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# Y 2020 Earnings Call

## Company Participants

- Miguel Gularte, Chief Executive Officer
- Tim Klein, Chief Executive Officer, North America Operation
- Unidentified Speaker

## Other Participants

- Barbara Virginia Guimaraes Halberstadt
- Benjamin M. Theurer

## Presentation

### Unidentified Speaker

Good morning, everyone and thank you for waiting. Welcome to Marfrig Global Foods S.A. Fourth Quarter and Full Year of 2020 Results Conference Call. With us here today, we have Mr.Marcos Molina, Founder and Chairman; Tim Klein, Chief Executive Officer of North America Operation; Mr.Miguel Gularte, Chief Executive Officer of South America; Mr.Tang David, Chief Financial and Investor Relations Officer; Mr.Paulo Pianez, Sustainability and Communication Director and Mr.Eduardo Puzziello, Investor Relations Director.

This event is being recorded. And will be started directly in question-and-answer session. (Operator Instructions) (Operator Instructions) This event is also being broadcast live via webcast and may be accessed through Marfrig website at ri.marfrig.com.br, where all documents of this earnings result is available. Those following the Q&A session via the webcast may post their questions on our website. They will be answered by the IR team after the conference is finished.

Before proceeding, let me mention that forward-looking statements are based on the beliefs and assumptions of Marfrig Global Foods S.A. Management and on information currently available to the company. They involve risks and uncertainties because they relate to future events and, therefore, depend on circumstances that may or may not occur. Investors and analysts should understand the conditions related to macroeconomic conditions, industry and other factors could also cause results to differ materially from those expressed in such forward-looking statements.

Thank you. The floor is now opened for questions.

## Questions And Answers

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## Operator

(Question And Answer)

## A - Unidentified Speaker

(Operator Instructions) Our first question comes from Ben Theurer with Barclays.

## Q - Benjamin M. Theurer {BIO 17248534 <GO>}

Hey, good morning. (0:08:08.6) thank you very much for taking my question. I've two questions if I may so one for Tim Klein so easy to stay in English. So obviously it was a very strong 2020 in the numbers, strong finish and thank you very much for giving an update during the prepared remarks, which was available in regards to the COVID costs. So Tim, what are you seeing in terms of like cost headwinds still related to COVID and how do you think this is going to turn out over the course of the year?

And would you expect that from the second half perspective, once more of your workers getting vaccinated that you can ease a little bit on the cost side because I think it was another 24 million in the quarter. So just to understand a little bit the trajectory here and how you're seeing profitability throughout the year, considering the current cattle environment as well as a surprising environment for your input cost. That would be the first question. Thanks.

## A - Tim Klein {BIO 16522695 <GO>}

Okay. Well first of all the biggest percentage of the COVID related cost our labor increases that all packers put into place. So that's really a level playing field across the industry, and so far we've been able to pass that through and not affect, impact our margins. As we look at what the ongoing annual cost of that would be, we're estimating somewhere around in our case $30 million to $40 million and that would be the labor penalty that or increase that we've experienced.

The other costs are minimal, masks and the partitions we've already spent the money on that. So they're in place. Everything else is very minimal cost. As we look into 2021, and certainly based on where we're at, so far in the first quarter, I remain very, very comfortable that we're going to show some very, very good numbers. The cutout ratios are going to continue to be strong with the where we're at in the cattle cycle and the backlog of cattle that we're not processed in 2020 that are being carried into 2021.

## Q - Benjamin M. Theurer {BIO 17248534 <GO>}

Perfect. And then and one on just general capital allocation and you might have to translate that one for Tang. So just to understand so we basically have a very strong year of cash flow on as well as the quarter we begin very strong. You've done everything you could on the liability management side. We're now at a 1.6x leverage, which I think is even below the level where you want to be, you've just announced a share buyback. You've announced a dividend.

So what do you think about inorganic growth opportunities. Do you -- do you consider some sort of M&A within the regions, you're in -- within other regions to get maybe point of sale improvements over in Asia. So just to understand a little bit about the potential of inorganic growth considering the strong cash balance.

## A - Unidentified Speaker

(inaudible) strong cash. It's good to notice that in 2020. We made a total CapEx of 1.4 billion within that CapEx we have part for organic growth, and in terms of M&A right now we are not considering any M&A but rather organic growth. A very important point is the reduction of our debt. So this strong cash we are generating will lead to a reduction of our debt and as a result a reduction in our financial debt and with that we will generate net income.

## Q - Benjamin M. Theurer {BIO 17248534 <GO>}

Okay, perfect. Thank you very much for that. I'll leave it to you.

## Operator

Our next question comes from Barbara Halberstadt with JPMorgan.

## Q - Barbara Virginia Guimaraes Halberstadt {BIO 18022271 <GO>}

Hi, good morning. So part of my questions have been answered on the capital allocation. So, maybe if I can follow up on other two questions, what would it be on working capital management? If you could provide us with some color, for which we should be expecting -- for working capital for 2021, if there are any changes to the working capital dynamics for the year. And then second question would be on the cattle cycle in Brazil, so if you can also tell us what you're seeing for the next 18 months. We see cattle prices spiking a part of this as a result of the higher exports and competitiveness there. But if you can just provide us some color how you are seeing the cattle cycle for the next 18 months to 24 months that would be very helpful. Thank you.

## A - Unidentified Speaker

Good morning, Barbara. I'll speak about the working capital. The strong management of our working capital in 2020, is a factor that contributed to the strong cash generation. So, we will continue obviously with that focus. And the good working capital management is the exercise we do everyday to buy well to process well and to sell well. So inventory management so you can see that we won't have issues of working capital management in 2021.

And about the cattle cycle. You want to know about the cattle cycle in North America or South America.

## Q - Barbara Virginia Guimaraes Halberstadt {BIO 18022271 <GO>}

It would be helpful. If you could commented in South America, particularly in Brazil. And if you can provide some color in the U.S. it would be helpful as well. Thank you.



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## Operator

Excuse me, Barbara, could you please repeat your question?

## Q - Barbara Virginia Guimaraes Halberstadt {BIO 18022271 <GO>}

Sure. So my question would be on the cattle cycle, if you could comment on your outlook for the next 18 to 24 months in particular in Brazil, given that we're seeing much higher cattle prices. So yes, that would be my question.

## A - Miguel Gularte {BIO 20767495 <GO>}

Good morning, Barbara. This is Miguel Gularte. I will speak about the cattle cycle in South America. 2020 experienced a reduction in the slaughter of heifers, a 22% reduction in the slaughter of heifers in Brazil, along with a smaller rainfall, a reduction in our rainfall. So Brazil had a reduction in slaughter in general not only heifers of about 10%. This also follows a logic because since there is an increased price of young animals and as a result, a retention on the part of producers in order to prioritize the cow calf operation. This is a virtuous cycle.

Unlike other moments, like what we saw in Argentina in previous decades, where they eliminated the inventory and a reduction of supply because of that elimination of inventory. In the case of Brazil, it's a virtuous movement, we have retention of animals, it generates more production and that production goes back to the market and allows the whole process to move forward. We see that acute situation in the first quarter of 2021, we had a reduction in January of 18% in Brazilian slaughter, this is likely to be attenuated in the forthcoming quarters and it should be normalized started in the second half of the year.

It's difficult to predict, what do we see -- what we see is that the export market will maintain putting pressure on the demand because the dollar will remain stronger vis-a-vis the real. So this helps export companies and in the case of Marfrig, there is something that sets us apart. We experienced a 60% growth in industrialized foods in 2020. That allows us to face this increase in the price of beef in Brazil, because industrialized food has an EBITDA of two digits. And since we increase 60% last year and robust CapEx in 2020, that will allow us to keep on growing, Marfrig will remain competitive to face the increase price of the cattle.

I would say that in the first two quarters that price increase remain present starting in May, we can already see a recovery in supply and that supply will recover in the second half. As for other countries, we have a very similar situation in Argentina. There is a retraction in price increases. So the operations in South America are different. Argentina and Brazil have tighter margins in one digit and the Uruguay operations performing very well at two digits and industrialized foods, performing two digits as well.

It's important to say a clear example that we have about Uruguay is that Uruguay -- in Uruguay, we grew our export share last year of 26%, it went up from 26% to 30%. In the case of slaughter, we went from 23.8% share to 26.9%. So where we have favorable conditions, Marfrig was prepared to capture that opportunity. Another important aspect

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associated with cattle cycle is that we develop the whole process to capture operational efficiency whenever we have this operational efficiency that we had in 2020 that we expect to have in 2021 as well. You remain competitive in order to face a higher price of the cattle as we expect to have in the first half of 2021. I don't know if I answered your question.

## Q - Barbara Virginia Guimaraes Halberstadt {BIO 18022271 <GO>}

Yes, yes. Thank you.

## Operator

Our next question comes from Ben Theurer with Barclays.

## Q - Benjamin M. Theurer {BIO 17248534 <GO>}

Yes, just taking the opportunity. Tim, actually, two follow-up questions for you. The one, could you elaborate a little bit on what the impact was from the polar vortex a few weeks ago? How that impacted yield on the animals? And if you've seen anything adverse just because of how cold it got in the vast majority of the country? That would be the first follow up questions.

## A - Tim Klein {BIO 16522695 <GO>}

Okay. Yes, it certainly impacted the finish on the cattle, they actually lost anywhere from 40 to 70 pounds during that time period. So obviously when it gets that cold, they're eating just to maintain weight and it was so cold that they lost weight. So that created a little bit of a weight loss as it came into our plan. So we had less meat or less pounds going down the table. But that has since now recovered and cattle are again, putting back weight back on. The other impact that we saw with that was on the cut outside, we saw a pretty dramatic increase in ground beef prices here in the U.S. as consumers are stocking up ahead of the cold weather. Other than that we really didn't have a big impact, either for us or for the industry.

## Q - Benjamin M. Theurer {BIO 17248534 <GO>}

Okay, perfect. And then just thinking a little bit into the second and third quarter. How do you think about the profitability packer margins and cut out when food service comes back? So is that just basically a simple shift from retail back into food service? Like it happened from food service into retail about a year ago? But how should we think about the profitability on the high-end cuts versus lower end cuts? And how does this impact your overall profitability?

## A - Tim Klein {BIO 16522695 <GO>}

Well, generally, we don't see a big difference in margin structure, whether it's retail or food service, a little bit difference in logistics and product mix, perhaps, but overall, we would expect to see maybe a little more upward price pressure on typical restaurant cuts, the state cuts. But that would only help us. We're going into the best seasonal demand time of the year in the second quarter. So we'll get a good look at that. And what we're

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already seeing on some of the ads that are being booked very good demand out front for beef, both on the retail and food service side. So we're not at all concerned about any shift or change in margin structure due to that shift retail to food service.

## Q - Benjamin M. Theurer {BIO 17248534 <GO>}

Thank you. And that you've said on the -- because of the polar vortex that basically you're now back to normal, like medium term impact. Have you seen any impact on the calf crop and how that maybe could derail a little bit once they're coming to slaughter weight? Or is that -- just -- that's not enough time to recover?

## A - Tim Klein {BIO 16522695 <GO>}

Yes, that's plenty of time to recover. That's -- these calves are, they're two years away from being at our plant so it would have no impact on that side of it.

## Q - Benjamin M. Theurer {BIO 17248534 <GO>}

Okay. Perfect. Thank you very much.

## Operator

That does conclude Marfrig Global Foods Fourth Quarter and Full Year of 2020 Results Conference Call. Thank you for your participation, and have a nice day.

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