4Q19 and 2019Results
February 19, 2020

Operator:

Good morning. Welcome to Minerva's 4Q19 results conference call. Today, we have with us Fernando Queiroz, Chief Executive Officer; and Edison Ticle, CFO 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, and then we will have a Q&A for analysts and investors, when more information will be given. If you need any information or help, please, just press *0.

The audio is also on the Internet, 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 beliefs and premises of Company's management and on information currently available. They involve risks, uncertainties and assumptions that may or may not happen. Investors should understand that general economic conditions, industry conditions and other operating factors could also affect Minerva's future results and could cause results to differ materially from those expressed in these statements.

I will give the call to Mr. Fernando Queiroz, CEO, who will begin the presentation. Mr. Queiroz, you may begin the presentation.

Fernando Queiroz:

Good morning, everyone, and thank you for participating in Minerva's 4Q19 earnings conference call. Let us begin our presentation talking about our business strategy and the perspectives for the coming year.

Starting on slide two, 2019 was fundamental to consolidate Minerva's business model. The complete integration of our operations, expanding the benefits of our geographical diversification and mitigating commercial and sanitary risks, so common in our sector, combined with our risk management policy, are fundamental pillars of the operational and financial performance the Company has been presenting over the years.

Going forward, we are working to expand competitive advantages, which differentiate us from the market, also with increasing the balanced strategy, implementing new programs on operational efficiency, improving our financial management to seek lower risks and greater profitability.

Also, we focus on people management through training, meritocracy and with great focus on succession and leadership development program combination of factors to impact our industry in the coming years.

The first, the swine fever, which is ASF, that continues to impact meat production in China. It is worth mentioning that the outbreak is not limited to that country. It has spread through Asia and part of Eastern Europe.

Moreover, the structural shift on consumer habits in Southeast Asia, resulting from greater urbanization, middle class expansion and western consumer habits. We also have to add Australia's lowest beef production, one of our main competitors. This landscape results in the opening of new markets for South American exporting countries, such as Brazil, Argentina, Uruguay, Paraguay and Colombia and the opportunity to occupy the gap left by Australia.

New markets, new qualifications are a reality. Given this promising landscape, Minerva's strategy is to continue maximizing our competitive advantages, investing in innovation, risk management and market intelligence to achieve more commercial and logistic solutions, arbitrating markets and waiting for disruptions to become opportunities.

In addition, we have a competitive advantage with our sustainability practices as an important entry barrier for companies that do not follow these standards, opening doors to markets that value environmental, animal welfare and social practices, marking a difference from the main competitors.

In our market consolidation strategy, China is the key destination. It is a market with sustainable growth, growing demand of proteins coming from South America. Therefore, from our JV, our team's local footprint, we can have -- we are able to collect data, information and strengthen ties with clients, consumers in niche opportunities to become a more efficient player. This is a unique moment for the beef industry, and we, at Minerva, are very well prepared to develop and take advantage of these opportunities.

We will now move to slide three, and start our results presentation. On slide three, we progressed on important fronts of our operation, always guided by our efficient management and the sustainability of our business model. All this progress was translated into excellent results for the 4Q and 2019.

Let us start by presenting our cash performance, which is a top priority for Minerva. In this past 4Q, Minerva's operating cash flow totaled R$241 million and closed the year at R$1.8 billion. For the eighth consecutive quarter, we presented positive cash flow generation with R$92 million during the 4Q19, and R$787 million in free cash flow for the year 2019. This is a key indicator, which reflects our operational and financial excellence.

Consolidated gross revenue in the 4Q totaled R$5.2 billion, while in the last 12 months, it peaked to record of R$18.2 billion. The breakdown of our gross revenue among our three divisions resulted in 51% for the Brazilian Industry Division or R$2.6 billion; Athena Foods accounted for R$2.1 billion, which is 41%; and the Trading Division was responsible for the remaining or 8%, R$440 million. Exports accounted for 68% of Minerva's consolidated gross revenue in the 4Q, which is an increase of 19% for the year 2019. Exports accounted for 66% of gross revenue, mirroring the strong international demand for beef and consolidating our strategy to focus on export markets, the most profitable markets.

In the 4Q19, EBITDA attained R$603 million, a record against the Company's historical quarters and a strong 30% growth on annual base. EBITDA margin reaching 12.4%, the highest ever recorded by Minerva and 230 bps higher than the previous quarter. For the year 2019, EBITDA totaled a record of R$1.7 billion with EBITDA margin at 10.2%.

Our operating performance for the year reflects not only the strong demand for beef and positive landscape for the industry, but also Minerva's excellence in managing its operations.

Our bottom line result came in at R$243.6 million in the 4Q19, reverting the accumulated net loss and closing 2019 with a positive net result of R$16.2 million. Beside Minerva's good operational and financial performance, we have to highlight the evolution of the Company's capital structure. Our leverage measured by the net debt-to-EBITDA ratio and adjusted for the proceeds from the follow-on offering was reduced to 2.8x, the lowest ratio on recent years. We ended the year with a strong cash position, which, added to the proceeds from the follow-on, totaled R$5.5 billion.

Also on this topic, our follow-on offering contributed to Minerva's deleverage plan, a commitment made by the Company's management a few years ago. The equity offering, which brought in approximately R$1 billion in new funds to the Company, was a second step on the plan that began at the end of 2018 through the private capital increase of R$965 million, which was complemented with a recent follow-on, in which 80 million new shares issued with proceeds entirely dedicated to the reduction of Minerva's debt.

We would also highlight that in the scope of 2018 private capital increase, there are approximately 121 million outstanding warrants in the market, which represent extra cash flow of roughly R$779 million until the end of 2021, improving our financial flexibility, improving our capital structure and reducing our risk profile.

Finally, I also highlight the Board of Directors approval of a new policy for income allocation, which increases Minerva's ability to pay dividends as effect of its more balanced capital structure and in line with our strategy to generate value to our shareholders.

Let us go to slide four. Let us begin with exports. In 2019, Minerva's ranked the largest beef exporter in South America with a market share of approximately 20%. Our geographical diversification in South America is supported by our 15 international offices. This is an important competitive advantage for Minerva in the global beef market. We are market leaders in Argentina for exports, Paraguay and Colombia and second in Brazil and Uruguay.

Now, let us drill down at the regional performance. At the Brazilian Industry Division, the two main export destinations were Asia and Middle East, which together account for more than half of the division's exports. Asia accounts for almost 40%, an increase of 12 p.p. compared to 2018, mirroring the new qualifications for China, which strongly impacted the 4Q19.

As for Athena Foods, Asia also is its main export destiny, accounting for almost 50% of the division's exports, 10 p.p. higher compared to 2018, impacted by the strong and increasing demand from China.

It is also worth noting the strong demand from Asia, especially China. This is something that has been expanding organically and steadily over the past ten years. In 2019, demand hiked due to African swine fever, causing beef imports to rise, a scenario that is expected to continue going forward, given seriousness of the outbreak and the fact that it has reached Europe.

Finally, the change in consumer habits in the region, especially in China. This is a structural movement that will result in great opportunities for beef exports mainly for South American players. Due to their growing capacity and competitiveness, the JV with Chinese partners, since last October, is expected to begin operations in early 2020, and is important tool to maximize these opportunities and to position Minerva as a prominent player in Asia, especially in China.

I will now give the floor to Edison. He will speak a little bit more about Minerva's operational and financial highlights.

Edison Ticle:

Thank you, Fernando. Let us start at slide five. Initially, I would like to talk about our operating performance on the top left side corner, it is showing the breakdown of the Company's gross revenue per division.

In the 4Q, the Brazilian Industry Division was responsible for 51%, while Athena Foods contributed with 41% and Trading Division with 8% of gross revenue. For the year of 2019, approximately 47% of Minerva's gross revenues was originated in the Brazilian Division, 40% came from Athena Foods, 13% from the Trading Division.

This way, the capacity utilization rate was approximately 77% during the 4Q19, while at Athena Foods, it was approximately 80%. That is on the right side of the slide. We want to talk about the consolidated and installed capacity reached 78% in the 4Q19. We have two new plants accredited since September. With this, the total of agro is 78 in the quarter exported to China, with 26 p.p. at the annual basis. In the year 2019, total to Asia was 43%, 34% to China, compared to 21% in 2018, a growth of 13 p.p.

I would now like to talk about financial and operating results on the next slide. Slide six, please. Let us begin with net revenue results, which peaked R$4.9 billion in the 4Q19, increasing by 5% in the annual basis and 8% compared to the 3Q19.

As Fernando said at the beginning of the presentation, we have an EBITDA of R$603 million in the 4Q, increase of 30% compared to the 4Q18 and 3Q19. Our EBITDA margin was at historical high, reaching 12.4%, reflecting Minerva's good market conditions and operating performance. The EBITDA for 2019 was more than R$1.8 billion, an increase of 13% and the highest level ever registered by the Company.

Now we will go to slide seven, financial leverage. Over the past two years, the Company's management made a very clear commitment with the market to reduce Minerva's debt level. In this context, besides the Company's excellent operational and financial performance and consequent cash generation, we also work towards the improvement of our capital structure.

We initially began with a private capital increase in 2018, which increased our cash by almost R$1 billion, and now we recently raised approximately R$1 billion through a primary equity offering.

Our R$1 billion in January was concluded. As a result, we reduced our leverage to the last year's lowest level. And our net debt-to-EBITDA ratio came in at 2.8x, including the proceeds from the offering.

This slide illustrates the results achieved with this effort over the past few years. In summary, we had a strong EBITDA growth, which increased by 72% since 2015, along with a significant leverage reduction from 4.1x in 2015, even with the effects of the Brazilian real, the currency devaluation and the impact on our gross debt.

I want to highlight additional points. As you may know, we have approximately R$779 million to reinforce the Company's cash position by the end of 2021, which is related to private capital increase and warrants not executed, which will contribute to further improve our capital structure.

Moving on to the next slide, slide eight, we can see the 4Q19, our net income was positive by R$244 million, which allowed us to reverse the accumulated loss for the year. Therefore, Minerva's net income totaled R$16.2 million in 2019. When adjusting these results for noncash effects, such as monetary restatements, exchange rate variations and hedge, the Company recorded a profit of R$325 million.

Now the cash generation. The cash flow from operating activities was R$241 million in the quarter. The main impact on working capital in the 4Q was on the receivables account, and it was just illustrated that 40% of our total sales were destined to Asia, which has a longer cash conversion cycle. For the year, the improvement of working capital metrics allowed us to return to approximately R$370 million. That contributed to close the year with a little bit more than R$1.8 billion of operating cash flow.

Now let us look at slide nine. In the 4Q19, free cash flow reached R$92 million. EBITDA excluding nonrecurring items was R$598 million in the quarter. Investments totaled R$63 million cash basis. Financial result was negative by R$316 million. And finally, working capital consumed, R$132 million, as I just mentioned. Thus, adjusted for nonrecurring items, our free cash flow was positive by approximately R$92 million in the quarter. In 2019, the expected free cash flow result of R$787 million, the highest level ever for the Company.

The buildup of results is as follows: record EBITDA in 2019, R$1.7 billion, with maintenance and expansion investments of R$221 million. Financial results on a cash basis, including the hedge, was R$1.2 billion and a positive variation in working capital needs by R$371 million, which, added to the R$61 million impact of nonrecurring items, amounted to a recurring free cash flow of R$787 million. For the biennium '18/'19, Minerva had an [expressive] free cash generation of approximately R$1.5 billion.

I would like to go to the last slide to talk about our capital structure. As we already said, the leverage ratio measured by net debt-to-EBITDA in the last 12 months, including proceeds from our follow-on offering, was reduced to 2.8x, the lowest level reported in recent years. The Company's cash position was R$4.5 billion at the end of 2019 and was reinforced by the proceeds from the equity offering, hitting R$5.5 billion.

Talking about our debt profile, our USD indexed debt represents approximately 77% of our total debt with a duration of approximately five years. It is worth mentioning that our balance sheet hedge policy requires protection of at least 50% of our long-term exposure.

Finally, at the end of 2019, around 30% of the debt was on short-term. However, considering the proceeds from the follow-on, we will reduce our short-term debt level to approximately 19% over the next month, in line with our commitment to dedicate 100% of the follow-on proceeds to pay down short-term debt.

With this, we conclude our results presentation. I will now give the floor for the operator for our Q&A session. Thank you.

Marcel Moraes, Santander:

Good morning. First question I have is about coronavirus. Could you give us some detail about the coronavirus, the COVID-19? How is this going to impact the 1Q? And in the consolidated of the semester, do you think this might have a price effect? This is my first question.

The second question is about how do you see 2020, the availability of cattle herd in each market?

Fernando Queiroz:

First, I will talk about coronavirus. What we see in China currently is a bottleneck in the port and the producers, so there was a consumption of all the beef that was already in China. The prices in China, in the domestic market are hiking at levels never seen, much higher than October and November when it reached its peak. This is due to the lack of transport from the port to the final destiny. So coronavirus is causing an imbalance between availability.

We must observe that structurally, China continues to be short. They continue needing beef. So if you put the Australia's condition, the situation happening there, it is a question of timing, it is a question of a moment that this effect has in China. So we are following. We have positive information coming this week. And since the 10th of February when the Chinese market started flowing, they started taking things out of the containers. At least we have fixed timing signaling that there is a possible positive recovery.

There are some time gaps, but in macro, China continues short due to the swine fever, due to the terrible situation in Australia and the sanitary issues that they have to solve first.

Regarding the cattle herd availability, it varies from country to country. We have Brazil, very favorable for retention. Our pastures and grazing lands are very positive. Now we must remember that in Brazil, the price is determined by the domestic market, so we follow the domestic market.

Argentina is in a positive moment with some competitiveness, Paraguay also has been very productive, and Uruguay is getting organized and structured. Uruguay is going back to normality with the reduction of the price of live cattle. And Colombia, the same as Uruguay.

So we see that it is quite normal in South America, but the foreign market is going to have a very important weight. This is Minerva's strategy, focus on the external market, foreign market. Most of our income comes from exports, and this is where we begin, that there is going to be an enormous gap and a big opportunity.

Marcel Moraes:

Thank you, Fernando. Could you allow me another question? It is not very clear to me the trading issue, because the trading revenue has shrunk. Could you explain to me how this happened?

Edison Ticle:

It did shrink because of internal exports of live cattle in Brazil. The drop was totally due to the live cattle, and also an important drop in the volume of our energy provider as compared the last two terms. These are the factors that caused trading operations to suffer the reduction that you saw in the 4Q.

Marcel Moraes:

This reduction of live cattle, is there a specific reason? Is this just momentary?

Edison Ticle:

The operation of live cattle has been losing importance for Minerva as well as the market, generally speaking. It is basically arbitrage. And in certain periods, this arbitrage simply is not worth it based on the return on capital. So every trading operation is to deal with the opportunity so there is a possibility of revenue and result which is quite substantial. But it is nothing structural.

And I would not say that it is sort of timely. I would say that it is just a situation of the market, something that happened in the market in the 4Q.

Marcel Moraes:

Thank you.

Pedro Leduc, JPMorgan (via webcast):

With the higher EBITDA, it will be below 2.5x. Is this a trigger for dividends? Does it have to be below 2.5x?

Edison Ticle:

Our new policy for dividends is that to increase the payout of 25% to 50% is whenever the leverage in the end of the year ends equal or lower than 2.5x. So at the end of the year, if it is 2.5x or below, the Board has decided it will suggest an additional dividend of 25% plus the 25% that the bylaws of the Company's demand. So my answer to you is no. According to the new policy, no.

The Board decides on the dividend payments during the quarter. Maybe they might decide to make a dividend payment now at the end of the quarter. If you are going to follow the rule that was approved by the Board, and it has been released, this will only happen at the end of the calendar year.

Isabella Simonato, Merrill Lynch:

Thank you. A follow-up about coronavirus. I would like to get more information about what is being negotiated. In other words, are there things that you holding back? Is there a drop in demand of the Chinese besides the logistic issues that we know? Or is the demand weaker?

And the second question is the capacity in Brazil. We saw a drop in capacity because of the price of the cattle at the end of November. I would like to know if there is any other reason. And how can we think of the use for 2020? Thank you.

Fernando Queiroz:

China has picked up since February 10. So we have seen orders, bids coming from China now. As I said at Marcel's question, we have clear signaling that there is a pickup and normalization of the flow. And this is also in Hong Kong and other markets, which are markets complementary to China.

At the Word Beed Report, they talk about exactly this point, that China is picking up their interest. So besides the fact that we feel this in Minerva, we see this in the market as a whole.

Edison Ticle:

About the capacity, we came close to 80% at the end of the year by capacity building. And in 2020, I think we can get close to 85%. Perhaps this would be the maximum in this industry because there is a time for stopping for maintenance reasons and hygiene reasons. So I would say 85% during this year.

Isabella Simonato:

Thank you. I understood.

Thiago Duarte, BTG Pactual:

Good morning. I would like to ask you two questions. The first one, of the EBITDA margin, the gross margin more specifically, I would like to understand how much do you think that this positive result may be simply due to a gain in inventory, the speed that we saw of the acceleration of the price of beef in the last quarter and also the hike in the price of cattle. So from the slaughterhouse, maybe there is an additional margin due to the speed of slaughter and the increase of price. How much do you think you can return this in the 1Q, because the price has been the opposite of what happened in the 4Q? This is my first question.

The second question is about working capital. I would just like to see what your reading is in that line, which is accounts payable. Just to understand, because it consumed a lot of working capital in the last quarter. Do you think this can improve because the deficit of exports is improving a lot with exports to Asia or not?

Edison Ticle:

On your first question, I will illustrate it with our working capital. It is one of the lowest in the industry. If you see the result of 2018 and 2019, it dropped in Reais. It went from R$690 million to R$610 million. So we do not have a policy to hold inventory to be more profitable and to improve and to have sort of timely opportunities for a better result. No, we do not do that.

The gross margin is, on one side, the cattle and the price of sale. The price went much up of selling beef than the price of cattle. Although there was a panic in the middle of the quarter with an increase, a hiking in the beef price, and this happened. So the carryover to the cost is what happened during the semester. Although the cattle price in average was worse in the third quarter, the sales prices were way ahead, so the margin has expanded.

Having said this, I may state that the 4Q was the first one that we had all our plants accredited to China from Athena Foods. It was the first quarter of 2019. So of course, this allows us to say that 2020, we are going to have a similar performance that we saw in the 4Q, on average.

Obviously, we have to respect seasonality in the year, which the 1H is usually weaker and the margin is worse than the average margin in the year, and the 2H where the margins are better, and therefore the revenue would be higher than the average margin of the year.

Having this in view and having a view of the performance of the 4Q, I would say no, it was not something timely, and we do not have this policy that you mentioned of holding back cattle slaughter. The picture is very close to what we will see in average during this whole year of 2020.

Your second question is about working capital and the receivables account. It depends on the customer's profile. If we sell to more customers that never bought previously, new customers and clients, we will have more anticipated payment. For example, Indonesia. Indonesia has started buying, they are going to start buying with us, their orders through the 1Q and 2Q. So we are going to have a credit policy which is going to be more conservative when exporting to Indonesia.

The others, the system is the same. It continues working based on the risk profile and the story of this Company. The worst situation is, I can tell you is that in 2020, we may have a result which is different from what we had in 2019, so more working capital, but nothing dramatic. It will be totally in line with the natural growth of volume you see from 80% to 85%.

Thiago Duarte:

Thank you, Edison.

Renan Prata, Citibank:

What are the price perspectives for the 1Q? Do you think it is going to drop a lot, the price of beef? Or do you think things will improve as compared to last year?

Fernando Queiroz:

Renan, it is difficult to have a market perspective. What we see is, as I said in my presentation, that structurally, the supply-demand is short in the market, in the international market. The demand continues to expand.

The supply, especially from Australia according to Rabobank, is suffering a reduction of 18%, at least for the year of 2020. So this gap is going to be covered with South America. And you add swine fever. You add the coronavirus that is going to impact the domestic market in China. So you will see that the supply and demand will be very short.

I would like to add something to this. In the market, there is a system of quotas. There is a system of after holidays, post holidays also. So the thermometer is going to be in March.

Edison Ticle:

I would like to make another comment. In the month of February, for example, the export prices in USD as compared to February last year are increasing around 21%. If you look at the prices in Reais as compared to last year, they are growing 40%. The volume month by month in the same period, it shows an increase of approximately 6%. This gives us a good indication of what the 1Q closed as compared to the 1Q18.

João Grandi, Bradesco:

Good morning. Thank you for this opportunity. I have three questions. The first one is, how are you going to export chilled beef to these countries? Also, the problem of coronavirus, and also new orientations.

Fernando Queiroz:

Australia, yes, each country has its rules regarding chilled beef. So we have this very much in our hand in the logistics that we have planned. I can say that the big gap that Australia is going to have is cattle on grazing lands, and unfortunately, it is going to be an opportunity for us.

About China, nobody really knows what is going to happen. Through our offices and our people there, the level of information is very low. We know there has been a big loss because of coronavirus in poultry, and swine fever continues strong. And there is no report, we do not know the numbers. But generally speaking, I would say this only increases the short.

The third question, authorizations. With a gap given by Australia, there are going to be new credentials for South America. We are almost opening our market to the U.S. and Japan. We have other important markets like Turkey as well.

But I would like to highlight something else. What we see is a clear movement of reduction of tax imports for South America. They are controlling the price increase and something else, which is very favorable for us, this tax reduction of imports of the countries we export to, with other countries that have an advantage. So two movements: new authorizations and a reduction on import taxes.

Pallavi Nagia, HSBC (via webcast):

Could you please give us some indication of your long-term target for EBITDA?

Edison Ticle:

We do not give guidance. The idea is that the Company will continue deleveraging. From this number of 2.5x, we will increase the payment of dividends according to the new dividend policy, but we do not want to have a Company under-leveraged. So we believe that a leverage around 2x should have a great target for long-term capital.

Luciana Carvalho, Banco do Brasil:

Good morning. My question is like Isabella's question. With the IPO of Athena Foods, what is your strategy for 2020, 2021 regarding the reopening of plants, continuing the project of Athena Foods? Could you say a few words about this? Thank you.

Fernando Queiroz:

The acquisition of Athena Foods, as it was very clear during the roadshow of the IPO, it would only happen if there is a primary funding in Athena Foods, and this is not going to happen. So there are no plans of acquisition at Athena or Minerva, at least in the next two years.

So the IPO does not change anything, does not change the focus of our Company. We continue focusing on growth opportunities and profitability improvement at domestic level, but there is no project at Minerva or Athena Foods for any acquisition.

Luciana Carvalho:

Thank you.

Operator:

As there are no further questions, we conclude today's presentation. I will give the floor to Mr. Fernando Queiroz for closing remarks.

Fernando Queiroz:

Thank you all for attending our teleconference of the 4Q19, showing how this year is a new phase for cattle in the world global cattle market. We prepared for this moment. Minerva has its strategy, which is very focused on export and have a special new niche.

I would like to thank the whole Minerva team, 18,000 collaborators that brought us to this moment. And also, they are certainly going to take us through the further steps.

And I would like to close saying that our biggest objective is to continue to create value for the shareholders. Our focus is to pay dividends, focused on financial discipline and the improvement of financial structure, and paying more dividends to the shareholders.

Thank you very much, and we are open to any further information you may wish to ask for.

Operator:

The teleconference is closed. Have a nice day.