Q4 2012 Earnings Call

Company Participants

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

Other Participants

- Alexandre Miguel, Analyst
- Dennis Harrison, Analyst
- Jose Yordan, Analyst
- Michael Holm, Analyst
- Wesley Brooks, Analyst

Presentation

Operator

Good morning, ladies and gentlemen, and thank you for waiting. At this time, we would like to welcome everybody to the Minerva's fourth quarter 2012 results conference call. Today with us, we have Fernando Galletti de Queiroz, the Chief Executive Officer; Edison Ticle, the 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.minerva.com/ir. The slideshow 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 the company's 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 Galletti de Queiroz, CEO of Minerva to begin the presentation. Mr. Queiroz, you may start your presentation.

Fernando Galletti de Queiroz {BIO 15387377 <GO>}

Thank you and good morning. It is with great satisfaction that we welcome you to Minerva's conference call on the fourth quarter and 2012 results. Let's move to slide 2 where we can see the quarterly and the annual highlights. The free cash flow generation to shareholders was R$64 million in the fourth quarter with a free cash flow yield of 5.4%. In 2012, the free cash flow of our operations totaled R$417 million.

We posted our record net revenues of 1.2 billion in the fourth quarter, closing the year with a pro forma net revenues of R$4.6 billion, 15.6% higher than in 2011. The EBITDA margin came to 10.1 in the fourth Q of 2012 with adjusted EBITDA ofR$121.5 million. In 2012, adjusted EBITDA was R$475.2 million, up 36.8% with a margin of 10.3%, representing expansion of 1.6 percentage points. This result is due to non-recurring items from the acquisition and the consolidation of Frigomerc in Paraguay.

Regarding our financial and operating indicators, we reached a return on invested capital of 17.8% in 2012, a cash conversion cycle of 11.3 days, the lowest leverage measured by the net debt to EBITDA ratio in the last five years, totaling 2.8 times and closed the year with a cash position of around R$1.3 billion, representing approximately three times our short term debt. These indicators confirm the consistency of our operations and the right management strategy adopted by the company in recent years.

On slide 3, let's look and see the continuance of the highlights. In the fourth Q of 2012, we monetized tax credits of approximately R$18 million, relating to the combination of a solid performance in domestic market, higher demand for third-party products, cattle byproducts and the strong performance of MDF.

We concluded in the last quarter of the year the acquisition of Frigomerc in Paraguay, which increases our production capacity by 1,000 head of cattle per day. With this acquisition, we became the biggest meat packer in terms of slaughter volume and the second largest meat packer in terms of exports in Paraguay, further consolidating our production protocol in South America.

Cattle supply remained high in 2012, resulting in an average decrease of 4.6% in the average arroba price despite a drop of 7.1 in the slaughter volume. In November, we successfully concluded our capital increase with the issue of 37.8 million shares, priced at R$11 per share. Our objective was to reduce our net costs, increase the liquidity of our shares and (inaudible) our next investment expansion plan.

In January 2013, we completed the first phase of the commitment related to our capital increase, the early redemption of debentures in the amount of 200 million with the issue of new bond going to 2023 at a record annual coupon of 7.75%. The objective of this transaction was to expand our debt profile and reduce our consolidated debt cost through the replacement of the bond maturing in 2017, 2019 and 2022 with a new bond during 2023.

Let's go to now the industry overview, starting with the cattle supply in Brazil on slide 4. Finished cattle supply remained at high levels in 2012, reflecting the increase in calf production in recent years. The high supply trend is confirmed by the reduction in the price of the cattle arroba by 4.6% in 2012 compared with 2011 and 3.7% contraction in the fourth quarter of 2012 over the same period in 2011.

As you can see in the left of this slide, the price reduction in Brazil boosted our competitiveness internationally with the cattle price spread increasing up to 40% in the United States and by 10% in Australia. That means that the competitiveness of Brazil is increasingly undisputable.

Let's look on slide 5 where we have an industry overview focused on the exports. Brazil exports expanded to an impressive 15.3% in 2012. This scenario shows the important gain in competitiveness of Brazilian beef in the international market. While Brazil production increased, the United States and Australia recorded decrease in slaughter volume and production of 3.8% and 3.5% respectively in relation to 2011. In other words, Brazil has been gaining competitiveness in the external market share.

Increased demand for beef continues to present an ascending curve, driving by the higher income of the population and the westernization of the eating habits in developing countries. As presented in the chart below, in the comparison between Brazil exports in 2007 and 2012, the growth in beef consumption in some countries and blocks is very evident. The appreciation of the dollar benefited the Brazilian export industry. The dollar averaged 1.95 in 2012 versus 1.67 in 2011.

On slide 6, we have an industry overview with the focus on domestic market. The domestic market registered a higher spread in 2012 with the drop of the arroba spread significantly higher than decrease in the beef carcass spread. Adjustments were made in the production costs of other proteins in 2012. Due to the high grain prices, poultry production fell by 2% in the year with the wholesale poultry and pork prices moving up 7% and 6% compared with 2011. This helped us to sustain wholesale beef prices during the year.

Let's move to slide seven. We have industry overview in Paraguay and Uruguay.

2012 was marked by a solid cattle supply in Uruguay with 1.7% price reduction despite a growth of 4.2% in the slaughter volume. Exports represented a solid performance in the fourth quarter, reaching a record growth. Paraguay recorded a strong increase in slaughter volume while the arroba price remained similar as in Brazil. Our highlight was the strong competitive advantage of the country's tax structure, competitive labor, low energy costs and easy access to export channels. In 2012, exports maintained a strong pace initiated in 2011, lead by the developing markets such as the CIS countries, the Middle East and Africa.

On slide eight, we can see our export results. The acquisition of Frigomerc's product lines in the fourth quarter increases our market share from exports in the country to 20%. As a result, we became the biggest meat packer in slaughtering volume and the second biggest meat packer in terms of exports. We are confident in the growth in Brazilian exports and maintaining our market share of 2011. In Uruguay, the highlight was our operation in the special segments, organic beef and special breeds, focused on the United States and Europe, which presents a much higher premium.

On slide 9, let's have a look on our distribution in the Brazilian local market. Regarding the domestic market and distribution today, we have nine distribution centers in Brazil. Also we have one in Paraguay. We have now completed the inauguration of the two centers in Uberlandia, Minas Gerais and Rolim de Moura in Rondonia state. Our successful distribution strategy, based on a one-stop shop concept, lead to a 21.6% growth in the segment in the last five years, reaching more than 27,000 clients in 1,600 cities with a focus on small and mid-size retailers with (inaudible)

With the one-stop shop concept, our product line of perishable goods is available for delivery in a timely fashion, in less than 24 hours. This strategy allows us to target higher price than our competitors. The result of our strategies adopted in the domestic market is confirmed by the average annual growth of 21.6% in revenue from distribution in the domestic market is the last five years.

Now let's turn to slide 10 hand where we will have -- we have a talk about Minerva Dawn Farms and our (inaudible). 2012 marked a solid growth in revenues and margin at Minerva Dawn Farms with the gross revenue expanding by 50.5% in the year. We increased our share in MDF to 100% in the end of 2012. As a result, the company's operation will be consolidated by Minerva. With that, we will obtain synergies from the operation both on the administrative, commercial and tax fronts in 2013.

I will now turn over to Edison who will comment on our financial highlights.

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

Thank you, Fernando. So let's move on to slide 11, talk about the financial highlights of the year 2012. The net revenue increased (Technical Difficulty) in 2012, reaching R$4.4 billion. Considering the pro forma results from the acquisition of Frigomerc that we concluded in October 1st, last October 1st, revenues increased almost 16% reaching R$4.6 billion in the year.

In 2012, EBITDA margins stood at 10.3%. In recent years, EBITDA margin has been increasing every year, and in 2011, it increased 160 basis points comparing -- in 2012, it increased 160 basis points comparing to 2011 and 250 basis points if you compare it to 2010. Cash flow from operations reached R$417 million in 2012, a record for the company. This confirms our commitment in generating value to our shareholders. In line with our commitment to the deleveraging process, we ended 2012 with a net debt to EBITDA ratio of 2.8 times, 0.9 times lower than in 2011.

Let's turn to slide 12 to take a look at the financial highlights of the fourth quarter. We can see in the slide the upward trend in net revenues and EBITDA margins in the quarterly comparison. Additionally, as a result of our focus on risk management and operational excellence, our inventory turnover expressed in the number of days remained low in 2012 and it is actually a benchmark in the sector. Lastly, the chart in the lower right side shows the maintenance of our capacity utilization at around 70%, also a benchmark in the sector. It's worth to remind that in the fourth quarter the consolidated Frigomerc results, where we added more than 1,000 heads per day of slaughtering capacity and even though we were able to keep the level of utilization above 70%.

Let's move to slide 13 and take a look at the capital structure. In January 2013, we issued US$850 million in bonds due in 2023 at annual rate -- at an annual coupon of 7.75%, which enabled the company to reduce the average debt cost from 11.5% to lower than 8%. The total proceeds were used to replace the '17, '19 and '22 notes that were issued by Minerva and were in the market.

In January, we also carried out the early redemption of the debentures from the first issue that the company did in 2010. The maturity of this debenture was due 2015 and the amount that we redeemed is around -- was around R$200 million. The early redemption and the bond exchange confirm the company's engagement to the commitment to our shareholders (inaudible) especially during our capital increase in November. The slide also shows the amortization schedule of our pro forma debt adjusted to the debentures redemption and to the bond exchange. With this new profile, you can see that we can -- we have enough cash to pay all the maturities until 2022.

Let's move to slide 14 and make some comments about the capital market performance. We present on this slide our recent upgrades by rating agencies, the increase on average daily trading volumes of our share, especially after the follow-on that we concluded in November. And also the solid performance of our shares and bonds in 2012. The shares especially gained 127% in the year and the bond has a very significant over performance, if you compare to the sector or to the other high yield companies in Latin America. We believe that this such a good performance is a confirmation that the market believes in the company's fundamentals and in the consistency of our strategy.

On slide 15, we will talk about the growth prospect and the investment plans that we have. As we can see in the slide, we have three main lines of growth. The first one is to increase our slaughtering, deboning and processing capacity in South America and the main focus are Brazil, Mato Grosso state, Paraguay, Uruguay and Colombia. Second main line of growth is to increase the capillarity of our distribution in the domestic market, especially focusing on the small-medium retailers. We plan to open six new distribution centers in the next three years and we have just announced last week the launch of two new distribution centers in Brazil commencing in the second quarter of the year.

And the third main line of growth related to MDF to expand the value-added and processing lines of MDF we expect to invest in 2013 and double the capacity of the company in 2015. So these are the three main lines of investments and it's worth to mention that all the investment plans will be fully funded by the cash from operations that we expect the company to continue generating in the next quarters.

Let's move to slide 14 -- now, sorry. Now I'll turn over to Fernando who will comment and make the final remarks.

Fernando Galletti de Queiroz {BIO 15387377 <GO>}

Thank you, Edison. Slide 16 has a pyramid that shows what are the profitability drivers for the sector. The year of 2013 remains favorable to look up for the industry, regarding cattle arroba price, with a continued price reduction trend due to the high cattle supply. The animals that were born in 2010, 2011 will be available in 2013, '14 and '15 and we broke records of numbers of births during this year. We also expect to obtain synergies mainly from the recent acquisitions of Frigomerc, the consolidation of MDF and (inaudible) besides the efficiency gain of our current operations.

In 2013, the increase trend in the spread between the arroba price in South America and its competitors in the international market should continue to expand. We expect our main competitors to maintain this weakening trend, which will consequently reduce our global beef supply and beef consumption to remain high, lead by continuous increase in GDP and better distribution of income in emerging countries. Also on the developed countries, you will see a gap widening between local production and demand and this will be supplied and fulfilled South America.

In the domestic market, we will continue to increase our coverage through the expansion of our distribution chain. We have a lot of focus on small and medium retailers and the one-stop shop concept using our sales force, bringing more loyalty in the segment for the clients.

In the coming years, we will continue to be focused and committed to our balance sheet leveraging. Our risk management policy will continue to enhance our margins, but despite a period of adverse economic conditions and possible volatilities, risk management tends to be of more importance to extract value for the sector, the pursuit of operational excellence through optimizing installed capacity used, continued improvement of production efficiency and exploration of more profitable channels has proven successful. We will continue to adopt this strategy in the following years. As ever, we remain focused on optimization of our domestic and export market mix, which is essential to guarantee higher margins.

Regarding operations, we will continue to focus on the growth via acquisition or leasing activities in South America financed by the future generation of free cash flow from operations. We believe the combination of these profitability drivers and our excellence in management will boost operating margins, free cash flow generation and return on invested capital of our operations, translating to higher creation of value to our shareholders.

Thank you very much and now we will be opening up for the Q&A.

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 Alexandre Miguel with Itau. Please go ahead.

Q - Alexandre Miguel {BIO 20048366 <GO>}

Hi, good afternoon, Fernando. I had some, my first question is related to margins in the domestic market. I was wondering that similar to the guidance you provided for '12 versus 2011, if you can give us any color regarding like expectations for margin expansion in 2013, maybe on a qualitative basis, if you cannot provide any competitive guidance, that will be very useful.

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

Hello, again. Alexandre. Margins on the local market is not such a thing that I would use. In fact, how it works, at any time, we could -- we are seeing and checking what the margins by product comparing the local markets relative to export market. What I will do is (inaudible) discussed and we analyze what is the most economical placement that we have, considering labor, considering packaging, considering logistics, tax and currency. So from time to time, I can tell you that our (inaudible) in the Brazilian local market is 20% more profitable than in the export market and the other way around happens to each of the cuts. So there is no such a margin for the local market. What we have is options and outlets where to place our products. And the more outlets that we have, the more (inaudible) the market is, we better our options. This how it works.

Q - Alexandre Miguel {BIO 20048366 <GO>}

Okay. And -- but for consolidated margins, you see still room to see -- is this room for expansion from 2012 to 2013, or you think the EBITDA growth will come mostly for -- from the organic -- the growth in organic volumes and acquisitions?

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

Volumes are a function of the cost of the goods sold, the price and expenses. We definitely see room for expansion.

Q - Alexandre Miguel {BIO 20048366 <GO>}

Okay, now, great. And my second question, quickly, on the export market, we saw -- we are seeing a very strong beginning of the year for beef exports in Brazil. I was just wondering if you can give us any more details on how you are seeing the demand and prices in your main export markets. So just to give qualitative information about this very high growth in exports. And also if you expect that above 40% growth, or high -- very high double digit growth to continue throughout the year?

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

What we see that as we said before, Brazil always plays a more important role than international market, because animals calves that were not born in 2010, 2011 and 2012, will produce a lot of offers in the market in 2013, '14 and '15. So definitely there is a scenario that will be more favorable for the growth. How much the market will go down or how much will be the margin expansion, we are not giving any guidance.

Q - Alexandre Miguel {BIO 20048366 <GO>}

Okay. And on the export front, do you see any -- because we are hearing many news regarding logistics bottlenecks in trucks and in the ports, regarding --

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

(inaudible) what we see as a bottleneck is on the grain side, especially on the grain side that will be favorable for the second half of the year in Brazil.

Q - Alexandre Miguel {BIO 20048366 <GO>}

Perfect. Very clear. Thank you.

Operator

Our next question comes from Wesley Brooks with Morgan Stanley. Please go ahead.

Q - Wesley Brooks {BIO 16407564 <GO>}

Good evening, guys. So first question, coming back to the margins and just try and to understand what's going in the beef markets in Brazil, if we just look at the margins in Q3 2012 versus Q4 and the start of this year, it seems like volumes have been pretty good, prices for beef have been pretty good. So the major difference looks like the higher cattle prices. And I'd like to get your thoughts on what's driving that higher cattle prices, and if you see that coming down over the coming months, and that's what's going to cause the margin expansion, or are you seeing any impact from the plant openings some players are doing at the moment, and do you think that's impacting it?

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

If you compare 2Q to 4Q, we definitely see on price of cattle moving slightly up. And this is mainly because of the pattern shift of the seasons in Brazil, they were a bit less (inaudible) because of the high cost of grain that we saw in the end of the year. So this is (inaudible) the volume of others compared to the first Q. (inaudible) We see, as I said before, (inaudible) year-after-year since 2009 on calf production. So all-in-all, (inaudible) so we see that there could be high season is normally May and June, so we probably see a trend that is favorable for the growth both on the supply side and on the demand side as we said before.

Q - Wesley Brooks {BIO 16407564 <GO>}

Okay, excellent. That's very helpful, thanks. My second question was on the cash flow. You had a nice cash inflow from taxes recoverable. Wanted to understand, so you're utilizing some tax credits. How should we expect this to come in the following quarters? Can we expect this sort of level to be sustained, or was this sort of one-off benefits?

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

The more monetization of tax credit was a function of the higher percentages of sales in the local market from third-party products, from the MDF sale, (inaudible) products, and we have the byproducts that we sold in the domestic markets. So this translated into more monetization of our tax credits. This is a tendency that we see improving, but is a function of the mixed local market and export market, but also we see that the movements done by the industry and the government, they are more aligned in terms of monetization of the credits. So I cannot give you a guidance on number of or what it should be monetized, but definitely I see it with our monetization view than we've got before.

Q - Wesley Brooks {BIO 16407564 <GO>}

Excellent. That's good news. Thank you very much.

Operator

(Operator Instructions) Our next question comes from Jose Yordan with Deutsche Bank. Please go ahead.

Q - Jose Yordan {BIO 1496398 <GO>}

Good afternoon, everyone. Just had a couple of questions, one more specific one. If you can remind us what your sales to Venezuela have been over the last couple of quarters and whether you have noticed any changes in more recent months, either to the negative, or -- positive changes in their purchases. And in the Portuguese conference call, you've talked about a more favorable tax situation at both the state and federal level, and I mean, obviously, a lot of different changes. I'd be interested in your view of which of the changes -- any more color on what you were talking about and which ones are specifically beneficial to Minerva?

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

Right, first of all in Venezuela, Venezuela is structurally (inaudible). So we don't see any chances on the Venezuela for now. Venezuela have for imported products (inaudible) at the same level as before or higher. So we were very confident that Venezuela will not have a drastic change. On the other hand, Venezuela we've confirmed that there are lot of credits that is (inaudible) Venezuela. So we have the risk of the business (inaudible). So this doesn't present any threat for us and we keep seeing a positive scenario.

On tax situation, I explained it. That's a part of the monetization was due to our mix of credits. This is our internal measures that we took and also guided by the profitability of the market, but also we've seen that the government is being more proactive and the whole system, the whole bureaucracy that is there informatized more of the market. So there are two things that are developing internal bureaucratic systems that are gaining speed on how to process the request. So we see there is a positive scenario on the very (inaudible) bureaucracy, but also we see from the willingness of the government to have more stable and transparent progress on tax credits.

Q - Jose Yordan {BIO 1496398 <GO>}

All right. Thank you very much.

Operator

Our next question comes from Dennis Harrison with Deutsche Bank. Please go ahead.

Q - Dennis Harrison {BIO 20897118 <GO>}

Hi. Thanks very much for the call. I'm wondering, in terms of the large CapEx expended in the fourth quarter, I'm sorry if it's maybe explained somewhere in the press release that I didn't get to yet, could you give us a bit of color on that, and can you tell us a little bit -- give us a bit of color on CapEx going forward? And in terms of free cash flow, we, using a standard textbook methodology, come to a different, quite a different free cash flow conclusion than your calculation. And I'm wondering if perhaps we could talk about it offline later on after the call, and try to reconcile those? Thanks.

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

Dennis, what large CapEx do you refer to? Because if you take a look at the cash flow the cash flow statement, the cash CapEx was around R$50 million. The other CapEx expenses that we have which is around 80 million, 90 million, they are related to intangible consolidation of the balance sheet of Frigomerc that we bought in the fourth quarter. So you have, let's say, a debit on the CapEx line in the cash flow statement and you have the credit, the effective credit on the line of other accounts in the operational side, the operational line of the cash flow statement.

That's why in the release, you go to page -- just one second, to page 16, sorry, you see the free cash flow calculation where we made all those adjustments, not only the working capital. If you take a look at the cash flow statement, the working capital contributed with more than R$130 million to the cash from operations, 120 million, but if we make the correct right adjustments on the CapEx line and also on the working capital line, you will see that the working capital contributed with R$30 million and CapEx -- cash CapEx was around R$50 million. So if you see the page 16 of our release, we have all these adjustments and obviously we are open to discuss further if you want.

Q - Dennis Harrison {BIO 20897118 <GO>}

Thanks for that. But although 50 million isn't, I guess, in absolute terms, a huge number, it's approximately twice what you have been having per quarter in the previous four quarters?

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

Yes, probably --

Q - Dennis Harrison {BIO 20897118 <GO>}

What accounts for the increase. I'm talking about the increase, not the absolute amount.

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

Okay. From the 50 million, 20 million is related to maintenance CapEx, which is the CapEx for the last quarter, the previous quarter and 30 million is related to the acquisition of Frigomerc in Paraguay. We paid R$15 million -- US$15 million or R$30 million in the fourth quarter. This is the third installment related to the acquisition.

Q - Dennis Harrison {BIO 20897118 <GO>}

Okay. Can you give us a bit of guidance?

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

Well, the maintenance CapEx is normally R$25 million per quarter and the special CapEx will dependent on the free cash flow of the company. As we motioned, we will also have an expansion if the company continues to generate free cash flow. On page 17, you have the explanation of the CapEx for the quarter. It is the same explanation that I have given to you.

Q - Dennis Harrison {BIO 20897118 <GO>}

Great. Thanks very much.

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

Thank you.

Operator

Our next question comes from Michael Holm with EQS. Please go ahead.

Q - Michael Holm {BIO 17572380 <GO>}

Good afternoon, guys. I happen to have three questions. Hopefully they are short. The first question is, I just wanted to know how much interest expense you will be saving as a result of the debt restructuring you did. So that's my first question. The second question is, if you could provide an update, we had the Parana case in December and there was a lot of talk of certain markets closing, be it Russia, Egypt, Saudi Arabia and so on. So I'd just like to get an update on that front. And then the third question I have is, if I understand correctly, Fernando, you are seeing limited supply from beef or lower than other years for '13, '14 and '15. So I just wanted to -- does that mean that you see a positive beef cycle effectively for the next three years? Because there's debates in the market that this year will be favorable, but maybe next year will be normal. I'd just like to get your thoughts on that. Thank you.

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

First on the savings of the financial expansion, we estimate that to be around 45 million as from 2014 because 2013 we are restructuring it. So (inaudible) 45, R$50 million per year from 2014. An update on the (inaudible) BFC event, the Brazilian government is doing a great job going to the six, seven countries that have put restrictions. Meaning on Saudi, the most important one, that is where we are importing our live cattle into Saudi. We believe that (inaudible) events after the statement of testifying -- testing that there was no risk (inaudible) are rather pure political driven.

Q - Michael Holm {BIO 17572380 <GO>}

Right.

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

On the cycle, normally the cycles on the beef industry, they are cycles of four to five years. In the harvest cycle, where animals are born or they are once born, it takes them three years to reach the market. So we have a good (inaudible) on how the market would behave because there are (inaudible) on Brazil and other competing countries for 2009 and '10, '11, '12, they are information that we already have and we already processed. So we don't see a change in the cycle on the horizon and we see that 2012 was the first year of inflection point of the cycle.

Q - Michael Holm {BIO 17572380 <GO>}

Very good. Thank you for that color, Fernando.

Operator

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

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

We closed 2012 with a very optimistic scenario ahead for 2013, confirmed by the expansion in our EBITDA margins combined with the results of the cattle cycle and our excellence in management. 2012 was marked by the several challenges and the opportunities for Minerva including the following expansion of our geographic presence with the expansion of operations in Brazil and South America, the strengthening of our sales channels, which include domestic distribution and export markets in our international -- with our international market, increase our production efficiencies through our work focused on identifying benchmarks and (inaudible).

We developed closer ties (inaudible) more information and decisions to increase the synergies in the value chain. As a result, we increased our margins, return on invested capital and free cash flow to shareholders in addition to deleveraging the company. As recognition by our shareholders, we recorded a high appreciation in our stock since our IPO. I would like though to thank Minerva team for their dedication in 2012 and we are pleased that we are now even better prepared for the new challenges and opportunities in the following years. Thank you very much.

Operator

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