Y 2016 Earnings Call

Company Participants

- Edison Ticle, Chief Financial Officer
- Fernando Queiroz, Chief Executive Officer

Other Participants

- Andrew De Luca, Analyst
- Jose Yordan, Analyst
- Lauren Torres, Analyst

Presentation

Operator

Good morning, ladies and gentlemen, and thank you for waiting. At this time, we would like to welcome everyone to Minerva's Fourth Quarter and the Full Year of 2016 Results Conference Call. Today with us we have Fernando Queiroz, Chief Executive Officer; Edison Ticle, Chief Financial Officer; and Eduardo Puzziello, Investor Relations Officer.

We wish to inform you that this event is being recorded and all participants will be in listen only mode during the Company's presentation. (Operator Instructions) The audio and slideshow of this presentation are available through a live webcast at www.minervafoods.com/ir and Engage-X platform. The slide show can also be 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 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, industry 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 call over to Mr. Fernando Queiroz, CEO, who will begin the presentation. Mr. Queiroz, you may start your presentation.

Fernando Queiroz {BIO 15387377 <GO>}

Thank you very much. Good morning everyone and thank you for participating in Minerva's conference call on the results for the fourth quarter and full year of 2016. We will begin by presenting the quarter's and full year's highlights detailed on slide two. So have a look on slide two.

Minerva's recurring free cash flow totaled BRL198 million in the 4Q'16 and approximately BRL180 million in 2016. The return on invested capital came to 23.9% in line with the return generated by the Company in recent years. Net revenue amounted BRL2.6 billion in the 4Q of '16 and 9.6 billion in the results of 2016. Encouraged by the appreciation of the real and the signs of domestic market recovery in the second half of 2016, the Company maintained its commercial focus on enhancing its capillarity in the local market.

As a result, the beef division's domestic sales revenue increased by 10% in 2016 over 2015. Fourth quarter EBITDA remained stable over 3Q '16 with a margin of 9.8%. In 2016, EBITDA totaled BRL989 million remaining stable over 2015 accompanied by a margin of 10.3%. Net income amounted to BRL12.3 million in the 4Q '16 and a 195 million in 2016.

In a meeting held yesterday, the Board of Directors proposed the payment of BRL60.2 million in dividends related to 2016 net income, corresponding to a dividend yield of 2.2%, if approved at the Annual Shareholders' Meeting, payment will be made on next April '17. In terms of capital structure, leverage measured by the net debt/LTM EBITDA ratio stood at 3.4 times at the close of 2016.

At the end of the year, Minerva's cash position totaled BRL3.4 billion. At the end of the quarter, approximately 78% of total debt was exported to the US dollar with debt duration of approximately 6.2 years. It's important mentioning that in September we concluded the issuance of a $1 billion bond maturing in 2026, in order to replace the 2023 bonds. And therefore extended Minerva debt profile and reduced the cost of debt in dollars, as we issue bonds at annual coupon of 6.5% while in 2023 bonds paid annual interest of 7.75%.

The remaining proceeds from the revisions was used to the exercise of the purchase option of the 2019 bonds in September 2016, and the purchase option of the 2022 bonds in February 2017. In addition, we considered part of the procedures to pay the 2017 bonds remaining which matured in January this year in certain debts of maturity in the last few months. With that policy Minerva debt not only extended, but also had a reduction on its cost.

Lastly, I would like to mention once again, another important point of our business, the implementation of Minerva's efficiency programs. The constant search for operational efficiency in the industry coupled with the new focus on the commercial strategy and with the logistics has enabled the Company to identify new market opportunities, and has (inaudible) the generation more predictable. In other words, the implementation of this program has helped the results to be less volatile.

We will now move on to slide three to talk about the industry overview in Brazil. The slaughter volume totaled 5.8 million heads in the fourth quarter, declining by 5% over the 4Q of '15. In 2016 over 2015, the slaughter volume fell 3% to 24 million heads. Despite the lack of animals in the pasture due to the negative cattle cycle, the effect from the industry adjustment reduced slaughter since the beginning of the economic crisis in 2015 by more than 10%, contributing to our more stable average arroba price, the price of the cattle. The average arroba price increased 5% in 2016 over 2015. Though, that in the first half of '16, the market was expecting to face a lack of cattle from feedlots in the offseason, due to the increase in grain prices, and the high replacement cost. This forecast however was offset in the second half by the larger than expected volume of cattle ready to be slaughtered, inflated by the reduced slaughtering in 2015 and first half of '16 and a more equally distributed rainfall.

Due to the higher animal availability and reduced slaughtering capacity, the average arroba price fell -- the cattle price fell by 1% in the 4Q'16 over 3Q'16.

Brazilian exports dropped 21% in the 4Q'16 over 4Q'15. These results reflect the small players' reduced focus on exports due to the still restricted credit availability and fewer shipments to markets like Venezuela and Russia. These countries were the main export destinations in 2015, but reduced their imports due to the current economic situation as shown in the picture chart on the lower left. China and Hong Kong were the positive surprises, remain as Brazilian main export destination accounting for one-third of the total in 2016.

Let's move on the next slide and discuss the prospects for the export scenario in 2017. Look at slide four, the prospects for South America exports remain highly favorable, thanks to the growing international demand for beef while large players like Australia continue to show signs of weakening cattle supply and production. According to the USDA, most recent estimations shown in the chart on the lower left hand side, the United States, China, and Japan lead as the main beef import markets in 2017.

In addition, China has shown as the destination with the highest growth in the import volumes.

On the supply side, Australia recorded the second consecutive year of export volume reduction due to slower production of beef. The USDA expects the scenario of weakening Australian exports, which also include New Zealand to persist through 2017 as shown in the chart on the upper right-hand side. The mismatch between supply and demand for beef has created important opportunities for faster South American producers access to new importing countries. That effect was already noticed in 2016 with the opening of US market to the Brazilian beef.

We also expect that mirroring the United States, other counties which adopt the same sanitary protocols to open their doors to Brazilian beef such as Mexico, Canada, South Korea and Japan possibly. As a result, the USDA also expects combining the exports from Brazil, Paraguay, Uruguay, and Colombia to expand by more than a 170,000 tons over 2016 as shown in the chart in the lower right-hand side.

Let's move to slide five and talk about Brazilian domestic market. Slide five. In the fourth quarter, the domestic market followed the same trend as in previous quarter recording weak performance impacted by Brazilian economic situation, forcing consumers in C and D income groups to switch to cheaper cuts, such as forequarters and replacement proteins like poultry and pork due to their low purchasing power.

Wholesaler -- wholesale domestic prices of beef registered a sharp upturn as of September influenced by the combining effect from reducing the slaughter and the seasonal effect of consumption which is more evident in December. This effect can be observed in the chart at the bottom of the slide. It's worth emphasizing that there are healthy, profitability of certain cuts in September and October; combining we have a weakening US dollar in November and December influenced by certain producers to reroute part of their previous exported volume to the domestic market.

Let's move on to the next slide and talk about the sector overview in Paraguay. Slide six, in the fourth quarter, Paraguay's slaughter volume fell 14% over 4Q15 and 21% over 3Q16. The reduction was influenced by the above-than-expected restrictions in animal availability in October and probably related to the farm to plant transportations due to the above expected rainfalls in the period. This effect led to increases in the average arroba price by almost 4% over 3Q'16 and 19% over the 4Q'15.

Consolidated slaughter volume amounted to 1.9 million heads in 2016, 2% up on 2015. Despite this climate setback, the average price of cattle in Paraguay reduced 4% in the year over 2015.

Paraguay exports revenue totaled $277 million is the 4Q'16 accompanied by a volume of 64,000 tons, 50% down on the 3Q'16 and in 4Q'15. In 2016, exports revenue totaled $1.1 billion remaining stable over the year of 2015. The 2016 export highlights was Chile, whose imports increased by 600 basis points compared to 2015, accounting for 36% of Paraguay destinations of meat exports. In addition to Chile, Russia and Brazil also remain among Paraguay main export destination, accounting for more than 70% of the total.

Let's move onto slide seven and discuss the Uruguayan market. In the last quarter of the year, Uruguay's slaughter volume increased by 10% and 11% compared to the 3Q of '16 and 4Q '15 figures respectively (inaudible) by the strong exports to Middle Eastern countries in 2016 over 2015. Total volume slaughter grew by 3% over 2015.

The average price of cattle in turn fell 5% over 3Q '16 and 10% over 4Q '15 given that Uruguay's most important meatpacking companies purchase cattle in advance are waiting for Middle Eastern delegations directly leading to the price reduction in 4Q '16. In 2016, the average price of cattle in Uruguay fell 10% in line with the reduction of the average export price of beef. Uruguay's export volume climbed at 18% in 4Q '16 over 3Q '16, accompanied by revenues of $412 million, the highest quarterly revenue figures in the last few years.

This performance was mainly influenced by the reduction in Australian exports to China. As a result, China was Uruguay's main export destination accounting for 34% of the total exported by the country. United States remaining as the country's second destination with 16% of the export mix.

Let's now look at the Minerva performance, beginning with the exports shown in slide six. Minerva continued to be among the top two exporters in the main countries that we operate. The Company -- the performance in Brazil was once again significantly 2016 with a market share of 20%. In Paraguay our market share remaining at 20% as well. While in Uruguay the Company share of exports market came to 50%. This slide also shows Minerva exports in the last 12 months by region. Asia is still the Company's export highlight in 2016, exports to that region came to 27% of the total versus 24% in 2015, a growth of 3% on the share. China's revenue alone grew by more than 60% in the period analyzed.

Other exports highlights were Malaysia, the Philippines, Taiwan, South Korea, and Vietnam whose combined growth come to more than 50% over 2015, having the Far East region especially the South of Asia as the main destination and the biggest growth. In addition to Asia, Europe's share is also worth of mention, up 12% from 2015 to 15% in 2016. The Company rerouted the more mobile cuts in that region, such as hindquarter cuts whose profitability is much higher. It's also important to mention Russia performance. We presented here by the country in the CIS. Russia imports recorded a sharper decline in 2016, fueled by the depression in the ruble and oil whose combining effect impacted the country's purchase power.

With the recent appreciation of both oil prices and ruble, we are already noticing recovery in the Russian imports. I'll now pass the floor on to Edison, who will comment on our financial and operating highlights. Edison?

Edison Ticle {BIO 15435343 <GO>}

Thank you Fernando and good morning to all. Let's move to slide nine to present Minerva's financial and operating highlights. The Company's net revenue reached 9.6 billion in 2016, 2% growth over 2015, while in 4Q'16 net revenue came to 2.6 billion, a figure flat when compared to the third quarter of '16. EBITDA amounted to BRL989 million in 2016, flat when compared to 2015 and an EBITDA margin of 10.2% for 2016.

Fourth quarter EBITDA reached BRL250 million, a margin of 9.8% in the quarter, also in line with the 3Q'16 figures, as you can see in the chart on the lower right. The next slide we continue showing financial and operating results. At the end of the fourth quarter, return on invested capital came to almost 24%, close to the record, closer to the level that we reached in recent quarters, and a few keeping Minerva as a benchmark for the sector. At the end of 2016, leverage was 3.4 times, a reduction by 0.7 times when compared to the fourth quarter of '15.

Operating cash flow was positive by BRL524 million and we go in detail with ahead. At the close of fourth quarter '16, Minerva's inventories came down to 26 days, narrowing about 7 days over the level of inventories in the end of 3Q'16. Next slide we are going to talk about the Company's adjusted net result. So slide 11, you can see net income after tax and social contribution amounted to BRL195 million in 2016 and BRL12 million in fourth quarter '16. As a result, the Board of Directors proposed the distribution of dividends in the total amount of BRL60.2 million to our shareholders, as Fernando has already explained in the beginning of the call.

Let's now move to slide 12 to present our operating cash flow. 2016 operating cash flow reached BRL524 million, adjustments to net income amounted to 358 million and working capital consumed is approximately BRL28 million. Working capital was the main highlight of the 4Q'16 while operating cash flow came to 438 million and the variation in working capital was positive by 195 million.

The main highlights in the working capital account in the fourth quarter were firstly the positive result by 179 million came from the suppliers line, given that in the quarter, we increased the volume [ph] of cattle payable in 30 days. The second positive variation was in the inventories line, that we have already mentioned, we decreased the inventory cycle to 26 days, adding BRL155 million positive to working capital. And lastly, there was a consumption of BRL48 million in the receivables line that is related to the extended period of payment granted to some of our domestic clients.

Let's now move to slide 13 to talk about free cash flow. So free cash flow in the fourth quarter -- the fourth quarter EBITDA reached BRL250 million, CapEx reached BRL61 million and the majority of the CapEx was used to the maintenance of our operations. Net financial result with cash effect was negative by BRL198 million in the quarter. And as I have already mentioned the variation in working capital was positive by BRL195 million.

So this leaves us with a positive cash flow in the quarter of 186 million. If you take off the FX hedge expense of BRL12 million in the quarter, the recurring free cash flow from operations amounted to 198 million in the quarter. In the last 12 months, EBITDA came to 989 million, and the free cash flow -- the recurring free cash flow in the year was around BRL180 million pretty in line with our forecast in the beginning of 2016 and also in line with our budget. Let's now move to the slide 14 to discuss the Company's capital structure. At the end of the year, our leverage measured by the net debt-EBITDA ratio was 3.4 times.

At the end of the year, the Company's cash position was BRL3.4 billion which leaves us in a extremely comfortable position in case of further deterioration in the economic conditions, in the credit conditions because it allows us to amortize all the Company's debt until 2026. At the end of '16, approximately 78% of Minerva's debt was exposed to the FX variation and the debt duration was more than six years.

In 2016, we took important measures in order to manage better our liabilities. So we issued a $1 billion bond, 10-year bond, the interest of 6.5%, part of the proceeds were used to buyback '23 bonds, with a coupon of 7.75%, part of that was used to buyback the '19 bonds with a coupon higher than 10% and part of the proceeds were also used to exercise the call under '22 bonds that we're paying a coupon of 12.25% per year.

This buyback was concluded in February with $106 million of face value. So all of these measures will allow the company to reduce further the cost of capital, especially in the second half of '17 and in 2018.

I'll now turn it over back to Fernando who will wind the conference call presenting our outlook for 2017.

Fernando Queiroz {BIO 15387377 <GO>}

On this last slide of the presentation, we show the main prospects for the sector and the company for next -- for this year. On the demand side, on the industry side as shown in last side of the slide, we still believe in a strong demand for beef in the international markets. So by the mismatch between supply and demand, we estimate the strong growth in demand will be leaded by emerging countries, particularly in Asia, and there is the possibility of opening new markets for Brazil such as Japan, Canada, Mexico, South Korea, and Indonesia.

Definitely, beef protein is becoming a global commodity with more possibilities of the arbitrage in the markets and giving to the area of the world that are low cost producers that are efficient producers to gain market share. So beef is definitely one of the last commodities to become global. At the same time, we see on the supply side, that Australia exports will remain weak at least for the next few years allowing access by the other producers, especially with South America, we have seen examples of that with Uruguay filling some gaps in the markets lead by Australia.

In Brazil, we're also going to markets with more volumes. On the Company's side, management will continue to focus on increasing operating margin and returns particularly focused on the return on invested capital, while constantly improving our capital structure. This strategy is based not only on the Company wider coverage of South America, but also in the implementation of operational efficiencies programs that I mentioned in recent conference calls, that our focus is on the market intelligence, that our focus on logistics and in the Company production efficiency.

Also it's important to mention that the trading part of the Company by originating products from all the producers is gradually increasing -- its increasing its share on the total revenues of Minerva. So making Minerva a more commercial company. I would now pass the floor to the operator to begin the Q&A session.

Questions And Answers

Operator

Thank you. We will now start the question-and-answer session for investors and analysts. (Operator Instructions) And the first question comes from Lauren Torres with UBS. Please go ahead.

Q - Lauren Torres {BIO 7323680 <GO>}

Yes. Hi, everyone. My first question just relates to the free cash flow we saw in the quarter. I know you've made some notable improvements on working capital. So, curious to get your perspective on what's supporting this better number, I guess what I'm really asking is what sustainable -- what changes have you made that you think will continue to support better free cash flow? I guess that's for Edison and then Fernando when you talk about efficiency programs, I know we've heard about this in the past, but if you talk about new market opportunities, just curious to get your perspective on what you're seeing now with respect to these opportunities?

I guess with all the volatility in the market, what are some clear examples of efficiencies that you haven't had before? Thank you.

A - Edison Ticle {BIO 15435343 <GO>}

So Lauren, we're going to you two answers. For the first part of the question regarding the free cash flow, what is recurrent for the coming quarters in terms of working capital. Firstly, it is the drop on inventories, part of the strategy is to keep the inventories at around 25 days, it's a level that is pretty sustainable and its part of the target for all the managers of operations in Brazil, in Colombia, in Paraguay, and also Uruguay. In terms of receivables, this account has to do with the credit policy that we have and as we do with the mix of sales.

So if we believe that we can grow further in sales to countries in Europe, US less risky regions, probably the receivables account will continue requiring more credit, because the credit policy will be less restricted because the perceived risk is lower. However, if we grow the operations and this is what we believe will happen in 2017 in markets like China and Middle East where they perceive it credit risk is a little bit higher than other regions, we're going to increase the requirement of advanced payments what will help us to reduce further the cash conversion cycle.

So again in terms of inventories, in spite of the management, the target of all the managers to reduce and keep it very close to 25 days. In the case of receivables, it depends on the mix of sales and depends on the strategy of growth going further. In terms of suppliers, we give the cattle rangers the option to sell the cattle in cash or in 30 days and depending on the availability of cattle, we can increase the rate of discount, we can increase the difference between paying cash and paying 30 days and adjusting further the amount of cattle that we are going to pay in cash and influence the working capital.

In general, I think you can expect the working capital needs to continue growing down during 2017, remember that in the third quarter we used almost BRL500 million of working capital to expand our operations in the domestic market and we have a commitment to going forward having this money returning back to the operations, part of that was done in the fourth quarter and we expect the remaining will happen in the next three quarters.

A - Fernando Queiroz {BIO 15387377 <GO>}

Lauren, regarding the efficiency, first is related to the new market opportunities, new markets that are opening. I give you few examples in different countries, Brazil was opened to US in the end of last year and this will have -- it's fruits harvest as from 2017. You will have Colombia, opening the market -- important markets like Chile, you have Paraguay opening also important markets like Saudi. Uruguay, we felt stronger presence in Korea. So all that increases our choices in our possibilities on how to extract more value by selling different parts or selling different products in these different markets that are more demanded. Together with that, we increased our logistic efficiency. We saw more fragmented markets, but we saw more volumes that we are supplying in the market that is becoming, as I said before, more global the possibilities of arbitrating by operating in different origins increases a lot.

So Minerva is very focused on this market intelligence. Besides the logistics in the market intelligence, there is also value to be captured from benchmarks our productions of the different plants. We have internal program that we are running fast and fast and producing results, by benchmarking, which is more efficient division in introducing product A or product C or consuming resource B and we are benchmarking.

If we benchmark with the possibilities that we have, there are savings to be extracted either from better yields and from increased operativity, that can reach up to BRL50 million only on the plants. So all these programs together on production, on logistics and in marketing intelligence, allow us to be more efficient and with more access to markets that is happening, allow us to have even better prospects for 2017.

Q - Lauren Torres {BIO 7323680 <GO>}

Great. Thank you.

Operator

The next question comes from Jose Yordan with Deutsche Bank. Please go ahead.

Q - Jose Yordan {BIO 1496398 <GO>}

Hi, good morning, everyone. My question was just about the level of selling expenses, which has been trending down significantly even on a sequential basis. And if you can comment on how much of the efficiency programs that you're talking about are directly affecting the selling expense line versus the production costs et cetera. And whether this level of selling expenses is sustainable in 2017. And if not, what kind of number should we expect?

A - Edison Ticle {BIO 15435343 <GO>}

Jose, the selling expense level has to do with the mix between exports and domestic market. So going further if we keep domestic market at around 40%; the level of sales expense is pretty sustainable. If we increase the export share towards 70%, the level of sales will come back to the levels that we see in the second quarter of 2016. The efficiency programs that Fernando mentioned, they will have a bigger impact on the gross margin of the Company because they are all related to efficiency in the industry in the production side.

Q - Jose Yordan {BIO 1496398 <GO>}

Okay. Thank you. Very clear.

Operator

(Operator Instructions) The next question comes from Andrew De Luca with Barclays. Please go ahead.

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

Hi, thank you for taking my questions. The first one is related to Paraguay specifically. if you could just help us understand a little bit of the weaker slaughtering volumes that you saw in a consolidated level. How much of that was specifically related to Paraguay?

A - Fernando Queiroz {BIO 15387377 <GO>}

The slaughtering level in Paraguay was down between 15% and 20% in the quarter and as we have already mentioned it has to do with the over-rain that we had during the quarter that brought some logistic problems to transport the cattle from the farm to the industry.

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

Okay. And then has the situation improved in Paraguay or are there still logistical issues that you're facing?

A - Fernando Queiroz {BIO 15387377 <GO>}

Paraguay, definitely have some bottlenecks on logistics, but now the situation with the weather that is normalized is better, but definitely there are investments and we are seeing big investments from the government into logistics. So the potential of Paraguay is very high. And it's one of the countries that the cattle herd is growing more than in any other place.

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

Okay. But we should still then expect some near-term headwinds from the logistical issues that you are having in Paraguay for the next couple of quarters?

A - Fernando Queiroz {BIO 15387377 <GO>}

No, now the situation, the climate is normalized, the logistics is working better than it was in the past, but if you have events like what we had -- if excess rain, this can also reduce the slaughter, but in the end, what happens is that the only transferring time the cattle that's available from one moment to the other.

We are seeing the first quarter an excess offer of cattle that was hold in the last quarter of last year. So the logistic problems only changes the time of the cattle to be ready to be slaughtered and to become product that will be exported.

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

Okay, great. And then, just another question on something you mentioned during Investor Day, you said that you expected to reduce leverage, net leverage from 2 times to 2.5 times in fiscal year 2017. So from where you are currently that's about a turn of reduction. Can you just walk us through about how you expect to get to that level?

A - Fernando Queiroz {BIO 15387377 <GO>}

During 2017, we expect the Company to generate free cash flow of around BRL200 million to BRL250 million. There is a growth on revenues and EBITDA that is also expected to happen during the year. So we expect to be at the end of 2017 between 2.6 times and 2.8 times net leverage. The 2.5 times lever will probably be reached during the year of 2018.

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

Okay and then just one last question following up on something you mentioned on your Portuguese call that you expect to reduce gross debt by about BRL1 billion in 2017. So I'm guessing that includes the repurchase of '22s. But are you -- since you're looking to reduce your cost of debt, does it make sense to save some of that cash for 2018 to call the '23s?

A - Fernando Queiroz {BIO 15387377 <GO>}

Well, what makes sense is to reduce the cash and we have excess cash when compared to the financial policy. So our target is to reduce BRL1 billion during 2017. It includes not only the '22s, but also the '17 that we paid in January. So during the year by reducing the gross debt and reducing the cash, we're going to have our cash roughly BRL1 billion lower than the cash that we have right now. And also our growth that's probably one-third lower than the growth that we have to-date.

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

Great. Thanks very much guys.

Operator

The next question is a follow-up from Jose Yordan with Deutsche Bank. Please go ahead.

Q - Jose Yordan {BIO 1496398 <GO>}

Hi, I just had a follow-up, more long-term or maybe accounting policy question but we've gotten some questions about this on the noticing about your CapEx to sales percentage has been more or less 4% or 5% over the years, whereas the depreciation over sales is only 1%. And over time, these should more or less be the same and I was just wondering if there was an easy explanation for this, if not I guess I can pick it up with Eduardo offline.

A - Fernando Queiroz {BIO 15387377 <GO>}

The difference between the depreciation to the CapEx, our maintenance CapEx is around BRL40 million, 45 million per quarter. And our depreciation is around 20 million to 25 million per quarter. There is always a difference between the accountant measures and the realized. In some point they will converge. I think it can converge in 5 years. So don't expect it to be at the same level next year. The CapEx -- the maintenance CapEx has also to do with increasing the efficiency of the operation, increasing the yields, it's almost impossible to separate what is really maintenance related to depreciation and what is related to the improvement of our operations during the years.

Q - Jose Yordan {BIO 1496398 <GO>}

Okay, but eventually depreciation comes up or I guess maintenance goes down or they both meet in the middle, is that what you're saying?

A - Fernando Queiroz {BIO 15387377 <GO>}

Yes -- they will probably meet in between.

Q - Jose Yordan {BIO 1496398 <GO>}

Okay, great. Thanks a lot.

Operator

The the next question is a follow-up with Andrew De Luca with Barclays. Please go ahead.

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

Hi guys, just a quick follow-up, so on the change in your leverage target by 2017, what has changed since Investor Day that led you to revise your guidance, is it mostly FX-related?

A - Fernando Queiroz {BIO 15387377 <GO>}

Could you repeat please?

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

Sure. So, as we mentioned on the Investor Day, you said that you were expecting leverage to improve to 2 times to 2.5 times but now it seems like that's something that's been put off until 2018. So what has changed since then because that was held in November or December if I recall correctly, is it just a change in the FX environment that led you to revise that?

A - Fernando Queiroz {BIO 15387377 <GO>}

Nothing changes -- in the Investors' meeting -- on the Investor Day, we said that our target should be below 2.5 times in two years. It's exactly what I have just described in terms of what will happen to the leverage in the next 18 months.

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

Okay, thanks.

Operator

This concludes the question-and-answer session. At this time, I would like to turn the floor back to (Technical Difficulty) -- Mr. Fernando Querioz for any closing remarks. Please go ahead.

A - Fernando Queiroz {BIO 15387377 <GO>}

I would like to closing this conference call by once again thanking Minerva's entire team for their efforts and dedication as well as the healthy performance presented here in such a challenging scenario of 2016. Also, thank you all for the interest in the Company, and we remain at your disposal for any questions, clarifications. Thank you very much.

Operator

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