4Q18 and 2018 TRANSCRIPTION

Operator:

Good afternoon, ladies and gentlemen, and thank you for waiting. At this time, we would like to welcome everybody to Minerva's 4Q and year of 2018 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 showed at this presentation are available through a live webcast at www.minervafoods.com/ir, and 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 afternoon for everyone. Thank you for participating in Minerva's conference call on the results for the 4Q and the full-year of 2018.

2018 was a year full of opportunities, and we were able to harvest the fruits of our growth and our strategy through the geographical diversification of our operations according the business plan that we share with the market a few years ago. We currently have one of the most modern industrial parks in the continent, and we are the leading beef exporter in South America, with 21% of the region's total exports.

It is worth mentioning that, according to USDA's latest estimates, South America was responsible for around 34% of the global exports in 2018. Therefore, Minerva accounted for around 7% of the global beef trades in the year.

As a result of our geographical diversification, which allow us to access better markets, combined with our recognized operational excellence and supported by our business intelligence with risk management tools, Minerva closed 2018 with a healthy operational performance, including record net revenue and, most importantly, a strong cash flow generation.

We will now begin our presentation and discuss the main highlights for the year. Let us start on slide two. On slide two, Minerva shows that we closed 2018 with a free cash flow to equity of R$752 million, corresponding to a free cash flow yield of 40%. In the 4Q alone, Minerva recorded free cash flow of R$363.3 million, with operational cash flow of R$340.1 million, underlining the positive moment of our operations

In 2018, consolidated gross revenue totaled R$17.2 billion, a new record of the revenues. In 4Q18, Minerva's gross revenue totaled R$4.9 billion.

Analyzing the revenue's breakdown in 4Q18, 41% of the gross revenue came from the Brazilian Division, equivalent to R$2 billion. Athena Foods, our subsidiary that comprises operations in Paraguay, Argentina, Uruguay, Colombia and Chile, also generated another R$2 billion in revenue, equivalent to another 41% of the consolidated revenue. This shows the balance between our operations in Brazil and in other countries of South America. Finally, the Trading Division accounted for the remaining 18%, contributing with R$866 million to consolidated gross revenue.

Minerva's exports grew 24% in 4Q18 over 2017, accounting for 60% of consolidated sales, and moved up 40% in 2018 over 2017, accounting for 62% of consolidated sales.

EBITDA totaled R$462 million in 4Q18, 27% more than in 4Q17, accompanied by an EBITDA margin of 10%. In 2018, EBITDA came to R$1.6 billion, up 23% over 2017, with an EBITDA margin of 9.6%, 50 bps more than in 2017.

The pursuit of a more efficient capital structure continues to be the priority for Minerva. We closed 2018 with a leverage, measured by the net debt/EBITDA ratio, of 3.9x, 1.1x less than in the previous quarter, showing our commitment to deleverage.

In line with our debt reduction plan, Minerva completed a private capital increase totaling R$960 million at the end of 4Q18. It is worth noting that most of the proceeds of the operations was used to tender the largest share of our perpetual bonds, US$225 million, that was our most expensive debt.

We will now move on to slide three, where we will discuss our performance in 2018 in further details. We will begin with our exports, always analyzing our revenue and market share.

In 2018, our share of the Brazilian beef exports came to 18%, with a volume growth of 12% year on year. In Paraguay, driven by 44% growth in export volume, we reached a market share of 41%, consolidating our position as the country's main beef exporter. In Uruguay, our share of exports came to 21%, 6% more than in 2017. In 2018, our share of beef exports came to 15% in Argentina, and incredible 73% in Colombia. As I mentioned, Minerva has consolidated its position as the leading South American exporter, with a market share of 21%.

Now, moving to slide four, we will take a look on exports by destination. First, in the Brazilian Division, Asia and the Middle East were the main markets in 2018. Together, these regions accounted for 52% of the exports in the period.

As you all know, Asia and the Middle East are recording a consistent improvement in demand for beef. We can attribute this growth to the development and the urbanization of these regions, together with changes in the habits and consumption of the population.

It is also important to highlight two points: the spread of the African swine fever in China impacting in a direct reduction of our pork production. There is an article showing that it is already estimated in 15% the reduction in the total pork herd in China. Also, the natural problems that Australia is facing with drought and floods are also impacting the herd there today, and also compromising it for the future. And this is an opportunity for South America.

Another highlight on the Brazilian Division was the increase in the share of Americas to 15% in 2018, versus 7% in 2017. This 7 p.p. growth was mainly represented by our increase in the Chilean market.

Now, talking about Athena Foods, Asia was also the main export destination, with 36% of the total, 10 p.p. more than in 2017. The reasons are the same ones that we mentioned before.

The second main destination was the Commonwealth of Independent States, especially Russia, up 40% year on year. The result was intensified after Russia banned Brazilian beef imports, rerouting its demand to other exporting countries in South America, especially Paraguay, Argentina, Uruguay and Colombia. Thus, it is very important to be geographically diversified, and this allows us to take advantage of all markets opportunities.

On the next slide, we will comment our performance in the local market. In 2018, we worked hard to optimize our domestic sales. We increased our capillarity, while remaining focused on the more resilient markets, such as small and medium retailers and food service, which comprises bars, snack bars, restaurants, catering and steakhouses. These are the clients that we are serving through our distribution mainly, which accounted for 54% of the domestic sales from the Brazilian Division. This shows the fragmentation and how spread we are in the capillarity that we have.

Resale of third-party products that are not produced by Minerva operations accounted for 38% of the domestic market in Brazil in 2018, and this is another special highlight. The one-stop-shop strategy offers clients a wide range of products, including fish, frozen vegetables, cheese, pork and lamb, among others. This shows that the distribution has the strength to sell not only Minerva products, but also from other industries.

At Athena Foods, our strategy to reposition the processed foods under the Swift brand in Argentina and the sales of fresh beef through our five distribution centers contributed to a 67% increase in domestic sales in 2018.

Minerva and Athena are focused on the more resilient markets, not depending on big retailers, but also spread around the biggest growth that we see in the market, and always searching the highest profitability and consistence,

Now, I will turn the floor to Edison, who will discuss the main financial numbers.

Edison Ticle:

Thank you, Fernando. We will present Minerva's financial and operating highlights, as of slide six.

The gross revenue from the Brazilian Industry Division reached R$2 billion in 4Q18, a growth of 2% when compared to the 4Q17. Athena Foods gross revenue also reached R$2 billion in the 4Q, a growth of 37% when compared to the same quarter last year.

The Trading Division reported gross revenue of R$866 million in the 4Q, a growth of 10% compared to 4Q17. It is important to highlight that the Trading Division comprises revenue from live cattle operations, energy trading and our protein trading business, especially located in Australia.

As I mentioned at the beginning of the presentation, the revenue breakdown shows that each of our two industry divisions, the Brazilian Industry Division and Athena Foods, accounted for 41% of the Company's gross revenue, while the Trading Division was responsible for the remaining 18%.

Let us move on to the next slide to discuss more operational and financial highlights. The Company's consolidated net revenue reached R$4.6 billion in the 4Q, up 16% over 4Q17. On the top right corner, we have our 4Q EBITDA that reached R$463 million, a 27% growth when compared to 4Q17, reaching an EBITDA margin of 10%, up 80 bps year-on-year.

Now talking about the Company's capacity utilization rate, at the end of 2018, we kept the utilization rates around 80%, which we consider to be very close to what we would call ideal level. The Brazilian Industry Division operated at a utilization rate of 76%, while Athena Foods ran at a capacity utilization of 79%. As a result, the Company's consolidated capacity utilization stood at around 77%, 2.2 p.p. over the end of 2017.

Just a correction, Brazilian Industry was at 79%, and Athena Foods was at 76% in the 4Q.

I would like also to emphasize that one of the highlights of our working capital management was a reduction in our inventory cycle, which came from 28 days to 20 days by the end of 2018. Our benchmark for the inventory cycle is around 18 days, and we will pursue this target on the coming quarters.

Let us move now to the next slide to talk about the consolidated figures for 2018. In 2018, net revenue reached R$16.2 billion, with a CAGR rate of 19% in the last four years. As a result, we exceeded our net revenue guidance for

2018 in approximately 1%. The guidance was between R$15 billion and R$16 billion, and we reached R$16.2 billion in the year.

EBITDA reached around R$1.6 billion in 2018, a growth of 22% compared to 2017, reaching a margin of 9.6%, up 60 bps comparing to 4Q17.

Return on invested capital came to 22% in 2018, up 4 p.p. over 2017. In the 4Q17, just to remind you, we started the integration process of the operations that we acquired in South America in 2017, and this integration process had an impact on our return on invested capital level that was above 20%. In 2017, it reached 18%, but during 2018, we were able to manage the integration successfully and it reached 22% during the year.

Finally, in the same slide, you can see the net debt-to-EBITDA ratio that ended the year at 3.9x, a reduction of 1.1x quarter-over-quarter and a reduction of 0.7x year-on-year. It reaffirms our commitment to accelerating the Company's financial deleveraging process.

Let us move now to slide nine to discuss net results. We recorded a net loss of R$92 million in the 4Q after taxes. However, excluding the noncash effect of impairment, monetary correction regarding our operations in Argentina and other nonrecurring effects, especially in the financial results, the net results would turn into a positive R$27.4 million before income taxes and social contribution.

Let us move now to the next slide to discuss the Company's operating cash flow. Operating cash flow reached R$340 million in the quarter. I think the improvement on working capital cycle this quarter was the main contributor to this result, and was mainly due to the contribution of the customer advanced lines under the other payables, which reached R$244 million in the quarter.

We would like to point out, once again, that this line reflects our credit policy, which requires certain foreign clients to make advanced payments before getting our products.

Another positive contribution came to the line inventories, as I had already mentioned, which returned R$187 million to our cash and reduced the average cycle of inventory to 20 days. We were also able to extend our suppliers payment terms at the end of the year, and that had a small positive impact of R$80 million in the quarter.

Let us move now to slide 11 to discuss free cash flow. 4Q EBITDA reached R$463 million, while CAPEX was R$43 million. The cash financial results was a loss of R$298 million, and the working capital variation was positive by R$242 million, leaving us with a positive free cash flow of R$363 million just in the quarter. A meaningful result, especially when you compare to the Company's actual market cap.

In 2018, adjusted EBITDA, including nonrecurring items, reached R$1.550 million. CAPEX was R$189 million, and financial results on a cash basis was a loss of R$953 million. The variation in working capital also gave a positive contribution of R$343 million in the year, so the free cash flow for the full year of 2018 was a meaningful R$752 million.

Needless to say that this good result on free cash flow is an important driver for our further debt reduction and deleveraging process that will take place during 2019.

Let us move now to slide 12 to talk about our important steps that we are taking in order to accelerate the Company's deleveraging process. Just to remind you, last September we presented two actions plans to accelerate Minerva's deleveraging process: a private capital increase and the IPO of our International Division, Athena Foods.

Talking about the capital increase, it was concluded last December with a participation of 91% of the shareholders base, reaching a total capital increase of R$965 million. As expected, given our focus on reducing leverage, the 100% of the proceeds of this operation were used in the tender offer of our perpetual bonds. We successfully tendered 75% of the bonds, or US$225 million of these bonds that were the most expensive debt instrument in our portfolio.

Good to remind you that we are going to exercise the call option that matures in April to buyback the outstanding bonds, around US$70 million, paying par value in April 2019. It will allow us to continue reducing gross debt and also net debt by reducing further financial expenses.

Let us move now to next slide to talk about the Athena Foods IPO. The second step on our deleveraging plan announced last September is the IPO of our international subsidiary, Athena Foods, on the Chilean Stock Exchange.

We have already concluded a number of stages in the initial plan, and in November, we made the first filing with the Chilean Capital Markets Regulatory Agency. We are now just waiting for CMF to give us the greenlight to announce the deal and start the roadshow, probably in April. If we get the greenlight by the end of March, beginning of April, we expect to have this IPO concluded until the end of May.

We also disclosed the Athena Foods income statement with quarterly and 2018 numbers. In 2018, Athena recorded a net revenue of R$7 billion, with an EBITDA of R$490 million, resulting in a margin of 7%. It is important to highlight that Athena's leverage is very close to zero, so the net margin of this company is very close to the EBITDA margin. In 2018, the net result was R$290 million, more than 4% net margin.

Let us move now to slide 14 to talk about capital structure. As I have already mentioned, the leverage measured by the net debt-to-EBITDA ratio stood at around 3.9x at the end of the year. We are moving forward with our plans of further deleveraging process, and we also completed the offer to purchase our perpetual bonds, as we have already mentioned earlier. Approximately, 78% of our debt was exposed to FX variation in the 4Q, with a duration of around five years.

We will continue to focus on the deleveraging process by combining an efficient management of liabilities and free cash flow generation from operation in order to continue reducing our debt.

Let us move now to the next slide of this presentation, to talk about the net revenue guidance. In 2018, we had a guidance of R$15 billion to R$16 billion. As we mentioned earlier, we reached R$16.2 billion, so we exceeded in approximately 1% the guidance, so it was achieved.

And for 2019, we are releasing our guidance of net revenues in a range of between R$16.5 billion to R$17.5 billion. This net revenue’s new guidance is based on an exchange rate of R$3.80 per USD.

To conclude our presentation, I would like to thank Mr. Puzziello that is no longer the Investor Relations Officer. After almost ten years, he is leasing to lead our financial area in Athena Foods, our International subsidiary, becoming again my colleague and helping us with the important task of taking care of our new subsidiary in Chile. So, thank you, Mr. Puzziello, and good luck in your new role.

Let us begin now the Q&A session. Thank you very much.

Julie Murphy, JPMorgan:

Good morning. Thank you for the question. I appreciate the comments about accelerating the deleveraging process, and the next step of that plan being Athena. I am wondering if there are leverage targets that you are currently contemplating? I think we talked about something like 3.5x. And what does targets would be with or without the IPO of Athena, and perhaps timelines? Thank you.

Fernando Galletti de Queiroz:

When we released the deleveraging plan in September, we also shared with the market some sensitivity analysis regarding the amount of the proceeds from the IPO, and what would be our leverage in different scenarios of margin and the size of the IPO.

If you go back to those scenarios, if we are able to have an IPO between R$1 billion and R$1.5 billion, leverage at the end of 2019, according to these scenarios, would be in the range of 2.5x to 2.9x.

We are not giving guidance regarding the leverage, but I think those exercises that was shared with the market are a good GPS for what we foresee in terms of leverage for the end of 2019.

Operator:

And that concludes our question and answer session. At this time, I would like to turn the floor back to Mr. Fernando Queiroz for any closing remarks. Fernando Queiroz, you may proceed.

Fernando Galletti de Queiroz:

Thank you. I would like to finish this conference call emphasizing our commitment to create value for the shareholders by completing the financial deleveraging plan and cash generation through our operational and commercial efficiency, and using our geographical diversification and risk management. I reemphasize the discipline, the focus and the commitment that we have.

Also, I would like to remind you that, regarding the global trade, we will be always looking at the opportunities created by the imbalance between global beef supply and demand, which has consistently benefited South American players, consolidating our position and taking advantage of our region for higher spreads and cost of production.

We will continue focusing our efforts on consistently improving the execution of our business plans, seeking to increase our sales penetration in the domestic and foreign markets, in addition to consolidating continuous improvement in operational efficiency.

Last, but not least, I would like to once again thank Minerva entire team for their efforts and dedication, especially Eduardo Puzziello, reiterating everything that I have just mentioned. Our team allowed the Company to record a remarkable performance in 2018.

I also thank you all for the interest in the company, and we remain at your disposal for any questions or clarification. Thank you very much, everyone.

Operator:

And this concludes today's presentation. You may disconnect your line at this time. Have a nice day.

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