

# INDUSTRY OVERVIEW

## 3Q19

**Barretos, October 31, 2019** – Minerva Foods is the South American leader in beef exports, which also 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 28,366 head of cattle. Present in Brazil, Paraguay, Argentina, Uruguay and Colombia, Minerva operates 25 slaughter and deboning plants and 3 processing plants.

### HIGHLIGHTS BY COUNTRY

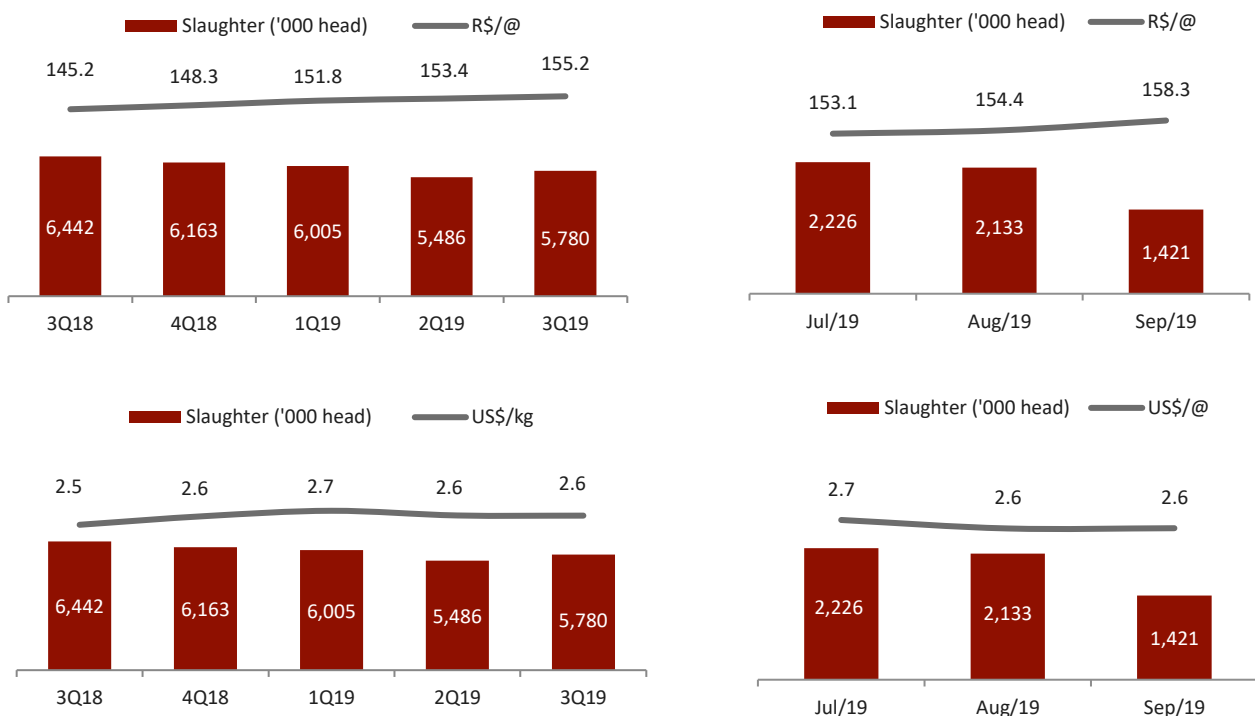
#### Brazil

##### Cattle Supply

In 3Q19, slaughter volume totaled 5.8 million head of cattle, slightly less than in the previous quarter and down 10% from 3Q18. It is worth noting that the substantial slaughter volume in 3Q18 was impacted by the volume carried over from the previous quarter due to the truck drivers' strike.

The *arroba* price (Indicator: Finished cattle Esalq/BM&F – state of São Paulo) averaged R\$155.20 in 3Q19, in line with 2Q19, but 7% higher than in 3Q18. The average dollar price of cattle was US\$2.61/kg in 3Q19, in line with 2Q19 and 6% higher than in 3Q18.

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



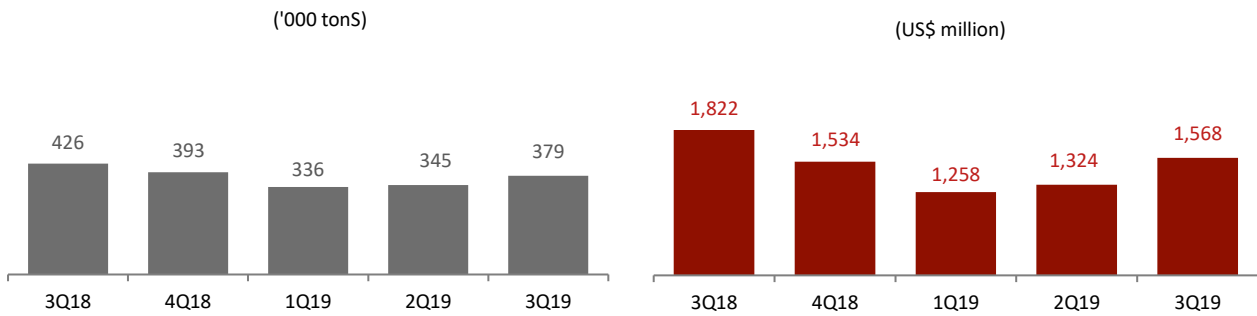
Source: Ministry of Agriculture, Livestock and Supply, CEPEA/ESALQ | 3Q19 preliminary slaughter data

**Export Market**

Brazilian beef exports reached 379,000 tons in the third quarter of 2019, 10% more than in 2Q19 and up 11% over 3Q18. It is worth noting that, in addition to the concentration of export volume in 3Q18 due to the truck drivers’ strike, there was also a change to the methodology of the Ministry of Development, Industry and Foreign Trade for calculating export data, which had a positive impact on 3Q18 figures.

Export revenue reached US\$1,568.4 million in 3Q19, up 18% over 2Q19 and down 14% from 3Q18, as described above.

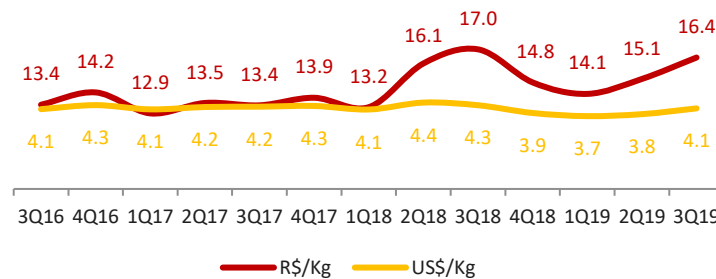
**Figures 5 and 6 – Fresh Beef Exports**



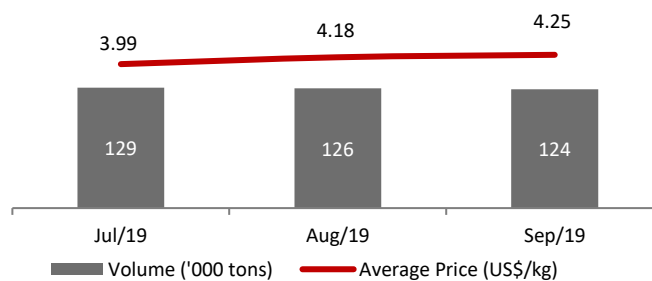
Source: Ministry of Development, Industry and Foreign Trade | Preliminary export data

In 3Q19, beef prices in dollars averaged US\$4.1/kg, approximately 8% higher than in 2Q19. The average beef price in reais reached R\$16.4/kg, up 9% over 2Q19.

**Figures 7 – Average Fresh Beef Price**



**Figures 8 – Brazilian Fresh Beef Exports**

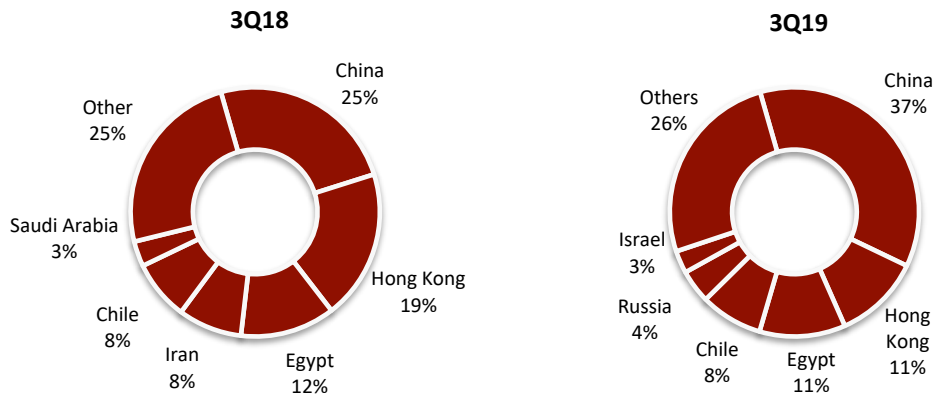


Source: Ministry of Development, Industry and Foreign Trade

China and Hong Kong accounted for 48% of Brazilian export revenue in 3Q19 and were the main importers of Brazilian beef. Egypt was the third main destination, with 11% of total exports, followed by Chile, with 8%.

The outlook for the export market remains positive, especially due to high demand from China. It is worth noting that China has been increasing its animal protein import volume since the end of last year, as a result of the outbreak of African swine fever. In this context, the country authorized 17 new industrial cattle slaughter and deboning units, which will further boost the volume of exports to China in the coming months.

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



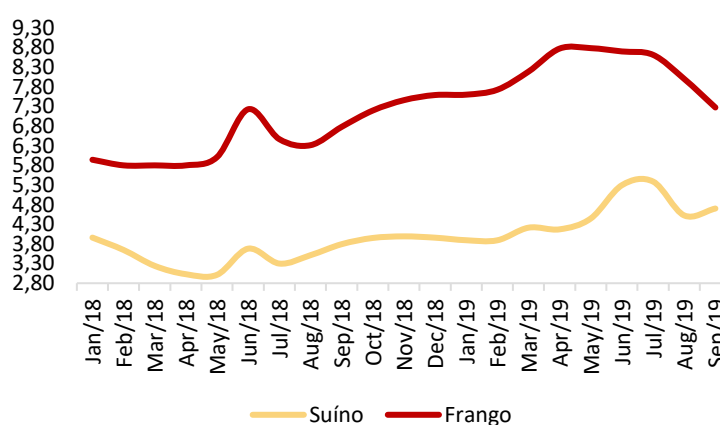
Source: Ministry of Development, Industry and Foreign Trade

## Domestic Market

In 3Q19, beef prices in the domestic market improved significantly compared to the previous quarter, especially in August, when we had the Father’s Day weekend, which boosted consumption in the period. In this scenario, the price of carcass-weight equivalent (weight of forequarter cuts + hindquarter cuts + flank converted to an equivalent weight of a dressed carcass) remained flat at around R\$10.35 in 3Q19, 7.0% higher than in 3Q18.

It is worth noting the increase in alternative proteins since the beginning of 2019. In 3Q19, pork prices averaged R\$4.87/kg, while chicken prices averaged R\$7.96/kg, up 38% and 22% year on year, respectively, reflecting the lower availability of these proteins in the domestic market. In this context, the smaller price difference between beef and alternative proteins should encourage domestic beef consumption in the coming months.

Figure 11 – Chicken Breast and Live Pork R\$/Kg



Sources: CEPEA/ESALQ and Scot Consultoria

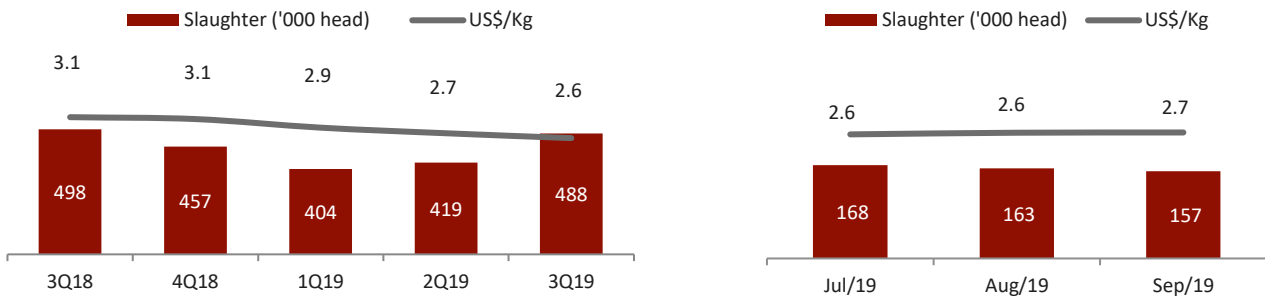
## Paraguay

### Cattle Supply

Slaughter volume totaled 488,000 head of cattle in the third quarter of 2019, up 16% over 2Q19, but down 2% from 3Q18. Although the third quarter is also marked by the off-season period in Paraguay, this strong slaughter volume stemmed from a higher number of animals available for slaughter, as the cattle were stranded in the farms until then, due to the rainy season and transport difficulties in the first half of the year.

Despite high slaughter volume, cattle prices averaged US\$2.6/kg in 3Q19, down 4% from 2Q19 and 15% from 3Q18, reflecting high animal availability in the country.

Figures 12 and 13 – Cattle Slaughter and Average Cattle Price



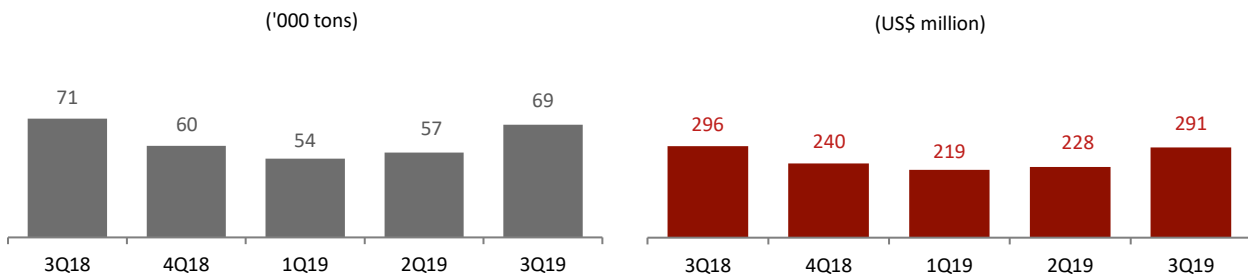
Source: OCIT – Oficina Consultiva y de Investigación Técnica | 3Q19 Preliminary Data

**Export Market**

Paraguay exported around 69,000 tons in 3Q19, 21% higher than in 2Q19 and 3% lower than in 3Q18. Export revenue reached US\$291 million in Paraguay, 27% more than in the previous quarter, but 2% less than in the same period last year.

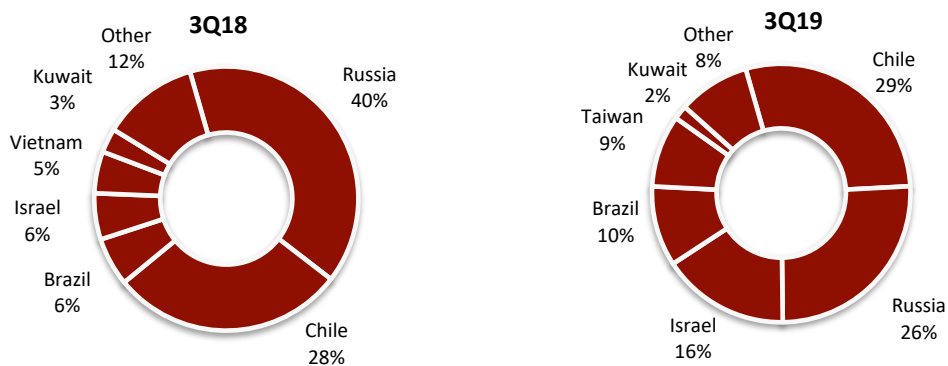
Chile maintained its position as the main destination of Paraguayan exports, with 29% of the total, while Russia was the second main destination, with 26% of the total, followed by Israel and Brazil.

Figures 14 and 15 – Fresh Beef Exports



Source: OCIT – Oficina Consultiva y de Investigación Técnica

Figures 16 and 17 – Export Destinations (% of Revenue)



Source: OCIT – Oficina Consultiva y de Investigación Técnica

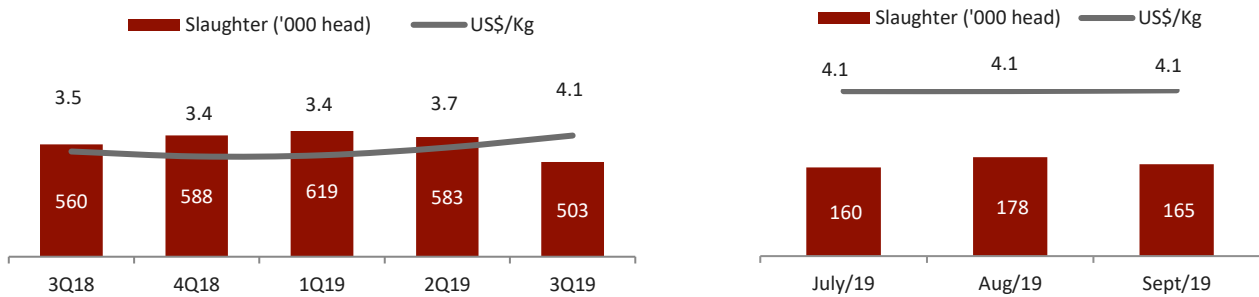
**Uruguay**

**Cattle Supply**

In 3Q19, slaughter volume totaled 503,000 head of cattle in Uruguay, less than in 2Q19 and in 3Q18, due to lower availability of cattle ready for slaughter.

In view of lower supply, cattle prices averaged US\$4.1/kg, up 8% over 2Q19 and 15% higher than in 3Q18, closing the quarter with the least competitive price among South American exports.

**Figures 18 and 19 – Cattle Slaughter and Average Cattle Price**



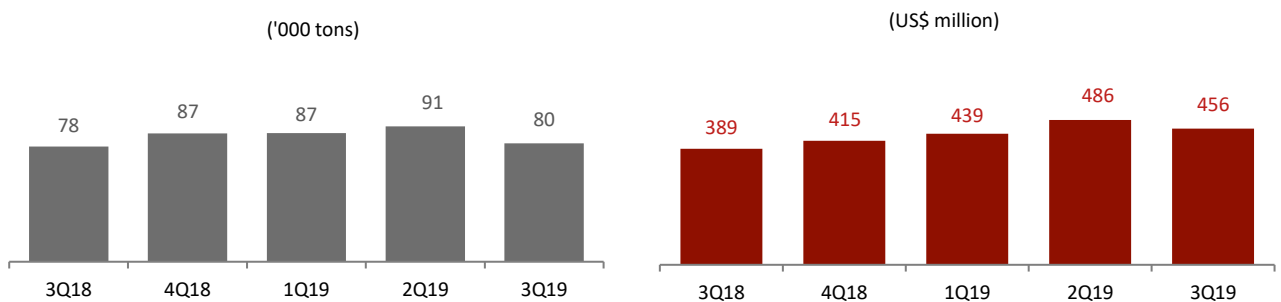
Source: INAC

**Export Market**

Uruguayan exports totaled 80,000 tons in 3Q19, down 12% from 2Q19 and up 3% over 3Q18. Export revenue reached US\$456 million in 3Q19, 6% lower than in 2Q19, but 17% higher than in 3Q18.

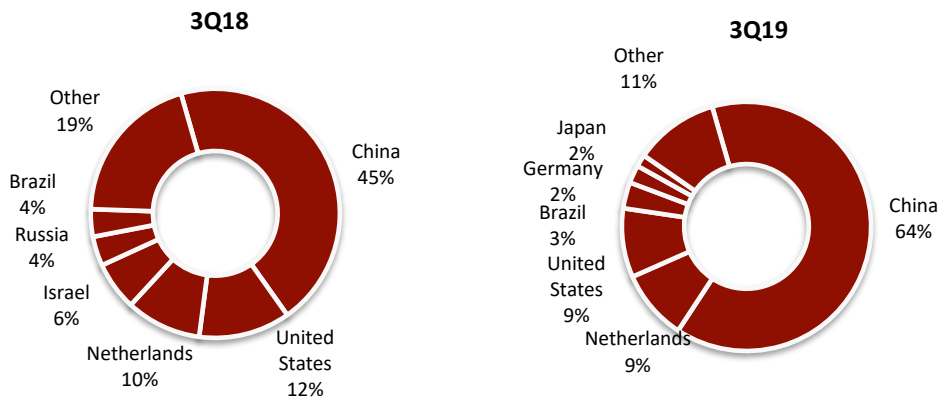
China continued to be the main destination of Uruguayan exports, with 64% of the total, moving up 19 p.p. over 3Q18. The Netherlands and United States were the second and third main destinations of Uruguayan exports, respectively, accounting for 9% of exports each.

**Figures 20 and 21 – Fresh Beef Exports**



Source: Penta-transaction

Figures 22 and 23 – Export Destinations (% of Revenue)



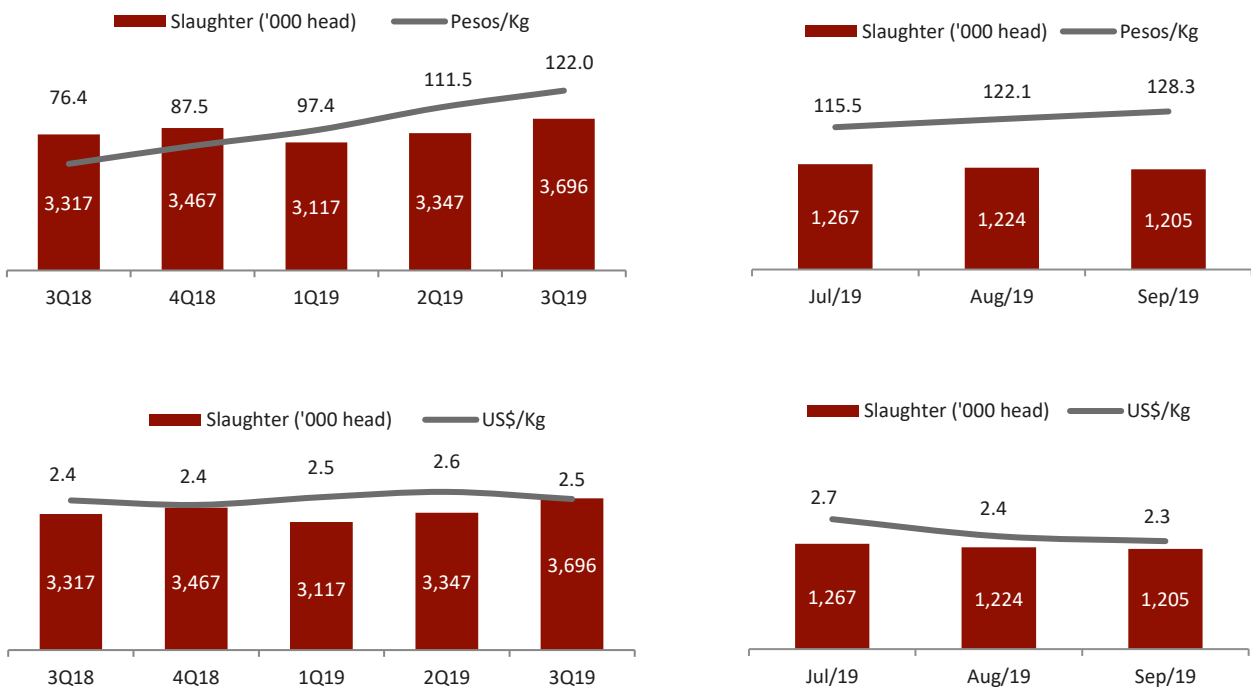
Source: Penta-transaction

### Argentina

#### Cattle Supply

In 3Q19, slaughter volume in Argentina totaled 3.7 million head, up 10% over 2Q19 and 11% higher than in the same period in 2018. The average price of cattle in Argentina reached ARS122.0/kg, up 9% over 2Q19 and 60% over 3Q18, mainly impacted by inflation, which came to 54.7% in the last 12 months ended September, according to the Central Bank of Argentina. On the other hand, the average dollar price of cattle stood at US\$2.5/kg in 3Q19, falling 5% from 2Q19 and remaining in line with 3Q18.

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



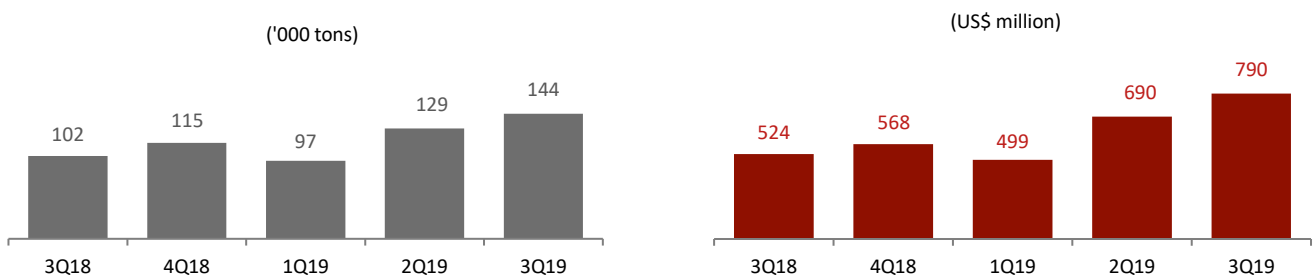
Source: ABC Consortium | 3Q19 Preliminary Data

**Export Market**

Argentinian exports totaled 144,000 tons in 3Q19, increasing 12% over 2Q19 and jumping 41% over 3Q18. Export revenue totaled US\$790 million in 3Q19, up 15% over 2Q19 and 41% over 3Q18.

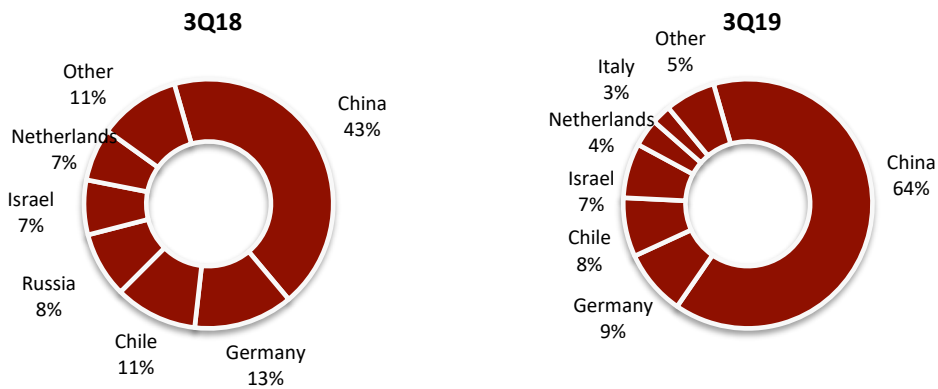
China was once again the main destination of Argentinean exports, accounting for 64% of the total (+21 p.p. vs. 3Q18), followed by Germany and Chile, with 9% and 8% of total export revenue, respectively.

**Figures 28 and 29 – Fresh Beef Exports**



Source: IPCVA – Instituto de Promoción de La Carne Vacuna Argentina | 3Q19 Preliminary Data

**Figures 30 and 31 – Export Destinations (% of Revenue)**



Source: IPCVA – Instituto de Promoción de La Carne Vacuna Argentina | 3Q19 Preliminary Data

**Domestic Market**

Beef consumption in Argentina has been impacted by economic instability. High inflation and the depreciation of the Argentinian peso continued to have a negative impact on the domestic market. As products are more expensive, the population’s purchasing power declined, causing a shift in consumption towards alternate proteins, such as chicken and processed foods (pâté, sausages and hamburgers, etc.).

In this scenario, per capita consumption of beef in Argentina, which has historically remained close to 55 kilos, is expected to fall to approximately 40 kilos at the end of 2019, while per capita consumption of chicken, which stood at 38 kilos until February 2018, should reach 45 kilos at the end of 2019, according to USDA data.

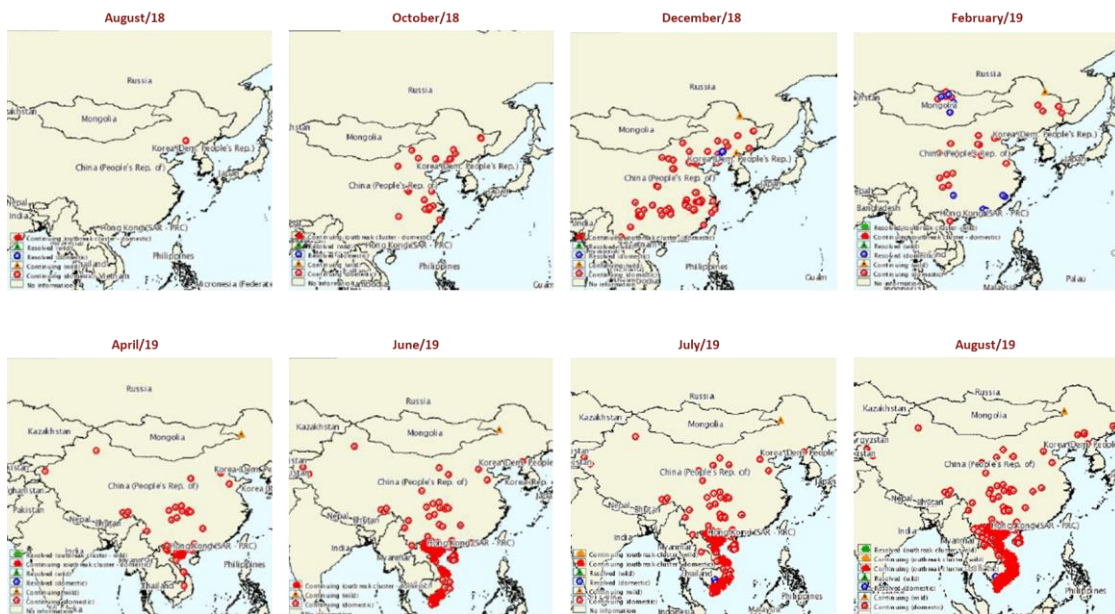


### African Swine Fever – Impacts and Opportunities

The outbreak of African swine fever observed in China since mid-2018 has hugely affected the size of the swine herd and, consequently, production and consumption of this protein in that country.

The African swine fever is a severe viral disease that affects domestic pigs and wild boars, with a mortality rate of 100%. In recent months, the outbreak spread to China’s neighboring countries, such as Cambodia, the Philippines, Laos, South Korea and Vietnam (the latter reduced its herd by more than 20%). In addition to the outbreak in Southeast Asia, the disease reached the swine herd of some Eastern European countries, especially Serbia, Romania, Bulgaria and Poland.

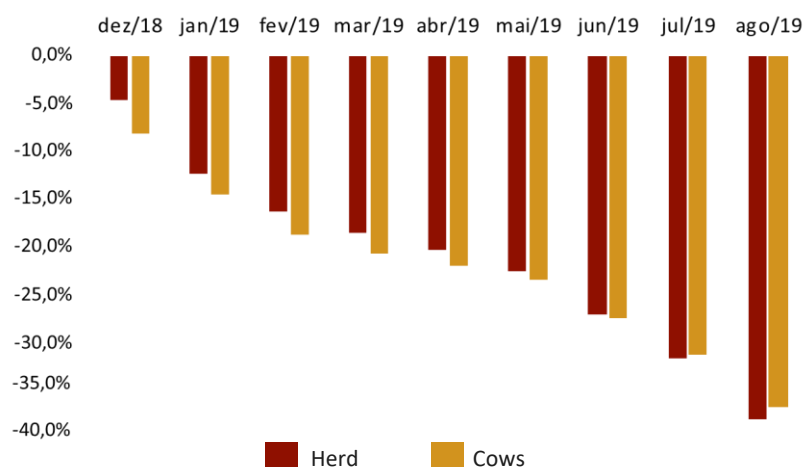
Figure 32 – Evolution of Reported Cases of Swine Fever in Asia



Source: OIE - World Organisation for Animal Health (World Animal Health Information and Analysis Department)

According to data from the Chinese Ministry of Agriculture, the country’s swine herd decreased by more than 40% compared to the previous year, when the outbreak began. It is worth noting that, despite the mortality rate of nearly 100%, there is still no news on the development of an effective vaccine.

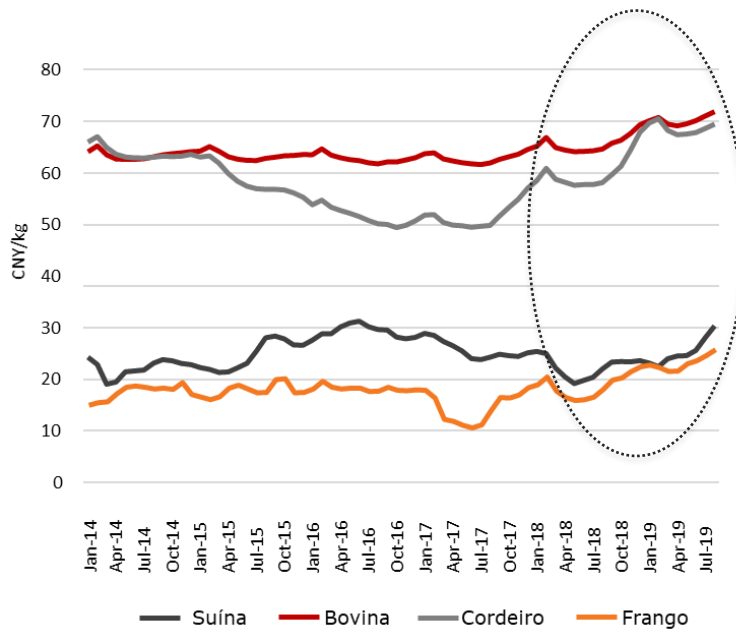
Figure 33 – Reduction in the Chinese Swine Herd



Source: Chinese Ministry of Agriculture and Rural Affairs

Lower pork production and consumption boosts demand for other proteins, such as chicken and beef, increasing prices and causing structural changes in the consumption habits of the Chinese population

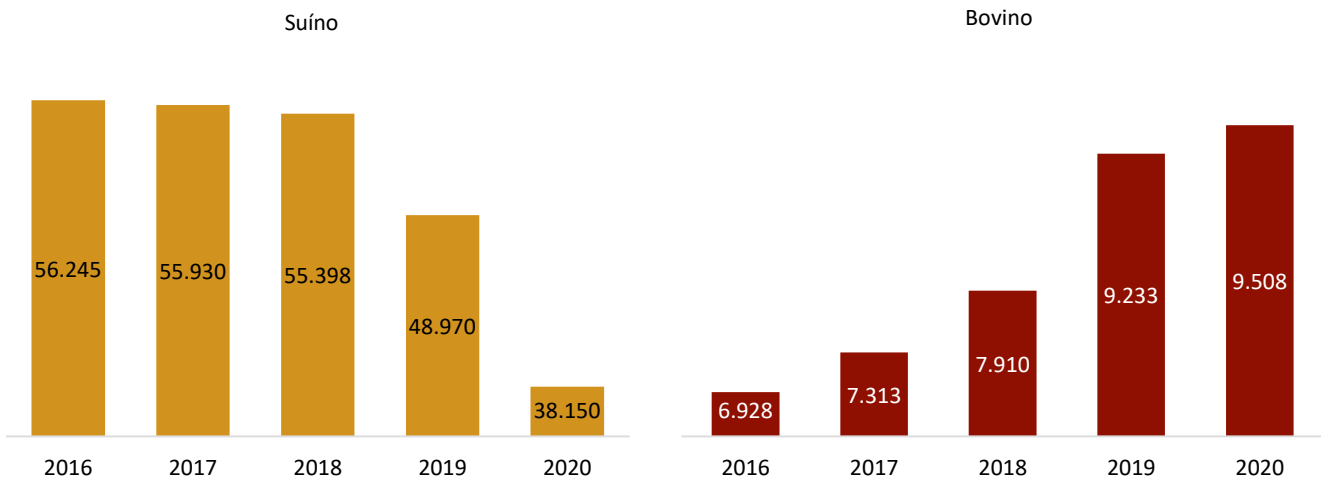
Figure 34 – Historical Performance of Protein Prices in China



Source: National Bureau of Statistics of China, Chinese Ministry of Agriculture and Rural Affairs

As a result of the African swine fever, China is expected to reduce its pork consumption by 32% by 2020, while beef consumption should grow by more than 30%, according to the USDA.

Figures 35 and 36 – Domestic Pork and Beef Consumption (000' tons cwe)



Source: USDA