Q4 2017 Earnings Call

Company Participants

- Eduardo Pirani Puzziello, Investor Relations Officer
- Fernando Galletti de Queiroz, Chief Executive Officer
- Unverified Participant

Other Participants

- Andrew De Luca, Vice President
- Autumn Graham, EM Credit Research
- Lauren Torres, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, ladies and gentlemen, and thank you for waiting. At this time, we would like to welcome everybody to Minerva's Fourth Quarter of 2017 and 2017 Results Conference Call. Today with us we have Fernando Queiroz, Chief Executive Officer; Eduardo de Toledo, Chief Financial Officer; and Eduardo Puzziello, 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. The audio and slideshow of this presentation are available through a live webcast at www.minervafoods.com/ir in MVIQ platform. This slideshow can also be downloaded from the webcast platform in the Investor Relations section of this website.

Before proceeding, we wish to mention that forward-looking statements may be made during this presentation relating to Minerva's business prospects, operating and financial estimates and goals. They are based on the beliefs and assumptions of company management and on information currently available. They involve risks, uncertainties, and assumptions because they relate to future events, and therefore, depend on circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industrial conditions, and other operating factors could also affect the future results of Minerva and could cause results to differ materially from those expressed in such forward-looking statements.

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

Fernando Galletti de Queiroz {BIO 15387377 <GO>}

Good morning, everyone, and thank you for participating in Minerva's conference call on the results for the fourth quarter and full year of 2017. I'd like to begin our presentation by talking about our achievements and challenges in 2017, a year marked by great change at Minerva.

During the last year, we were able to quickly position ourselves with boldness (00:02:09) and take advantage of one-time opportunity that rose on the industry during the year. We have evolved as a company in a disciplined way, following our business spend, especially as of the second half of the year as we gave a very important step with the conclusion of the acquisition of Mercosur assets as part of our diversification strategy, which allow us to increase our capacity by more than 50%. If you remember, we shared with you this business plan for the last three years.

Nowadays, the integration process of the plants acquired is now in advanced stage and we could already see an increase in the shares of the new units, both in export and domestic market, in the company's bottom line in these results. The success of the integration include the implementation of the so-called Minerva Model, which relies on operation and commercial efficiency programs, as well as standardization of process based on risk management, and has been applied by the company's management in its units over the last few years.

Including the new industrial units, we diversified even more our production, which has brought us inclusive commercial synergies between the countries where we are present, especially in the current global scenario of this supply demand imbalance that we were consolidated as a more competitive and efficient platform. With that advanced stage of the integration process, nowadays, we have consolidated our position as the largest South American beef exporter, with a market share of 22% of the total beef exports from this region.

We are beginning the presentation of the company results for the 4Q 2017 and 2017, with the information on slide 2. In addition to the fact that Minerva has become the leader in beef export in South America, it's worth highlighting the strong evolution of commercial synergies between the countries where we have production facilities and our distribution channels.

Trading companies and international offices included on that. That means that besides we have become a more diversified platform, we also were more capable of extract value from these acquisitions. This impact becomes more evident in the fourth quarter results. In the fourth quarter of 2017, Minerva net revenue totaled BRL 3.9 billion, 55.1% up year-on-year. In 2017, net revenue including the acquisition of pro forma figures came to BRL 14 billion, 45% more than in 2016.

Fourth quarter EBITDA climbed 45% over the same period in 2016, totaling BRL 363 million, with adjusted margin of 9.2%. In 2017, adjusted EBITDA reached BRL 1.3 billion, 28% higher than in 2016. The adjusted EBITDA margin for the year was 9%. Despite increased working capital requirements, especially from the integration process, the company's cash conversion cycle remained stable compared with the average cash conversion cycle of 2017 at around 28 days, demonstrating the efficiency of our integration process.

Exports accounted for 57% of the gross revenue in the fourth quarter and 59% in the year of 2017. Minerva has directed its revenues a little more to the domestic market, especially due to Argentina operations. As there was the negative, but no cash exchange variation on the last quarter of the year, the company recorded a net loss of approximately BRL 340 million in the fourth quarter - in the 4Q of 2017, a net loss of BRL 280 million in 2017.

Concerning our capital structure, in the last 12 months, leverage measured by the net debt to EBITDA ratio come to 4.6 times in the end of 2017. Our cash position was BRL 3.8 billion at year-end. Our debt duration closed the year at around 5.4 years. In December, we completed the issuance of $500 million in bonds due in 2028 at 5.875% per year. We used the proceeds to repurchase bonds in - for the 2023 due, which yield an annual interest of 7.75%. As a result, we both extended our debt duration and reduced the cost of our debt.

No doubt that the main highlight in 2017 was acquisition of the new units of South America. We reinforce that our position in Paraguay and Uruguay as well we entered the Argentina market in a solid way, which has been improving, increasing and promising, with great growth and recovery potential. Argentina has shown not only by its index and ratios, but also through political reforms that it's moving forward in a very positive direction. The acquisition in addition to increasing our slaughter capacity has expanded our production center through other South American countries, enabled the company to apply arbitrage to its means of production and become even more resilient to market seasonality.

We now have 50% market share of Argentina exports and we are the leading exporters of the country, as well as we first successfully marked a local market line of processed foods under the Swift brand and this brand is a leading on the majority of the categories of processed products in the local market of Argentina.

Now, let's have a look on the slide 3, where we will go through the scenario in Mercosur. South America has increasingly consolidated its position as the world main beef production platform, either through its production cost structure or due to its natural advantages. The region accounted for 28% of the global beef exports in 2016 and increased shares to 29% in 2017 and it is expected to account for 30% of the global exports in 2018, equivalent to approximately 3 million tons of fresh beef per year.

Also, on the exports, the South America herd continue to grow, going against the trend of serving other cattle production regions around the world. In 2016, Mercosur has 328 million herds of cattle. In 2017, it rose for 335 million herds and it's expected to reach 343 million herds in 2018. With an increasingly limited global supply, new markets are expected to open for beef producers in Mercosur. Important markets like Indonesia, United States, Japan have already made statements about this matter. We expect that Mercosur will grant more access to global market in the very, very near future. We thus have no doubt that there are great prospects for the region, given the prospect of the herd and export growth. Mercosur is perceived as the region best treated to meet the growing global demand for beef.

Let's now move to slide 4, where we will discuss the performance of our operations in Brazil, Paraguay, Uruguay and Argentina. Let's just start with Brazil, which had already shown signs of improvement and recovery through 2017, especially as of the second half. Slaughter volumes increased 21% year-on-year in the fourth quarter 2017, while 2017 volume was 9% higher than in the previous years.

Despite the industry turmoil, Brazilian exports performed exceptionally well. In 2017, we exported more than 1.2 million tons of beef, 12% more than in 2016. In the fourth quarter of 2017, exports reached 344,000 tons, 40% year-on-year more. The strong demand for exports was concentrated mostly in Asia and the Middle Eastern countries.

On the domestic market front, we can see the performance was negatively impacted in the first half due to some factors of political stability. However, as of the second half of the year, the improvement in consumption (00:11:04) country's economic recover. As a result, we could see an increase in price of high end hindquarter cuts, especially in the fourth quarter which seasonally tends to be stronger due to the domestic consumption during the summer vacation and the holiday season. The outlook for consumption in 2018 is also very positive, in line with the prospect of economic growth and inflation control in the country, as well as seasonal events such as the World Cup and the general election in Brazil that brings more money to the economy.

We'll now move on to Paraguay. Let's look at Paraguayan market, the slaughter moving up 15% 4Q 2016 over 4Q 2017. In 2017, slaughter volume grew 6% over 2016. The year of 2017 was marked by sanitary approval of the Paraguayan herd by Chile, the main destination of the country's exports.

Paraguayan exports volume grew 15% year-on-year in the fourth quarter of 2017. In 2017, exports volume was 3% higher than in the previous year. Chile was once again the main destination of Paraguayan exports, accounting for 37% of the Paraguayan exports in 2017, 4 percentage points more than in 2016. It's worth mentioning that thanks to recent improvements and investments in livestock in the country, Paraguay beef exports are expected to have access to new markets.

The United States Agriculture Department, for example, approved beef imports for Paraguay in October 2017. The second step after this approval is a certification of the unities. (00:12:48) is successfully completed with Paraguay being able to begin exporting to the United States.

The Paraguayan domestic market where Minerva has a unique distribution position has also recorded positive results, with an improvement in macroeconomic indicators. 2017 GDP is estimated to grow 4.3% and 2018 GDP is expected to come to around 4.5%. In this heated economy, per capita beef consumption averaged 26 kilos in 2017, and 4% more than 2016.

In Uruguay, slaughter volume moved up 3% between 2016 and 2017. In the fourth Q 2017, slaughter declined 3% year-on-year. In the fourth Q 2017, Uruguay exports climbed 4% over fourth Q 2016. In 2017, exports volume fell 9% over 2016. This slight reduction on Uruguayan exports reflected a fiercer competition from other South American exporters, such as Brazil and Argentina mainly. The main destinations of Uruguayan exports were China and the United States, which accounted for more than half of the country's exports.

Finally, in Argentina, slaughter volume increased 10% year-on-year in 4Q 2017. In 2017, volume was 8% higher than in 2016. Thanks to the increase, increased availability of animals ready for slaughter, following the country's herd recovery in recent years. Argentina exports performed especially well in 2017 with a 40% increase in volume compared to 2016. In the 4Q 2017, export volume was 84% higher during the same period in 2016. This shows how Argentina economy has recovered and it has been even more pro-exports.

The outlook for the country remains positive, where Argentina has been presenting an increasingly favorable economic environment with an official float in exchange rate and government report including negotiations for the opening of new markets. We expect the opening of markets such as the United States and China for (00:15:06).

The Argentina domestic market also reflect improvements in the country's micro and macroeconomic condition. It's worth noting that Argentina has one of the highest per capita beef consumption in the world and that is its per capita beef consumption increased 6% between 2016 and 2017 to 58.4 kilos per person per year. It was also mentioned that improvement in the economy was essential for the good performance of our operation in the country as 90% of Argentina production is sold in the domestic market.

Moving on to the next slide, we'll talk about the integration process of the new Mercosur units. Let's have a look on slide 5. We have included this slide in order to show you the main steps that we have already taken in the integration process of the new plants. We are actually very pleased with the process, it's on schedule. We have complemented implementation of the new units of our operation systems in Uruguay and Paraguay. All systems and controls have implemented and we believe that control is extremely important to achieve success in the process. We also incorporated efficiency programs and the risk management tools that we have in Minerva.

In Argentina, the system implementation is scheduled to be concluded between April and May, it is a country that we had no operation presence beforehand. We took this opportunity to include a highlight on this slide to discuss the integration process in Argentina. The first step that we took was the segregation of the commercial and the operational strategy for fresh beef and processed food units, which have different dynamics.

As a result of this change, we increased our domestic sales of processed foods under Swift brand, and as a result, we recorded further market share gains for example. Our market share of Swift hamburgers came to 30%, an increase of more than 2% points year-over-year. We also introduced changes in the raw material purchasing dynamics, increasing the average slaughter weight by around 5% (00:17:19) for exports and less capital for the local market. There are some examples of our – these are some of the examples of the successful integration process in Argentina, which we expect to begin to contribute more substantially for our results for Minerva.

We will now analyze Minerva's performance beginning with the exports on slide 6. Minerva continue to be among the main exporter in the countries where we operate. In Brazil, once again, we had a significant 19% market share of exports in 2017. In Paraguay, our share exports comes to 29%, an annual record, making us the largest beef exporter in the country. In [Technical Difficulty] (00:18:03-00:18:22).

Operator

Pardon me, ladies and gentlemen, we have experienced a disconnect with the speakers. Please stay connected to the call and we will join the speakers as soon as possible. Please standby.

[Technical Difficulty] (00:18:33-00:23:14:)

Unverified Participant

Okay. So, returning, talking about the annual adjusted EBITDA, also considering the pro forma figures, the annual EBITDA totaled BRL 1.3 billion, 28% more than the EBITDA of 2016, with an EBITDA margin of 9%. As Fernando mentioned at the beginning of this presentation, the agile decision-making allowed us to seize the opportunity that arose throughout 2017.

In mid-June, we decided to reopen our unit in Mirassol D'Oeste in Mato Grosso state, with a nominal daily capacity of 1.1 thousand (00:23:54) herds per day. Besides, we increased our capacity utilization level of our other units in Brazil in order to take advantage of increased supply of animals for slaughtering in the region. In this scenario, the company expanded slaughtering capacity back to the average recorded in the years prior to the industry capacity adjustment, reaching the level of 70% – 75%. And finally, as already highlighted, leverage measured by the net debt to last 12 months adjusted EBITDA reached 4.6 times at the end of December 2017.

Moving now to the next slide, we can analyze the quarterly financial and operational results. Revenues totaled at BRL 4 billion in 4Q 2017, 16% higher than in the 3Q 2017 and 55% up on 4Q 2016. Once again, all-time high revenue for the company in the period. EBITDA totaled BRL 363 million in the 4Q 2017, 45.4% more than in the 4Q 2016 and around 17% higher than in the 3Q 2017. The fourth quarter EBITDA margin was 9.2%.

Despite negative operating cash flow, we were able to maintain the cash conversion cycle in line with the previous quarter at 28 days as I will explain further – in further details in the coming presentation. As I mentioned on the previous slide, the average capacity utilization for the year was 75% due to the increase of capacity utilization over the year. As you can see at the bottom right chart, our capacity utilization in the 4Q 2017 reached 74.4%.

So let's now move to slide number 10 to talk about the period's net result. We record a net loss of BRL 281 million after income and social contribution taxes in the year of 2017 and a net loss of BRL 313 million in the 4Q 2017. This result was mainly impacted by the negative exchange rate result of BRL 320 million in the last quarter of the year.

Now, moving on to the next slide, slide number 11, we will talk about the company's operating cash flows. In 2017, operating cash flow totaled for BRL 462 million. Adjustments to net income amounted to BRL 1.3 billion in the year 2017, while working capital consumption was negative by approximately BRL 530 million. In 4Q 2017, operating cash flow was negative by BRL 146 million. Adjustment to net income totaled BRL 673 million, while the change in working capital requirement was negative by BRL 505 million.

At this point, I would like to point out, although operating cash flow was negative in the 4Q, our cash conversion cycle remain in line with the previous quarter, roughly 28 days, despite the addition of the processed food segment in Argentina which has a longer conversion cycle. This also means that our working capital requirements were in line with revenues growth, thanks to the consolidation of the new Mercosur units.

As we highlighted in our earnings release, in the last three quarters of 2017, the working capital consumption was around BRL 500 million and was correlated with the organic growth of an industrial unit in Brazil from the second quarter of 2017 and the addition of the Mercosur units by the 3Q 2017. The current production of these units is running in an ideal capacity, around 75%, remaining the current market conditions, the working capital needs will be back to the normal level in 2018.

Now, let's move to slide number 12, where we're going to touch on the free cash flow. Fourth quarter EBITDA reached BRL 363 million, while CapEx primarily allocated to the maintenance of operations and integration of the new Mercosur plant totaled BRL 72 million. The financial results on the cash basis totaled BRL 226 million, while variation in working capital was negative by BRL 505 million as we previously explained. Free cash flow was therefore negative by BRL 440 million.

Regarding free cash flow for the 12 months of 2017, we reported EBITDA of roughly BRL 1.2 billion. The financial results on a cash basis totaled BRL 740 million, while maintenance and expansion CapEx come close to BRL 270 million. The change in working capital requirements came to BRL 530 million. And without considering the acquisition of Mercosur assets, the company's free cash flow would have been negative by BRL 389 million in the year of 2017.

Moving to the last slide of this presentation, we're going to touch on the capital structure of the company at the end of 2017. At the close of December 2017, our leverage measured by the net debt over the last 12-month EBITDA ratio was 4.6 times. Our cash position was close to BRL 3.8 billion, sufficient to make us comfortable to deal with adverse scenarios and settle the debt until 2026. At the close of 2017, approximately 80% of Minerva's debt was exposed to the FX variation, with the debt duration of 5.4 years.

In 2017, we maintained our focus on liability measurement and in order to extend the debt profile and reduce the cost of debt. As a result, in December, we completed the issuance of $500 million in international market at a coupon at 5.875% per year due 2028. We used the proceeds of this issuance to repurchase the remaining bonds 2023, which was yielding 7.75% per year and also advanced other short and medium-term payments.

Lastly, now, I will pass the floor to Eduardo Puzziello, our new CFO, which will do some considerations. Please, Eduardo.

Eduardo Pirani Puzziello {BIO 15044272 <GO>}

Thank you. Good morning, everyone. I'm very happy and glad to be with you here in Minerva. Minerva is a company that has consolidated a unique position throughout the last years, and created a platform in the most competitive region in the world for beef and for animal proteins. And this gives a new set of optionalities to the company that I'm confident that I will be able to contribute to this integration and deleveraging process that the company is going through after this important acquisition that was made last year.

Thank you very much. And now, we pass on to the questions that you may have.

Q&A

Operator

Thank you. We will now start the question-and-answer session for investors and analysts. First question comes from Lauren Torres with UBS. Please go ahead.

Q - Lauren Torres {BIO 7323680 <GO>}

Hi, everyone. Fernando, you touched upon these topics in your prepared remarks, but I was hoping you could talk a little bit more about your thought this year on cash generation and debt pay down. I think we understand what happened last year with respect to working capital and the investments needed for the new assets acquired. But just curious as we look at this year, can you talk about any incremental investments left to be made to kind of get those facilities where they need to be? I think, before, you've talked about margin targets getting to your existing facilities, can you talk about where you are in that process? And then with respect to debt pay down, what are your target, how comfortable are you getting there in light of what you're seeing in the market today? Thanks.

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

Lauren, we are pretty comfortable with the acquisition's integration process. Minerva (00:33:54) that we took some time to analyze the benchmarks, to analyze the teams, and to increase the controls and then moving from there as we had a clear view of the benefits of the differences and what would be the best for Minerva.

Therefore, we started acquisition by having the single platform for the controls, and then we start evaluating and took the actions to extract the synergies as from the end – very end of the year, November and December mainly. That's where we were able to replicate after evaluation that we were able to replicate the best practices and that we are able to consolidate our teams that we will handle the new and important operations.

Therefore, we think that we believe that we can get to higher, higher levels extracting the synergies, and therefore to pay – to reduce the leverage by paying down the debt. So our focus now is not on M&A, our focus now is totally on the deleverage of the company, on the extracting of the synergies and extracting of the benefits from this new geographic diversification that Minerva has.

Q - Lauren Torres {BIO 7323680 <GO>}

Do you have – I think you've talked about it before though a leverage target, as far as a number and a timeframe to hit that number?

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

We are not publishing the guidance, but definitely, yeah, we will look at the end of the year at a much lower levels of 2018 and much more leveraged than we are today.

Q - Lauren Torres {BIO 7323680 <GO>}

Okay. And if I could ask just one other thing, I'm sure you addressed this in your earlier call, but obviously the industry is getting impacted by Weak Flesh kind of coming back and just curious if there's any impact or at least on your facilities, things being questioned or looked into, and if you have any general comment on kind of how to think about this with respect to your company, even though you weren't included last year, but kind of this year how we should think about investigations or impact on the sector would be helpful as well? Thanks.

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

We don't expect any change on the sector or any restriction, especially because it's, look, it's only in the chicken and (00:36:36) and we are seeing an excellent job from the Minister of Agriculture of Brazil by giving clarifications, giving transparency and tranquilize in making the markets safer measures that the Brazilian Ministry of Agriculture is taking. So, we don't see any impact in our business, in our sector. We don't see it – any change from the information that we have.

Q - Lauren Torres {BIO 7323680 <GO>}

Okay. Thank you.

Operator

We have a webcast question from Bradley Sean (00:37:18) with Murray Asset. Given higher leverage and worrisome interest expense, why not use cash to pay off its debts? Could you also tell me why Minerva kept such high amount of cash?

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

Minerva has always three pillars of the financial policy. One is to have three months of capital purchase as cash cushion; second is to have the debt exposure, dollars versus local currency as the same as the revenues; and to have maximum 25% on short-term debt. So, this is part of our policy in a sector that from time-to-time can face some volatility, that's why we keep the cash cushion as it is now.

Operator

He has a follow-up. I'm sorry. The next question comes from Andrew De Luca with Barclays. Please go ahead.

Q - Andrew De Luca {BIO 18025129 <GO>}

Hi. Thanks. Thanks for taking the question. So the first one, I wanted to jump back to the question on the EBITDA margin. I was wondering if you could just help us quantify the impact from the asset acquisitions on margins for fourth quarter. And then also just a follow-up on that, kind of where do you see the inflection point in terms of margin recovery once the assets start to get integrated. Is it something we should be expecting in the back of 2018 or maybe a little bit earlier than that?

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

First, we see that the acquisitions benefit will be gradually seen as from the first half of 2018, but definitely 2018 will be an important year for extracting the synergies of the acquisitions. We gave our guidance to the market when we did acquisition what we expected, and what we expected to achieve, but we definitely see the possibility of being more optimistic than they were. So we are pretty – with the environment that is changing and the consolidation that South America have on being the platform that is more set to supply beef to the world, we're seeing a very positive way going to the future.

Q - Andrew De Luca {BIO 18025129 <GO>}

Great. So you have been already searching some of the year-over-year improvement at least for the two months from a margin perspective, is that fair?

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

It is for the first half, we definitely shall see some improvement on the margins.

Q - Andrew De Luca {BIO 18025129 <GO>}

Great. And then I just wanted to ask on Argentina, what are you seeing in terms of cattle prices in Argentina and are you guys feeling like there's any sort of risk given the prospects for weaker crops in the country?

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

I don't know. What we saw is that if you look at (00:40:20) costs, there was an increase of (00:40:24) costs back two-and-a-half years ago. So we see more cattle coming to the market and also if the currency in Argentina – Argentina became very competitive in the international market. So we see Argentina moving in a very positive direction of taking again the position of leading country to supply beef worldwide.

Q - Andrew De Luca {BIO 18025129 <GO>}

Great. So it doesn't sound like there's any sort of risks that you guys are seeing at the moment from the prospects for the weaker crop because of the drive in Argentina, is that correct?

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

No, no, definitely not. When we had a draught, what we end up having is that you have concentration of supply of offers in the short term and then you have a gap later on. But it's structurally part of Argentina is that farmers are holding females, therefore there is more production of the calves, it's different from what we saw in some of competing countries that there was a reduction of females. What gives the size of the availability, the quantity, the holding of females, having a more dry year, you're having drought or not having droughts, all interferes on the moment that the cattle is available in the market.

Q - Andrew De Luca {BIO 18025129 <GO>}

Great. That's very helpful. And then I guess just a last question that I have is, can you provide us with an update in terms of the facilities that you have authorized for exports to China. I think there was one additional facility in (00:41:56) that you have pending approval for early this year, can you provide with us an update?

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

In Brazil, we are expecting a visit of the Chinese authorities, in fact there are at least two plants from us that are in the list of – that are in the first list of – to be visited and to be approved. So we see China as one of the main destinations therefore to be imported. It's also important to mention that there are other markets that are working on having Brazil, like Indonesia for example, like the re-establishment of the exports to United States. So we see the year of 2018 as a very positive for increasing the markets that are South America in general, not only Brazil is supplying.

Q - Andrew De Luca {BIO 18025129 <GO>}

Great. Thanks for your time.

Operator

The next question comes from Autumn Graham with Schroders. Please go ahead.

Q - Autumn Graham {BIO 16486290 <GO>}

Can you go into a little bit of detail on what the plans are regarding any buybacks in the coming year? And secondly, squaring that against strategies for de-levering and I guess what are options in case de-levering targets are not going as quickly as planned?

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

The buyback, we have this program open to - as - to take advantage of possible opportunities when we see that the shares are not pricing the company in the proper way. So this is what we have. The strategy of deleveraging comes from - mainly from the generating results and improvements on the cash conversion cycle, freeing more capital, becoming more efficient. This is what I touched in the first call. There are measures that we are taking on reducing the cash conversion cycle in terms of inventories, in terms of payables and in terms of receivables that definitely we already saw with the new acquisitions, the new plants that we were able to maintain an efficient cash conversion cycle like we never have, but we also see potential of increasing and improving it further.

Operator

The next question comes from Bradley Sean (00:44:53) with Murray Asset. Please go ahead.

Hi. It looks like certain covenants indicates of net leverage of 3 point times. But then isn't current levels which is 4.6 times is breaching the level and will there be any restriction to incur additional debt, or could you give me some color on that?

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

Yes. There is no rich covenant. If you look at, they are just the covenant that you extract the currency valuation and there is abundant of permitted debt. We are pretty much inside and below the profits (00:45:34). So, there is no risk and no restrictions.

Q - Operator

Okay, thanks.

The next question comes from (00:45:48). Please go ahead.

Yes. I'm curious if you could elaborate a little bit more on your rating target and what kind of rating do you see (00:46:01) business operation perspective? And if that's the case, what kind of leverage would you target to achieve the rating? Thank you.

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

Well, the rating, what we see is unchanged, but considering that Brazil has reduced its rating now, they (00:46:20) the premium that Minerva have has been narrowed. So, we see that the rating shall improve with the generation of results and with the deleverage of the company. One of the things that the rating agencies always look at is that geographic diversification in order to minimize the risk. And I think that with the business plan implemented, Minerva is pretty fit and pretty well positioned on that.

Q - Operator

Okay.

The next question comes from Ed Kusma (00:47:04) with BlackRock. Please go ahead.

Yes, hi. Thank you for the call. I was just curious, is your qualitative guidance of improving margins in 2018 and as a result, reduced leverage, is that dependent on the opening of these markets like Indonesia, U.S. and China, or do you think that you'll reach these goals with the markets you already have access to? Thank you.

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

No, in our projection, in our budgets, we don't consider any additional markets, because it's - these are sectors that we do not control, we don't know when they will happen. Therefore, they are extra in their benefits, additional - they are extra benefits that we may have when these markets are open.

Operator

The next question comes from Mario Epelbaum (00:48:00) with First New York. Please go ahead.

Hi everybody. Could you please remind us of the synergy guidance that you gave in the acquisition? And also if you could give us a little bit more color in terms of working capital. You said you can improve a little bit, do you think this 28 days will be the peak for the year or during the year the cycle will increase, the working capital days will increase before they come down? Are you targeting year end to year end, or during the middle of the year? And if you could - improvement that you're talking about, maybe half a day, or a day, or could you - or you're talking about potentially meaningful improvements over time? Thank you.

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

When we did acquisition, we estimated - we gave a guidance of 2.5 basis points of improvement on the existing margin that the previous operator had. On the synergies, on all synergies from cattle purchase or sales, on SG&A, this is what we estimated previously. On the working capital, we see that we reached the peak by the end of 2018 - sorry, 2017 of the working capital needs. So we have the working capital needs already on the cycle and we don't see any meaningful additional need. How much we will be able to improve, we are working, of course, that would be not cut in half, but we believe that any improvement is significant and important.

Q - Operator

Thank you.

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

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

I would like to close the conference call by once again thanking Minerva's entire team for their (00:50:03), as well as the healthy performance presented here despite of the challenging scenario that we had during the year of 2017. I also would like to welcome, Eduardo Toledo and say that I'm extremely optimistic with the year of 2018. I believe that we will solve the challenges that we face, Minerva will become a consolidated platform for continued transparency, efficiency and sustainability. And I will finish. Thank you all for your interest in the company and say that as you already know (00:50:34) which is based on discipline, focus and consistency. We will remain at your disposal for any question and clarifications. Thank you very much.

Operator

Thank you. This concludes today's presentation. You may now disconnect your line at this time. Have a nice day.