

Industry Overview

2Q18

Minerva Foods

Barretos, August 7, 2018 – Minerva Foods is the South American leader in beef exports and operates in the processed foods segment, selling its products to over 100 countries. Currently, the Company has a daily slaughtering capacity of 26,380 head of cattle and a daily beef deboning capacity equivalent to 27,966 head of cattle. Present in Brazil, Paraguay, Argentina, Uruguay and Colombia, Minerva operates 26 slaughter and deboning plants and 3 processing plants.



Highlights by Country

BRAZIL

Cattle Supply

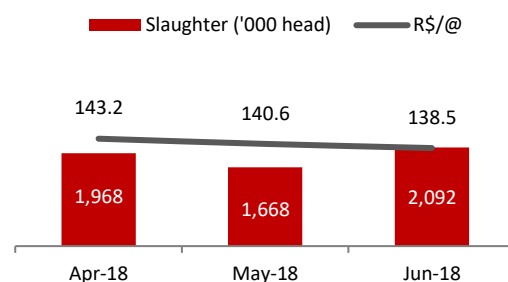
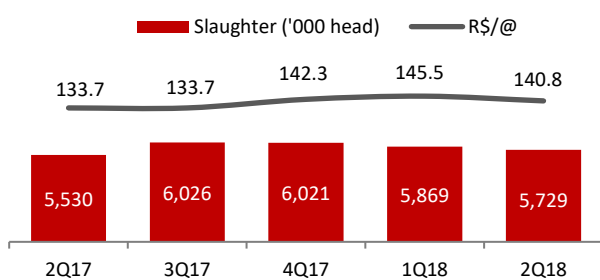
Slaughter volume totaled 5.7 million head of cattle in the second quarter of 2018, up 4% from 2Q17 and 2% less than in 1Q18. This decline was due to the truck drivers' strike, as many industry players were not able to receive animals for a few days and slaughtering was suspended. The strike impacted slaughtering especially in May, when slaughter volume was 15% lower than in the previous month (lowest monthly volume in the last 8 years).

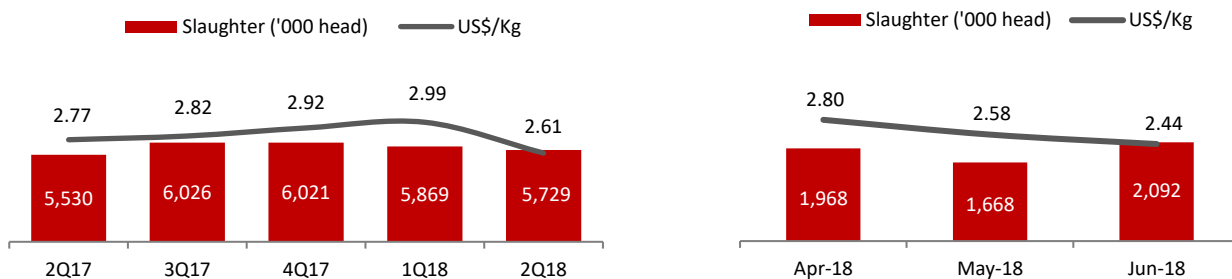
About the supply, since April the animal supply has been positive due to the end of the rainy season. In this scenario, the arroba price (reference: Finished cattle Esalq/BM&F – state of São Paulo) averaged R\$140.8 in 2Q18, around 3% lower than in the previous quarter. It is also worth noting that, as a result of the depreciation of the Brazilian real, cattle prices per kilo in dollars became even more competitive, at US\$2.61 (lowest price among the main global exporters), as shown in the graph below.

In the first half of 2018, slaughter volume totaled 11.6 million head of cattle, up 4% from the same period last year. Please note that there were extraordinary events that impacted the country's cattle supply both in 1H17 and 1H18. In 2017, the industry was impacted by the *Carne Fraca* operation and the unstable political scenario involving one of the major industry player, while this year the truck drivers' strike led to a reduction in slaughter volume.

However, the animal supply scenario remains positive in 2018, due to the inflow of animals produced by the retention of breeding cows initiated in 2013/2014.

Figures 1, 2, 3 and 4 – Cattle Slaughter and Average Cattle Price – R\$/@ and US\$/kg



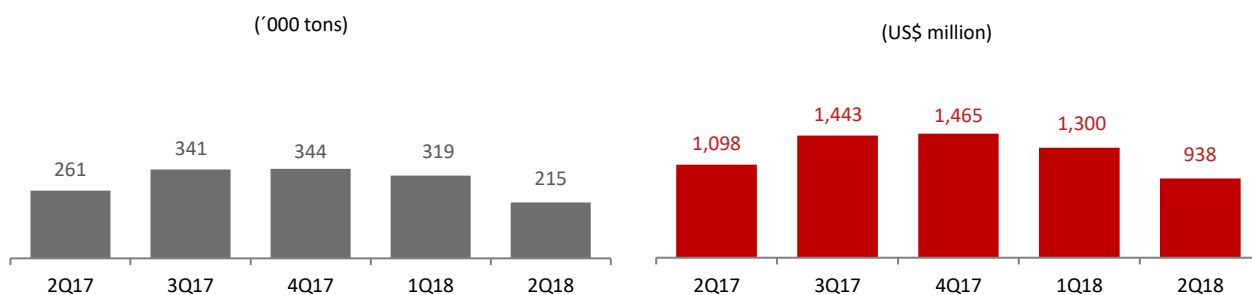


Source: Ministry of Agriculture, Livestock and Supply, CEPEA/ESALQ | 2Q18 Preliminary slaughter figures

Export Market

Brazilian beef exports reached 215,000 tons in 2Q18, down 18% from 2Q17 and 33% lower than in 1Q18. In the same period, export revenue totaled US\$938.3 million, down 15% from 2Q17 and 28% less than in 1Q18. Please note that since April 2018 there has been a change in the data supply and calculation system of the Ministry of Development, Industry and Foreign Trade (MDIC), which affected the comparison with previous quarters and led to inconsistencies in the data for the quarter.

Figures 5 and 6 – Fresh Beef Exports



Source: Ministry of Development, Industry and Foreign Trade / Preliminary export data

Given the depreciation of the real during the quarter (due to great political and economic uncertainty), with the U.S. dollar closing the quarter up 16% on 1Q18, players with more commercial flexibility, i.e. those that can sell their products both in the domestic and the export market, focused sales on exports. The graph below shows the appreciation of the dollar against the real in 2Q18:

Figure 7 – Exchange Rate (R\$/US\$ - P-tax)



Source: Bloomberg

In this scenario, the average beef price in dollars was US\$4.44/kg, 7% more than in the previous quarter and 5% higher than in the second quarter of 2017. Due to the increase of the price in dollars (+5%) and the currency depreciation (+16), the average price in reais rose from R\$13.2/kg in 1Q18 to R\$16.1/kg in 2Q18 (+22%).

Figure 8 - Average Fresh Beef Price

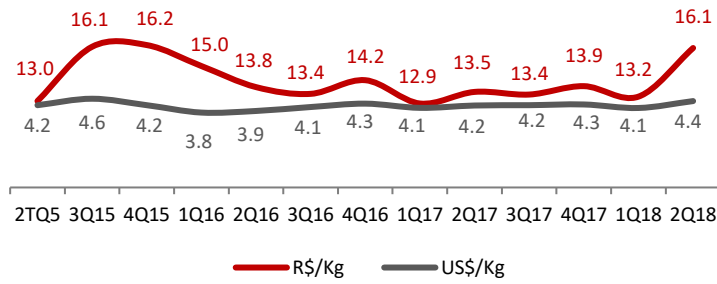
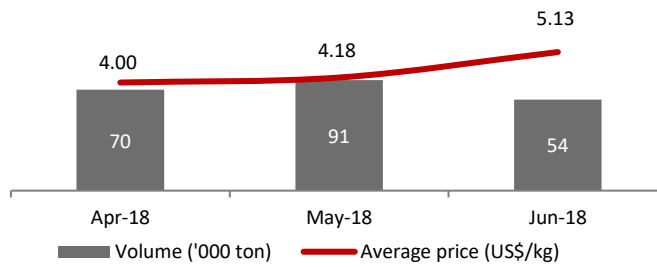


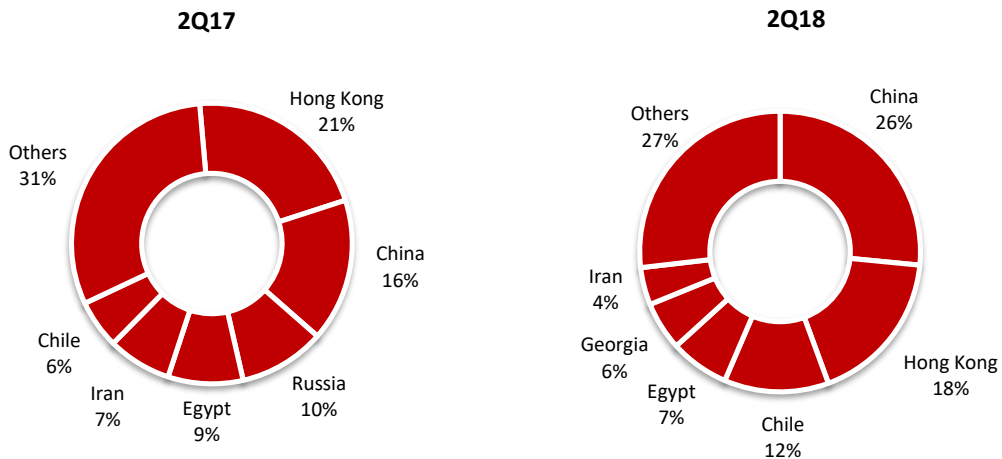
Figure 9 - Brazilian Fresh Beef Exports



Source: Ministry of Development, Industry and Foreign Trade | 2Q18 preliminary data

A large share of Brazilian exports went to Asia, with China and Hong Kong accounting for 44% of exports. The third main destination of Brazilian exports was Chile, which, in comparison with 2Q17, increased its share of the total by 6 p.p., to 12%, thanks to the fact that Paraguay (one of the main suppliers of the Chilean market) focused its exports on Russia, which in turn has not received Brazilian exports since the end of 2017.

Figures 10 and 11 – Export Destinations (% of Revenue)



Source: Ministry of Development, Industry and Foreign Trade

Domestic Market

In 2Q18, beef prices in the domestic market were impacted by two events (1) oversupply of other proteins (especially chicken), as a result of the export ban at the beginning of the quarter; and (2) the truck drivers’ strike over the last two weeks of May, which helped increase prices, especially of forequarter cuts. Due to the lack of supply in this period of approximately two weeks, the price of alternative proteins rose, reducing the spread in relation to beef, as shown below.

Figure 12 - Forequarter cuts and Chicken (wholesale)

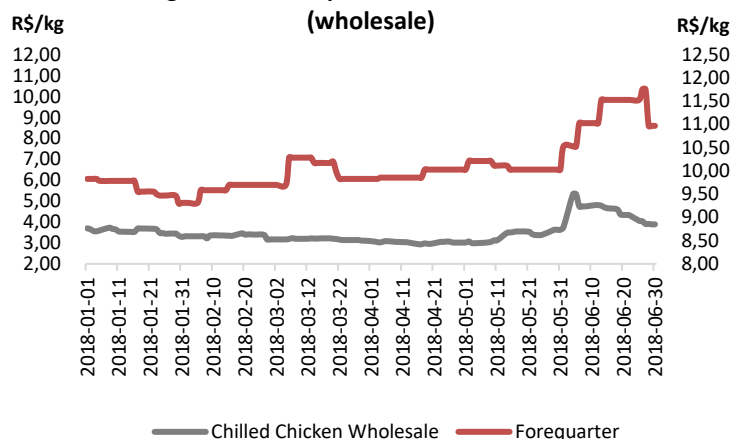
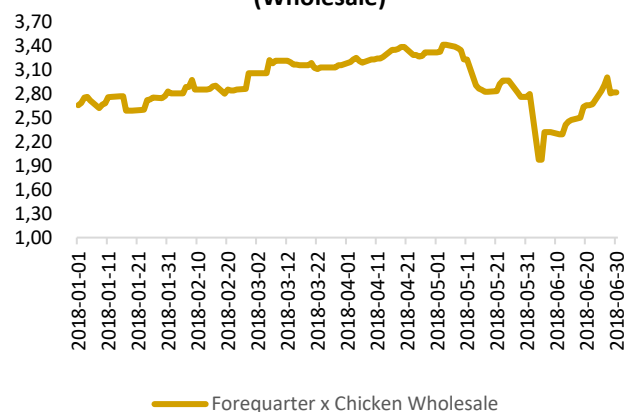


Figure 13 - Forequarter x Chicken Spread (Wholesale)



Source: Intercarnes

PARAGUAY

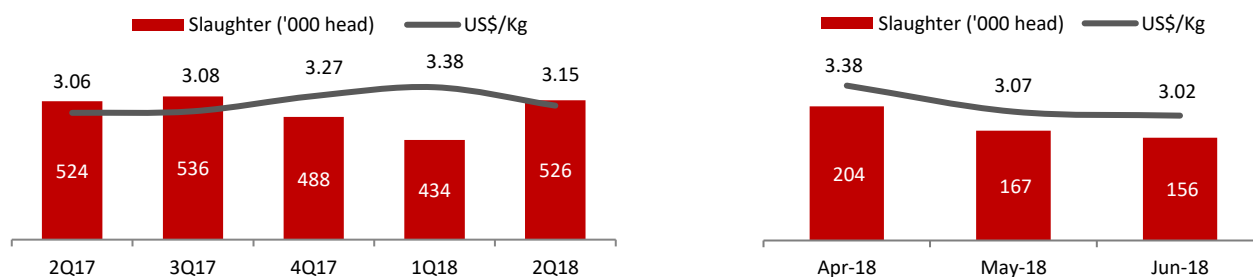
Cattle Supply

Slaughter volume totaled 526,000 head of cattle in the second quarter of 2018, up 21% on 1Q18 and in line with 2Q17. This quarter-on-quarter increase was mainly caused by lower slaughter volume in 1Q18, due to the country's weather conditions in that period, but rainfall has normalized since April and supply has returned to regular levels.

Following the improvement in the supply of animals, cattle prices averaged US\$3.15/kg in 2Q18, down 7% from 1Q18, but up 3% on 2Q17.

In the first six months of 2018, slaughter volume totaled 960,000 head of cattle, down 8% year on year, while cattle prices averaged US\$3.27/kg, up 6% year on year.

Figures 14 and 15 – Cattle Slaughter and Average Cattle Price



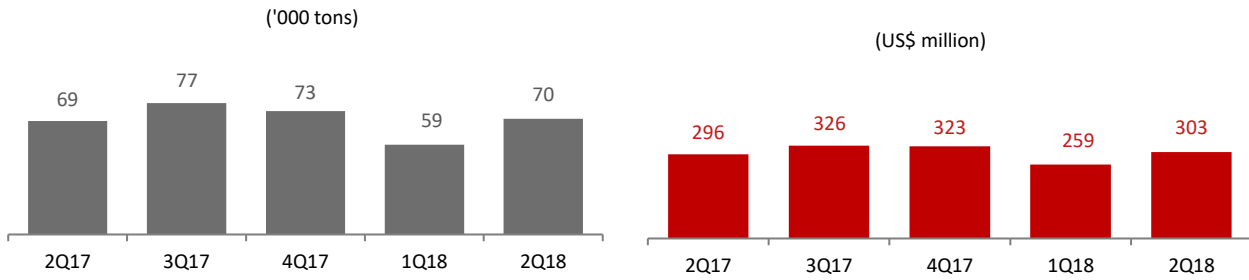
Source: SENACSA | 2Q18 preliminary data

Export Market

Export volume totaled 70,000 tons in 2Q18, 19% higher than in the previous quarter and virtually in line with 2Q17. Export revenue reached US\$303 million, up 3% on 2Q17 and 17% higher than in 1Q18.

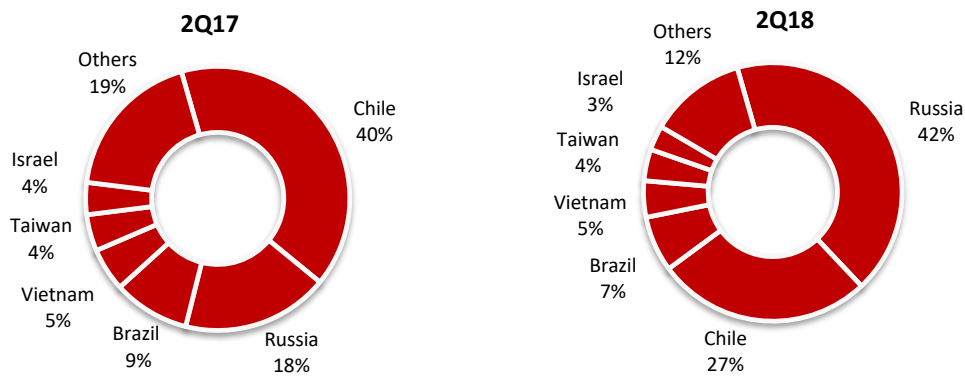
After the Russian ban on Brazilian exports, a large share of the country's demand was met by Paraguay. As a result, Russia was the main destination of Paraguayan exports, accounting for 42% of exports, 24 p.p. higher year on year. Chile was the second main export destination and accounted for 27% of the total, followed by Brazil (7%) and Vietnam (5%).

Figures 16 and 17 – Fresh Beef Exports



Source: SENACSA

Figures 18 and 19 – Export Destinations (% of Revenue)



Source: SENACSA

URUGUAY

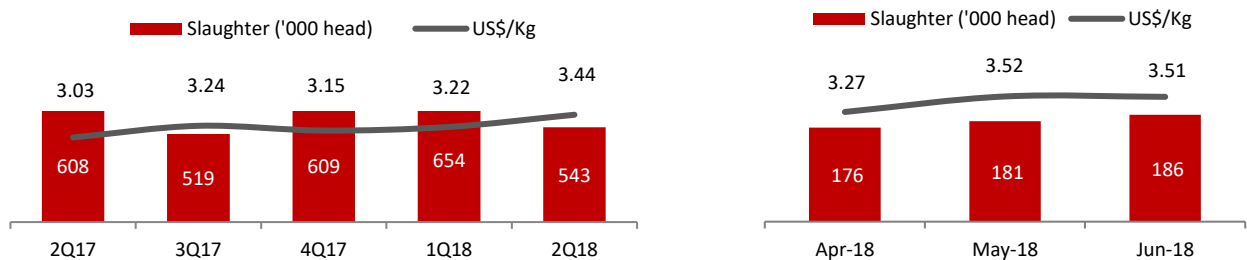
Cattle Supply

Slaughter volume totaled 543,000 head of cattle in 2Q18, down 17% from 1Q18 and 11% lower year on year. The steep decline in the quarter was due to the early supply of animals in the previous quarter (the highest first-quarter slaughter volume since 2008), as a result of the *La Niña* weather phenomenon.

In this scenario, cattle prices rose 7% over the previous quarter and 14% over the same period last year, averaging US\$3.44/kg.

In the first half of 2018, slaughter volume totaled 1,197,000 head of cattle, virtually in line with the same period last year, while cattle prices averaged US\$3.33/kg, up 9% on 1H17.

Figures 20 and 21 – Cattle Slaughter and Average Cattle Price

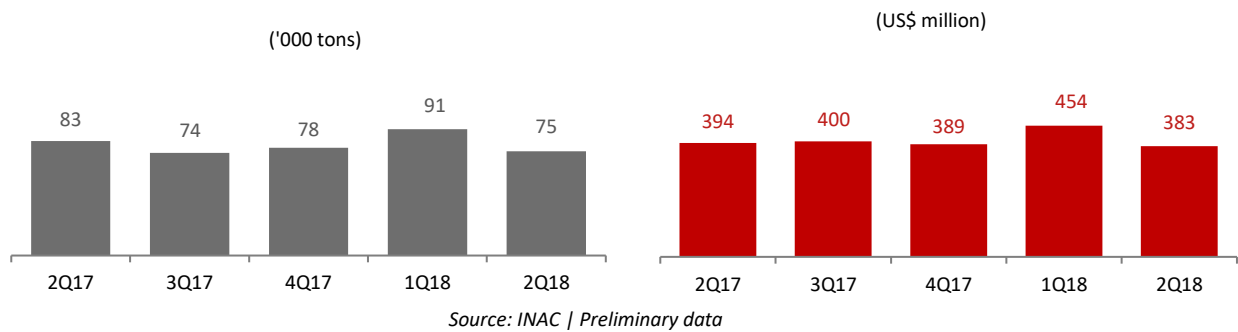


Source: INAC

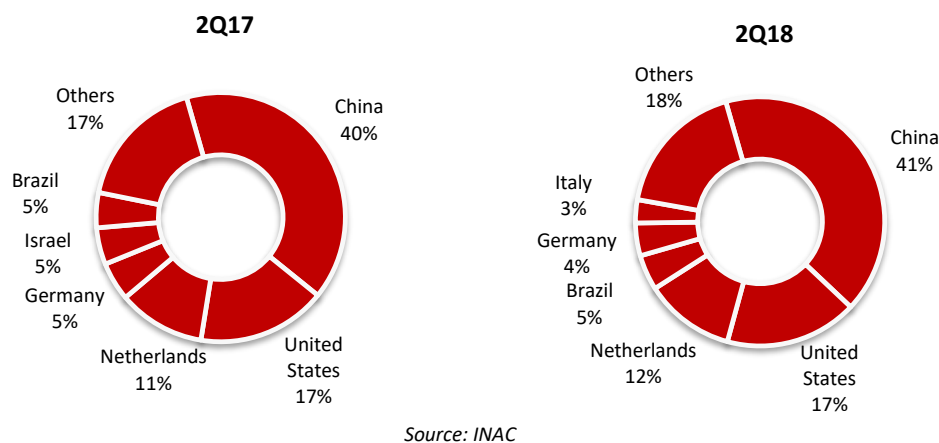
Export Market

Export volume stood at 75,000 tons in 2Q18 (down 17% and 9% from 1Q18 and 2Q17, respectively), with revenue of US\$383 million, 16% less than in 1Q18 and down 3% from 2Q17. The decline in exports was in line with the reduction in slaughter volume in the period. China and the United States remained as the main destinations of Uruguayan exports, accounting for 41% and 17% of the total, respectively.

Figures 22 and 23 – Fresh Beef Exports



Figures 24 and 25 – Export Destinations (% of Revenue)



ARGENTINA

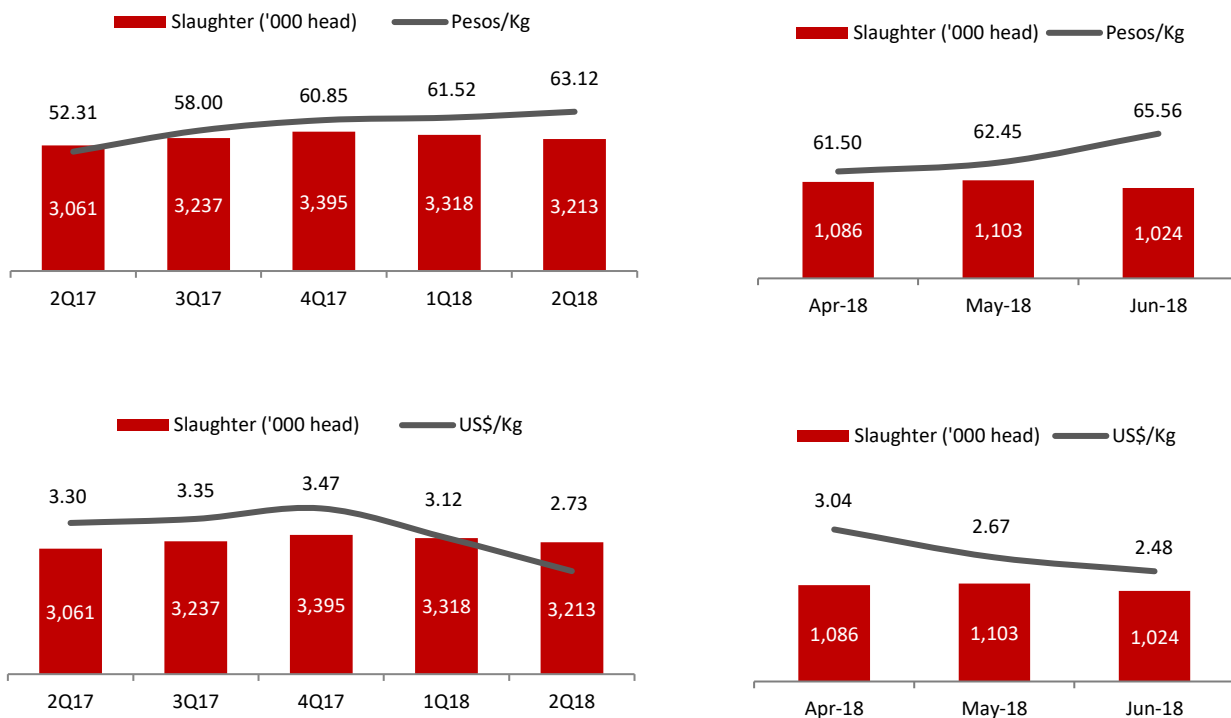
Cattle Supply

Slaughter volume came to 3.2 million head of cattle, 5% more than in the same period last year, but 3% less than in the previous quarter. It is worth noting that animals became available for slaughter earlier in Argentina, due to the *La Niña* phenomenon, similarly to what happened in Uruguay. In the first six months of 2018, slaughter volume came to 6.5 million head of cattle, 6% more than in 1H17.

The average price of cattle in Argentina reached 63.12 Argentinian pesos/kg, 3% less than in 1Q18 and 21% more than in 2Q17. It is worth noting that inflation went up (24.8% in 2017), which means that the average price of cattle fell in nominal terms. On the other hand, cattle prices in dollars fell to US\$2.73/kg in 2Q18, substantially lower than in 1Q18 and 2Q17 (-13% and -17%, respectively), making Argentina one of the most competitive countries in South America (second only to Brazilian cattle in dollars).

In the six first months of 2018, the average price of Argentinian cattle reached 62.32 Argentinian pesos/kg, 19% higher than in 1H18, while the average price in dollars came to US\$2.93/kg, 14% higher than in 1H17.

Figures 26, 27, 28 and 29 – Cattle Slaughter and Average Cattle Price – Argentinian Pesos/kg and US\$/kg



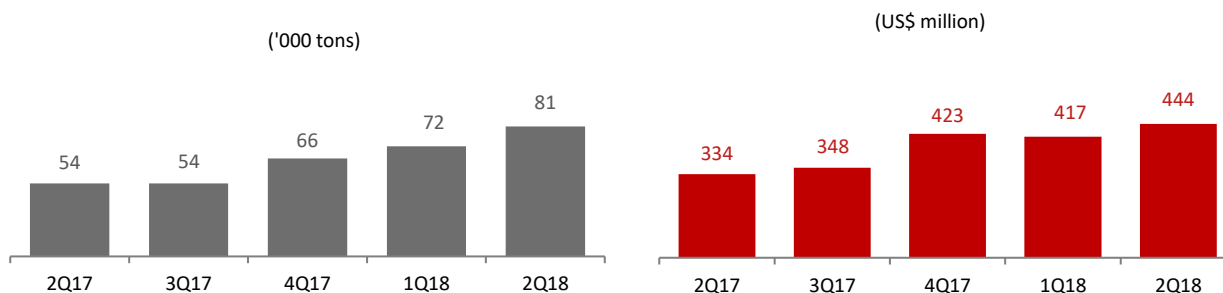
Source: SENACSA | E: Estimate

Export Market

Argentinian exports reached 81,000 tons in the second quarter of 2018, 49% more than in 2Q17 and 13% up on the previous quarter. Export revenue came to US\$444 million in the period, up 33% on 2Q17 and 7% more than in 1Q18. The main destinations of Argentinian exports were China, Europe, Chile and Russia.

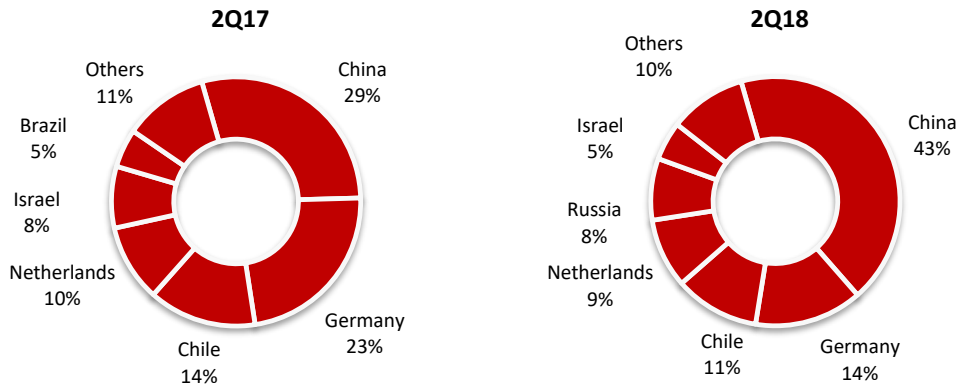
Exports went up mainly due to (1) the improvement in the industry environment through measures adopted by the current government to incentivize local producers; and (2) the recent devaluation of the Argentinian peso. Between January and June 2018, the Argentinian peso depreciated 56% and further boosted the country's exports.

Figures 30 and 31 – Fresh Beef Exports



Source: IPCVA – Instituto de Promoción de La Carne Vacuna Argentina

Figures 32 and 33 – Export Destinations (% of Revenue)



Source: IPCVA – Instituto de Promoción de La Carne Vacuna Argentina

Domestic Market

In 2Q18, the domestic market in Argentina was impacted by the country’s delicate economic situation, with strong devaluation of the local currency and high prices. The foreign currency crisis in Argentina was mainly due to 1) an expected increase in U.S. interest rates; and 2) economic uncertainty generated by the Argentinian government, which has not been able to successfully implement the proposed structural measures. Foreign exchange has pushed up prices and lower-income consumers tend to replace beef with other proteins, such as chicken, pork and mainly processed/industrialized foods (hamburgers, sausages, etc.).