin. So this second quarter, the margin was about 350 times better than what we expected in our budget. So if we make a conservative account, if we are conservative with a margin of two low digits, about 11% for the last two quarters, we'll have the year EBITDA of BRL2.2 billion more or less. Now this is already above what we talked to the market at the beginning of this year.

So all the accounts that are making is that if we repeat the performance of the second quarter, this does not happen. Usually, the third and fourth quarters are much better. But if we can produce the same result of EBITDA in monetary units, which will imply necessarily in a lower margin much smaller than the second quarter, we will reach to 2020 to -- it's too big, which is like -- it's a big increase as compared to the previous year.

Well, all this to say the following. We're very optimistic with the margin. It will surprise you, upward direction, because the cattle position was -- in our budget was -- we did not expect the prices in dollars to go up and the Brazilian currency, very depreciated when we prepared our budget. Fernando will reply the second question.

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

(interpreted) Thiago, regarding volumes you saw in this quarter an adjustment in the plants as well the adjustments in the sales channel. So undoubtedly, April was a very poor month. It was a month in which physically we adjusted the plants and the new protocols that we have now and channels had to be adjusted as well. So we saw a valley in the month of April and a gradual recovery. So sales were lower, but I can state here that Minerva's priority was to take care of our people, take care of our collaborators, because of the COVID-19. So this caused a gap in sales.

Now regarding the markets, I would say that they're becoming more and more increasing. We have a seasonal numbers, Australia and New Zealand are giving us new opportunities because the COVID has attacked India. And India, therefore, has opened their doors for us in the Southeast Asia. So we're very optimistic for the international market for the seventh semester.

And the domestic market in Brazil, Uruguay, Argentina and Colombia have given strong signals of recovery -- gradual recovery, but of recovery. So we do not see the new normal is the reduction in capacities, but the new normal is to have a -- going back to consumption in all the markets in the domestic markets and South America will occupy a bigger share in the international market.

Q - Thiago Duarte {BIO 16541921 <GO>}

Thank you very much. Very clear. Now to say this, in other words, if what I think I understood from your answer is that this gap, the volume produced and sold, you believe it should be inverted in the second semester, let us say, and an adjustment in the channel. Is that what you said? Did I understand correctly?

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

(interpreted) Yes, that's correct.

Operator

(interpreted) The next question comes from Isabella Simonato from Bank of America.

Q - Isabella Simonato {BIO 16693071 <GO>}

Thank you, Fernando and Edison. My first question has to do with capital allocation due the deleverage that is happening and the company focus has changed. Now regarding payment of dividends, what we can expect. What does the company think about the timing and a change in politics? How can we think of capital allocation going forward? Could you -- giving a follow-up on what Thiago's question about slaughter. It shows more on Athena. Could you mention some country where there was a bigger mismatch to show us how things are evolving, to put more color in our charts with all the market?

A - Edison Ticle {BIO 15435343 <GO>}

(interpreted) Well, speaking of capital allocation and dividends, we approved a policy with minimum difference of 50% of net debt. And at the end of the exercise, the net leverage will be equal or smaller than 2.5 times. We'll always consider the calendar year. And the first Board meeting that is going to approve the annual accounts, we will discuss the dividend policy. And if it's equal or less than 2.5%, we will propose to pay 50% of net profit. Well, the timing is that we hope that this will happen in the quarter -- first quarter of next year, the payment referring to the year 2020.

We feel very confident due to the trends in the company's dedication this year, that we believe we will attain a leverage level equal or less than what was in our dividend policy approved by the Board.

Looking at sort of in the medium and long-term, we believe that the net debt considering EBITDA will not be below two times. If it goes below two times, we will have to be more aggressive with tools of capital distribution to the shareholders. It can be through dividends, purchasing back some shares, but some of these tools so that we can maintain the leverage two times because the ROI is above 20% and the capital of third parties.

Now it doesn't make sense to have a company under leveraged. So two times seems very comfortable if we consider the debt profile that we have. So it's very comfortable from the financial point of view and very efficient and worthwhile from the point of view of returns to the shareholders if we compare the capital invested with the marginal cost of third parties capital.

And if the debt goes below this, we're going to return money to the shareholders. And we'll see what the best solution will be from the accounting point of view and from our company, by dividends or buyback of shares.

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

(interpreted) Fernando speaking. Isabella, when I spoke to Thiago about Minerva, the Minerva and Athena protocols are the same. So we reformulated all the internal flow of the plants during our valley period and everything where we had to hold back. So there is a upturning curve for slaughter and, obviously, the sales curve is after the slaughter curve [ph]. So what I said -- the numbers that I said to Thiago are also valid in your question.

Operator

(interpreted) The next question is from Ricardo Alves from Morgan Stanley.

Q - Ricardo Alves {BIO 16840901 <GO>}

I have two questions regarding China. The first one is about Brazil's exports to China. We have noticed that there has been an expressive gain in Brazil's market share regarding Australia in June. And I believe that now Brazil has 40% of what they're importing of beef. Could you speak about the competitive moment in China? We have to see that Australia is going to have to face higher tariffs in the second semester. And so I think Asia will import more Brazilian beef. And would you like to talk about Argentina and Uruguay as well?

And the second question is about local production for China. I would like to hear an update about the recovery of the local swine production and of poultry as well. On our side, we believe that if it is always very always in the growing side, but I would like to hear from you what you believe about what channel will recover quicker than what you imagine? If you can give us some information.

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

(interpreted) Ricardo, thank you for your question. First of all, speaking in a more macro level, china became the enemy of the United States, and Australia is an ally. They are allied. You have here a unique opportunity that South America is occupying this space. You had restrictions to Australian plants. There were restrictions also regarding Australian products in China. And as they were the main competitors in South America.

So this opens a very important gate with a favorable political aspect for us. And I would like to praise the very good work that the Ministry of Agriculture has been doing. And with the approximation with the other -- with the Ministry of Agriculture from China. So this environment is very positive for South America, Brazil, Argentina, all the countries that are gaining share. The market in China gradually is going to become more normal. There is the second wave. There's a restriction. But what is important is that the habit of eating beef is sticking. It is becoming permanent in China and with a lot of opportunities for us.

Now the data we have that are most recent of swine fever, we see that there is an increase of contamination. Some areas in China had floods and these floods spread the virus. There's no vaccine for the swine fever. There's no control -- more than 50% of the production -- swine production in China are traditional producers. And so the environment is still very vulnerable. And there was an attempt of recovery, but it dropped so much so that the piglets' price and swine and pork price went to the prices before the shutdown, the lockdown.

So with the decrease in Australia, the decrease of their herd, and also the issues in India that their products that were directed to China and are not -- no more. So this is an opportunity for South America. And we, Minerva, we are the biggest exporter from Argentina and South America. We are occupying this space in China.

But I'd like to say this, not only China, it's all of Southeast Asia. So for example, our exports to China, more than 25%; to Asia, more than 25% or to other countries besides China. So this share is increasing. That is, besides China, other Southeast countries.

Operator

(interpreted) The next question comes from Lucas from the JPMorgan Bank.

Q - Lucas Ferreira {BIO 16552031 <GO>}

Good morning. The first question, could you talk about the profitability in the different countries? There seems to be a difference in Athena. So I would like to hear from each country.

Also, the second question is to understand the following. What would you say is the cost of this drop in dollars in the second quarter? Do you think it has to do with local sort of stocking of beef? Now in July, there's an indication of better prices.

And another question if you will allow me. How can you increase the export level? Do you think you will not be able to increase your exports? And at the end of next year, you will be at 85% of your capacity, so how are you going to work with this mix of exports or do you think the exports are going to be more or less what we see today?

A - Edison Ticle {BIO 15435343 <GO>}

(interpreted) I will answer the first question, and Fernando will ask the other.

Well, about the profitability per country, we do not do this data for each country. They had two-digit instability. Last quarter, biggest profitability was Brazil and Uruguay. And then Paraguay. Then we have Colombia a bit worse.

When I say profitability, I'm not talking about EBITDA, I'm talking about net profit, which is something that you don't even mention in your reports. But I think it's very important to be considered. I've never seen someone to pay your accounts with EBITDA at the bank. It was net profit.

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

(interpreted) Well, this is Fernando. Your question about price, I would say that prices is something very dynamic. The markets are very volatile. Some companies are increasing their prices.

For example, if you compare the last three months, China had a substantial increase in price. There were spikes in the U.S., Europe went through lockdown. And now they're going into a very good recovery. Other countries are suffering, such as the Middle East, Egypt, for example. They are having a price reduction. So -- but this is sort of -- it's not something permanent. So this is why we're investing more and more in analytics, so that we can -- so that we can obtain the best options.

Now regarding the mix of domestic market and how much we can grow. Well, we can grow up to 5%. We were already at 72% the last quarter with an increase at the end of the quarter. It started a little bit weaker and -- no, not weaker, but more domestic market and then export. And we can see that the trend is to remain in this level until exports improve.

But also, I would say that this answer is given by our profitability, it is on a weekly analysis that we do in the analytics and the forecast we have in each one of the markets.

Operator

(interpreted) The next question is from Luciana Carvalho from the Bank of Brazil.

Q - Luciana de Carvalho {BIO 18724665 <GO>}

Fernando, Edison and everybody else. I would like to follow-up on Ricardo's question about China. Could you talk about what you feel about the channels in China? And a question about the capital structure. You have leveraged a lot with liability management. I would like to understand what we can expect going forward? Do we have space?

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

(interpreted) Well, the first question, JV is an option that we have to increase and also for information. With the lockdown and the COVID, we delayed the part of the final conclusion of JV. So it will have to wait for the third -- the second half of the year, the second semester.

Now the food service recovery has been gradual. There was sort of a step back due to China. But now we have already seen that China is coming back. What is interesting, Luciana, is that we think is that is going to be permanent, is a change in channels. The online retail will have a more important -- will be more important in food service. So this is a scenario we're working on, and this is where we're making our partnerships.

The other question, I'll ask, Edison.

A - Edison Ticle {BIO 15435343 <GO>}

(interpreted) Well, Luciana, I will give a standard response. I think that we were able to make a very advantageous -- we bought -- buy back our own bonds. If we consider the hedge, it's more than 10% -- it's 10%, 11%, and this was funded at 160 [ph], the CDI. If we look at the CDI, it's going to cost BRL3.20. So this kind of opportunity, we are open and we are ready to do.

Besides this, I do not see many opportunities in the market. But if there is something that makes sense in cost reduction and keeping or increasing the duration of our debt, we are open to study this.

Operator

(interpreted) The next question is from Joao Soares from Citibank.

Q - Joao Soares {BIO 19817396 <GO>}

I have two questions. The first one is that you talked a lot about -- I'd like to talk about the equity market. It's in a very positive market -- to go back to the M&A strategy. And also I'd like to hear about the perspective in Paraguay. I'm sorry, the sound is really bad here. Yesterday, there was something published about investments in the Brazilian company. Can you update the Minerva exports and what are the best perspectives?

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

(interpreted) We have no plans, and we cannot consider any equity plan at this moment. I would like to thank all the -- that contributed with an increase in capital and [ph] retribution we gave it a value zero a [ph] warrant, which now is worth BRL9 each warrant. And these warrants will be until the end, I have another -- BRL780 million for the company. And considering this, the leverage would go to 2.2 times -- from 2.6 times to 2.2 times. We have a follow-on with the commitment to reduce the leverage and we are delivering everything that was promised and shared with the investors during the operation.

So all this to say is that it really doesn't make sense to go to the market and make an equity operation. Our focus in the next two years is to continue deleveraging and paying dividends. I've been saying this several times and I will continue always mentioning this. We have an outstanding opportunity of paying a dividend, which is very interesting in this year and next year. Any new investment cycle that we will only bring up to discuss with the Board only next year and probably at the end of next year.

And even in this case, we're going to be very cautious with the leverage. We hope that it will reach the level that I consider optimum, which is two times. So this leverage will never pass beyond three times.

Q - Joao Soares {BIO 19817396 <GO>}

But I'm talking about medium term, more than two, three years from now.

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

(interpreted) So no, we have no interest, doesn't make sense for us. And we will not discuss in equity operation at this moment.

Well, Joao, regarding Frigo Norte, this is a company that was closed in Juan Caballero City. And we signed a contract for providing services. And this is now being analyzed by the Antitrust in Paraguay, and we're waiting for a reply shortly so that we can begin our operations. We believe a lot in the Paraguay market. It's in development. There are new areas, and an increase in the acknowledgment of the Paraguay beef.

Regarding your second question -- the second question. We believe that sustainability is going to be the differential edge after the pandemic period. Now Minerva is the only company that, in our industry, that had an investment from the World Bank through the IFC and as shareholders and giving us the funding, all of them tied to sustainability, improvement of the work.

Sustainability, not in the environment, which is the big topic in Brazil, but also well-being of animals, animal health. But also the economic and social aspect. This is something that has progressed a lot because of coronavirus. So besides everything I said in my initial speech, I would like to give you some data.

We are increasing the hospital in the City of Belem in the North Brazil because we have a plant there, and we're working with the poorer communities in Argentina, for example. Today, we made an announcement and we made a donation to an institute in Sao Paulo called Butantan to give them equipment so that they can produce the vaccine against COVID.

The state of Sao Paulo is importing Chinese technology to produce vaccines. So we believe that the future is to invest in companies that are really involved and have embraced well-being and the social aspects. We're also working with the government, the state government, so that everything that Brazil has been doing in a positive way can be stronger and it could be the edge -- differential edge that this country has.

Q - Joao Soares {BIO 19817396 <GO>}

Well, Fernando, thank you very much, but I'd like to ask something very quickly. These new innovations, do you believe that you can have a better tracking? The chain is very extense [ph]. It's very difficult to have a general control. But with the amount of data you have now, do you think you can improve the control?

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

(interpreted) Well, the situation is as follows, the Brazilian government, regarding traceability of animals coming from areas that have been illegally deforested, we have all the traceability which is the government does with GTAs. Now the GTAs, because of protection of their data, they do not disclose their information.

What we're working with, who we're working with so that the government can guarantee or at least give us an okay, saying, "Look, this farm here, we have been tracing it. They are working or not working with air [ph] illegal would -- deforestation." Now in this way, we can guarantee more safety to the whole chain. We are working through -- so that this may happen and can give more safety and guarantee to all the buyers and all those that value sustainability.

Operator

(Operator Instructions)

A - Edison Ticle {BIO 15435343 <GO>}

(interpreted) We have received three questions that I will read and then answer.

One from Eduardo, about dividends. When is Minerva going to pay dividends?

I already said that the expectation is that confirming the results of this year, we'll be paying dividends in the first quarter of the next year.

Monica asked if we have a target for EBITDA. As I said, we believe that the level of two times is adequate for capital structure and the marginal cost of third-party capitals. So it's two times that we see (inaudible).

And Marcel from Santander asked, how relevant can our sales channels of e-commerce in the long-term? Well, we don't know. We cannot say anything at the moment. We are looking to see what's happening in China because even for perishable goods and beef is becoming a very important channel. If we look at the sales in China, beef online sales has gone beyond the conventional retail. So it is becoming more and more important.

Our initiative is not only B2B, its B2C. And it starts in B2B and then goes to B2C. So we are very excited with this discovery. And we believe that this is going to bring us a new level of -- for our customers in the medium-term.

Operator

(interpreted) We are going to close the Q&A session now. I will give the floor to Mr. Fernando de Queiroz for his final comments.

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

(interpreted) Well, thank you so much, everyone. I would like to close this conference restating our commitment with sustainability. The environmental protection, working with protection of health and the economy and our commitment with the whole chain where we belong, where we are inserted, is what guides us in sustainability.

With this, you may analyze all the actions that we have taken, all the movements that the company has made and you can guarantee -- we guarantee these four pillars.

And finally, I would like to thank the Minerva team. This result that you saw, that you heard and that you're analyzing, it's not something by chance. It is the result of a team that went to the front line when problems occurred. They showed their commitment and resilience and teamwork. Teamwork was fundamental.

So I would like to say that I really thank and I feel very honored to be part of this team with all of you that are listening, because all of you made a difference. And you made this result be possible, laying brick by brick. And we are looking further at the future. During this time of this pandemic due to coronavirus, after guaranteeing the security of our team, of taking care of logistics and working capital, we started looking what is going to be the world like after COVID-19.

So the things that Ed mentioned, the three fronts we're in, we are putting our company a step ahead in the future and guaranteeing that we are in the front line. We're not just watching things happening. No, we are on the front line, and we are sort of guiding ourselves to the future.

Thank you for your presence. And we are open to any questions you may have. And we will generate value for the Minerva shareholders. Thank you very much.

Operator

(interpreted) The Minerva teleconference is now closed. Thank you very much for your participation, and have a pleasant day.