Q2 2016 Earnings Call

Company Participants

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

Other Participants

- Jeronimo De Guzman, Analyst
- Jose Yordan, Analyst
- Unidentified Participant

Presentation

Operator

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

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

Fernando Galletti de Queiroz {BIO 15387377 <GO>}

Thank you very much. Good morning, everyone, and thank you for participating in Minerva's conference call on the results for the second quarter of 2016. We will begin by talking about the quarter's highlights, which are detailed in slide two of this presentation.

This year, in the second quarter, Minerva generated a net profit of BRL89 million and a net margin of 4%. In the first half of 2016, the net profit reached BRL135 million. The return on invested capital reached a record of 29%, 900 basis points higher than the second Q of '15. The operating cash flow was positive by BRL90 million and in the last 12 months, this amount came to BRL1.1 billion. Gross operating revenues totaled BRL2.4 billion in the second Q of '16 and BRL10.2 billion in the last 12 months, registering a new revenue record for the company.

We remained focused on exports, which accounted for approximately 70% of this quarter revenue. Thus, fresh beef sales increased by 8% over the second Q of '15. The quarter's EBITDA grew by 10.2% over the same quarter last year and totaled BRL239 million with a 10.7% EBITDA margin or 100 basis points higher than the second Q '15 margin. In the last 12 months, EBITDA reached BRL1.1 billion and was 37% higher than the same period of 2015's EBITDA with a margin of 11.4%.

In the second Q '16, recurring free cash flow was positive by BRL104 million. If we include the cash impact of FX hedge, the result would be negative by 55 million, as will be shown further. In the last 12 months, our free cash flow was BRL433.5 million.

Regarding the company capital structure, we highlight the indebtness level measured by the net debt/LTM EBITDA ratio. We reached 2.7 times at the end of the quarter and was Minerva's lowest debt level since the first quarter of 2008. This result is part of our commitment to the market to deleverage the balance sheet. In addition, we highlight another debt indicator much analyzed by credit analysts, the gross debt/LTM EBITDA ratio which reached 5.2 times in the second Q '16, it's the lowest level in the last three years.

In addition to the appreciation of the real against the US dollar in late June 2016, company's effective liability management in using funds to pay short and medium-term debts in a scenario of (inaudible) and credit contraction contributed to such a good result.

We closed the quarter with a cash position of BRL2.8 billion, leaving us in a comfortable position to handle the unstable macroeconomic scenario. At the end of the quarter, approximately 72% of total debt was exposed to the US dollar. Currently, the duration of this debt is 4.8 years.

As this quarter highlight, we could not fail to mention our strategy to increase our commercial capillarity by opening two new distribution centers, one in Santiago in Chile and the other in Bogota in Colombia. Another important point in the first half of 2016 was that we acquired two beef trading companies, Intermeat in South America and IMTP in Australia, two renowned trading companies that will help us to arbitrate markets through a new beef origination platform and capture even more global demand in the markets to which we do not have access, also influenced by the unbalance between global supply and demand for beef, especially from the reduction of Australia.

In addition, Minerva has implemented over the past few years, along with the acquisitions, different operational strategies focused on maximizing the efficiency of each industrial plant, which has executed benchmarking projects between these units [ph]. Projects to improve the animal sourcing, commercial strategy on chilled products, all these factors allowed us to enhance the margins. This movement has over the last quarters improved the consolidated results of the company. This shows that regardless of the diverse scenarios, the company is able to benefit from commercial and operational opportunities that may arise, as shown by the last results that we presented.

Let's now have a look on each country scenario to see what is the environment that we are in. In slide three, we will look at what's happening in Brazil. During the second quarter, the slaughter volume totaled 6.2 million heads, 4% higher than in the first Q of '16 and stable against second Q '15. During the first half of the year, the amount of head slaughtered was 3% lower than the amount in the first half of 2015, reflecting Brazil's economic situation, which leads to a capacity adjustment in the industry.

The average cattle price in the second quarter of 2016 rose 6% against second Q '15, as a result of an expected lower supply of animals from feedlots due to the high cost of grain and (inaudible) cattle, beside the impact of negative cattle cycle on the industry with lower supply of animals for slaughtering.

However, we would like to point out that we correct the cattle price by the IPCA, the Brazilian index for consumer price. Over the last 12 months, the current average cattle price would be around BRL145 per arroba, that's a drop of approximately 2% against the same period in 2015. A more favorable second feedlot round is expected for the industry, given that the replacement price has already begun now to show signs of decrease for this period, which encourages farmers to retain cattle in the feedlots. This factor, combined with the higher investment in pasture supplementation records in the first half, should minimize the concentrated outflow of animals, early in the offseason and should maintain a more uniform cattle supply through the rest of the year.

On the export side, we highlight the upturn in fresh beef volume this quarter, which was 10% higher than the volume exported in the second Q of '15 and the sales to China and Hong Kong, which together accounted for 34% of the Brazilian exports. It's worth mentioning that the recent news related to the opening of the US market to the Brazilian fresh beef. We believe that this fact is extremely important to the Brazilian industry, not only because of the volume that can be directed to the US market, but also because of the potential opening of other the important markets such as Canada, Mexico, Japan, South Korea that usually follows the same commercial North American protocols.

I highlight that Brazil today is a leader in the beef exports reaching only 50% of the global demand and the opening of the US will trigger the improvement of this access, however, I highlight that here a very important work that the Brazilian Ministry of Agriculture has done along these years to improve the Brazilian access in the export markets.

Domestically, we saw once again that the Brazilian economic scenario influencing beef consumption, given that consumers from C, D and E classes income groups migrated from forequarter cuts and even to other proteins such as chicken and pork, due to these consumers loss of purchasing power.

However, we emphasize that in the second quarter, grain prices had a significant increase also impacting the production of other proteins, which decreased the spread with forequarter cuts and minimized the replacement effect. In addition to weak domestic consumption, the US dollar appreciation against the real and the imbalance between global supply and demand led players with more commercial flexibility to focus on exports.

Let's move on to slide four, where we have a look in Paraguay. In the second quarter of 2016, Paraguay slaughter volume was 20% higher than second Q of '15 and 24% higher than in the first Q of '16. In the first half of this year, this volume was 1 million cattle heads, 10% higher than in the first half of 2015. Animals that were ready for slaughter, but were retained in the farms in the first quarter due to rains could be probably transferred this quarter, which contributed to an increase in the volume of cattles slaughtered.

On the other hand, as the soil was still wet, some farmers chose to retain their animals in their pastures, partially offsetting the animal supply. Along with this factor, there was a higher demand for animals qualified for export to Europe, which boosted the prices of cattle, closing the quarter 4% higher than in the first Q of '16. However, the average cattle price decreased 10% against second Q of '15 due to the higher availability of animals in the country.

Paraguay exports revenues totaled US$279 million this quarter, with a volume of 74,000 tons, 23% higher than the second Q of '15 and 16% higher than in the first Q of '16. Chile, Russia and Brazil remain as the main destination to the country's exports. In the first Q of '16, Egypt opened its market to Paraguayan beef imports and accounted for 3% of total export this quarter, as we can see in this chart in the lower left corner. Also, it's worth to highlight that in this last quarter the Paraguayan industry was focusing on the European markets that benefit the commercial mix as well the recent increase on Taiwanese quota that recently doubled. Also worth to mention that Iran is a new market that was opened to Paraguay.

Now let's have a look on Uruguay this time to see how the industry behaved during this second Q of '16. Having rains in Uruguay during the quarter, especially in April and May, hampered the transportation of animals from farms to industry. But in June, with the reduction of rains and a more intense cold weather, the availability of animals was higher and allowed the industry to take advantage of this moment to increase animal slaughtering.

In this scenario, the slaughter volume in the second Q '16 was 4% lower than in the second Q of '15, but 2% higher than in the first Q of '16. Thus, the average cattle price in the quarter registered a 10% decrease against the same period in 2015 and 6% against first Q of '16. Animal shipping difficulties in April and May also hindered the external market performance in Uruguay, thus the export volume reached 68,000 tons, which with

US$328 million revenues, 7% lower than the second Q of '15 and 3% down on the previous quarter.

In addition to this, the event related to the tick control agent not allowed by the North American authorities, but used by some producers last quarter impacted the country exports to the US, which accounted for 18% of the total exports against 22% record in the second Q of '15. Remind you that this situation was already normalized within the second quarter. China remained the main highlights in exports from Uruguay, as you can see in the chart in the lower left corner and accounted for 40% of total Uruguayan exports.

Now let's move to slide six, where we will analyze Minerva's performance during the second Q of 2016, starting with exports. Minerva's share of total exports revenue accounted for 21% in Brazil, 18% in Paraguay, and 13% in Uruguay, remaining among the two main exporters in each of these countries. In this slide, we also show Minerva exports in the last 12 months in each region. Asia's share in the company exports have been increasingly significant and growing. In the last 12 months ended June 2016, the region accounted for 28% of the total exports against 19 in the same period during 2015.

We remind, as of June 2015, we began selling directly to Mainland China, which increased the region's share. Together, China and Hong Kong grew by 40% in the analyzed period. However, other countries also contributed to the region's increased share in the company exports. Singapore, Malaysia, Vietnam together had revenues growth of 73% against the last 12 months prior to -- of 2015. This movement shows our commercial flexibility and the recent gap left by the Australians in the region.

Besides Asia, we also highlight the increased share of the Middle Eastern countries, which rose from 17% in the last 12 months of 2Q'15 to 21% in the last 12 months second Q '16. The countries that most increased their share were Iran, Iraq, Palestine and the United Arabic States -- Emirates. The region's share also included Saudi Arabia, which began its imports from Brazil last quarter.

Once again, it's worth highlighting the decrease in the company's export to the Commonwealth of Independent States, represented by Russian demand. The region decreased from 17% of the total in the last 12 months' second Q of '15 to only 5% for the same period of '16. This, mainly due to the ruble devaluation and the negative prices of oil. However, due to the company commercial flexibility, volumes previously exported to the region were redirected to other destinations with more profitability, such as Asia and the Middle East, as I just mentioned.

Now, I will pass on to Edison that will give the financial highlights.

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

Thank you, Fernando, and good morning to all. The financial and operational highlights are found from the slide seven of the presentation. This quarter, the company's net revenue reached BRL2.2 billion, practically stable against second Q '15. In the last 12 months ended in June, net revenues reached BRL9.7 billion, 17% higher than the last 12 months ended in the same period in 2015 and with a CAGR of 23% since 2012.

It is noteworthy that the revenue performance this quarter is related to the performance of the live cattle division and our strategy to retain products and inventories at the turn of the quarter for getting better profitability of the operation in the next quarter, building along strategy with our inventories.

The quarter's EBITDA, as shown in the chart in the upper right corner, reached BRL239 million, a 10% increase over second Q '15% with a 10.7% margin, 100 basis points higher than the margin of the previous year. In the last 12 months, EBITDA reached BRL1.1 billion and was 37% higher than the figure reported in the same period in 2015 with 11.4% margin. The better operational margins can be explained by; first, the average appreciation of real against the dollars, the US dollar, which was 14% in the period and positively contributed to the exports performance.

Second, the domestic beef sales performance, which was also impacted by the combination between the industry's operational adjustment, the higher resilience of our channel -- sales channels and the improved sales mix.

Third, the geographical diversification of our plants, which has allowed Minerva to benefit from arbitrage opportunities in raw material sourcing and has resulted in a cattle average acquisition price for the company significantly lower than the market reference price.

And fourth, the impacts from the strategy implemented in recent years of strongly focusing on each plant's operational efficiency, through programs like White Bone and Bible, as well as the reorganization of staff by unit, and the benchmarking projects between plants, that altogether are translating in better results through the higher profitability and better productivity.

We will continue with the operational highlights in the next slide. Slide eight, this quarter, as Fernando has already mentioned at the beginning of the presentation, we would like to highlight the deleveraging result. First through the net debt/EBITDA ratio, which stood at 2.7 times at the end of the quarter and then through the gross debt-to-LTM EBITDA ratio presented in the upper right corner of the slide. This quarter, the growth that to EBITDA ratio stood at 5.2 times, the lowest level in our results over the last three years.

This effect is due to our efforts to go forward with our liability management strategy through a settlement of short-term maturities. I highlight that besides the higher CDI, the spread cost in a moment of credit constraint has increased and the usage of our cash was to reduce, at the end of the day, the cost of debt for the company. We record return on invested capital of 29% in the second quarter of '16, 90 percentage points higher than the return - than the ROIC at the end of the second Q '15, which once again represents a benchmark for the sector.

Finally, as shown in the lower right corner, we kept our capacity utilization around 70%, even when some plants are still in their ramp-up period. The largest volume of cattle slaughtered in Brazil allowed us to recover the capacity utilization rate this quarter, which was in line with second Q '15.

Let's move to slide nine to talk about the adjusted net income. While we have reported our net income of BRL89 million in the second quarter '16, if we adjust the profit for the non-cash effect of FX variation of roughly BRL300 million and add the BRL179 million result of the FX hedge with the impact of the income tax and social contribution, adjusted results carried out by the company would be a positive BRL22.5 million of net profit. In the last 12 months ended in second Q '16, net income adjusted to the same effects would be approximately BRL211 million.

Now let's move to slide 10 to talk about operating cash flow. Cash flow from operations reached BRL92 million in the second Q '16. This quarter working capital contributed with a positive BRL76 million due to suppliers account, which provided BRL41 million as a result of a smaller share of cattle purchased with payments in cash. Other accounts payable also contributed, adding BRL132 million to the cash flow. As we have explained it in previous quarter, this line includes the result of Minerva's credit policy of requesting advance payments from certain clients in certain countries.

In contrast, the inventories line consumed BRL104 million of cash, which was the result of the company's strategy that we have already discussed to retain products in inventories at the turn of the quarter for having better profitability in the third quarter. In the last 12 months ended in June '16, operating cash flow was BRL1.1 billion, due to the fact of adjustments to reconcile net income from operating activities amounting to BRL958 million and positive working capital of BRL400 million.

Now let's move to slide 11 to talk about free cash flow. In this quarter, we had a result of negative free cash flow of BRL55 million. But if we exclude the FX hedge impact, the recurring cash flow would be positive by BRL104 million, as you can see in the first chart of this slide. The quarter's EBITDA was BRL238.5 million, CapEx was around BRL41 million, and the working capital related to the operation, roughly BRL76 million as we have already explained in the previous slide. The financial results of cash effect was negative by 170 million. Therefore, this leave us with BRL104 million of free cash flow at the end of the quarter.

Analyzing the free cash flow for the last 12 months ended in June '16, EBITDA reached BRL1.1 billion, while CapEx reached BRL218 million, working capital related BRL400 million positive to the operation and the financial expenses with cash effect was negative by BRL853 million, including all the FX hedge expenses that we had in the last 12 months. Thus, the free cash flow for the last 12 months was positive BRL434 million or a free cash flow yield of roughly 20%.

Now let's move to the next slide to talk about the company's capital structure at the end of the quarter. At the end of June, our leverage measured by net debt to EBITDA ratio was 2.7 times, while the gross debt to EBITDA ratio was 5.2 times. Our cash position at the end of the quarter was BRL2.8 billion, two times higher than the short-term maturities, an amount that allows us to pay all the debts until 2023, which leave us in a very comfortable position.

At the end of the month of June '16, the debt exposed to FX variation was approximately 72% of the total debt, roughly in line with the percentage of our exports, with the share of our exports in our revenues. The debt duration at the end of the quarter was 4.8 years. And at the end of the quarter, the company's net equity was positive by BRL615 million. Last but not least, as you've probably have seen we announced last Monday to the market that we will exercise the call option on the remaining 2019 bonds, roughly around $50 million. Those bonds pay a coupon of 10.875% per year in dollars and we will be exercising a yield to maturity of around 9% or a yield to next call [ph] of around 10%, which shows that

buyback these bonds, exercising the call is a very good investment for the cash that we have.

Now let's move to the last slide of our presentation to explain our hedging policy. Well, the hedging policy exists since 2009, it's divided into flow policy and balance sheet policy. The flow hedging policy is related to the operational margin, to lock up the operational margins on a daily basis. So by analyzing the three risk factors of our business -- most important risk factors of our business in order to lock up the margins, FX is one of the main important drivers of profitabilities, especially in the FX -- in the external markets. So analyzing the flow exposure and taking the decision to hedge or not to hedge, is a decision to lock up or not to lock up our margins on operational and daily basis.

But the balance sheet hedging policy is related to capital structure, it's related to the exposure of our long-term debt in the balance sheet. And it's a discussion that takes place in the Board meetings on a monthly basis. So every month the management of the company goes to the Board, present the exposures, discuss the scenarios with the Board members and we take decisions regarding to hedge or not to hedge the long-term exposure.

The main objective of this policy is to hedge the FX exposure in scenarios with high uncertainty and/or to reduce leverage volatility because of FX fluctuations. The most important instruments that we use is the LONG position in non-deliverable forwards, but we also use future contracts on the BM&F exchange, plain vanilla swaps, retaining cash in US dollars and also the bonds buyback in the market, all these instruments allows us to increase or reduce our FX exposure of the long-term debt.

It's important to highlight that we never hedged more than 100% of the exposure. In fact, 80% was the maximum share of the exposure that was hedged, since this policy is in place. Also, important to mention that at the end of the quarter, the hedge strategy was to reduce the share of the debt that was protected and after the end of the quarter, during the month of July, we decided to go neutral on the hedging policy. So we have no more hedges in the balance sheet, because discussing with the Board, having in mind the high cost of carry, the high cost of having hedge, the FX hedges in Brazil.

And having in mind that the scenario, especially the political scenario is much less volatile now, we decided that it was time to release all the hedges and during July, we went out of all the hedges that we had and now we have full exposure of our long-term debt to FX fluctuations. I'll now give the floor to the operator to start the Q&A session. Thank you very much.

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 Alejandro Alanc [ph] of Bank of America. Please go ahead.

Q - Unidentified Participant

Hello, good afternoon. I have a question regarding the strategy for the company for the second half and maybe in 2017. We have spoken about increasing the geographical diversification of Minerva, particularly outside of Brazil. If you would have to think about the opportunity set that you have now in terms of acquisition, would you say that there are more opportunities outside of Brazil? That would be the first question. And then the second question would be, if you see any potential dislocation on the Brazilian market in case of any relevant players leaving the market and having potential opportunities in Brazil? Thank you.

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

First, we keep analyzing the geographic diversification, it's no secret that we are looking very close to Argentina. But also, we are analyzing opportunities inside Brazil. Our guidance -- the direction of our strategy is to keep diversifying, mainly outside Brazil. In terms of dislocation of other players, going out of the market, the market is pretty much consolidated. We see, if there is some more consolidation in the Brazilian market, it will come from small, medium-sized players, nothing that's relevant or that will change the industry dynamics. So just a ramp-up of the question, yes, Minerva is looking at the geographic diversification, mainly outside Brazil. But we don't see any major change inside the Brazilian scenario or competitive scenario.

Q - Unidentified Participant

That's great. Thank you, Fernando.

Operator

Our next question comes from Jose Yordan of Deutsche Bank. Please go ahead.

Q - Jose Yordan {BIO 1496398 <GO>}

Hi. Good morning, guys. Couple of questions. Just I was wondering if you could give us a little more color on how long the ramp-up will be in Colombia? In other words, just curious as to why the general and administrative expenses went up so much year-on-year and how long should we expect this trend to continue?

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

Well, the increase on the SG&A expenses related to the ramp-up expenses of Red Carnica in Colombia and also Expacar in Paraguay, but also related to the launch of two new distribution centers in Chile and also in Colombia. I would like to add as well that the strategy of retaining the inventories, takeout around BRL100 million to BRL120 million from net revenues from this quarter that will be seen in the third quarter. So if you make the adjustments, there is an increase in the SG&A, but it's not so much. It's fully related to the ramp-up of those operations. In the case of Colombia, it can take two more quarters, because it depends also on the opening of new markets, but in the case of Paraguay and the distribution centers, it's practically over.

Q - Jose Yordan {BIO 1496398 <GO>}

Okay. Great. And you mentioned earlier about the live cattle business retaining cattle on the second quarter to obtain better prices in the third. Having had July already over, would you say that live cattle sales have already normalized or is that still in retention mode, let's say? In other words, is the first quarter -- the second quarter's decline of 25% should we expect to see that any decline in the third quarter or back to normal?

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

So there are two things here, is the normalizing situation on the live cattle exports that is going back. It's going back to the normal piece that we had before. And the other thing is that our commercial strategy of holding inventories to have a better price show both factors will definitely have a reflect on the third Q total revenues and profitability.

Q - Jose Yordan {BIO 1496398 <GO>}

Okay, great. Thanks.

Operator

Our next question comes from Jeronimo De Guzman of Morgan Stanley. Please go ahead.

Q - Jeronimo De Guzman {BIO 15888043 <GO>}

Hi. Good morning. I wanted to ask a question about pricing. Just wanted to see, when you think we can start seeing more of a pick-up in the export pricing in US dollars? Basically, over the last few months when I look at the data, it seems like there hasn't been a huge -- there's been very small increases and with what you've mentioned with higher demand and some of the benefits from holding back inventory, just wanted to hear your thoughts on how much that could accelerate going forward?

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

In fact, the prices are already reflecting some scarcity in the market. So the prices are going up. So we are seeing mainly on the cheap cuts and on the forequarter cuts that have a strong correlation with the other proteins. Also another important factor is that the spread between the hindquarter cuts and the forequarter cuts have never been so narrow. So this gives another indication of that there is a trade down on the products. But the pricing power has been already increasing despite that, you don't see that on the data published by the Brazilian authorities, these effects. We are seeing that in the day to day -- remember that the price that you see are the price of quarters booked one or two months before. So you are going to start seeing that in one month from now.

Q - Jeronimo De Guzman {BIO 15888043 <GO>}

Okay. And you think it will be sufficient than to offset kind of this stronger FX in the third quarter?

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

No, there is always a lag. But yes, the pricing power that Brazil -- South America is getting is increasing.

Q - Jeronimo De Guzman {BIO 15888043 <GO>}

Okay. Thank you.

Operator

Our next question comes from Michael Wacha [ph] of Barclays. Please go ahead.

Q - Unidentified Participant

Hi. Thank you for taking my question. First off, I was wondering what percentage of Minerva's Brazilian exports do you see the US business becoming, and you see the US market as an opportunity for margin expansion? And second, you mentioned you're still looking at expansion in Argentina, just wondering in your view, how significant is the opportunity there and what scale would you be looking at for a potential expansion? Thank you.

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

US is a market that have a big gap of run with the Brazilian prices. So the opportunity in US is first, inside the quarters that is 64 million tons -- 64,000 tons that will be available for Brazil, together with the countries of North America. So this is a relevant market, but as I mentioned before, this is not only the American market, but this opens the gates for Brazil having sanitary agreement with other NAFTA and South Asia agreements. The percentage that this will represent from Minerva exports, looking at our experience in Uruguay, US represents something around 15 to -- sometimes on the range of 15% to 20% of the total export. So if it follows the Uruguayan standards, it will be around that level.

Regarding our expansion to Argentina, we will start understanding and learning with the market with an operation that shall not be more than 1,000 heads per day. And gradually, as we get the country, we understand the particularities and the idiosyncrasies [ph] of the country, we will be able to expand further.

Q - Unidentified Participant

Okay. Thank you.

Operator

This concludes the question-and-answer section. At this time, I would like to turn the floor back to Mr. Fernando Queiroz for any closing remarks.

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

We believe that 2017 will bring several opportunities for the beef industry. Many thanks to the greater availability of animals for slaughter, the greater focus on markets to which we still have restricted access, the imbalance between supply and demand for the beef in important regions such as the Far East and the Middle East, and the effective opening of new markets whose effects should be fully captured in the next few years.

In addition, we understand that South America has all the competitive advantage to become the world's most important beef production platform, either due to its production cost structure or due to its natural advantages. We therefore, expect the region's share of international market to grow substantially in 2017. Aware of this scenario, Minerva will continue focus on executing its business plan which envisage great commercial penetration in the domestic and export markets, greater geographic diversification in production and trading, efficient management of risk and focus on generating consistent returns for our shareholders.

I would like to close this conference call by thanking Minerva's entire team once again for their efforts and dedication, which brought the sustainable [ph] results for the company in such a challenging scenario as that of the second half of 2016. I also thank your interest in the company and we remain at your disposal for any questions or clarifications. Thank you very much.

Operator

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