Material Fact
September 14, 2020

MinervaFoods

Operator:

Good morning, ladies and gentlemen, and thank you for waiting. At this time, we would like to welcome everybody to Minerva's conference call about the Material Fact released on September 14, 20. Today, with us, we have Edison Ticle, Chief Financial 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 need any assistance during the call, please press *0 to reach the operator. The audio and slideshow off this presentation are available through live webcast www.minervafoods.com/ir, and MZIQ platform. This 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 the presentation related to Minerva's business prospects, operating and financial estimates and goals are based on the beliefs and assumptions of 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 lead results to differ materially from those expressed in such forward-looking statements.

I will now turn to the conference call over to Mr. Edison Ticle, CFO and IRO. Mr. Ticle, you may start now.

Edison Ticle:

Thank you. Thank you all for being part of this conference. The idea is to have a quick introduction and open to Q&A. I will try to explain in a nutshell what is the proposed transaction.

Yesterday, we released that Athena Foods is trying to close a proposed business combination with a SPAC, a special purpose acquisition company, listed in the U.S., at Nasdaq. This SPAC has US$200 million in cash and the proposed transaction is to merger with Athena. And, as a result, Athena will be a listed entity in Nasdaq, with US$200 million cash plus US$100 million private investment that will be provided by the SPAC after the transaction.

Athena is valued at US$1.5 billion of equity value, or US$1.354 billion as enterprise value, considering a negative net debt of US$146 million after the conclusion of the deal.

In terms of multiples in 2021, Athena is valued at 5.6x, enterprise value 2021. So far, we have signed a non-binding letter of intent with the SPAC, and we expect to close the transaction, or to release that the business combination will not work in the next weeks, probably in the coming three to four weeks.

Very quick, these are the main details of the transaction. I am available for your questions and doubts. So I think it is more productive to go directly to the Q&A session. Thank you very much.

João Soares, Citibank:

Thanks. Good morning, everybody. Edison, two questions on my side. The first one, I am trying to bridge the equity stake that Minerva will receive from the new company and this US$1.5 billion equity value. According to my methods, it is 25%, you are receiving US$200 million for 25%, but the additional US$100 million from the private placement will not dilute Minerva, only the SPAC shareholders. So this is sort of a US$200 million for a 25% stake, which does not reach the equity value of US$1.5 billion in the end. If you could give us that bridge, that would be very helpful.

The second point, could you provide more details of the SPAC shareholders, where they are from, where they are mandated? Any details would also be very helpful. Thanks.

Edison Ticle:

Regarding the details of the SPAC, unfortunately, because of the confidentiality of the letter off of intent, we cannot open any more information regarding the SPAC.

We had to disclose the nonbinding letter of intent because Minerva is a listed company, and following our fiduciary obligation, we had to disclose all the best available information, especially to Minerva's shareholders. That is why we decided to release a nonbinding letter of intention.

Talking about the valuation. If you go to the presentation on page 28, you will see all the numbers that you asked. But basically, Minerva will have more than 75%. Minerva will have 76.7% in the surviving entity. Minerva will receive US$200 million as a secondary offer, and US$100 million from the private placement will we stay in the cash of Athena? So it is like having US$200 million of secondary and US$100 million off primary proceeds.

If you make all the calculation, and it is totally disclosed on page 28 of the presentation that is in our website, and it is also part of the material fact that were released yesterday, I think you will have no doubts regarding the valuation and all the metrics of the deal.

João Soares:

Thanks.

Barbara Halberstadt. JPMorgan:

Thank you. I have question in terms of your capital structure and how this transaction fits into that in terms of leverage reduction going forward, and which entities you have some growth opportunities you are highlighting in your presentation. How are you thinking about leverage going forward, and reconciling that with this growth opportunity? Thank you.

Edison Ticle:

You are talking about Athena or Minerva?

Barbara Halberstadt:

For both. For Athena and for the consolidated Minerva, since you are doing this transaction.

Edison Ticle:

Okay. Making a simple calculation, if Minerva received US$200 million, considering the exercise of the warrants that Salic will be probably doing during this month, we are going to have a net leverage of something around 1.8x to 1.9x, which is below our 2x long term target, or the long term optimal level that we foresee for the capital structure of Minerva.

In terms of Athena, after the transaction, Athena will be net cash, will be negative debt of probably US$146 million. The growth that we expect for Athena until 2022 will not require additional leverage. The targets that we have for acquisition until the end of 2022, they can be executed only using this net cash that will be in the balance sheet of Athena. So until the end of 2022, we do not expect Athena to have leverage in principle. And Minerva, according to our long term for optimal capital structure, we expect the Company to be around 2x net debt to EBITDA.

I would like to remember everybody that in January we approved a new dividend policy for Minerva that would imply a minimum 50% of net profit as dividend payout for shareholders if the Company, at the end of this year and next year, have a net leverage below 2.5x, which will probably be the case, especially if we concluded this transaction.

So in that sense, at least half of the net profit of Minerva this year will be distributed as dividends for the shareholders. I remember you that until the 2Q, we had almost R$530 million of net profit in the year, so not considering the 2H20. In that sense, following the dividend policy approved by the Board, Minerva will probably have the ability to distribute at least 50% off net profit at the end of this year.

Barbara Halberstadt:

Perfect. Thank you so much.

Guilherme Palhares, Bank of America:

Thank you for the call. I have two questions on my side. The first one is regarding the corporate governance of the SPAC, or Athena. How will it work? Does the company have any the details on that?

And also, thinking about the leverage of Athena, we see that it will be a net cash company, which is different from the profile that Minerva has. So how do you think about it? And if there is any potential of some asset liability management as well. Thanks.

Edison Ticle:

Talking about the governance, Minerva is listed at Novo Mercado. We have the highest standards of corporate governance in Minerva, and Athena will not to be different. There is a governance structure that is being negotiated with the SPAC guys, but what I can tell you is that, obviously, Minerva will the controlling position off the Board, because Minerva will have 76.7% of the company after the transaction is closed.

We are going to have independent members, probably more than 20% of the board will be independent members. And they are going to follow all the Nasdaq rules, all the SEC rules for a company like this being listed in the U.S.

What I can assure is that the corporate governance procedures will be at least at the same levels of Minerva, but probably they will be even better in order to follow the regulatory rules that we have for a Nasdaq-listed company.

Talking about leverage, Athena will have net negative leverage after the transaction. By securing the business plan, leverage will probably continue being very close to neutral. This is very important because this opens the new opportunity for Athena in 2023, 2024 and 2025 to continue growing the business.

So by doing this, carve-out, what we are what we are saying to the market is that the main growth vehicle for Minerva will be Athena. As we have been telling the market, Minerva will become a dividend payer company, so the growth will totally be under the hands of Athena. That is why we see the great opportunity to list Athena in the U.S., to make Athena the most important growth vehicle for Minerva, with a lot of opportunities, a lot of room to leverage and to have a much healthier capital structure in order to continue growing the business, generating value and increasing the return to the shareholders.

So the opportunity off of this business combination is for the medium to the long term. It is to position Athena and to strengthen its capital structure in order to have Athena growing much higher and much faster than Minerva, and more important, to be the real growth vehicle of Minerva going forward, with a much more balanced capital structure than the capital structure that we had him in Minerva until 2018, 2019.

So the idea is to keep leveraging Minerva very close to 2x, as we have already spoke to the market. And in the case of Athena, we have a target that was approved by the financial committee of board of Athena that leverage will never be over 2.5x EBITDA, and the idea is to have in the long term something around 1x and 1.5x net debt to EBITDA.

This will be the capital structure and the leverage profile of Athena for the long term. But in the medium term, as you mentioned, Athena will be net cash, and we will probably use this cash to speed up growth and make more acquisitions in 2022 and 2023.

Guilherme Palhares:

That is very clear. Thank you.

Thiago Duarte, BTG Pactual:

Two questions. The first one, if you create explore a little bit the strategic value about the idea of making acquisitions outside South America, particularly Australia, as you guys put in the business plan in the presentation. So just if you could explore a little bit the rationale. It is a different mindset from what you have been doing for many years. It would be interesting to hear the benefits and the opportunity that you are seeing in Australia in particular.

And the second question, it is actually a follow up from the discussion about the capital structure of Athena, if there is already any sort of dividend policy that you are targeting for Athena so that you could combine the M&A pipeline and dividends within that 1x to 1.5x leverage range that mentioned in the previous question.

Edison Ticle:

Talking about the capital structure of Athena, the minimum dividend policy is to pay at least 25% of net profit. We have not discussed a new dividend policy in Athena yet. Obviously, we are waiting to have this deal closed, to have a new Board. And then we will obviously have a discussion regarding dividend policy, but it is not something that we have already done. For now, you can see that 25% of net profit as dividends.

Talking about Australia, the rationale behind Australia to build a real global beef company. Having diversification in terms of origin is key in this business, especially to supply the main growing areas in the world that are Asia for us, and second, Middle East, growing areas in terms of demand of protein.

So the rationale behind going to Australia is to diversify further to another important origin that is specialized in niche markets. And we believe that using our commercial channels, especially in Asia and Middle East, would allow us to extract a lot of value from acquisitions in Australia.

You have seen in the presentation, we are targeting not only beef plants, but also, and most interesting, lamb plants in Australia. Our partner, Salic, they have a lot of activity in farming in Australia, especially in the lamb sector. So it could be a perfect partnership for Athena to have lamb plants in Australia, to be able to source them more directly with our partner, and export the Middle East and also to China using much more efficient commercial channels that we have and that we established by being, as a as a group, one of the most important export there is of beef and red meat to the Middle East and also to Asia.

So the opportunities that we see in Australia are related to consolidate further the market in lamb and beef, extract commercial synergies using our commercial channels, and third, benefit benefits and leverage our future lamb operations in Australia with our partner in Minerva, Salic, which is in the farming business in that country.

Thiago Duarte:

Thank you, Edison.

Andrew de Luca, Barclays:

Thanks for taking the question. Just going back to Barbara's question a little bit earlier, at Minerva level, you guys have always talked about the internal targets are based on net debt, but if we look at the gross leverage, it is still relatively high. Can you just remind us how you think about your gross leverage? And does it make any sense at this stage to consider reducing the amount of gross debt that you have? Thanks.

Edison Ticle:

Yes, it makes a lot of sense to reduce gross debt as well. We have been carrying a lot of cash because the financial risk of the Company, when the leverage is a little bit higher than what we expected for our optimal capital structure makes the financial risk of the Company higher.

In that sense, it makes sense to keep more cash. It is not the case anymore in Minerva, so you can expect cash and gross debt to be reduced in the next 12 to 18 months.

However, we have a minimum cash policy in Minerva that would imply a minimum cash of around R$3.5 billion to R$4 billion today. So you can expect a cash reduction of at least R$2 billion in the next 18 months that will imply almost one turn of reduction in terms of gross debt to EBIDA.

Andrew de Luca:

Great. Thanks very much.

Fernando Luiz, Trópico Investimentos (via webcast):

Edison, what are the risks of this transaction not to be concluded?

Edison Ticle:

As we mentioned, we just signed a letter of intention with the SPAC guys. There are some conditions that might be met in the coming weeks in order to conclude the transaction. Remember, this is a business combination, an M&A transaction, so you have a lot of clauses to be negotiated.

From the SPAC side, they have to approve the transaction with their actual shareholders. They have the goal to raise US$100 million in a private placement. So they have their own challenges to go ahead and be in a position to close the transaction.

As we mentioned in the Material Fact, there are lots of risks in the short to medium term to conclude the transaction, but thinking about giving our shareholders and investors the best available information regarding the strategical move that we are doing in Minerva, we decided to release this letter of intention.

So there are many ways for this transaction not to be concluded, but obviously that we are in the position that the majority of the negotiations were already done. So we expect that we can have good news regarding the transaction in the coming weeks.

Ivan, Credicorp Capital (via webcast):

What will be the use of proceeds of the US$200 million at Minerva? Bond buybacks?

Edison Ticle:

The US$200 million that will go to the Minerva's cash will be used to pay down debt. We do not know which debt, or if we are going to buy back bonds. It was not discursive yet. But the idea to use a great part of this cash to pay down debt and reduce leverage at Minerva level.

Lucas Ferreira, JPMorgan:

My question is regarding the potential valuation of the acquisitions you plan to make. Looking at the numbers, if I am not mistaken, you are targeting to pay something like 4x, 4.5x EV/EBITDA for these assets. So if you can comment if this is the valuation range you are looking for in Australia. I honestly do not know much about the valuation of lamb assets if that is the case. That would be my first passion.

And the second question is a follow-up from a previous point, which is, you are going to have 76% of Athena after the transaction. Is the target of the Company just to keep the control, 76% plus 1% of the shares, so that means that you could further dilute Athena, or you could even sell shares in the future if that is the case, thus giving also more flexibility to Minerva to raise further capital without impacting too much the balance sheet going forward?

Edison Ticle:

The first question, regarding the multiples of our acquisition in Australia, the CEO of Athena is Mr. Iain Mars, he is the former CEO JBS Australia, so he was responsible for practically building up the operations of JBS in Australia. So he knows very well the lamb and beef markets in Australia.

Those multiples are based on conversations that we have already taken with a couple of targets in that country. If you take a look at the presentation, I think we have almost ten targets, with sizes and some general information about them.

So the multiples are based on the conversations that we have been taking. You could ask why would we not go ahead with the M&A with our own capital, and the answer is fair, and it is very basic: the main priority of Minerva in the next couple of years, this year and next year, as we have exhaustively exposed to the market, is to reduce leverage and to put the Company in a much more sustainable and optimal capital structure that would imply in an average closer to 2x.

In that sense, the cash that we were generating from operations would not be used for acquisition, it would be used to pay down debt, and that is exactly what we have been doing in the past eight to ten quarters.

So even though it is a great opportunity to make this type of acquisition at this multiple, at this valuation, especially considering the ability that Athena Foods team has to integrate business at an attractive value, it is the history of this company for the past ten years. In the first five years, we employed more than US$500 million in acquisitions. We were able to increase margin from 5% EBITDA margins to more than 10%, 11%. It is a proven track record of this management team.

Anyhow, because of the priorities regarding capital structure at the parent company, we would not go ahead with any M&A that would compromise our leverage targets in Minerva.

Sorry, what was your second question, Lucas?

Lucas Ferreira:

If you can further divest or dilute at Minerva, your stake of 76%.

Edison Ticle:

No, the idea is to keep that 76.7% stake at Athena. We do not have any intention to further dilute or divest. We strongly believe Athena is a great business. It will be the main growth vehicle of Minerva if we get this deal done.

Lucas Ferreira:

Thank you.

Edison Ticle:

I received the question from André, from Itaú. He asked what the timeline and milestones are to conclude the transaction.

As I have already mentioned, the timeline is probably a couple of weeks, three or four weeks. We will be in a position to close the transaction or to give up this transaction.

The milestones are much more related to the SPAC side than to Minerva's side. From our side, everything that was required to be done was done, it is complete. So it is a matter of concluding the requirements, specially societary requirements and the private placement requirements on the SPAC side.

Bruno Lima, Exame Research:

Is there any strategic benefit regarding the profile of the SPAC guys, or are we talking about a financial partner only? Thanks.

Edison Ticle:

They are basically a financial partner. However, they have a track record on Latin American, and also on the on the food and agribusiness. So they bring to the Company a good experience on dealing with this type of project and this type of company.

They will be Board members as well. So their previous experience in Latam, and also in the food and agri, will also help to manage Athena Foods after the merger and the listing at Nasdaq.

Operator:

Thank you. This concludes the question and answer session. At this time, I would like to turn the floor back to Mr. Edison Ticle for any closing remarks.

Edison Ticle:

Thank you all for participating in this conference call. We are totally available for any additional doubts or questions, our IR team and me as well.

We continue having the commitment to give the market the most important and available information regarding this deal. So as soon as we have any news regarding the evolution of the negotiations, we will come back to the market and make you know everything, all the details, given the commitment that we have with all investors and shareholders.

Thank you very much. Thank you for your time.

Operator:

Thank you. This concludes today's presentation. You may disconnect your lines at this time. Have a nice day.

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