

Q3 2019 Earnings Call

Company Participants

- Edison Ticle de Andrade Melo e Souza Filho, Chief Financial Officer
- Fernando Galletti De Queiroz, Chief Executive Officer

Presentation

Operator

Good afternoon, ladies and gentlemen, and thank you for waiting. At this time, we would like to welcome everybody to Minerva's Third Quarter of 2019 Results Conference Call.

Today with us, we have Fernando Queiroz, Chief Executive Officer; and Edison Ticle, CFO and Investor Relations Officer.

We wish to inform you that this event is being recorded, and all participants will be in a listen-only mode during the company's presentation. (Operator Instructions) The audio and the slideshow of this presentation are available through the live webcast at www.minervafoods.com/ir and MVIQ platform. The slideshow can also be downloaded from the webcast platform in this Investor Relations sections on 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 the company management and on information currently available. They involve risks, uncertainties, and assumptions, because they relate to the 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 proceed with your presentation.

Fernando Galletti De Queiroz {BIO 15387377 <GO>}

Good morning, everyone, and thank you for participating in Minerva's conference call on the results for the third quarter of 2019.

Let's begin the presentation with the main results highlights. Let's have a look first on Slide 2.

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First, we'd like to highlight operating cash flow, which reached BRL955.2 million in the third Q of '19 and BRL1.9 billion in the last 12 months. Other cash indicator, our free cash flow was positive for the seventh consecutive quarter, totaling BRL510 million in the third Q of '19 and BRL1.1 billion in the last 12 months, a new record for Minerva, thanks to our operational, commercial, and financial excellence. Consolidated gross revenues totaled BRL4.8 billion in the third Q '19. And an all-time highs of BRL18.0 billion the last 12-months.

Our revenue breakdown shows that 49% of the gross revenue equivalent to BRL2.3 billion came from the Brazilian division. Athena Foods, which comprehends our operation outside Brazil accounted for 39%, or BRL1.9 billion of consolidated revenues. While the three division was responsible for remaining 12%, with approximately BRL576 million. In the third quarter of '19 exports, once again stood out accounting for 68% of gross revenues, 16% higher than third Q of '18. Consolidated net revenues reached BRL4.5 billion third Q '19, 4% more than in third Q '18 and approximately BRL17 billion in the last 12 months ended September.

EBITDA reached BRL455 million third Q of '19, a strong increase of 25% comparing to the previous quarter and EBITDA margin stood at 10.1%, a 100 bps more than in the previous quarter. EBITDA came to BRL1.6 billion in the last 12 months with an EBITDA margin of 9.5%. The net result adjusted for non-cash effects and before taxes totally approximately BRL93 million at the end of the quarter. Reinforcing our commitment to pursuing a more efficient capital structure in our third quarter leverage measured by the net debt LTM EBITDA ratio ended at 3.8 times in line with the second Q '19, despite of almost 10% increase in the dollar compared to the previous quarter.

Finally, it's important to mention once again the opportunity that African swine fever has created for South America exporters in recent months. Just a quick update; according to the FAO, this ASF outbreak has reached over 580 regions, most of which in China and neighboring countries such as Vietnam, Laos, Indonesia, Cambodia with new cases also being reported in South Korea and -- Eastern Europe in the last few months. Containing the outbreak represents an enormous sanitary challenge, since the disease has spread easily, is highly lateral to the herds and does not have control mechanisms such as preventive vaccines. As a result some experts believe that the China pig herd will shrink by 50%, a decrease around 25 million tons on pork meat only considering China figures, which will have a major impact on the global animal protein chain.

It's worth noting that China has approximately 50% of the global pig herds. The effect of the consumption has become increasingly evident with record imports volumes of animal protein in China, especially beef. In the first nine months of 2019, China imported 1.1 million tons of beef, 53% more than in the first nine months of 2018. It's worth noting that the performance of Argentina and Brazil, the two main exporters of beef to China in 2019. We have a combined market share of almost 50%, but this impact is also be noticeable in other countries due to the huge demand coming from the Chinese market.

As a result of a strong demand in early September to Minerva's -- branch were authorized to export to China. Increasing the Brazilian industry division's exposure to China by more than five times, totaling 4.3 thousand heads per day, which should have a positive impact on our operation in the fourth Q '19. Considering the Brazilian industry division in Athena

Foods, our current exposure to the Chinese market compromise of 7 planes and almost 10,000 heads per day around 45% of our total operating capacity. Third Q '19 brought more good news to the Brazilian industry division.

The country was authorized to export beef to Indonesia. The world's main consumer markets for Halal cuts. 10 Brazilian plants were authorized for the market, five of which belongs to Minerva with a total capacity of 6.4 thousands heads per day. In order to further benefit from a strong demand for beef in the Chinese market on, October 1st, we are now seeing a MOU of for creation of a JV with a local partner to develop new business opportunity in China.

Let's move to the next slide, where we described -- we would discuss the strategic partnership in more details. The partnership with the Chinese player will enable Minerva and Athena Foods to strengthen their presence in China and in Asia expanding our distribution capillarity and contributing to new business opportunities through customized products with higher value-added. Currently, a larger share of Minerva and Athena's exports to the Chinese market refers to the B2B operation, which means that we will work with distributors, who are responsible for accessing the final customer. The partnership is designed to allow us to directly access final customers and thus make progress in the beef value chain.

Direct access to the final consumer will allow us to better understand the Chinese market, expanding the business opportunities and strengthening our presence in the region. Finally, I'd like to highlight that Minerva holds control of the partnership. We have 51% interest, and this venture does not require meaningful investments apart from a limited amount of working capital.

Let's now have a look on is Slide 4, where we'll take a brief about Minerva's operation performance beginning with our exports.

In the third Q of '19, Minerva continued to be one of the main exporters in the country, which we operate. In Paraguay, we accounted for 43% of beef exports consolidating our position as the country's main exporter. In Uruguay, we had a 22% market share of beef exports. In Argentina, our market share reached 16%. It's important to point out that we maintain our position as the leading South America beef exporter with 20.1% market share.

On the right hand side of this slide, we have a breakdown of exports by region. In the Brazilian industry division, the two main destinations were Asia and Middle East. We together accounted for almost half of the division exports. In Athena Foods exports, Asia was once again the main destination, accounting for 44% of exports, 11 percentage points more than in the same period last year, mainly impacted by strong demand from China. If we consider current spreads on fourth Q '19, the Brazil operation has been recording almost 200 bps increase on each margins as an effect of major prices and exposure to Southeast Asia.

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These results reflect a strong demand from Asia and a positive export momentum mentioned at the beginning of the presentation, which would continue in the coming quarters; bear in mind that we received approval for additional two plants in Brazil only late in September. So, the results contemplated only the last two weeks of the quarter, which means that we will notice effective impact on results in the coming quarter.

I will now give the floor to Edison, who will discuss Minerva operating and financial highlights.

Edison Ticle de Andrade Melo e Souza Filho {BIO 15435343 <GO>}

Thank you, Fernando.

We will now present Minerva's financial operating highlights on Slide 5.

Talking about our performance; on the upper left corner, we have a breakdown of the company's growth revenue by division. The Brazilian division accounted for 49% while Athena Foods contributed with 39%. And finally, the trading division generated 12% of the revenues in the third quarter. Brazilian division capacity utilization rate reached almost 80% more than 3 percentage points higher than the previous quarter. Athena Foods capacity to utilization stood at 77.7% in the quarter, more than two points higher than in the second quarter.

Overall, the company's consolidated capacity utilization rate reached 78% in the quarter within the 75% to 80% range that we consider to be optimal. Finally on the right side, we also again emphasize the great exposure of Minerva's exports to regions with strong growth of demand. Such as Asia that accounted for 39% of total exports in the quarter, which means a clear effect of the growth of demand coming from China. As Fernando just mentioned, China currently accounts for a large share of exports in the region with the highest demand potential in the short and medium term. Indonesia is also a big opportunity that also Fernando has just mentioned.

Asia as a country -- as a continent accounted for 39% of total exports and around 30% went only to China versus 23% in the third quarter of '18, which means an increase of 7 percentage points, a scenario that we believe should be intensified in the coming quarters, especially because of the new approved plans from Brazil to China.

In the last 12 months, China accounted for 27% of consolidated exports. It's important to remember that also Fernando just mentioned, the two plants that were approved in September, they haven't contributed to the results of the third quarter yet. They're going to start contributing in the fourth quarter and coming quarters.

On Slide 3 -- on Slide 6, we can see the third quarter net revenues that reached BRL4.5 billion, up 4% over third quarter '18. In the left -- ended September, net revenue came to around BRL17 billion, up 8% year-on-year. Also regarding our top-line exports accounted for 66% of gross revenues in the Brazilian industry division and 79% of gross revenue in Athena Foods division. These also reflect the strong demand for China, which in the case

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of the Athena Foods is served by our plant in Argentina, another three plants in Uruguay. EBITDA reached BRL455 million in the quarter, jumping 25% year-on-year, with an EBITDA margin of 10.1%. In the last 12 months, EBITDA reached more than BRL1.6 billion.

Finally, the net debt EBITDA ratio stood at 3.8 times, flat when compared to the second quarter of '19. Although gross debt had a (inaudible) impact coming from the effect variation that depreciated 9% in the period or more than \$0.35. This strong cash generation reported by Minerva in the quarter allowed us to offset the impact and contributed to keep leverage stable in the quarter.

Let's move now to Slide 7 to discuss net results and cash flow. Considering the net result before income and taxes and also excluding non-cash effects coming from FX variation and monetary correction, the company would have had a net income before taxes of approximately BRL93 million. We had a negative impact on the FX size that came from the FX variation, which is non cash and also positive impact coming the FX hedging policy that impacted in BRL165 million positive in the quarter.

Moving to the cash generation, operating cash flow reached almost BRL1 billion in the quarter. The main highlight was the working capital variation that was positive by BRL415 million in the quarter and was supported by firstly the other payables line, which includes the advance from clients that generated around BRL225 million in the quarter. This is explained by the higher advanced payment required for some client for some sales made during the quarter.

And also, we had a very positive impact for almost half of the BRL450 million coming from the suppliers' line, where we were able to increase our days of payment during the quarter. We expect those improvements to continue happening in the fourth quarter and coming quarter. So, we expect working capital to continue generating positive cash flow in the coming quarters.

In the third Q '19, free cash flow reached BRL510 million. Talking about this build up, we began with the EBITDA of BRL155 million, total CapEx of the quarter BRL62 million. Cash basis financial result negative BRL298 million and also the working capital positive variation of BRL415 million. So, again, free cash flow was positive in the quarter by around BRL510 million, which implied a free cash flow in the last 12 months of more than BRL1 billion in the 12 months ended in the third quarter.

It's worth noting that this is the seventh consecutive quarter of positive free cash flow, so this shows the commitment that we have on pursuing our more efficient operational management and also our commitment to use the cash flow generated by operations to deleverage further the balance sheet of the company.

Let's move now to Slide 9 to discuss -- Slide 8 to discuss Minerva's capital structure. As we have already mentioned, the leverage -- the net leverage ratio remained flat at 3.8 times at the end of September, in spite of the great impact that came from the FX, depreciation in the quarter. The cash position at the end of the quarter was BRL3.6 billion, very comfortable and enough to pay all the amortizations until 2026. 79% of our debt was

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exposed to the dollar variation, and it's worth reminding that currently more than 50% of our long-term exposure is hedged. Finally, that duration has stayed also in a comfortable profile reaching almost five years.

This concludes our presentation. We are now open for the Q&A section. Thank you very much.

(Question And Answer)

Operator

Thank you. We will now start the question-and-answer session for investors and analysts.

(Operator Instructions)

This concludes the question-and-answer session.

At this time, we would like to turn the floor over to Mr.Fernando Queiroz for any closing remarks.

Fernando Galletti De Queiroz {BIO 15387377 <GO>}

I would like to close this conference call by once again thanking Minerva's entire team for their (inaudible) indication, leading to a healthy performance in the third quarter of 2019. I also like to reiterate our invitation to our Minerva Day 2019, which will be held in New York at NASDAQ MarketSite, Times Square on November, 18 at 1:00 p.m.

I also thank you for your interest in the company and we remain at your disposal for any questions and clarifications. Thank you very much.

Operator

Thank you. This does conclude today's presentation. You may disconnect your line now. Have a nice day.

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