

Q1 2020 Earnings Call

Company Participants

- Edison Filho, CFO
- Fernando de Queiroz, CEO
- Unidentified Company Representative, Company Representative

Other Participants

- Luciana de Carvalho, Analyst
- Marcel Guimaraes de Moraes, Analyst
- Unidentified Participant, Unknown Company

Presentation

Operator

Good morning. Welcome to Minerva conference call for the first quarter 2020. We have present Mr. -- Dr. -- Mr. Fernando Galletti and Edison Ticle, CEO and CFO. (Operator Instructions)

Before continuing, I would like to clarify about the perspective of Minerva -- or premises -- (inaudible) information, everything will be available. Those circumstances may or may not happen. Investors must understand that there are operational issues that may affect Minerva that would lead to different results.

Now we will give the floor to Mr. Fernando Queiroz, who is the CEO. He will make his presentation. Mr. Queiroz, you have the floor.

Fernando de Queiroz {BIO 15387377 <GO>}

Good morning, everyone. Thank you for participating in Minerva's conference call to discuss the results of this first quarter 2020. Before beginning our earnings conference call, I think it's important to talk about the current moment and the global crisis caused by the COVID-19.

We are closely following the guidelines and taking all necessary protection measures in accordance with the authorities, giving priority to our more important asset, our employees.

We give priority to their health. And we have therefore adopted certain measures such as vacation for employees within certain operating units; implementation of working from

home for the management department; and leaves of absence for employees in the risk group -- that is people over 55 and women with children under 6, pregnant women and all those who are exposed to contamination risk.

We're also checking the temperature of our employees at the entrance of our factories on a daily basis and adopting social distancing measures in our operating line, for example, in slaughtering and deboning activities as well as cafeterias.

All this is to guarantee and protect our employees' (inaudible). All these initiatives are strictly in line with guidelines and protocols issued by authorities.

We're also presently assisting the needy communities of -- for Brazilians. We contributed donating 50 tons of foods such as beef, meatballs, canned beef. And we're also donating about 20,000 liters of alcohol gels and approximately 120,000 IPE such as masks, gloves, uniforms, caps and protection glasses, moreover -- and with donation of 13k of drugs and 5k in hospital equipment.

Minerva also leased 5k of ICUs to assist municipal hospitals in locations where we operate and we will donate more than 200,000k -- 250k to the general hospital of University of Sao Paulo Medical School in Ribeirao Preto. Besides, we're also assisting Argentina, Colombia, Paraguay and Uruguay.

And Minerva awarded more than BRL 10 million to mitigate the impact of the pandemic and support the communities where our industrial units are located. Everything we have done reinforces our commitment to society, to our employees, to our partners and our clients in the communities where we're operating.

I would like to emphasize that our industry, the food sector, is essential to the world. Everything else can stop, but not food products, never. Our responsibility is that we're going to continue working with dedication in the production of food, to take meals and beef, so essential to the health of the communities around the world.

We will now talk about the 2020 results beginning on Slide 2 ,with the presentation of the main highlights for the quarter. We improved on important operational fronts, always based on efficiency, ethics and sustainable management of our business model.

We'll begin with cash flow, a priority for Minerva. Operating cash flow attained BRL 1.7 billion in the first quarter, totalizing BRL 3.2 billion in the 12 months ending March. Free cash flow was positive for the ninth consecutive quarter, attaining BRL 904.6 million and BRL 1.6 billion in the last 12 months.

I would like to point to our risk management, which had a fundamental role in obtaining the financial results recorded at the beginning of the year.

Consolidated net revenue totaled BRL 4.2 billion in the first quarter and BRL 17.6 billion in the last 12 months, all-time high, making the gross revenue breakdown 48% or BRL 2.1

billion coming from Brazilian Industry Division, around 43% or -- which means BRL 1.9 billion from Athena Foods Division, and the remaining 9% or approximately BRL 406 million came from the Trading Division.

In the first quarter, Minerva's consolidated exports accounted for 66% of gross revenue, 21% more than the first quarter. In the last 12 months, the share of exports increased 68%, reflecting the strategy focused on exports, especially on markets with greater growth potential and beef demand.

The EBITDA totaled BRL 382 million, a growth of 16% higher year-on-year, with an EBITDA margin of 9.2%. In the last 12 months, our EBITDA totaled BRL 1.8 billion, another record, with an EBITDA margin of 10.3%.

Our operational performances in this quarter reflects not only the strength -- demand for beef and the good moment for our industry, but also Minerva's excellence in operations management.

As a final result, Minerva recorded a net income of BRL 271 million and BRL 319 million in the last 12 months. In addition to the strong operation and financial performance, we wish to highlight our balance sheet. At the end of the first quarter, our leverage measured by net debt to EBITDA ratio remained stable, close to 2.99x, in line with the previous quarter despite the strong depreciation of the Brazilian real.

In line with our conservative cash management, we closed March with a solid cash position of BRL 6.3 billion. It is worth mentioning our ongoing liability management. And we repurchased approximately USD 22 million at face value in our 2026 bonds on the secondary market, taking advantage of the best moment for this type of transaction, which, considering the market volatility, came to be negotiated right below face value.

In the first quarter of -- we consolidated our position as the leading beef exporter in South America with a market share of approximately 20%. This reflects our geographic diversification on the continent, supported by our 15 international offices, which gives us a great competitive advantage and a leading position in global beef efforts.

We also maintained our position as a leading beef exporter in Argentina, Paraguay, Colombia and second biggest beef exporter in Brazil and Uruguay.

Let's talk about the performance by region in further detail. The immigrant industry division Asia accounted for 42% export revenues, 15 percentage points more than the same period last year.

It's also worth noting the substantial exports to Russia, which accounted for 14% of this division's exports. In Athena Foods, Asia was also the main destination of exports with 44% of the total, 5 percentage points more than in the first Q.

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Finally, I think it's important to mention that despite the global crisis we are going through, the market outlook remains very positive, and there are several factors that will have an impact in the coming quarters.

The first of which is the African swine fever, which has continued to affect pork production in China. The outbreak is not limited to that country and has already spread across Asia and part of Eastern Europe. At the same time, there has been a structural change in consumer habits in Southeast Asia due to increased urbanization, increase in income and middle class, along with Western consumer habits.

We should also mention the decline in beef production in Australia, one of our main competitors, and more recently the problems faced by India on buffalo beef exports, which gives us opportunities in several markets in Middle East and Asia. We can add to this the reduction of the U.S. beef production due to the COVID-19 contamination. We still don't know the effect on global supply and demand landscape.

This scenario reflects a greater market opening for South American exporters such as Brazil, Argentina, Uruguay, Paraguay, Colombia.

New markets and new authorizations to these countries are already a reality, as seen from the recent opening of the U.S. market to Brazil, the authorization for Colombian beef to Russia and opening of Saudi Arabia to beef exports from Uruguay, Paraguay Colombia, all in the first Q of this year.

Our strategy is to continue maximizing our competitive advantages, investing in innovation, risk management and market intelligence in order to achieve an increasingly efficient commercial and (inaudible) solutions, arbitrating in markets and permitting distortions in times of volatility that these become opportunities.

I would also like to highlight the competitive advantage in sustainability practices and unlocking opportunities in market that value environmental protections, animal health and social practices, distancing us from the main competitors and maximizing business opportunities.

I will now give the floor to Edison, who will discuss Minerva's operating and financial highlights in further detail.

Edison Filho {BIO 20119771 <GO>}

Thank you, Fernando. I will begin on Slide 4. We will begin with our operational performance. In the first Q, the Brazilian Industry Division accounted for 48% of gross revenue, while Athena Foods saw 43% and the Trading Division still remaining 9%. This quarter, productivity dropped slightly due to preventive measures related to COVID-19.

With this, capacity utilization rate remained at around 70% in the Brazilian Division, approximately 73% in Athena Foods. As a result, the company's consolidated capacity

utilization rate was 71%. And so, we can now see the great exposure of Minerva's exports to regions with strong potential demand such as Asia.

Fernando mentioned earlier that we direct most of our exports to Asia, and we -- this accounts for 34% of total exports in the quarter, led by China, which alone accounted for 26% of the total.

In the 12 months ending May -- ending March, Asia was the destination of 43% of total exports, with China alone accounting for 35%.

I will now go to Slide 5. On this slide, we can see the net revenue totaled BRL 4.2 billion in the first Q, up to 12% in the first Q -- higher than 12% over the first quarter last year. And LTM first Q '20, net revenue amounted to BRL 17.6 billion, 70% higher year-on-year.

So our EBITDA margin stood at 9.2%. In the last 12 months, EBITDA totaled BRL 1.8 billion, a new 12-month period record, with an EBITDA margin of 10.3%.

Now I will move to the next slide about financial leverage. Our net leverage measured by the net debt to LTM EBITDA ratio was around 2.99x despite appreciation of the dollar by approximately 30% in the period.

Now as we mentioned in the last conference call, we used about BRL 1 billion raised through the follow-on offering concluded in January to reduce our debt. Therefore our net debt totaled BRL 5.4 billion at the end of March, maintaining leverage below 3x.

I would like to stress that we still have around BRL 779 million to reinforce the company's cash position by the end of 2021. This amount refers to the warrants granted in the private capital increase in 2018, which should be exercised by the end of 2021. Going on to the next slide, I will talk about the net result and operating cash flow, Slide 7.

The company recorded net result after taxes of BRL 271 million in the first Q. This result reflects not only Minerva's operational excellence, but also our solid risk management model, especially in financial risk, which played an essential role in the results this quarter, essential to both our balance sheet and also to keep our leverage below 3x. In the last 12 months -- and the March net income totaled BRL 319 million.

Moving on to cash generation, operating cash flow reached BRL 1.7 billion in 1Q, which approximately is -- BRL 1.2 billion came from net income adjustments and BRL 246 million came from positive working capital variation. In the first quarter, the impact on working capital was other payables and quotations, which includes advances from clients, sub items.

This is not new. We always mention that the performance of this line is due to our credit policy and the requirement of early payment for the invoices of specific markets. So we have this in dollar terms.

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The real depreciation helps this amount to increase a lot. This -- due to our incessant pursuit to improve the working capital metrics, we're able to reach -- to return around BRL 630 million in the -- to the operations, resulting in an operating cash generation around BRL 3.2 billion in the last 12 months.

We will now move on to Slide 8 to discuss the company's priority, free cash flow. Slide 8. In 1Q, recurring free cash flow was positive for the ninth consecutive quarter, with CapEx in the quarter at BRL 904.6 million, including BRL 650 million from foreign exchange hedge results.

EBITDA before nonrecurring items totaled BRL 375 million, while investments stood at BRL 96 million. This quarter, we had an additional BRL 35 million in CapEx, which was retained from previous quarters. So in the coming quarters, investment should return to historical level of BRL 60 million per quarter.

The cash financial result excluding hedges of -- was negative by BRL 244 million, and the working capital returned to BRL 248 million. As I've already said, the effect of nonrecurring FX is BRL 7 million in the quarter and we reached recurring free cash flow of BRL 290 million.

As a result of the FX rate volatility and benefit of our hedge policies, the hedge results on a cash basis is positive by BRL 650 million, giving us free cash flow of BRL 905 million in the first quarter. On the same basis, free cash flow reached BRL 1.6 billion in the last 12 months.

Considering EBITDA of BRL 1.8 billion, investments in maintenance and expansion of BRL 280 million, a cash financial result already including FX hedge results of BRL 538 million negative.

And the working capital variation was positive by BRL 630 million combined with the impact of BRL 55 million in nonrecurring items. This reflects Minerva's strong financial performance in this period and the free cash flow growth into BRL 1.6 billion.

Slide 9, I will talk about the net debt bridge. By the end of December 2019, our net debt totaled about BRL 6 billion. In January, we completed the follow-on offering, which raised net proceeds of around BRL 1 billion with the purpose of reducing our debt.

In addition, free cash flow totaled BRL 905 million and BRL 6.0 million (sic) [BRL 904.6 million] from nonrecurring items, and as I mentioned, BRL 7 million in nonrecurring items that I explained previously, expenses to combat coronavirus pandemic impact.

We were also impacted by the mark-to-market of hedging instruments noncash totaling BRL 536 million and reducing our debt. And in the valuation [ph] impacted to increase the debt, we now have -- everything is indexed in the total in this quarter, BRL 1.8 billion.

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If we add everything that contributed to reduce, plus the FX and our debt, our net -- and in BRL 5.4 billion, that's BRL 600 million reduction in the first quarter. Once more, we reaffirm we ratify the management's commitment to reducing Minerva's debt to gradually improve our capital structure.

Our hedge policy is still in place, a protection between 50 to 60 of our long-term exposure. Thus we continue to maintain our balance sheet well protected and we feel very comfortable, very protected.

To wrap up, let's go to the final slide to talk about our debt structure. Slide 10, please. As I mentioned earlier, our leverage measured by the net debt to LTM EBITDA ratio close, it was below 3x.

At the end of March 2020, the company's cash position stood at BRL 6.3 billion, an all-time high, giving us confidence to sail at this time of high volatility. Now as for the debt profile, currently 78% of our debt is exposed to the dollar with the duration of around 5 years.

I would like to mention again that our balance sheet hedging policy requires a hedging of at least 50% of our long-term exposure, and this has proved to be extremely efficient to protect us against the exchange rate fluctuations. Nowadays this number is around 53%.

As promised, at the end of March we've reduced our short-term debt to 18% of total debt to -- so it's now 18%. And this -- we used proceeds from the follow-on and -- to amortize debt too in 2020.

So the last point that I wish to comment on this slide was an operation of bond buyback on the secondary market. And in March, our bonds were negotiated around 85% of face value and we decided to buy approximately USD 22 million, paying around 85% of the face value. The idea was to cancel these bonds. But meanwhile, we are carrying these bonds on our cash.

This obviously brings the results of the company. The cancellation will be at par value and the most important is that this is an instrument which will allow us to invest our own cash in a good rate of return and has only occurred due to the stressed market conditions in March, therefore having a good cash position.

It also allows us to take advantage of market opportunities and to improve our capital structure. We have already used this instrument several times over the last 10, 12 years.

Having a good cash position always allows us to take the opportunity of volatility situation in the market. Well, this does conclude our presentation. And we will now begin the Q&A session. Thank you for your attention. Operator?

Questions And Answers

Operator

(Operator Instructions) I would like to hand the floor to Mr. Fernando. And the first question.

Q - Unidentified Participant

I have two questions. The first one is if you could mention the going forward performance of the domestic market we saw in the first quarter?

But there's a discussion with the acceleration or not of the market because of the crisis. How do you see the performance of this segment? Second question. Looking at the U.S., we see lots of plants have been closed down, there's a very volatile scenario, and the -- our focus -- we see more exports in Brazil through the USA. Mr. Fernando, reply.

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

Now I'll first start with the second question. The U.S. undoubtedly is a market which is very -- has strong liquidity and the reduction of products.

Is this going to have an effect? We are shipping from Argentina, Uruguay and Brazil. And the U.S. is a market that will need to import beef not because there's a slow slaughter there, but also due to the decrease of Australian exports. Australia is a great exporter of free range cattle.

And this market is now open very strongly to us and there are also niche markets -- like using organic beef from Uruguay. And we also serve the American market from Uruguay, Paraguay and Brazil.

In the domestic market, we see a change in the channel. The channel is no longer the food and it has migrated to retail, from wholesale to retail. It has migrated with an increase of products that are more simple, basically coming from the lower cost beef from the front of the cattle, and this has reduced the demand from the more expensive beef.

So the spread between the low cost beef and the high costs beef that we operate in our Beef Desk was never so narrow and we believe it's going to continue very narrow.

Now for the domestic market, we think that there's going to be a change in habits, and we will continue with the lower cost products of beef. There's an increase in unemployment and a decrease in the income.

So it's natural to have this down trade. So we're going to focus more and more in exports. But we're going to keep our commitments with the domestic market, 60,000 customers that we have in retail.

Operator

Pablo [ph] from BPV [ph] would like to ask a question.

Q - Unidentified Participant

My question is regarding the trading income. This is something in the last quarter's -- participated -- it had a relevant participation in the income, the revenue of the company.

So what is the level of revenue do you think you can generate in this period of the first quarter? Do you think it's reasonable? Or do you think we should think of other income for this division? So my question is do you have any visibility about this?

And the follow-up is regarding the exchange hedge. Edison mentioned that it's 53% long-term exposure hedge today. I just want to confirm if that is what I heard so that I can understand the hedging level and if there's going to be a deterioration?

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

About the trading, I have already said in other calls that this grows less or does not grow. It depends because it has a feature which is very opportunistic. For example, for live cattle, it depends on the situation.

The energy trading, we now have set up an operator to deal with this, which is so important at the moment. This is a division that does not grow very much. And of course it's natural that it is going to lose participation in the share because those 2 divisions, which is Brazil and Athena, could continue growing and growing strong in the last quarter.

So the trading went from 15% to 10% in share, and honestly, I think that it will be more or less around this level. We do not see this division gaining any relevance due to the opportunistic aspect that it has in its activities.

A - Edison Filho {BIO 20119771 <GO>}

Regarding the FX hedge, I have also explained this and I said this in a newspaper interview. We changed our hedge position in June 2018 because there was a structural change in macro economy in Brazil.

Until 2018, we were discussing sort of in a circumstance in our Board meetings what was going to be the protection that we should have as compared to the scenario and the risk asymmetries that we saw. And this happened due to a -- because the cost of hedging in Brazil was very high.

Until 2018, we had a cost of 12% a year. Hedging all the FX debt at 12% with our cost at the time, our debt in dollars was 89%. This was implying bringing the cost of third-party capital. And the ROIC was about 18% to 20%. So in the best situation, we would have a return which would be 0. So this was not an option to hedge all of the debts.

This is why we have this risk-return approach. We want to protect the balance sheet in the situations that we saw very important asymmetry.

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Since -- as of 2018, there was a drop of domestic interest rate and especially in the United States as well the interest rate dropped. So the hedge cost went from 12% to 3% or 4%, which is far more reasonable. And also ours dropped from -- to 6%, 6.5%. So we had started around 10%. Our ROIC also improved. So it made a lot of sense in risk reduction to have the balance sheet protected.

You might say well, why not a 100%? Well, for simple reasons. Our company is mostly an export company. I have assets in dollars in my balance sheet and I have future revenues in dollars as well due to imports.

So if I hedge all of my debt, I will be putting the company in a situation all bought in dollar. And we want to protect, we want to bring this exposure close to 0 and not to keep speculating with the company if it's a put or call, if it's a buying or selling situation.

So we set up a -- we, the administration, we set up a metrics and it determines minimum levels of hedge to protect the long-term debt in dollar. And this metrics has to take into account 3 factors: the cost of the hedge, the level of the net leverage of the company, and the 12 months exposure in dollar of the dollar debt in the company.

Nowadays, we have a leverage below 3x, we have a hedge cost around 4%, and our exposure of long-term debt is less than \$2 billion. So this shows that -- there is an indication that we have to have 50% hedge. We may have a difference of 10%, something between 50% and 60%. Currently, we're at 53%. But the policy is -- obliges us to have at least 50%.

If you look at our balance sheet of 2019, December 31, if you look at the assets in dollars, that is my cash in dollars, receivables in dollars must (inaudible) that I bought in the long term. And all the exchange liabilities of the company, we were slightly in a (inaudible) position.

So we defined our intention. We wanted the company to be more neutral regarding the balance sheet. Of course, this gives us an advantage of the operational cash flow and it improves the exchange -- of devaluation. So this is an explanation of what we have now, which is 60%. But for the long term, it is always above 50%.

Operator

Santander Bank has a question.

Q - Marcel Guimaraes de Moraes {BIO 22244510 <GO>}

Well congratulation for all your hard work and all your social work that you're doing. Everybody is in a very critical situation and it's wonderful to see you doing great positive things in the needy community.

My question is if there is an expectation that in May we're going to start operating, otherwise in June? Do you have orders from food service for the reopening of the

operation? This is the first question.

The second question is regarding Argentina. The official exchange rate is being maintained artificially at a very low rate. But how do we deal with the cash situation in this situation? Is it possible to have some resources out of Argentina? These are my two questions.

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

Yes. We have done hard work. We're helping a lot the needy communities, donating food and furniture, a basket of staple food, equipment for tests and for medical -- for doctors in hospitals. We are working hardly. And this is part of our responsibility.

I would like to highlight the work we have with our collaborators. We have revamped all the plants, we have revamped all our operations so that we use all the ITEs -- we use ITEs everywhere because we want to protect our workers and protect the community.

About the food service, we continue to supply to food service. It's at a very lower volume. We have less delivery. But what we have done is we have sort of mapped all our customers.

We have given them the necessary conditions, extended the payment terms, longer payment terms for payment. We have given them support in this period and we've even informed what -- how the state and the federal government, how they are -- what their guidelines are.

In Argentina, we are waiting to see what the measures are going to be for the pickup, for the rebound in Argentina what the measures are that are going to determine the rules for the rebound.

Now in Argentina what we're doing regarding cash is we are investing in biological assets, especially cattle, because it has a dollar value. So we can have a hedge.

A - Edison Filho {BIO 20119771 <GO>}

I just want to add. In Argentina what we're doing is -- we agree that the exchange rate they say, this official one, is very far from the real situation. What we hope -- what we believe is going to happen is going to be a very big devaluation and will come closer to the grey markets. So we're going to sort of dollarize those assets.

We've been doing this for some time. We're going to buy cattle and other assets and other commodities as well which are dollarized, and they're used directly in our operations. Besides this, we are giving priority to investments that have a quick return so that we can accelerate our cash flow in assets. That gives us a fast return.

And according to this continuing regulation, we're using all the possible tools to keep all the dollarized cash or in dollars out of the country, out of Argentina. So according to the

law, according to everything that is officially allowed, we have been doing everything we can to protect the cash that we have generated in that country.

Operator

Luciana from the Bank of Brazil would like to ask a question.

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

My question about Brazil. I think there has been a big impact of the pandemic. But could you give us a breakdown of the markets that have been most affected, China, Middle East?

And what do you think is the trend for the future? And the foreign market, could you comment about the pricing, what do you see going forward?

A - Unidentified Company Representative

Answering this question about volume. We took measures in all the plants to match to or adapt ourselves to the current situation.

So as I said in the previous question, we are in -- decreasing our speed and we are increasing our IPE. We're giving vacations. We're keeping -- where everybody working from home. We are taking all the necessary health measures. And women that have children under six years old will remain -- have remained at home.

So there is a reduction in our slaughter. And we have done this to protect our employees. So this is what was done and this is the justification of the reduction of the volume.

Now we are slowly, gradually coming back, but without decreasing the process of protection to our employees. So the rate of our capacity is a little bit lower than in the past.

Now regarding exports. Export has now started when the countries have opened up their economies. So there's a very clear relation. When China started to get out of the lockdown, we saw China coming back and it's now practically normal. This is in China.

In Europe -- Europe is the region that most suffered. And Scandinavia, Germany and the north of Europe especially they had a more stable position. So exports are growing according to the lockdown relaxing.

And it's what we said here in Brazil, a trade down with a -- witnessed -- and lower -- and a change in channels for the food service to retail.

So at this moment what we see in Brazil is exactly the same what we saw in China and in Europe and what is happening in the U.S. This is a standard of behavior, of conduct and

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we are improving in terms of progress and how to do -- and do what will be necessary from the food market to the retail market.

Q - Unidentified Participant

I have two questions. One is more a follow up about exports. This is beef export. We will have more occasion for exports because Brazil in the retail with a mix which is a little bit worse than food service, so a bigger allocation for exports.

Now my second question is regarding working capital. We see that there -- we can imagine that during the year we're going to have a similar pattern. Do you think there is going to be working capital along these lines?

A - Unidentified Company Representative

Well the answer to the first question is yes. We take these decisions weekly. We have a Beef Desk for each origin. And during the daily Beef Desk meetings as a breakdown, we decide whether we're going to sell at the domestic market or exports.

Including we decide to where we're going to send each kind of beef cut. So the possibility in exports will -- if they continue improving -- from here if it's going to improve a lot, it will stay here. Otherwise we will export more. So we can -- we already have 68%, but we can increase.

The second question about working capital. The working capital is -- as we export more, you have more need of cash, because cash for exports is longer. But depending on the market that we increase. And the credit risk, our credit policy can go from 10% to 100%. It depends on the customer. Depending on the market and customer, we can minimize the working capital with a prepayment account.

Now the advance, sort of the -- there's also the exchange rate. Everything is paid and maintained in U.S. dollar. So I have a counterpart, which is the increase of these advancements given to the customers.

Q - Unidentified Participant

I would like to know about food services in China. I would like to know if it has already picked up again.

Operator

I'm sorry, I cannot -- the sound is a little bit bad for this question.

A - Unidentified Company Representative

Well, I'll start answering your second question. We have protocol. COVID-19 is a reality, it is here to stay, and probably we're going to have employees that will be infected.

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We already have models to minimize, but we're -- we don't -- we have mapped employees who are married to doctors, nurses. We have all this mapped so that we can have a risk management of all our employees. So yes. We are prepared for a greater contamination in all the plants.

Regarding food service in China, it is picking up. It's one of -- it is the industry that is most affected. It's one of the industries that's going to take more time to go back to normal. But yes, we are going back.

So all our chains of food service and international chains and global chains, we have a thermometer. We're very close to everything that is happening. So there is a food market, but it's not sort of full blast as it was in the past. I think this will take more than a year to go back to what the situation we had before this pandemic.

Operator

We have three questions from webcast. One is from Monica. I will translate it to Portuguese and I will -- what is the percentage of income cost in CapEx in dollars?

A - Unidentified Company Representative

Well the income is around 68% of the cost directly in dollar. With maritime freight, which is something less than 4%. Regarding CapEx, I would say that one third -- around 30% -- of CapEx can be considered in dollars.

Operator

The second question is from Natalie from the (inaudible). She says, could you give me more details about a positive part of the hedge?

A - Unidentified Company Representative

Well, we [explain] in our release and the result was BRL 821 million one part of noncash. And it comes from the derivatives that we have in our balance sheet. At the end of 2019, we had USD 850 million in MTS when it depreciated 1.10. And we pay 1% of carry in a quarterly way.

Operator

The next question is from Roger Vergenes [ph] from Inside Investors. What is the price that you did the buyback of \$21 million?

A - Unidentified Company Representative

Well, we made several purchases in the market. We bought from 82 to 89. Our average was above 85 of the value.

Operator

(Operator Instructions) As there are no further questions, I will now give the floor to Mr. Fernando Queiroz for his closing remarks.

A - Edison Filho {BIO 20119771 <GO>}

Well, before Fernando makes his comments -- this is Edison -- I would like to make an announcement.

Minerva was confirmed in the Bovespa as of May, with a weight of 0.22% in the Bovespa Index. So this is a big success for us due to the liquidity that it brings to our shares. I will now give the floor to Fernando for his final remarks.

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

Well I would like to congratulate everyone, all the Minerva team. Now this is -- this index is one of the -- something very new. This is the fruit of all our work and the increase of capital, making the company more liquid.

I would like to close this teleconference. I would like to thank all the Minerva team for the performance in 2020. It was a very special year and this is a special quarter.

I would like to thank you all for your dedication and your -- I'm very proud to know that our team has discipline. And with new habits and with new skills, we kept all of us working with the same level of dedication and with an extremely -- extreme flexibility to deal with all the problems.

It's one more challenge that we're facing together. And the way that we have always led our business with grit and determination, without fear of facing adversity -- this is our DNA.

We are alert to the different opportunities in the market of beef and we continue going ahead, restating our commitment with discipline and capital, with practice using ethics and sustainability. We believe this is the best way in the long term.

I'd like to thank all Minerva. I'd like to thank all of you for your interest in Minerva. And we are available for any questions or explanations. Thank you very much for your time.

Operator

The conference call is now closed. We thank you all for your participation. Have a good day.

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