Q1 2017 Earnings Call

Company Participants

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

Other Participants

- Andrew De Luca, Analyst
- Gustavo Gregory, Analyst
- Isabella Simonato, Analyst
- Lauren Torres, Analyst
- Marcello Antoniozzi, Analyst

Presentation

Operator

Good morning, ladies and gentlemen, and thank you for waiting. At this time, we would like to welcome everybody to Minerva's First Quarter of 2017 Results Conference Call. Today with us we have Fernando Queiroz, Chief Executive Officer; Edison Ticle, Chief Financial Officer; and Eduardo Puzziello, Investor Relations Officer.

We wish to 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 slide show of this presentation are available through a live webcast at www.minervafoods.com/ir and Engage-X platform. The slide show can 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, 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 would now like turn the conference over to Mr. Fernando Queiroz, CEO, who will begin the presentation. Mr. Queiroz, you may start the presentation.

Fernando Queiroz {BIO 15387377 <GO>}

Thank you. Good morning everyone and thank you for participating in Minerva's conference call on the results for the first quarter of 2017. We will begin by presenting the first quarter's highlights detailed on slide two.

In the first quarter of 2017, Minerva's operating cash flow totaled BRL53.6 million, while in the last 12 months ended in March, operating cash flow came to BRL432.3 million. Return on invested capital stood at 22.2%, maintaining the Company as a sector reference. Gross revenues amounted to BRL2.3 billion, while EBITDA totaled BRL198 million, resulting in an EBITDA margin of 9.2% in the first quarter of 2017.

Export accounted for 60.5% of total revenues impacted by the temporary suspension of imports from certain countries at the end of the quarter, due to the onset of the Carne Fraca Operation. However, despite the diverse scenario in Brazil, the Beef divisions' domestic sales increased 4.4% compared to the same period last year, fueled by the Company's commercial program focus on expanding the mix of its products, the clients' loyalty and its distribution channels in order to increase local market popularity.

Net income amounted to BRL2.5 million in 1Q '17 and approximately 151 million in the last 12 months. In terms of capital structure, leverage measured by the net debt/LTM EBITDA ratio stood at 3.8 times in the 1Q '17. At the end of March 2017, Minerva's cash position stood at BRL2.9 billion, which is sufficient to amortize its debt through 2026. In addition, approximately 76% of the total debt was exposed to the US dollar, with debt duration of approximately six years.

In the 1Q '17, we exercised call for the early redemption of the 2022 bonds, which paid an annual interest of 12.25%. There was also the maturity of the 2017 bonds at the end of January, which we paid annual interest of 9.25%. As a result, we substantially reduced Minerva cost of debt in foreign currency, because they were financed by -- they were refinanced by issuance of the bonds that we paid the coupon of 6.5%.

Regarding the other highlights, I would like to emphasize that the cattle supply scenario is becoming increasingly favorable. Indicators such as the price of calves and female slaughter volume has already begun to show signs of a favorable and very strong change for the industry in the first half. We will go into more details about these indicators at the reversal of the cattle cycle later on.

It's important to mention the cancellation of Company's shares on March 20, and the launching of a new share buyback program on the same day. Lastly, it's worth remembering that on April 17th, we distributed approximately 60 million in dividends related to the income for the fiscal year of 2016. This payment correspond to a dividend yield for investors of 2.7%.

Let's now move to slide three and talk about Brazil's industry overview. The slaughter volume totaled 6.1 million heads, slightly more than in the 1Q '16. Despite the fact that in recent quarters, we noticed a higher supply of animals, which were not slaughtered due to the industry capacity adjustment to weaker local demand.

The contribution of the first quarter seasonally weaker consumption and the impacts from Carne Fraca operation at the end of the quarter contributed to maintain slaughter at a relatively low levels. Consequently influenced by a weak demand and a high animal supply, the average price of cattle fell by 3% over 4Q of '16 and 5% over 1Q '16.

Export volume grew compared to the 4Q '16 figure. However, in the 1Q '17 over 1Q '16, exports reduced 8% accompanied by a revenue of approximately 1.1 billion. The main reasons impacting the performance of Brazil -- of Brazilian exports were the appreciation of the real against the US dollar encouraging players with greater commercial flexibility to re-route a higher volume to the domestic market as we did in our distribution. Also, the reduction on the exports to Egypt, as the country has been struggling with the depreciation of its local currency in the last few months and it's a very important market with great impact on the -- of the Carne Fraca Operation, which we'll discuss further on.

Meanwhile, the domestic market performed in line with the weaker seasonality of this period given the beef consumption in the first three months of the year is always a bit slower. Once again, there was an industry capacity adjustment. Certain players took advantage of the weaker consumption due to the seasonality effect of the period and the lower price of beef to give collective vacation and anticipate month-end service in the meat packing companies.

Finally, I understand it's important to talk about Carne Fraca Operation launched in March '17 to investigate so-called fraud and corruption schemes. Some countries reacted to this operation by temporarily suspending shipments or blocking certain products, which had already been shipped. As a way to request more information from the Ministry of Agriculture. These countries include China, Hong Kong, Chile, Algeria, and Egypt. In addition to the embargo in these countries, other countries such as United States, Russia, Saudi Arabia, and European Union countries decided to adopt more stringent health inspection criteria for Brazilian products.

The embargoes from the countries were lifted weeks after and they are back to the normal, and exports of Brazil, they are perfectly at the same levels as they were before. I would like to thank the team of the Ministry of Agriculture and the Minister himself Blairo Maggi, who with the support of the Association of Beef Exporters, probably interfered and provide all information and necessary transparency to respond to all inquiries made by these countries' authorities.

Let's move on to slide four to discuss the Brazilian cattle cycle. This slide shows the most important indicators related to the cattle cycle, demonstrating the reversal of the cattle cycle which is now positive. Since the end of 2013, cattle producers began to retain breeding stocks to increase the production of calves. These animals are now being -- are now ready to be slaughtered, increasing animal supply and also increasing the amount of females that are redirect for the slaughter. Nevertheless, in addition to the greater availability of cattle, the Brazilian herd has also expanded in recent years due to the implementation of new technology in Brazil livestock industry, improving their productivity as well as of techniques rates.

In addition to these two factors that I have just mentioned, the greater animal availability was also fueled by the reduced industry capacity utilization in the last few years when animals of adequate age and weight were not slaughtered. A combination of these three factors lead to a downward trend, which began in the second half of 2016, and has been gaining strength since early 2017. As you can see in the two lower charts, average arroba and calf price both used as a reference in the state of Sao Paulo began to decline in the second half of last year.

It's important to mention, that this -- that the bigger margin trend show that now we already have a greater availability of females, which will favor further the scenario of cattle supply.

Let's move on to the slide five and discuss the sector overview in Paraguay. Paraguay slaughter volume increased by 14% in the 1Q '17 over 1Q '16, and 22% in the 1Q '17 over 4Q '16, favored by the growing export demand and normalization of the rainfall period, which allowed the transportation of animals from farms to clients in a much more efficient way. As a result, cattle price rose 22% in the 1Q '17 over 1Q '16, but remained stable over 4Q '16, due to the resumption of industry capacity utilization in the first quarter.

Exports revenue totaled $278 million in the first quarter, 13% more than in 1Q '16, accompanied by the volume of 68,000 tons influenced in turn by higher demand from Chile and the return with more volume from Russia, whose combined revenues growth came to 21% in the period analyzed. In the 1Q '17, the export highlights were once again Chile and Russia, which together accounted for 60% of Paraguay's exports. Brazil was the third most important destination, corresponding to 11% of the country's total exports.

Let's have a look in Uruguay. How is the situation of the industry there. Uruguay's first quarter slaughter volume was 14% higher than in the 1Q '16. The higher volume was influenced by the increase of exports to China and United States mainly. Meanwhile, the average price of cattle fell 4% closing the quarter at $163 per 100 kilos. Uruguayan exports volume expanded by 18% over 1Q '16, accompanied by revenues of $368 million. This result reflects the higher exports to China and to United States whose combining exports accounted for more than 50% of the country's total as shown in this chart on the lower left.

Let's now analyze Minerva's performance, beginning with exports, shown in slide seven. In the 1Q '17, we remained among the main exporters in the country where we operate. Minerva's market share in Brazil came to 17%; in Paraguay, our market share remained at 20%, while in Uruguay, the company share accounted for 16% of the total exports.

This slide also shows Minerva's exports in the last 12 months ended March '17 by region. Asia was once again Minerva's main export destination. The region accounted for 26% of total exports, in line with the same period last year. In addition to the main markets of this region, China and Hong Kong, we also recorded a healthy performance in other important market sites such as Taiwan, Vietnam, Philippines, and South Korea, that the combined revenues from these markets increased more than 60% compared to the last 12 months ended March 2016.

In addition to Asia, it's also important to mention the share of the Americas, up by 400 basis points to 16% of total exports in the last 12 months ended first quarter of 2017, with highlight for the strong demand from the Chilean market up by 20% over the same period last year, and reached demands of novel cuts such as hindquarter cuts, implying higher product profitability.

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

Edison Ticle {BIO 15435343 <GO>}

Thank you, Fernando. Good morning to all. Slide eight will present Minerva's financial and operating highlights. Minerva's net revenue reached BRL2.1 billion in the first quarter of '17. The 7% decline over the previous quarter was affected by the lower exports volume and lower mainly or more significantly by the average pricing reals in the international and local markets, as the drop in our pricing reals in the export market was more than 10% year-over-year.

First quarter EBITDA reached BRL198 million contracting by 22% over the same period of last year, generating an EBITDA margin of 9.2% compared to 10.8% in the first quarter of '16.

At the end of the first quarter '17, return on invested capital came to 22%, which still keep Minerva as the benchmark in the sector in terms of return on invested capital. Leverage came up to 3.8 times at the end of March, due to the reduction on EBITDA on last 12 months EBITDA, and on EBITDA in the first quarter of '17 around BRL50 million lower than the EBITDA of the first quarter of '16, besides the negative free cash flow plus the cancellation -- the cash impact of the cancellation of shares during this quarter.

Let's move on to slide nine to talk about the net results. Net income after taxes reached BRL2.5 million in the first quarter of '17, in the last 12 months' net income was approximately 151 million. If we calculate the effective tax rate of the profit before income tax, the percentage or the effective rate is more than 90%.

This effect is due to future tax effects that are recorded in the first quarter and are related to temporary differences of deferred tax tariffs. This effect also happened in the first quarter of last year and throughout the year it was normalized. So it's a big difference between the accounting income and the taxable income that has a big difference. For further details, you can take a look at the note 19 in our balance sheet.

Next slide, we would discuss operating cash flow. In the first quarter of 2017, operating cash flow was positive by BRL54 million. Adjustments to net income were BRL87 million in the quarter, while the change in working capital requirements was negative by BRL36 million. This negative impact from the working capital accounts was mostly affected by the inventories line, which consumed BRL83 million during the quarter, and the suppliers line which consumption came to approximately BRL132 million, due to the increase in the purchase of cattle in cash especially in March because of the impact of Carne Fraca operation. On the other hand, working capital was positively affected by the receivables line, which returned back to the operation approximately BRL135 million as a result of the Company's greater exposure to the local market in the first quarter. As you can see from the column on the right side of the table, in the last 12 months operating cash flow was positive by BRL432 million.

Let's now move to slide 11 to talk about free cash flow. So as I mentioned, first quarter EBITDA was 198 million. CapEx with cover cash effect BRL58 million. The financial result -- net financial result with cash effect was negative by 163 million, while the change in working capital was negative by BRL36 million as explained in the previous slide. So free cash flow was negative by approximately BRL60 million. If you take out the non-recurring hedging expense of BRL3 million, the recurring free cash flow in the quarter was BRL57 million negative.

For the last 12 months, the recurring free cash flow after the cancellation of -- sorry, in the quarter, the recurring free cash flow after the cancellation of treasury shares was BRL144 million. During the quarter, we concluded our share buyback program and we opened our new share buyback program, which had an impact -- a total impact of BRL87 million of cash during the quarter.

Let's move on to the last slide of the presentation to discuss capital structure. Our leverage at the end of the quarter measured by the net debt to EBITDA ratio was 3.8 times. At the end of the first quarter, the cash position was BRL2.9 million. The reduction in our cash position comparing to the fourth quarter is in line with our strategy to reduce gross debt and reduce cash balance in order to have our cash position more close to what our financial policy would imply, which is around BRL2.1 billion.

Anyhow, this cash amount leaves us in an extremely comfortable position because it allows us to amortize our Company's debt that is maturing in 2026. At the end of March, approximately 76% of our total debt was exposed to the FX variation and the total debt duration was around six years.

During last quarter, we moved ahead with our liability management strategy, exercising the call option to redeem 2022 bonds, that we're paying annual coupon of 12.25%, which is very expensive when you compare to the recent new issuance of 10-year bond concluded in September last year with a coupon of 6.5% per year.

Moreover, we also redeemed the bonds that were maturing in 2017 -- in January 2017, which we're paying annual coupon of 9.25% per year. Therefore, we substantially -- we are substantially reducing the cost of our debt denominated in US dollars. Today in outstanding, we have only the 26 bonds paying 6.5%, part of the 23 bonds that are paying 7.75%; and our perpetual bonds with annual interest of 8.75%.

I'll now pass the floor on back to the operator to begin the Q&A section. Thank you.

Questions And Answers

Operator

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

Q - Isabella Simonato {BIO 16693071 <GO>}

Good afternoon. Thank you for the call, Fernando and Edison. I have two questions regarding the beef market. First on the exports side, we saw that prices remain pretty sustained in April in dollar terms despite all this adverse scenario for Brazil because of Carne Fraca. What do you see for prices going forward? If we can expect some recovery from these levels considering how tight the global market is?

And second, when we look at the cattle prices in dollar terms, they are also down since the beginning of the year. I understand that maybe seasonally this could be sustained at some point, but do you expect to see further declines in cattle prices from these levels? Thank you.

A - Edison Ticle {BIO 15435343 <GO>}

Isabella, because of the balance of demand and supply of beef in the world, yes, we agree with you. We see a big space, a big room for beef price in dollar terms to continue increasing during the year. So again, Carne Fraca operation was a non-recurrent event at the end of March, beginning of April, but all the impacts were already -- were already concluded until the end of -- until the second week of April. So our view is that beef price will continue going up in the export market. And on the other side, we see a positive cattle cycle in Brazil taking place, especially in the second half of the year.

So we expect as well further decline in cattle prices until the end of the year and for the next two years because of the turn on the cattle cycle.

Q - Isabella Simonato {BIO 16693071 <GO>}

Thank you.

Operator

(Operator Instructions) The next question comes from Lauren Torres of UBS. Please go ahead.

Q - Lauren Torres {BIO 7323680 <GO>}

Yes. Hi, everyone. I guess, first, if I could just ask the follow-up. And Fernando, I think you just addressed this on timing. As we know, the first quarter is one of your seasonally less significant quarter. So as we think about these more positive industry dynamics, this will flow through I assume more so in the second half or should we see the positive implications of this more of it as a 2018 event for Minerva? I guess it's just more of a timing question.

And if I guess also ask the second question on the export markets. I guess you mentioned that exports are now more normalized past the investigation. So just curious if you think there was any longer-term damage done as a result of this operation, meaning certain countries are looking at beef exports differently. If there is any potential longer term negative implications coming from this? Thank you.

A - Fernando Queiroz {BIO 15387377 <GO>}

Lauren, I'll refer to the answer that Edison made, that the market is recovering pretty fast. If you look at United States prices, the stock exchange -- the stock exchange had three limits up -- three limits of price increase in the last three weeks --

A - Edison Ticle {BIO 15435343 <GO>}

Future's cattle price.

A - Fernando Queiroz {BIO 15387377 <GO>}

So it's been -- that only -- this only reinforced the importance that South America has on occupying this space on their export markets. As you said, traditionally the first quarter is the weakest quarter. The exports are low. The local market also tends to have less consumption and this was further affected by the investigations that went through in the -- especially on the chicken sector in Brazil, but also affected the beef sector. What happened to us is that the part of our export volume was remained in the ports. So we ended up performing only on April -- late April. So the impact and the recover where you'll see already in the 2Q of 2017. We will not have to wait until '18 to see recovers.

What we see that is positive for now because of this investigation is that the sanitary bar and the procedures are much tighter followed, right now. But this is favorable for the more structured companies. So I see even this operation that had an impact in the short term in the middle term, I see as very positive for the Brazilian industry, that is occupying -- that already occupied and we'll keep occupying the leading position in the world beef trade.

Q - Lauren Torres {BIO 7323680 <GO>}

So I guess I'm just following up on that, saying that, as a result of the investigation, there's no increased cost effect to your concern as far as to how you are viewed externally regarding beef exports out of Brazil?

A - Fernando Queiroz {BIO 15387377 <GO>}

There was no impact on prices. The only impact that we had was to retain part of our inventories in the port, that required working capital, this you'll see on the numbers that we presented, the increase of working capital needed. But this is definitely -- shall go into

-- is already in the normal flow. And on the top of that, there are no impacts on the sales price. International market, that is becoming much more arbitrated and with United States and Australia having higher cattle price, this gives an opportunity for South America.

The main impact is that it accelerate the decrease of the cattle price in the Brazilian internal market. So we saw that already in April, because the companies were a bit -- most of the companies reduced their volumes. So we saw a decrease of cattle price that we were expecting to be in May and June already been anticipated for April, due to the operation.

I'll say that this was the only impact in the short term. And as I said, in the middle term, it will be positive for the industry for rise in the sanitary, rise in the bar for the sanitary procedures.

Q - Lauren Torres {BIO 7323680 <GO>}

Okay, great. Thank you.

Operator

'The next question comes from Marcello Antoniozzi of Citi. Please go ahead.

Q - Marcello Antoniozzi

Hello, guys. Thanks for taking my question. I have one on capital structure, Fernando. And that is on -- you caught my attention that leverage went up back to 3.8 times net debt to EBITDA, and I wanted to hear from you, how the Company sees leverage going forward? If we are in the peak and it should fall sequentially or if there is a chance it goes up bit more in the next quarters. And also at what level of leverage would you feel comfortable with to pursue M&A again? Thanks.

A - Fernando Queiroz {BIO 15387377 <GO>}

Well, talking about the leverage. Assuming that FX will be at 3.15 for the rest of the year, if the Company is able to come back -- to get back to the results that we generated in 2016, and this is pretty feasible and it's part of the plan, it's part of the budget for the rest of the year, we can see leverage coming down back to the first quarter of '16 levels, which is around 2.9 times, 3 times at the end of this year. Levels of leverage to talk about M&A, all the M&A operations that we did in the past years were structured in a way that leverage would not go up.

So all the M&A that we did would produce a neutral or a positive in terms of deleveraging effects on our net debt to EBITDA ratio. We will continue following the same discipline, taking action in the M&A side that are part of our strategy which is to grow further in South America. However, having a careful look at our financials, at our leveraging and at our prospects for deleverage for continued deleveraging the balance sheet of the Company.

Q - Marcello Antoniozzi

Okay. Excellent. Thanks.

Operator

The next question comes from Andrew De Luca of Barclays. Please go ahead.

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

Thanks for taking my questions. The first one is on your utilization rates. So we saw a nice improvement quarter-over-quarter and year-over-year. And I was wondering could you help us understand the impacts of Carne Fraca on your utilization rates during the quarter?

A - Fernando Queiroz {BIO 15387377 <GO>}

Of course that -- there was some uncertainty on the restrictions that some of the importing countries would put in Brazil because of the Carne Fraca. What Minerva did is that we stopped one of our plants in March and we stopped another plant in April -- the beginning of April. And we accelerated the maintenance plants and we accelerated the solutions of some of the bottlenecks that we had. Therefore now that the situation of the markets are back to normal, we now have increased its capacity of utilization on the existing plants that we have. Therefore we made ourselves, so we used the time to make ourselves ready for acceleration period that we were expecting due to the turn of the cattle cycle.

And looking now in May to what we did are absolutely right and we planned in the right way to take advantage of this obvious change of the cycle.

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

Okay. So if we adjust for the accelerated maintenance downtime that you took, what was the utilization rate for the quarter -- for the first quarter?

A - Fernando Queiroz {BIO 15387377 <GO>}

Around 70%.

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

Okay. So it was around --. Okay. Great. And then can you just remind me, what was the impact on the utilization rates in the fourth quarter, because of the rain issues in Paraguay?

A - Fernando Queiroz {BIO 15387377 <GO>}

Rain issues in --

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

Okay, great. And then --

A - Fernando Queiroz {BIO 15387377 <GO>}

Sorry. No, no. The second question is about the utilization in Paraguay, that was low in the fourth quarter due to the logistics and heavy rains that the country faced. And these are so with the -- on the first quarter. So you see that their amount of slaughter and I tell you from the months onwards this year we've been increasing the capacity in Paraguay and breaking records on our capacity utilization.

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

Okay, great. And then just last question was on Egypt. I was wondering, could you just give us a little bit more color on the market and specifically how things are following the depreciation of the pound?

A - Fernando Queiroz {BIO 15387377 <GO>}

Egypt has always been an important market, and -- with the depreciation of the local currency, there were an impact on the imports of it. What we are seeing now is that the government worried about it, is taking measures to import themselves. So we are seeing Egypt shall be back.

The same thing applies to Russia. We had one year of impacts of the devaluation of the ruble that affected the imports of Russia and now as you can see from the charts of the first quarter, that's normally their weakest quarter of the year, Russia is back to its normality. So we see -- we are very optimistic on the exports side.

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

Great. And just similar to what happened in Russia, I remember you guys increased the amount of prepayments that you're receiving from Russia following the devaluation, are you doing something similar in Egypt?

A - Fernando Queiroz {BIO 15387377 <GO>}

Yes, the Egypt, the more risky becomes the country, we adjust our policy of prepayment in order to be safer on the credits.

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

Great. Thank you, Fernando.

Operator

The next question comes from Gustavo Gregory of Bradesco. Please go ahead.

Q - Gustavo Gregory

Thank you. Good morning, everybody. So I just have a couple of quick questions. The first one being, I understand that the increase in working capital was partially explained due to the Carne Fraca probe. My question would be, can we expect a reversion of this already in the second quarter once that export volumes have already stabilized?

A - Edison Ticle {BIO 15435343 <GO>}

Yes. Definitely, yes. Part of the increase in the working cap in the first quarter was due to an increase on cash payments for cattle, that impacted BRL140 million roughly. We had also a relevant impact on inventories around BRL80 million in the quarter. So the answer is yes, we can see and we will see working capital coming back to the levels we saw last year during 2017.

Q - Gustavo Gregory

All right. So at least the inventory part definitely gets normalized. In terms of the advance payments, this is something that you also don't expect to be a new norm going forward.

A - Edison Ticle {BIO 15435343 <GO>}

In the inventories, yes, we will see it normalizing in the second and third quarter maximum this year. The prepayments, the payments in cash for cattle purchase, it's a policy that we have to give every day to the farmers a price to pay in cash and a price to pay in 30 days. Because of the Carne Fraca -- and we decided to increase the difference between pay in cash and pay in 30 days. Because of the Carne Fraca, many farmers decided to sell in cash and have in mind that in the end of -- at the end of March, there were very few companies paying cattle in cash.

So I think we were -- Minerva and more one or two companies doing the same at the end of March, beginning of April. So naturally, we increased our cash purchase in this period.

Normally 35% to 40% of our cattle purchase are paid in cash. This number increased during the first quarter, but we see normalizing during the year and coming back to the levels that we saw in 2016. But it will not happen only in the second quarter, it will be normalizing during the next three quarters.

Q - Gustavo Gregory

Understood. And then my final question would be, regarding market share, I saw that in Brazil, there was a pretty significant drop. I kind of want to understand what was going on, where you guys lost so much market share, especially considering that when looking at the export that is from the government agencies, we didn't seem to see as big a disruption in the export volumes and that linked to particularly to Carne Fraca; so is this something that was more specific to you, given some of the markets or the strategy you pursued or am I missing something?

A - Fernando Queiroz {BIO 15387377 <GO>}

Minerva has a very structured distribution in the Brazilian local market, that's very focused on the food service sector. The food service is more resilient to changes in consumption. Therefore, in a time that the Brazilian real was appreciating and the exports have a lag of adjustment in price, our economic decision, the best economic decision was to focus more in the Brazilian local market. And that we were able to do it because of the capillarity and the strong presence that we have on the Brazilian local market.

So it was in principle an economic decision on what was the best outlet for our products. In the end of the month that normally, there are some big, bigger shipments, especially because of Easter, we were faced with the Carne Fraca. So part of our, let's say market share was not performed, because the products remained in the port. But this was shipped, let's say, we've three weeks, approximately three weeks of delay.

Therefore, our loss in market share was economic, firstly; and then we had a one-off event that also interfered in our performance. So Minerva will always look at the possibilities in the local market, in the other markets that we serve in order to have always the best choice on where to place our products.

So our loss of market share in Brazil was because of that. On the other hand, you can see what we did in Paraguay and Uruguay, that we increased our slaughter, the market share was stable or increased. But also we substitute some of the Brazilian restrictions with more volume out for these countries. One example is Chile. Brazil had a restriction in Chile and we increased our volumes to Chile as we saw in the -- as we showed in the results, we increased our shipments out of Paraguay to Chile to replace what -- the gap that Brazilian has left. So this was -- this is the advantage of being geographic, diversified.

Q - Gustavo Gregory

All right. So if I understand correctly, this would be a difference in the commercial strategy probably versus the other players, where you either shifted production outside of Brazil or more towards the local markets whereas the larger -- the other large players probably kept export volumes stable?

A - Fernando Queiroz {BIO 15387377 <GO>}

Sorry, what was the question?

Q - Gustavo Gregory

I'm just trying to coincide the 3% drop in market share just to make sure I understand. So it would be that, your competitors probably maintained a similar mix of exports while you guys focused more on the domestic market.

A - Fernando Queiroz {BIO 15387377 <GO>}

Well, we chose the most economic and the most profitable channel to place our products. It's hard to see, I don't know what happens to our main competitors. One thing that we saw is that the exports out of Brazil, they -- for now, the big players, they had seen that they had some restrictions, because of the closing of the markets.

Q - Gustavo Gregory

Okay, understood. Thank you very much.

Operator

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 Queiroz {BIO 15387377 <GO>}

I'd like to end this conference call. Thank you and once again, Minerva's entire team for their efforts, dedication and agility during some critical moments such as Carne Fraca Operation, as well as during the execution of our liability management. I 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 conference. You may disconnect your line at this time. Have a nice day.