

Y 2018 Earnings Call

Company Participants

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

Other Participants

- Julie Murphy

Presentation

Operator

Good afternoon, ladies and gentlemen, and thank you for waiting. At this time, we would like to welcome everybody to Minerva Fourth Quarter and Year of 2018 Results Conference Call. Today with us we have Fernando Queiroz, Chief Executive Officer; and Edison Ticle, CFO and Investor Relations Officer. (Operator Instructions) The audio and slide show of this presentation are available through the live webcast at www.minervafoods.com/ir and MVIQ platform.

The slide show can also be downloaded from the webcast platform in the Investor Relations section in 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 call over to Mr.Fernando Queiroz, CEO, who will begin the presentation. Mr.Fernando Queiroz, you may start the presentation.

Fernando Galletti de Queiroz {BIO 15387377 <GO>}

Good morning or good afternoon to everyone.

Thank you for participating in Minerva's conference call on the results for the fourth quarter and the full year of 2018. 2018 was a year full of opportunities and we were able to harvest (inaudible) our growth strategy through the geographical diversification of operations according to the business plan that we shared with the market a few years

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ago. We currently have one of the most modern industrial parks in the continent and we are not believing this export[ph] in South America with 21% of the region's total exports. It is worth mentioning that according to the USDA by our[ph] latest estimates South America was responsible for around 35% of the global export in 2018.

Therefore, in that account for around 7% of the global beef trade in a year. As a result of our geographical diversification, which allow us to access better markets, combining to recover recognizes operational excellence and supported by our business intelligence with a risk management tools. We now (inaudible) 2018 with the healthy operational performance, including record net revenues and most (inaudible) our strong cash flow generation. We will now begin our presentation and discuss the main highlights for the year.

Let's starts on Slide two. Slide two, (inaudible) show that we close[ph] the 2018 with the free cash flow (inaudible) BRL752 million corresponding to a free cash flow yield of 14%. In the fourth alone, Minerva reported a free cash flow BRL363.3 million, with additional cash flow of BRL340.1 million, underlining the 70 million[ph] of our operations. In 2018, consolidated gross revenues are totaled BRL17.2 billion, a new record of our (inaudible) revenues.

In 4Q '18 Minerva gross revenue (inaudible) 4.9 billion on the quarter. Analyzing[ph] the revenues breakdown in the 4Q '18, 41% of the gross revenue came from the Brazilian division equivalent to BRL2 billion. Athena foods are (inaudible) operations in Paraguay, Argentina, Uruguay, Colombia and Chile also generated another BRL2 billion in revenues, equivalent to another 41% of the consolidated our revenues. This shows the balance between our operations in Brazil and the rest of South America.

Finally, the trading division accounted for the remaining 80%, contributing with BRL866 million to the consolidated gross revenues. Minerva exports grew 24% in the 4Q of '18 over '17, accounting for 60% of the consolidated sales and EBITDA up 40% in 2018 over 2017, accounting for 62% of the consolidated sales. EBITDA totaled BRL463 million in 4Q of '18, 27% more than in the 4Q of '17. (inaudible) EBITDA margin of 10%.

In 2018, EBITDA came to BRL1.6 billion, up 23% over 2017 with an EBITDA margin of 9.6%, 60 bps more than in 2017. (inaudible) for more efficient capital structure continues to be the priority of Minerva. (inaudible) 2018 we've leverage measured by the net debt EBITDA ratio of 3.9 times, 1.1 times less than in the previous quarter showing another commitment through the leverage. Evaluate[ph] our debt reduction plan, we know that competitive (inaudible) private capital to increase totaling BRL960 million at the end of the 4Q '18.

It's worth noting that most of the proceeds of the operations, where (inaudible) tender the largest share of our perpetual bonds to \$225 million (inaudible) are our (inaudible). Move on please, onto Slide three, where we've discussed our performance in 2018 in further details. (inaudible) our exports always analyzing our revenues and market share. In 2018, our share of the Brazilian exports came to 18% with a volume growth of 12% year-on-year.

In Paraguay, driven by 34% growth in exports volume, we reached our market share of 41% consolidating our position as a country's main beef exporter. In Uruguay, our share of exports came to 21%, 6% more than in 2017. In 2018, our share of beef exports came to 15% in Argentina, and (inaudible) 73% in Colombia. As, I mentioned, Minerva has consolidated its position as a leading South American exporter, our (inaudible) market share of 31%[ph].

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(inaudible) Slide four, we'll take a look on the exports by destination. First, as Brazilian division, Asia and Middle East were the main markets in 2018. Together these regions accounted for 52% of our exports (inaudible). As you all know, Asia and Middle East are recording a consistent increase in demand for beef.

We can attribute this to all for (inaudible) development and utilization[ph] of these region. Together this changes in habits of consumption on the -- from the population. Also (inaudible) highlights two points, as a spread in the African Swine Fever in China impacting in direct of reduction pork production. There was an article that showing that (inaudible) 50% reduction in the total pork herd in China.

Also the natural problem that Australia is facing with droughts and floods that also impacting the herd (inaudible), but also compromises for the future, and this is definitely an opportunity for South America. Another highlight of the Brazilian division, we have including shares of Americas to 15% in 2018 versus 7 percentage points in 2017. The 7 percentage points growth was mainly represented by our increase in the Chilean market. Now talking about Athena Foods, Asia was also the main export destination with 36% of the total, 10 percentage points more than in 2017.

The reasons are the same one as that I mentioned before. The second main destination was Commonwealth of Independent States, especially, Russia, up 40% year-on-year. The result was intensified after Russia banned[ph] Brazilian beef exports. The (inaudible) demand (inaudible) export countries in South America, especially Paraguay, Argentina, Uruguay and Colombia.

Thus it's very pleasant to be geographically diversified and this allows us to take advantage of our market opportunities. And that's right, we equivalent our performance in the local markets. In 2018, we worked hard to optimize our domestic sales. We increased our capillarity, while remain focused in the more resilient markets, such as small and Medium size retailers and food service, which compromise -- which comprises bars, snack bars, restaurants, catering and steakhouses this is are the clients that are we are serving through our distribution mainly, and each accounted for 54% of the market sales from Brazilian division.

This shows the fragmentation and how spreaded we are in the capillarity that we have. We (inaudible) third-party products, products that not produced by Minerva operations, accounted for 38% of the domestic market in (inaudible) 2018 and each has a another special highlight. The ones that set strategy for clients a wide range of products including fish, frozen vegetables, cheese, pork, and lamb, among others, this shows the distribution has the strength to sell not only Minerva products but also from other industry. At Athena

foods, our strategy to reposition the process we've under Swift brand Argentina and (inaudible) of fresh beef through our five distribution centers, contributed to 67% including the net exports in 2018.

Minerva and Athena our focus, on the more resilient markets, not depending on (inaudible) tenders, but also spreaded around of the biggest growth that we see in markets and always searching for the highest of stability and consistency. And now, I'll turn the floor to Edison, who will discuss the main financial numbers.

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

Thank you, Fernando. We now present Minerva's financial operating highlights, as on Slide six.

Gross revenue from the Brazilian industry division, which have BRL2 billion in the fourth quarter '18, a growth of 2% when compared to the fourth quarter '17. Athena Foods gross revenue also reached BRL2 billion in the fourth quarter, growth of 37% when compared to the same quarter last year. The trading division reported gross revenue of BRL866 million in the fourth quarter and growth of 10% compared to 4Q '17. It's important to highlight that the trading division comprises revenue from live cattle operation, energy trading and our protein trading business especially located in Australia.

As I mentioned at the beginning of the presentation, the revenue breakdown showed that each of our two industry division the Brazilian Industry Division and Athena Foods, accounted for 41% of the company's gross revenue. While the trading division was responsible for the remaining 18%. Let's move on to the next Slide to discuss more operational and financial highlights. The company's consolidate net revenue reached at 4.6 billion in the fourth quarter, up 16% over fourth quarter '17.

On the top right corner, we have our fourth quarter EBITDA that reached at BRL463 million, a 27% growth when compared to 4Q '17, reaching an EBITDA margin of 10%, up 80 bps year-on-year. And now talking about the company's capacity utilization rate. At the end of 2018, we've capacity utilization rates around 80%, which we consider to be very close to what we would call ideal level. The Brazilian industry division operated at a utilization rate of 76%, while Athena Foods ran at a capacity utilization of 79%, as a result of the company's consolidated capacity utilization, it stood at around 77%, 2.2 percentage points over the end of 2017.

Just a correction Brazilian Industry was at 79%, and Athena Foods was at 76% in the fourth quarter. I would like also to emphasize that one of the highlights of our working capital management was reduction in our inventory cycle, which came from 28 days to 20 days by the end of 2018. Our benchmark for the inventory cycle is around 18 days and we'll pursue the target on the coming quarters. Let's move now to the next Slide to talk about the consolidated figure for 2018.

In 2018, net revenue reached at BRL16.2 billion, with CAGR rate of 19% in the last four years. As a result, we exceeded our net revenues guidance for 2018 an approximately 1%.

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The guidance was between BRL15 billion and BRL16 billion, and we reached at 16.2 billion in the in the year. EBITDA reached at around BRL1.6 billion in 2018, a growth of 22% compared to 2017, reaching a margin of 9.6%, up 60 basis points comparing to fourth quarter '17.

Return on invested capital came to 22% in 2018, up 4 percentage points over 2017. In the fourth quarter of '17, just to remind you, we started the integration process of the operations that we acquired in South America in 2017, and the integration process had an impact on our return on invested capital level, that was above to 20% in 2017, reached 18% during 2018, we're able to manage the integration successfully and it's reached at 22% during the year. Finally, in the same Slide, you can see the net debt EBITDA ratio that ended the year 3.9 times, a reduction of 1.1 time quarter-over-quarter and a reduction of 0.7 times year-on-year. (inaudible) our commitment to accelerating the company's financial deleveraging process.

Let's move now to Slide nine to discuss net results. We recorded a net loss of BRL92 million in the fourth quarter, after taxes. However excluding the non-cash effects (inaudible), monetary correction regarding our operations in Argentina, and other non-recurring effects especially in the financial result. The net result would turn into a positive of 27.4, leaven[ph] has before income taxes and social contribution.

Let's move now to next Slide to discuss the company's (Technical Difficulty) getting our products. Another positive contribution came to the line inventories as I have already mentioned, which turn at BRL187 million to our cash and reduce at the average cycle of inventory to 20 days. We are also able to extend our suppliers payment terms at the end of the year that had a small positive impact of BRL8 million in the quarter. Let's move now to Slide 11 to discuss free cash flow.

Fourth quarter EBITDA reached at BRL463 million, while CapEx was BRL43 million. The cash financial result was (inaudible) up to BRL198 million, and the working capital variation was positive by BRL242 million, leaving us with a positive free cash flow of BRL363 million just in the quarter, a meaningful result especially, when you compare two companies actual market cap. In 2018, adjusted EBITDA including non-recurring items reached at BRL1,550 million, CapEx was BRL189 million, and financial results on a cash basis was (inaudible) of BRL953 million. The variation in working capital also give a positive contribution of BRL343 million in the year.

So the free cash flow for the full year of 2018 was a meaningful BRL752 million. Useless[ph] to say that this good result on free cash flow is an important driver for our further debt reduction and deleveraging process that will take place during 2019. Let's now move to Slide 12 to talk about our important steps that we are taking in order to accelerate the company's deleveraging process. So just to remind you, last September we represented two action plans to accelerate Minerva's deleveraging process.

Our private capital increase and the IPO of our international division Athena Food. Well talking about the capital increase, it was concluded last December with the participation of 91% of the shareholders base, reaching total capital increase of BRL965 million. As

expected given our focus on reducing leverage the 100% of the proceeds of this operation where you use it in the tender offer of our perpetual bonds, we successfully tendered 75% of the bond or \$225 million of this bonds that were the most expensive that instrument in our portfolio. Good to remind you, that we're going to exercise the call option that matures in April, to buy back the (inaudible) in bonds around BRL70 million -- \$70 million, paying PAR value in April, 2019.

And it will allow us to continue reducing gross debt and also net debt by reducing further financial expense. Let's move now to the next Slide to talk about the Athena Foods IPO. So second step on our deleveraging plan announced in last September is the IPO of our international subsidiary, Athena Food on the Chilean Stock Exchange. We have already concluded a number of stages in the initial plan, and in November, we made the first filing with the Chilean Capital Market Regulator Agency. We are now just waiting for CMF to give us the green light to announce the view, and start the roadshow probably in April.

So if we get the green light by end of March, beginning of April, we expect to have the (inaudible) concluded until the end of May. We also disclosed the Athena Food income statement with quarterly and 2008 numbers -- sorry 2018 numbers. In 2018, Athena recorded net revenue of BRL7 billion with an EBITDA of BRL490 million, resulting in a margin of 7%. Important to highlight that Athena's leverage is equal to zero.

So the net margin of the company is very close to the EBITDA margin. In 2018, the net result was BRL290 million more than 4% net margin. Let's now move Slide 14 to talk about capital structure, as I have already mentioned, the leverage measured by the net debt EBITDA ratio is stood at around 3.9 times at the end of the year. We are moving forward with our plans for deleveraging process and we also completed the offer to purchase of perpetual bonds, as we have already mentioned earlier.

Approximately 78% of our debt was (inaudible) FX variation in the fourth quarter, at least a duration of around five years. We will continue to focus on the deleveraging process by combining an efficient management of liabilities and free cash flow generation from operations in order to continue reducing our debt. That means now Slide -- to the next Slide of this presentation talk about the net revenue guidance. During 2018, we had a guidance of BRL15 billion to BRL16 billion, as I mentioned earlier, we reached at 16.2, we exceeding (inaudible) approximately 1% the guidance, so it was achieved.

And for 2019, we are releasing our guidance of net revenue in a range of between BRL16.5 billion to BRL17.5 billion. These net revenue new guidance is based on an exchange rate of BRL3.80 per \$1. Hence, we conclude our presentation. I would like to add to thank Mr. Eduardo Puzziello that is no longer the Investor Relations Officer, after almost 10 years, he's been in Minerva to lead our financial area and Athena Food, our international subsidiary becoming my colleague[ph] and helping us with the important task of taking care of our new subsidiary in Chile.

So, thank you Mr. Puzziello and give your opinion on your goals. So, let's begin now the Q&A session. Thank you very much. (Question And Answer)

Operator

Thank you.

We will now start the question-and-answer session for investors and analyst. (Operator Instructions) We have a question from Ms.Julie Murphy from JP Morgan. Julie Murphy, you may proceed now.

Julie Murphy {BIO 18103319 <GO>}

Good morning, and thank you for the question.

I appreciate the comments about accelerating the deleveraging process, and the next step of that plan being Athena. I'm wondering if there are leveraged targets that you're currently contemplating, I think, we talked about something like 3.5 times, and what those targets would be with or without the IPO of Athena and perhaps timeline? Thank you.

Fernando Galletti de Queiroz {BIO 15387377 <GO>}

Well. Hi, when we alluded deleveraging plan in September, we also shared with the market from sensitivity analysis regarding the amount of the proceed from the IPO, and what would be our leverage in different scenarios of margin, and the size of the IPO. If you go back to those scenarios, if we are able to have IPO between BRL1 billion and BRL1.5 billion, the leverage at the end of 2018 according to the scenario would be the range of 2.5 and 2.9 times.

So we are not using guidance regarding the leverage, but I think those exercise that we could share with the market are good. Let's say are good GPS[ph] for what we foreseen in terms of leverage for the end of 2019.

Julie Murphy {BIO 18103319 <GO>}

Okay. Thank you.

Operator

(Operator Instructions) And that concludes our question-and-answer session. At this time, I would like to turn the floor back to Mr.Fernando Queiroz for any closing remarks. Fernando Queiroz, you may proceed.

Fernando Galletti de Queiroz {BIO 15387377 <GO>}

Thank you.

I'd like to finish this conference call by advising our commitment to create value for the shareholders by completing the financial deleveraging plan and cash realization through

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our operational and commercial efficiency and using our geographical diversification in (inaudible) regarding lease of size the discipline, the focus in the commitment that we have. Also we like to remind you that the regarding the global trade, we will be always looking at the opportunities created by the imbalance within global beef supply and demand, which has consequently benefited, South American traders[ph], consolidating our position and taking advantage of our region's highest spread and cost of our production. We continue to focus more in our efforts on consequently (inaudible) in the execution of our business plan, seeking to increase our sales, penetration in domestic and foreign markets. In addition to consolidating continuous improvement in operational efficiency.

Last but not least, I would like to once again thank Minerva entire team for their efforts and dedications, especially Eduardo Puzziello, (inaudible) leveraging the transformation. Our team allow the company to require the remarkable historically[ph] 2018. I also thank you all for the interest in the company, and we remain at your disposal for any question or clarification. Thank you very much, everyone.

Operator

And this concludes today's presentations. You may disconnect your line at this time. Have a nice day.

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