

1Q19 Results
May 15, 2019

Minerva Foods

Operator:

Good afternoon, ladies and gentlemen, and thank you for waiting. At this time, we would like to welcome everybody to Minerva's 1Q19 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 listen-only mode during the Company's presentation. If you need any assistance during the call, please press *0 to reach the operator.

The audio and slide show of this presentation are available through a live webcast at www.minervafoods.com/ir, and the MZiQ platform. 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 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 call over to Mr. Fernando Queiroz, CEO, who will begin the presentation. Mr. Fernando Queiroz, you may start the presentation.

Fernando Galletti de Queiroz:

Good morning, everyone, and thank you for participating in Minerva's conference call on the results for the 1Q19. We will now begin our presentation and discuss the main highlights for the quarter.

Please, have a look on slide two. Minerva began the year with a recurring free cash flow of R\$42 million, recording free cash flow generation for the fifth consecutive quarter. In the last 12 months, recurring free cash flow reached R\$743 million, and the free cash flow yield surpassed 25%.

Consolidated gross revenue totaled R\$4 billion in the 1Q19, and R\$17.4 billion in the last 12 months ended March. Our revenues breakdown showed that 44% of gross revenues came from the Brazilian Division, equivalent to R\$1.8 billion. Athena Foods, which comprises our operations in Paraguay, Argentina, Uruguay, Colombia and Chile, contributed with R\$1.5 billion, or 39% of the consolidated revenues. Finally, the Trading Division accounted for the remaining 17%.

1Q19 Results
May 15, 2019

Minerva Foods

We once again highlight that Minerva's exports accounted for 61% of the gross revenues in the 1Q19, with a growth of 6% comparing with the 1Q18.

It is worth mentioning that the 1Q is seasonally the weakest quarter even for exports. The beginning of the year is the period that some countries are organizing quotas distributing, and also a vacation period for some of our clients.

EBITDA adjusted for nonrecurring items totaled R\$329 million in the 1Q19, 15% higher than the 1Q18, while the EBITDA margin came to 8.8%, up 60 bps over the same period last year.

As a reflection of the operational and the financial performance, net income adjusted for the noncash and nonrecurring effects totaled approximately R\$22 million.

Regarding the capital structure, we closed the first months of 2019 with a leverage ratio, measured by the net debt/LTM EBITDA ratio, of 3.8x, in line with the 4Q18, confirming Minerva commitment to capital discipline.

We could not fail to mention the opportunities offered by the swine fever. We expect 15% to 20% decline in global pork supply. According to the USDA, for the first time in 25 years, the global supply of animal protein will be lower than in the previous year, a clear consequence of the African swine fever.

This reduction in supply should offer great opportunities for global animal protein producers, including beef producers, especially South American ones that are occupying the gap lack in the demand.

Our commercial expertise and good relationship with Asian, especially Chinese clients, great capabilities in the region and the competitive advantages of South American countries in the production of beef make us very optimistic about this opportunity.

I always make a point of emphasizing that South America has been increasingly consolidating its position as the world's main beef producer and export platform, and we are even more optimistic about the possibility that may rise in 2019.

We are attending the SIAL Fair in China during this week, and we have some updates from our commercial team. Prices in Asia are between 10% and 15% higher comparing the last three weeks. Moreover, there is another short-term trend related to Australia beef production, as effect of extreme weather conditions in the region. Both events unlock great opportunities to consolidate South America as a key player of the beef trade market.

Let us have a look on slide three, which we will talk briefly about Minerva's operational performance, beginning with our exports. In 1Q19, we continued to be the main exporter in the countries where we operate.

1Q19 Results
May 15, 2019

Minerva Foods

For example, our share in Paraguay beef exports came to 45%, consolidating our leadership in the country, while our share in the Uruguay beef exports went up to 24% of the total of the country, up 3 p.p. compared to the 1Q18.

Considering our share in these and in the other South American countries, the Company reached a market share of 20% of the total beef exported out of South America. Minerva was once again the main exporter of the region.

We will now analyze our exports by region, at the right of the slide, always considering the last 12 months in order to exclude seasonal effects. In the Brazilian Division, the two main destinations continue to be Asia and Middle East, which accounted for over 50% of the Brazilian exports. In Athena exports, Asia was also the main importer followed by the Commonwealth of the Independent States, with growth of 9% compared to the same period of 2018.

We highlight here the Company's good performance in markets with great potential, such as Asia and Middle East. As I mentioned, China has constantly opened the doors to South American players, and Minerva can benefit greatly from this.

We are awaiting good news related to the Brazilian visit in Asia, including our Ministry of Agriculture, such as opening of a new plant to export to China. Also, it is expected that other countries would open their markets to Brazil, like Indonesia.

I will now give it to Edison that will discuss our other financial and operation highlights. Edison?

Edison Ticle:

Thank you, Fernando, and good morning. Let us start on slide four to discuss the operation and financial highlights. Minerva's gross revenue reached R\$4 billion in the 1Q19, a 6% growth when compared to 1Q18. In the last 12 months ended March, gross revenue reached R\$17.4 billion, up 21% year-on-year.

As we mentioned at the beginning of the presentation, a breakdown of this revenue shows that Brazilian Division accounted for 44% of gross revenue, Athena Foods contributed 39%, and the Trading Division accounted for the remaining 17%.

The Company's installed capacity utilization rate was impacted by the rainfall, especially in Paraguay and also in Argentina. In Paraguay, there were some problems with cattle transportation because of the rainfall and, as a result, Athena Foods capacity utilization rate fell to 71%. Nevertheless, the consolidated capacity utilization rate remained at the range of 75% to 80%, which we consider very close to the ideal level.

Finally, at the right bottom corner of the chart, we once again emphasize the great exposure of Minerva's consolidated exports to regions with strong demand potential,

1Q19 Results
May 15, 2019

Minerva Foods

such as Asia, especially China, which accounted for 34% of our total exports in the quarter.

If you see what happened to the Asia share on Athena Foods, for instance, it grew from 29% in LTM 1Q18 to 39% in the LTM 1Q19. This shows the high exposure of Minerva and also of our subsidiaries to the growth of the Asian region.

Continuing in the next slide, slide five, presenting the financial highlights. The Company's consolidated net revenue reached R\$3.7 billion in the 1Q, a growth of 6% when compared to the 1Q18. In the last 12 months ended March, net revenues stood at R\$16.2 billion, up 13% compared to the same period of last year.

EBITDA adjusted for nonrecurring items reached R\$329 million in the 1Q, 17% higher year-on-year, with an EBITDA margin of 8.8%, a 70 bps expansion when compared to the 1Q18.

We have an adjustment of R\$19.5 million in the quarter due to a disbursement related to divergences in the ICMS tax calculation base related to operations in São Paulo, Minas Gerais and Goiás states. The Company incurred in a penalty paid on the 1Q. However, it is important to highlight that this penalty is under judicial discussion in the coming quarters. In the last 12 months, EBITDA reached R\$1.6 billion, 22% higher than in the same period last year.

The gross revenues breakdown shows that, in the Brazilian Division, around 65% of the revenues came from exports, and in Athena Foods, approximately 72% was routed to the export market.

Finally, the net debt-to-EBITDA ratio reduced to 3.8x in the quarter, in spite of the FX depreciation of 1% in the quarter. This good result on the deleveraging of the Company is obviously a result of the fifth consecutive quarter of free cash flow generation after CAPEX, financial expenses and working capital.

By the way, let us talk about the cash generation in the next slide. Beginning with the net result in the 1Q19, after adjustment for the noncash effects, the FX variation, the monetary correction that came from Argentina, FX hedge and the nonrecurring item already mentioned, the Company would have net income of R\$22 million. In terms of cash, operating cash flow was R\$240 million in the quarter.

Looking at the free cash flow in the 1Q, the Company generated recurring free cash flow of R\$42 million. So, 1Q EBITDA was R\$329 million, maintenance and expansion CAPEX was R\$28 million. The CAPEX disbursement is below the quarterly average because part of the expenses were postponed to the 2Q, in line with the expectations that we have around the approval of new units in Brazil to Chinese markets, and also opening of new markets like Indonesia in South America. So we decided to concentrate the CAPEX on expansion, preparing those lines to be ready to attend these new markets.

1Q19 Results
May 15, 2019

Minerva Foods

The cash financial result was negative by R\$247 million in the quarter, while the working capital variation was slightly negative, around R\$12 million.

So the recurring cash flow stood at R\$42 million. If we put in the calculation the nonrecurring effect of the R\$19.5 million, the free cash flow total in the quarter was a positive R\$23 million.

Looking at the cash flow for the last 12 months, the recurring free cash flow was R\$743 million, a 25% positive free cash flow yield when compared to the Company's market cap. And if we adjust for the nonrecurring items, the free cash flow was R\$724 million in the last 12 months.

Let us move now to slide seven, to discuss capital structure. Our net leverage, as we have already mentioned, remained practically flat at 3.8x at the end of March. The Company's cash position ended the period at R\$3.9 billion, keeping us in a very comfortable position for any possible volatile scenarios.

At the end of the 1Q, around 76% of our total debt was exposed to the FX variation, and the duration of our debt was approximately five years.

This concludes our presentation. We will now begin the Q&A session. Thank you very much.

Diego Saenz, MetLife:

Good afternoon. I would like to ask if you could comment a bit about the cattle availability in the different markets where you operate. And what are your expectations regarding the cattle cycle in each of these markets?

Fernando Galletti de Queiroz:

Let us start with Brazil. Brazil has been breaking records on births of calves for the last four years. So, at least for the next three years, we have a positive cycle in Brazil. Paraguay, it is in a retention of females. There are new areas, new pasture that was being incentivized by the government. So in Paraguay, for the next five years, we have pretty stable supply.

Going to Argentina, same direction as Brazil, records on births of calves, so a very positive scenario for at least three years. Uruguay is flat. There is no increase, no decrease, a stable size of the herd. So no major surprises from Uruguay, but there is not much growth coming from Uruguay. Colombia, also in a positive scenario, very similar to the Paraguayan one, new areas, new frontiers.

So, in general, South America is increasing. If you analyze South America as a whole, the herd is increasing while the rest of the world is decreasing. If you look Australia, this is the lowest size of the herd since 2000, same thing applying to the major developed

1Q19 Results
May 15, 2019

Minerva Foods

countries. So a very positive scenario for consolidating South America as the major supplier of beef meat in the world.

Diego Saenz:

Okay. Thanks. And if I may follow up, regarding Argentina, if you see an opportunity, are you looking to still expand capacity or open new plants even after the postponement of the Athena IPO?

Fernando Galletti de Queiroz:

Yes. Considering all the swine fever, the possibility of the record exports that Argentina is breaking into Southeast of Asia pulled by China, we will keep on track with the reopening of the Venado Tuerto, that is one of our plants over there that requires a small CAPEX.

Edison Ticle:

Just to complement and put some numbers on the decision, the reopening of Venado Tuerto can require something between US\$5 million to US\$10 million of CAPEX, and not more than US\$20 million in terms of working capital. However, this plant can add an additional EBITDA for 2020 of around US\$30 million. It is less than one-year payback, so it is no-brainer to reopen as soon as possible this plant.

Diego Saenz:

Thanks.

Helen Chou, MEEG:

Thank you for the presentation. I am curious if you could provide us an update on your leverage and the ratings outlook. What kind of rating do you view as optimal for your operations?

And my second question would be on the impact of a trade tariff, and also the African swine fever in China. How do you assess the impact on your business? Thank you.

Edison Ticle:

We have a clear deleveraging plan. We are using 100% of the free cash flow generated from operations to pay down debt. That is why if you compare the leverage to one year ago, net leverage was around 4.5x, even with the currency in Brazil depreciating more than 20%, and we were able to reduce leverage to 3.8x.

We have a clear commitment to continue deleveraging the Company and put the leverage ratios in two years at a level between 2x and 2.5x. And part of the deleveraging

1Q19 Results
May 15, 2019

Minerva Foods

plan to help to deleverage more quickly the Company is the IPO of Athena Foods that we are going to do as soon as possible, when the market conditions allow and when the market conditions improve.

Talking about ratings, our ratings from Standard & Poor's are at BB- level, with a stable outlook. Talking to the rating agencies, if we are able to deleverage more quickly the Company, especially through the IPO of Athena Foods, we can have an upgrade in the short-term, at least one notch.

The idea is to continue deleveraging the Company through keeping the free cash flow generation to be used to pay down debt until we reach a leverage ratio more close to 2x.

I will hand it to Fernando to talk about the ASF prospects.

Fernando Galletti de Queiroz:

First, on the swine fever, we consider that China holds 50% of the world herd of pork, and there are estimations that between 30% or higher than 30% will be affected, contaminated by the swine fever. That means a reduction of the total global supply of pork of 50%. If we consider that 1/3 of that will be replaced by beef protein, we will have approximately is 2x of the trade that exists today.

As I said in the presentation, we have our team into the main food fair into China. The reports from last night is that prices are up around 15% comparing the prices that were traded three weeks ago on average; some products more than that, some products a bit less. This shows the gap on the supply/demand that exists.

On the trading tariff war, we see that, if the war continues between U.S. and China, it will open a wider door for South America to occupy this space. If they get to an agreement, it will not have a dramatic effect on our business, because the beef produced in the United States contains hormones, and hormones are not accepted by the Chinese authorities.

So we think that, even though you can have an agreement, each one can judge if it is likely or unlikely, we see that South America will definitely occupy the space. This is reinforced saying that Australia trend is to go down dramatically on the production for the last half of the year.

Helen Chou:

Thank you. That is very helpful. Maybe a follow-up on the IPO of Athena Foods. I am just curious if you would consider other option other than IPO, maybe private placements or any other arrangement that could help you achieve your goals of monetization of this interest. Thank you.

Edison Ticle:

1Q19 Results
May 15, 2019

Minerva Foods

We could consider any option that would help us to achieve our objectives, especially in terms of valuation of Athena Foods. For now, what we see is that the IPO of the Company is the best way to maximize the value and to reach what we believe is a fair value for the Company.

Helen Chou:

OK. Thank you.

Chris Dechario, Marathon Asset:

My questions have been almost entirely answered already, but just to follow up a little bit on Athena Foods and the deleveraging as well, the postponement of the IPO was due to market conditions, as the Company stated. I know the prices had a very bad day in the market. What sort of this is behind your expectation that you might be able to get it done in June? I guess that would be my first question.

And if something happens in the markets where you cannot get an IPO done, you cannot sell it, what is the backup plan for getting leverage into that 2x to 2.5x range?

Edison Ticle:

I will repeat: the top priority of the Company is to list Athena Foods, to do their IPO. This is the main way of concluding our deleveraging, our more quick deleveraging process. If, for some reason, we postpone again the Athena Foods IPO, we are going to continue deleveraging the Company through the free cash flow generation that, by the way, was really strong in 2018, and we expect to continue being strong in 2019. In order to have a more quick deleveraging of the Company, the IPO plays an important role.

And regarding your question, Monday was probably the worst day this year to price any type of operation, especially an IPO of a new sector in the Chilean market. However, the good news is that the bids were there, and many investors are interested on being part of the Athena Foods investment story. However, because of what was happening in the market on Monday, everybody was much more conservative in terms of valuation, in terms of pricing.

We do not need to sell a stake of this company quick. We can wait to have better market conditions to get what we believe is a fair valuation for our company.

Chris Dechario:

Great. Thank you.

Operator:

1Q19 Results
May 15, 2019

Minerva Foods

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

Fernando Galletti de Queiroz:

I would like to end this conference call by emphasizing our commitment to capital discipline and the creation of shareholders' value through our strategy of geographic diversification, operational and commercial efficiency and risk management tools.

We would like once again to reinforce that we will always look out on the opportunities created by the imbalance between global meat supply and demand, especially now, with this new opportunity offered by the African swine fever. We will continue seeing focus in our efforts, on constantly improving the execution of our business plan, seeking to increase our sales penetration in the domestic and export market; in addition, on consolidating continuous enhancements in operational and commercial efficiency.

Last but not least, I would like to thank Minerva's entire team for their efforts and dedication. I would like to thank you all for your interest in the Company, and please feel free to contact us should you have any questions.

Thank you very much.

Operator:

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

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