

Industry Overview

3Q18

Minerva Foods

Barretos, November 06, 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

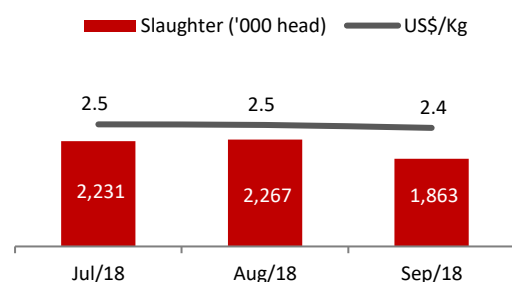
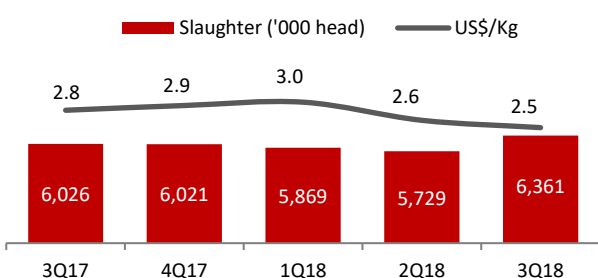
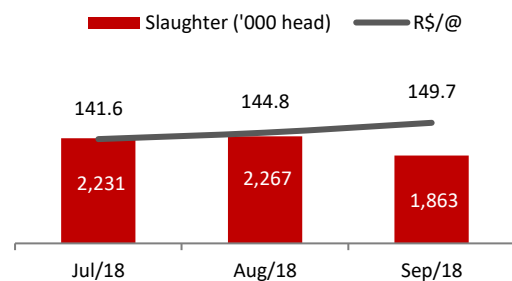
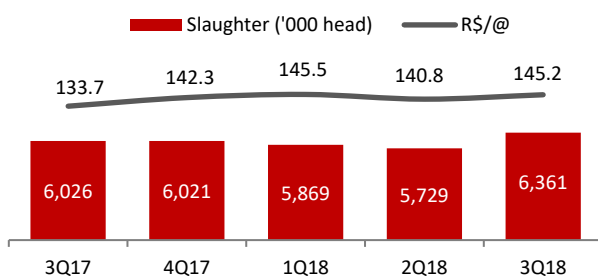
BRAZIL

Cattle Supply

Slaughter volume totaled 6.4 million head of cattle in the third quarter of 2018, up 6% over 3Q17 and 11% more than in 2Q18. The beginning of the second semester is characterized by a reduced supply of cows on pasture, due to the off-season, and a greater supply of confined animals, with a consequent decline in slaughter volume. However, the combination of strong depreciation of the real against the dollar and increased demand in the international market (especially in Asia) boosted exports. As a result, 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, increasing slaughter volume in the Brazilian beef industry this quarter.

In this scenario, the *arroba* price (reference: Finished cattle Esalq/BM&F – state of São Paulo) averaged R\$145.2 in 3Q18, around 3% higher than in the previous quarter, thanks to both the off-season and high export demand, as mentioned above. In line with the depreciation of the real against the U.S. dollar, the average beef price in dollars was US\$2.45/kg, maintaining the country's position as one of the most competitive beef exporters, as shown below.

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

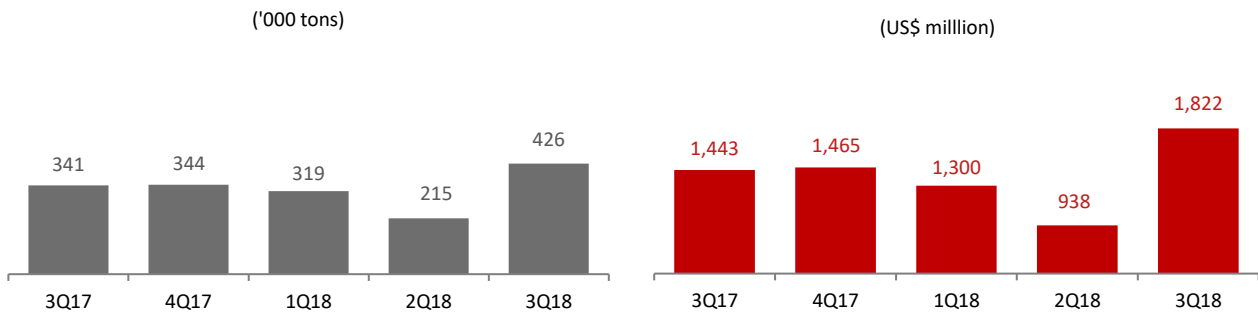


Source: Ministry of Agriculture, Livestock and Supply, CEPEA/ESALQ | 3Q18 preliminary slaughter data

Export Market

Due to the strong depreciation of the real and great demand from emerging markets in Asia and the Middle East, Brazilian beef exports reached an impressive 426,000 tons in 3Q18, 25% more than in 3Q17 and approximately twice as much as in 2Q18. Export revenue totaled US\$1,822.2 million, up 26% over 3Q17 and 94% more than in 2Q18.

Figures 5 and 6 – Fresh Beef Exports



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

In the 3Q18 the U.S. dollar appreciated 4% compared with the end of 2Q18. Therefore, although the average beef price in dollars remained virtually in line with the previous quarter (US\$4.3/kg), the average beef price in reais totaled R\$17.0/kg, up 27% over 3Q17 and 6% higher than in 2Q18.

Figure 7 - Average fresh beef price

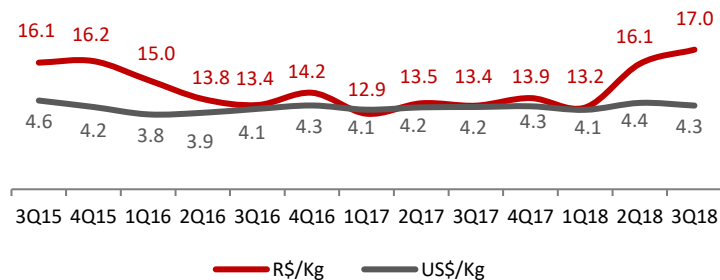
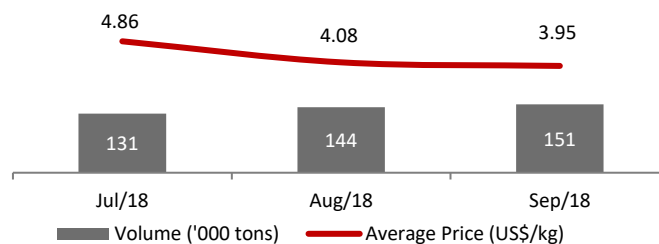


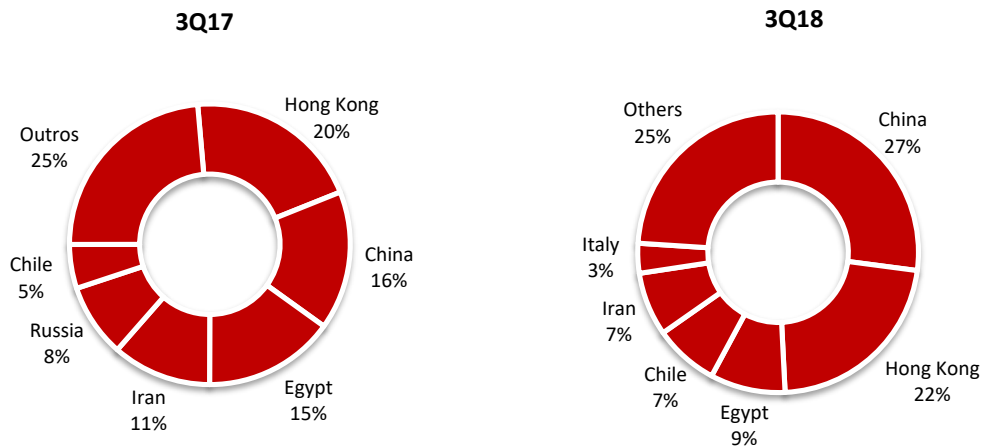
Figure 8 - Brazilian fresh beef exports



Source: Ministry of Development, Industry and Foreign Trade | 3Q18 preliminary data

China and Hong Kong together accounted for nearly half of Brazilian exports (49%) in 3Q18, 11 p.p. more than in 3Q17, due to growing demand of that region and the beginning of the period for purchasing proteins for the Chinese New Year (February 5, 2019). The second main export destination was Egypt, with 9% of the total, followed by Chile, whose share of Brazilian exports increased 2.0 p.p. year on year.

Figures 9 and 10 – Export Destinations (% of Revenue)



Source: Ministry of Development, Industry and Foreign Trade

Domestic Market

Domestic consumption remained in line with the previous quarter, despite a slight increase in August due to the Father’s Day weekend. Prices remained stable in Brazil, supported by reduced beef supply in the country due to strong export demand, which led the main players to sell a large share of their output to foreign markets.

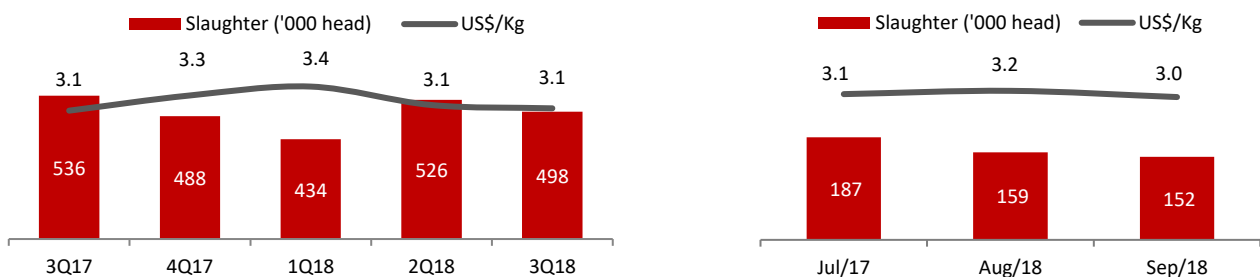
PARAGUAY

Cattle Supply

Slaughter volume totaled 498,000 head of cattle in 3Q18, 5% lower than in 2Q18 and down 7% year on year. The reduction in slaughter levels was partially due to a supply shortage in the period, commanding high prices for animals ready for slaughter and discouraging the industry from increasing capacity utilization.

As a result, cattle prices averaged US\$3.1/kg, virtually in line with both 2Q18 and 3Q17.

Figures 11 and 12 – Cattle Slaughter and Average Cattle Price



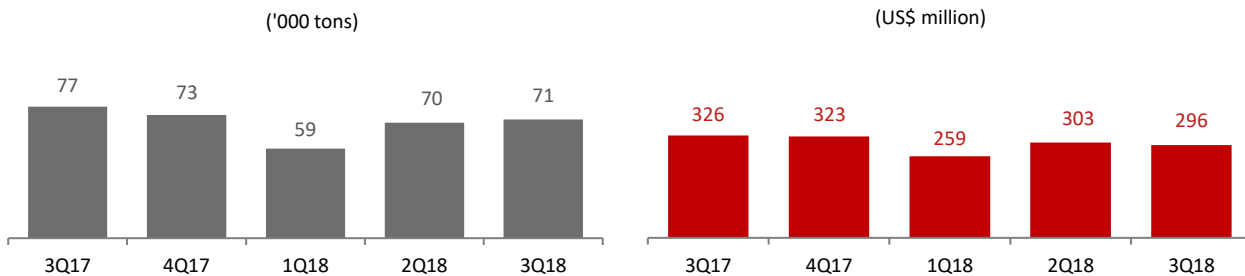
Source: SENACSA | 3Q18 preliminary data

Export Market

Export volume totaled 71,000 tons in 3Q18, 2% higher than in the previous quarter and 8% lower than in the same quarter last year. Export revenue reached US\$296 million, down 2% from 2Q18 and 9% lower than in 3Q17.

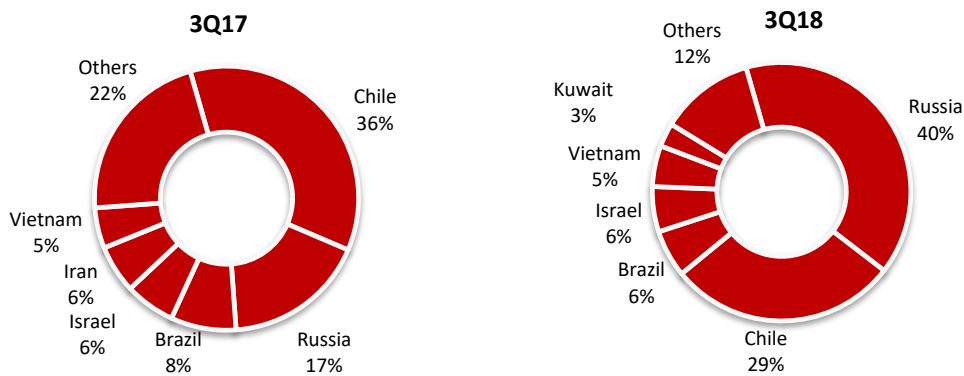
As a result, Russia was once again the main destination of Paraguayan exports, accounting for 40% of the total, 23 p.p. higher year on year. Chile was the second main export destination, with 29% of the total, followed by Brazil (6%).

Figures 13 and 14 – Fresh Beef Exports



Source: SENACSA

Figures 15 and 16 – Export Destinations (% of Revenue)



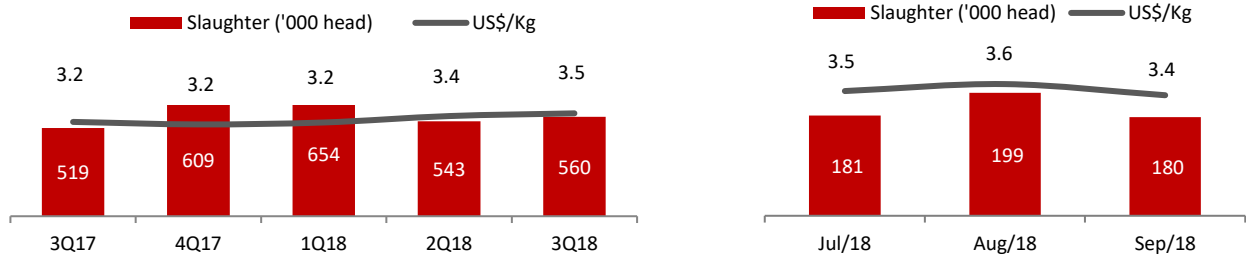
Source: SENACSA

URUGUAY

Cattle Supply

Slaughter volume totaled 560,000 head of cattle, up 3% on 2Q18 and 8% higher year on year, driven by a slight recovery in supply compared to a weak scenario in 2Q18, which also reflected the bringing forward of slaughter in the first quarter. The off-season and limited supply caused average cattle prices to increase 3% over 2Q18 and 9% over 3Q17, to US\$3.5/kg.

Figures 17 and 18 – Cattle Slaughter and Average Cattle Price

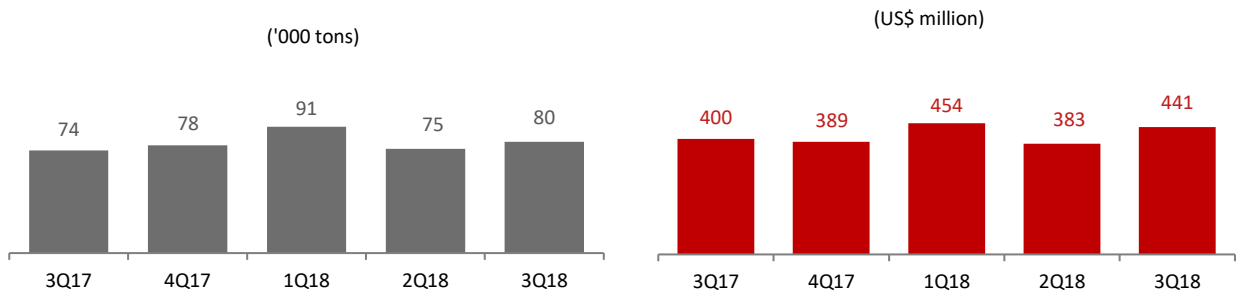


Source: INAC

Export Market

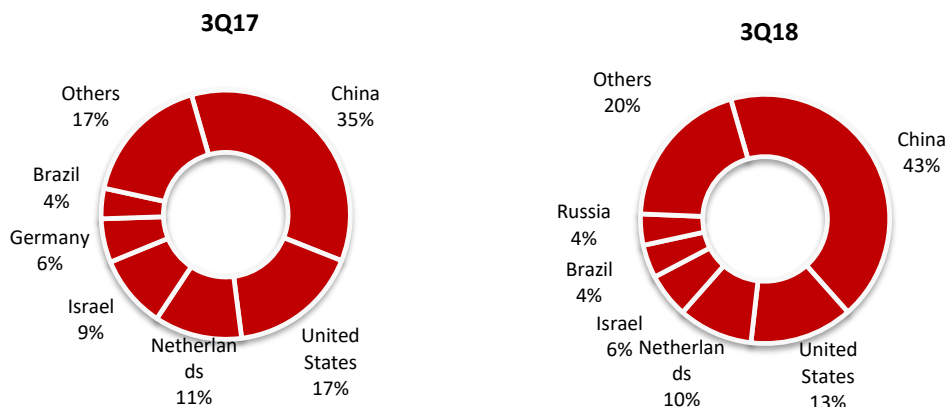
Export volume stood at 80,000 tons in 3Q18 (up 7% and 8% on 2Q18 and 3Q17, respectively), with revenue of US\$441 million, 15% more than in 2Q18 and up 10% on 3Q17. The increase in exports was mostly due to growing demand from China, which accounted for 43% of Uruguayan exports. It is worth noting that Russia was one of the main export destinations in 3Q18, with 4% of the total, 300 bps more than in the same period in 2017.

Figures 19 and 20 – Fresh Beef Exports



Source: INAC | Preliminary data

Figures 21 and 22 – Export Destinations (% of Revenue)



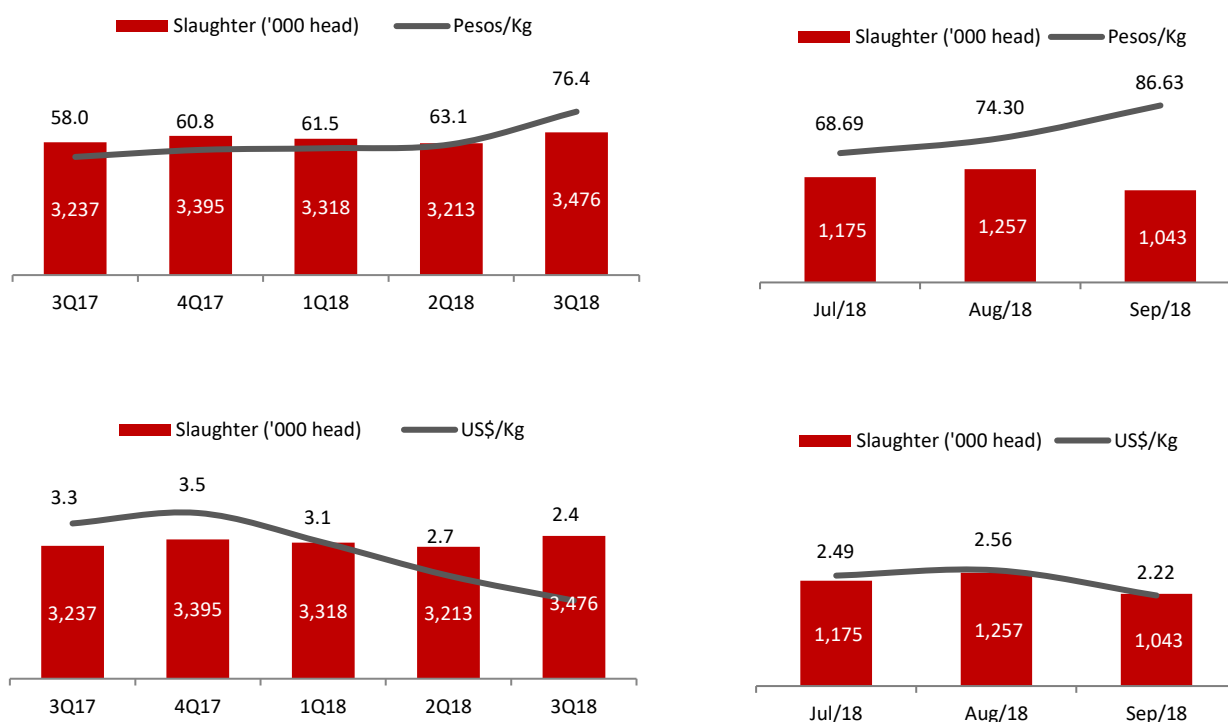
Source: INAC

ARGENTINA

Cattle Supply

Slaughter volume came to 3.5 million head of cattle, 7% more than in the same period last year and 8% more than in the previous quarter, driven by a strong export performance, boosted by the devaluation of the Argentinean peso against the dollar. The average price of cattle in Argentina reached 76.4 Argentinian pesos/kg, 21% more than in 2Q18 and 32% more than in 3Q17. However, it is worth noting that the price variation in the Argentinean economy has been strong and volatile. General Argentinean inflation was a little slower to reflect on cattle prices, but this was intensified in September 2018. On the other hand, cattle prices in dollars averaged US\$2.4/kg, substantially less than in 2Q18 and 3Q17 (-11% and -27%, respectively), making Argentina the most competitive country in South America, from the point of view of raw material acquisitions.

Figures 24, 25, 26 and 27 – Cattle Slaughter and Average Cattle Price – Argentinian Pesos/kg and US\$/kg



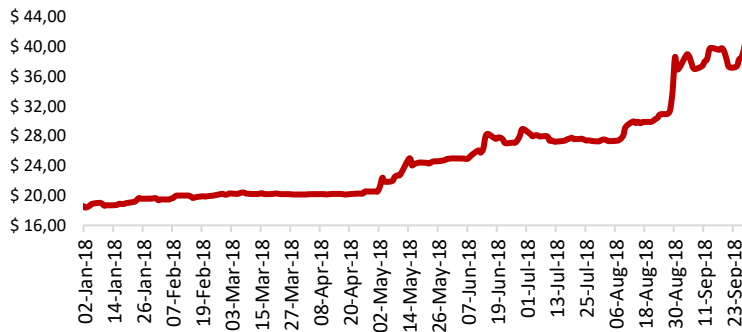
Source: SENASA | Preliminary data

Export Market

Argentina reported record exports in 3Q18, even after the government imposed an export duty of 3 Argentinian pesos per exported dollar. Argentinian exports reached 99,000 tons in the third quarter of 2018, 83% more than in 3Q17 and up 27% on the previous quarter. Export revenue came to US\$ 502.3 million in the period, up 44% on 3Q17 and 13% more than in 2Q18. The main destinations of Argentinian exports were China with an increase of 15 p.p. compared with the same period in 2017, Germany and Chile.

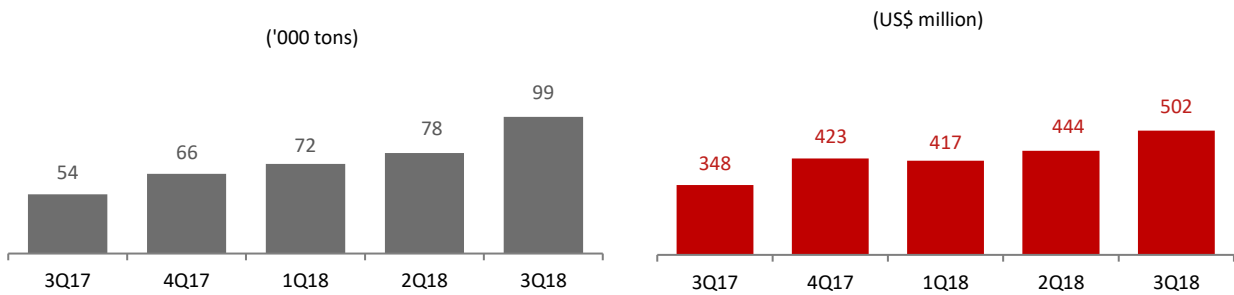
In the first nine months of 2018, the Argentinean peso depreciated 122%, as shown below, substantially increasing the attractiveness of Argentinian exports.

Figure 28 – Exchange Rate (ARG/US\$ - P-tax)



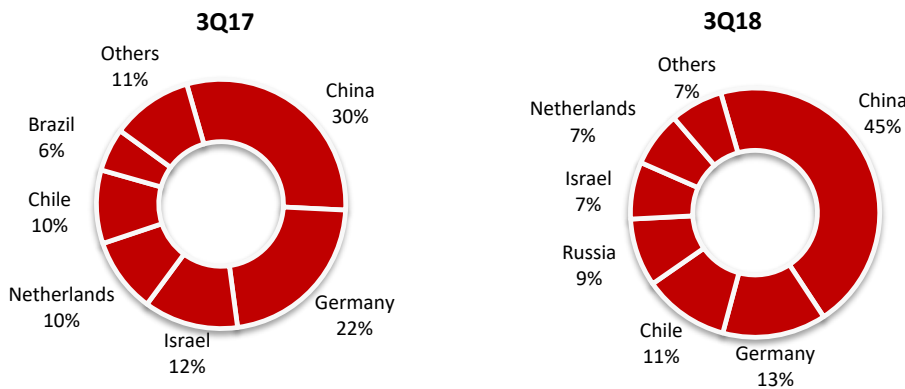
Source: Bloomberg

Figures 29 and 30 – Fresh Beef Exports



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

Figures 31 and 32 – Export Destinations (% of Revenue)

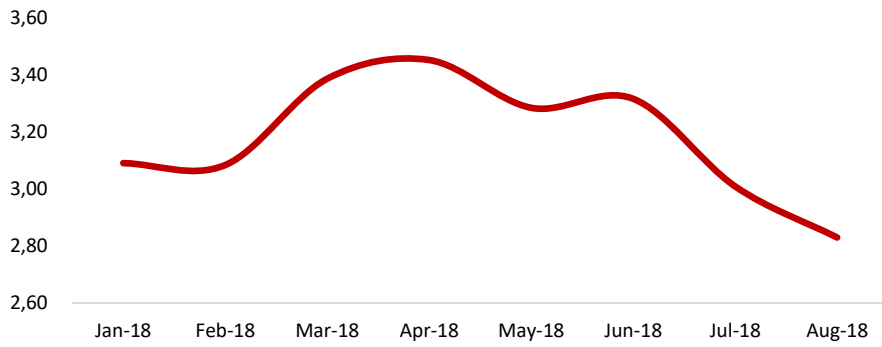


Source: IPCVA – Instituto de Promoción de La Carne Vacuna Argentina

Domestic Market

The domestic market in Argentina was once again impacted by the country’s delicate economic situation, with high prices. Because it has a dollarized economy, the purchasing power of the Argentinean population has declined, as the salary increase does not compensate the domestic inflation. As a result, the most price-sensitive income groups (classes C, D and E) are opting to consume alternative proteins, especially chicken. This becomes clear in the spread between the prices of *asado* (most consumed cuts in the Argentinean domestic market) and chicken, which has declined as consumption of cheaper proteins increased in the country:

Figure 33 - Spread between *asado* and chicken prices

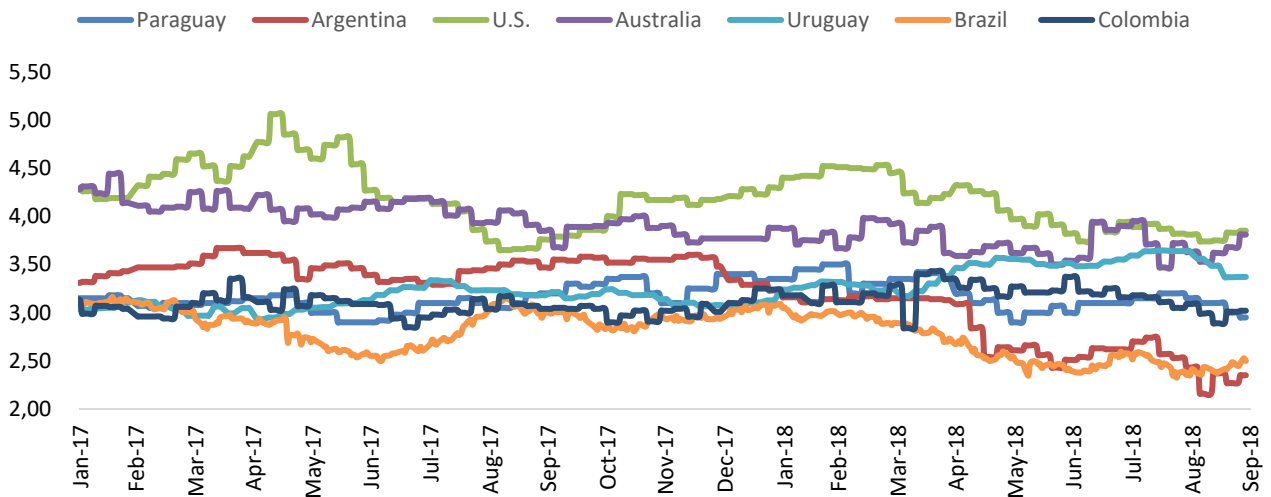


Source: IPCVA

COMPETITIVE ADVANTAGE

It is worth noting the current competitive advantage of South American exporters in terms of the acquisition of raw materials. As mentioned earlier, due to the depreciation of some currencies, the region continues to be extremely competitive in cattle price as shown below:

Figure 34 – Average Cattle Price in US\$/kg



Source: World Beef Report