



**Operator:**

Good morning everyone. Welcome to Frigorifico Concepcion 2Q22 earnings conference call

Joining us today are:

Jair Antonio de Lima – Chairman

Pedro Pascutti – Vice president

Jorge Usandivaras – Director

Renan de Lima- Director

Today's call is being recorded and all participants will be in a listen-only mode during the Company's presentation.

At the end of the presentation there will be a question-and-answer session.

Should any participant need assistance during this call, please press (\*0) to reach the operator.

Please remember that forward-looking statements regarding the company's business outlook, projections, and the company's growth potential are merely assumptions based on management's expectations regarding the company's future operations. They involve risks and uncertainties because they relate to future events and therefore depend on circumstances that may or may not occur.

The presentation of this call is available at <http://ir.concepcion.group/>

Now I would like to turn the conference over to Jair Antonio de Lima. Please, go ahead, sir.

**Jair Antonio de Lima:**

Good morning to everyone present in this meeting. I would like to present to you our financial statement that is one of the best in the last years and it's a great pleasure for me to have you on this call.

And we want to thank very especially all our investors that are always present with us since we launched these bonds.

**Jorge Usandivaras:**



We are going to continue, this is Jorge Usandivaras speaking, I'm with Yolanda Escobar and the financial team and we're going to keep this presentation short in order to allow for questions and answers at the end, either with Mr. Jair or anybody on the Concepcion team.

So, to start I want to turn to the first page of the presentation, number 3, and I want to remark a couple of things on this slide. This is the second quarter of 2022, this is the quarter of the beginning of the Russian and Ukraine war, this is the beginning of a number of changes in international policy, this is a quarter of crisis, yet this is the best quarter that Frigorifico Concepcion ever had. If you look at the top of the page, we have 266.1 million in revenues for the quarter that adds to the US\$ 215 million of revenue on Q1 and the combination of the two is US\$ 481 million at the end of the semester. Many of you will remember that we set a goal for the company in the order of US\$ 900 million of revenue and US\$ 90 million of EBITDA for this fiscal year and these numbers at the end of the second quarter show that we are very much in line with what we expected and most likely we are going to not only meet, but also exceed the expectations.

On the EBITDA side and, again, I'm more than open, we're going to review these numbers throughout the presentation, but I'm going to keep it short as I promised. On the EBITDA side for the quarter, 42.7 million adding to 25 million in Q1, we are in 67.7 million of EBITDA and that has an enormous impact in our leverage ratios and I want to bring the attention to the gross leverage that went from five times at the beginning of the year to 3.7, which is very much in line where we want to be. To be honest with you, I never expected that we would achieve this number on the second quarter, I had an expectation of one or two years when we issued the bonds last year. So, everything in terms of acquisition has gone fantastically well, in terms of markets, prices and the extraordinary effort made by our operational teams, both the export side that was replacing Russia as a market and on the other technical side, that is, putting in plant all the new acquisitions, put into function all the new acquisitions that we have in Brazil.

I will go to the next page, page 4. I want to highlight a couple of things, especially the center chart, center up, last 12 months we are getting very close to where we want to be, 41.4% compared to the similar period of last year, US\$ 839 million of revenue if you count 2Q21 to 2Q22. On the export mix, if you look at the lower pie chart, the lower side of the page on the left you see a couple of things that are maintaining its presence and a couple of things are changing. If you combine Taiwan, that is our exports from Paraguay with mainland China, that is our exports from Bolivia, the two are adding to 21% of total exports. Brazil and Chile are 29.3% of total exports. So we are, up to this point in the year, we are with the one-third, one-third, one-third that we talked many times in the past, one-third was Asia, one-third was Latin America, the other third was Russia. Now the picture is misleading, because Russia still shows 23%,



but it has declined dramatically to almost nothing. What you see in the quarter is a number of orders that were backlogged that we made a big effort when they were delivered to collect the payments, but all these orders were placed November, December of last year and ended up being paid by the second quarter.

In the other category, you see growing is a number of small countries, but there are some that are remarkable, some we have in the pie chart, some are not. Kuwait and Israel are highlighted, but also we have Hong Kong in the other section, 18.8%, Hong Kong, Italy, Saudi Arabia, Vietnam, those are very promising markets that are growing rapidly, while we all wait for the opening of the United States. One last thing that I want to remark on this page is in exports, Concepcion is a big export company, it has been a great quarter, US\$ 100 million worth of exports throughout the three countries that the plants are located, but you also see an increase 85.7 million in domestic sales that has to do with the plants that start operating in Brazil, it has to do with the new pork line that is largely domestic sales and this will ring, again, it's a small number compared to the overall operation, but in order to have this local domestic sales running, we are going to tap into domestic markets in local currency in order to match the leverage and the size, that's something that we can expand greatly during the Q&A.

I will move to page 5, I really want to highlight one number that is 94.6% of slaughter capacity utilization. This is not normal. We have talked a lot in this conference about capacity utilization, it should be between 70, 80%. We have gone almost full capacity for a number of factors and part because Bolivia has to attend a seriously increased demand, Paraguay had to attend increasing demand in all fronts, domestic and international and Paraguay had relatively good weather during the second quarter, allowing trucks moving and cattle being delivered to the plants. So that has brought the capacity utilization up to the roof. For those that follow this regularly, you see that this is a much, much more higher percentage than normal.

Page 6, we are back to EBITDA for the quarter marching US\$ 97 million in the last 12 months, US\$ 42.7 million in the last quarter, good margins had to do with the price of cattle and with the price of exports as always and we're going to talk about it a little bit before we finish.

Page 7, net income has also come up for the quarter and for the last 12 months, for the quarter, 31.5 million, for the last 12 months 57.2.

Finally, at least on my side, I want to highlight the debt profile. You can see a little bit more of local banks and you're going to see a little bit more of local bonds in the source breakdown and the currency breakdown, because we are launching a series of local debt programs, mainly bonds in the domestic market, very small in size. We



expect one in guaranis that is going to be between US\$ 5 and 7 million in the month of September, we are going to see some small dollar in denominated programs in Bolivia and very small real denominated programs in Brazil. We just want to tap the local markets, we want to be present there, but again, in terms of size it's going to be very small and very targeted in terms of interest rates. We are not looking to expand the debt base, we just want to have a presence and to have a small currency hedge associated to the domestic states.

That's all on my side. I really want to open today to Q&A, maybe I bring you to page 10 to talk about other things that's not specifically financial, two are, but three are not. On the financial side, Fitch has maintained the B plus rating, has been reaffirmed in the last review, June 29. August 9, S&P reaffirmed also the rating but with the positive outlook we do expect S&P to give us an upgrade in the next review. And the way that things are going, probably Fitch may change its stable grading and qualification. We have Renan de Lima on the line, if you want to expand on the rating that we got during this quarter from Sustainalytics. It's the first time that we engage in this process. It was promised at the issuance of the bond to be delivered before December of this year, we got it almost six months earlier than we agreed with all the investors and we have a slightly increased rating on Sustainalytics and we are getting into the process and hopefully this is going to get better and better over the years. It's not only... this is like exams in high school, part is substance and part is technique. In terms of substance, we think we are doing the best we can, we are way above any Paraguayan company, industrial company, in terms of (inaudible), in part we need to learn to comply with the requirements that are very strict of Sustainalytics, that is producing documentation and making that public.

Also you will see in the pictures Mr. Jair and Mr. Renan, we have got a number of prizes locally in Paraguay, Top of Mind, Employer of the Year and there is a little bit of a bell for the local stock market on the issuance of the Paraguayan bonds. I want to leave it at this point. One more word from Mr. Jair de Lima as a closing and after that we go to Q&A.

**Operator:**

Thank you. The line is now open for questions. If you wish to ask a question, please press \*1 on your touchtone phone now. If at any time your question has been addressed and you would like to remove yourself from the questioning queue, press \*2.

Please note that a translator is in the room translating all questions and answers. There will be brief moments of silence to translate the questions. We will now pause momentarily to assemble our roster.



Once again, if you want to ask a question, please press \*1 and wait for your name to be announced.

Ladies and gentlemen, please hold while we assemble your questions.

Our first question comes from the webcast. The first one is: “Any export invoices in Russia left unpaid?” And the second is “How quickly and to what markets you estimate you can redirect the 20% of exports previously directed to Russia?”

**Jorge Usandivaras:**

As has been clearly stated, there are no pending payments from Russia whatsoever, by now all the deliveries were paid. So all the Russian deliveries have been redirected by now, Chile, Brazil, Russia, Israel, Saudi Arabia, Italy, Europa but we are expecting the opening of the United States market. And you will see in the next quarter that that 29% is really orders that came four or five months prior to the second quarter, by now it has been reduced to a trickle.

All the requirements by the United States, USDA and Korea has been fulfilled not only by Concepcion, but also by Paraguay as a country, and we are expecting the final stages that are more like administrative, not sanitary, to start exporting to those two countries.

**Operator:**

Thank you. Ladies and gentlemen, please hold while we gather more questions.

“On the back of the new plants operating in Brazil and the additional sales to Chile, by how much has your billing cycle diminished in days, end of 21 to end of 2Q22? Thank you.”

**Yolanda Escobar:**

Our net operating cycle was reduced, in the last year was 120 and now we are in 112 days. Our sales outstanding was in 2021 79 days and now we are in 75 days.

**Operator:**

Thank you. The next question is from Omar Zeolla, with Oppenheimer. “Hello, congrats on the good quarter. Is the 16% EBITDA margin sustainable for the rest of the year, was there anything particular to the second quarter that resulted in the high EBITDA margin or just high utilization and favorable cattle and export prices? Thank you.”



**Jorge Usandivaras:**

Omar, yes, they are sustainable and on two counts: number one, we are by now in mid-August, end of August, we see capacity utilization as rarely we see and also we have all the Brazilian plants coming into line and all the pork plants coming into line, so even if capacity utilization goes down a little, we are going to see increased revenue and increased margins during the more production because we have more plants operating.

**Operator:**

Thank you. The next question comes from Gabriel de la Esperanza, with Goldman Sachs. "Congratulations on the great EBITDA growth, how do you think this deleveraging will affect the path to a potential upgrade by the agencies?"

**Jorge Usandivaras:**

Well, that is the key. In our conversation with both S&P and Fitch, there is enormous focus on deleverage and if we get soon, and we are getting much sooner than expected to the levels that the rating agencies want, I need to remark that we feel like they are below the industry, the industry is more four to one, but they expect us to be more in line with three to one, that would lead to an upgrade for sure.

**Operator:**

Thank you. Our next question comes from the telephone, it comes from Carlos Lopez with Bank of America. Please, go ahead, sir.

**Carlos Lopez:**

Hi, Jorge, congratulations again on the great results, on the last question, when do you expect your EBITDA to be below 3 times, so what do you expect for the year end at this running rate?

**Jorge Usandivaras:**



We should be in the order of 3.5 according to projections, maintain the 3.5, 3.6, slightly lower than the second quarter.

**Carlos Lopez:**

Okay, thank you, Jorge.

**Operator:**

Thank you. Our next question comes from Eliseu Santi : “The BMG sales in Brazil are accounted as local sales? What was the volume sold this quarter? Can you expect EBITDA levels and margins similar to this quarter in the second half?”

**Jorge Usandivaras:**

With the last part of the question, yes, I expect the EBITDA levels to continue for sure in the third quarter and most likely in the fourth quarter. With BMG, Yolanda is going to give us the details.

**Yolanda Escobar:**

The BMG sales are accounted as a local sales because all the sales was in Brazil, in the local market, and we didn't start to export, we are looking for the designs for export our new unit in Iporã, that is our fourth plant, and the other plant, in Grão Pará, the other pork plant.

**Jorge Usandivaras:**

As of end of June, today we are exporting out of Brazil, pork more than beef, but in the next quarter you're going to see the Brazil exports. It's the logical process of starting these plants and putting these plants into line. We started selling in the local market and then we fulfill all the requirements of the more, much more stringent international markets. But all that is happening as we speak and you're going to see that more clearly in the third and fourth quarters.

**Yolanda Escobar:**

About the (inaudible) in this quarter, we have more than 30% than the last quarter.



**Operator:**

Thank you. Our next question comes from Luis Sartori, with Regional Casa de Bolsa. “How do you guys see the U.S. market as a target? When do you think it will be open? Thank you.”

**Jorge Usandivaras:**

As a potential target, 15 to 20% of the Paraguayan exports from our industries. The United States imports under two different regimes, one is with a quota, the quota has no taxes or import duties attached to it, and when the quota is met, there is a possibility to continue importing from the United States, but there is a tax associated to the imports and that makes the profit margins lower.

The expectation is going to be that the first part of the year, while we import under the quota, there will be better prices and the second part of the year, any given year, I’m not talking 22, the second part of the year, when the quota is met, is a lower margin business.

I believe Korea is going to be a much better market for two reasons: one because they don’t have these quota systems and also because they import more than the United States, the demand is higher.

In addition to that, Korea is an importer of industrialized products, that is, tendons and tails that are cooked in beef broth and this export is already processed here in Paraguay and has a high value added. In addition to that, beef in nature that will be sent to Korea and the expectation is the volume is going to be even higher than what we can send to the U.S.

Paraguay has advanced very rapidly with Korea and maybe the opening of the Korean market happens before the United States. These are government to government negotiations, this is not exclusive to Concepcion.

**Operator:**

Thank you. Our next question comes from Omar Zeolla, with Oppenheimer: “How much in capacity is coming into operation during the second half of this year? Is Vila Bela in operation and the pork processing in Iporã coming on line or already operating? Thank you.”



**Jorge Usandivaras:**

Omar, Vila Bela is still not operating, Iporã is operating as of end of July, and the target for us is always 70% of capacity utilization, so once we have them, that's what we're going to aim to, we're going to have better and worse quarters, this is a particularly good time, but we should be in the order of 70 to 80%.

**Operator:**

Thank you. The next question comes from Eliseu Santi: "Regarding the indirect control in subsidiaries, did you receive cash flow from there and dividends?"

**Jorge Usandivaras:**

No, the answer is no for two reasons. We have a policy that applies to the entire company of non-dividend distribution until we balance all the debt leverage and in particularly this bond issuance; two, because the plants in Bolivia and Brazil are very new and they demand operating capital that is supplied from us in Paraguay and over time we're going to replace part of that operating capital with local funding. So, for those two reasons the answer is no, it's not dividend distributions up the chain and it's not going to be dividend distribution up the chain because eventually they're going to need to repay some intercompany loans.

**Operator:**

Thank you. Our next question comes from Omar Zeolla, with Oppenheimer: "With improved results, would you expect free cash flow to turn positive before 2023, as many investors and rating agencies expect?"

**Yolanda Escobar:**

Yes, we expect to have a free cash flow positive maybe for May of 2023 but it depends on we going to be grown up in Brazil with BMG foods, because when we start a new operation we need a lot of working capital to start the operation and we believe that we are now in a grown up situation, especially in Brazil, but for that we expect we have in the middle or the end of 2022.



**Operator:**

Thank you. Our next question comes from Gabriel de la Esperanza, with Goldman Sachs: “Can you please provide an update with regards to the opening of the U.S. market?”

**Jorge Usandivaras:**

Well, the signing of the USDA inspections are completely done as of July, we are only waiting for the bureaucratic process that has to do with Department of Commerce that establishes the quotas and the process and the paperwork. We are ready, we even opened an office in the United States with the expectation of having a small trading operation out of the country, so we are just waiting for, I would say it's mainly Department of Commerce that needs to give us the go.

**Operator:**

Thank you. Our next question comes from Erik Berg, with BTCO Securities Inc.: “What are your expectations in terms of the U.S. market in terms of product and volumes?”

**Jorge Usandivaras:**

Quick translation, the expectation for the market for Paraguay in the best case will be 20,000 metric tons quota. Brazil is 60,000 metric tons quota. Once you surpass the quota, you can continue selling, but at a lower price because it's an incidence of the 26% import duty. And, again, reinforcing that Korea, that is an 800 thousand ton market, it would give more opportunities to Paraguay, as is currently giving Argentina.

In addition, the Brazilian plants that we start operating now, they will have a certification for U.S. and China and also Korea, so that is also an avenue for Concepcion to start tapping in those markets, but from Brazil instead of Paraguay.

**Operator:**

Thank you. Our next question comes from Philip Kendall, with Schrodgers: “Can you give us some more color on cattle price dynamics in Paraguay and how do you see margins for the rest of the year?”



**Jorge Usandivaras:**

September to November is regularly a time of the year that you have a price increase and we expect this year is going to be no difference and it may have an incidence in margins, but normally is corrected within the next one or two quarters on the exports. This is very standard, not only in Paraguay, Brazil, Argentina and, again, it comes the higher cattle prices with the higher beef prices that we will collect in the cycle, that is, as Yolanda said, 120 days.

**Operator:**

Thank you. Our next question comes Erik Berg, with BTCO Securities Inc.: “How does BMG fit in the Concepcion Group’s strategy?”

**Jorge Usandivaras:**

So, the idea is that the goal is for end of 2023, BMG will have the same revenue potential as Paraguay.

**Operator:**

Thank you. Our next question comes from Sandra Bozovic, with MMG Bank: “Are you still able to sell and collect in the Russian market?”

**Jorge Usandivaras:**

We are not selling at the moment to Russia, collection, yes, we’ve been able to collect every single shipment. One of the things we changed is not delivery, the delivery is upon full payment, when the shipment arrives to Europe, but again, at the moment sales are coming down to close to nil.

**Operator:**

Ladies and gentlemen, please hold while we collect new questions.



Our next question comes from Erik Berg: “Given the 95% capacity utilization, can we expect Capex in Paraguay to increase slaughtering and processing capacity or will additional demand be met by BFC and/or BMG output?”

Ladies and gentlemen, please hold while we have our translator do the questions.

**Jorge Usandivaras:**

It’s cyclical, you know, the weather, the rain, the access to, I mean, remember roads are not particularly good in this part of the world, trucks may not get to the plants, there is many factors that have incidents on the capacity utilization. Again, the target is 70% to 80%. Now we are above the target but we need to have excess capacity to absorb excess supply.

**Operator:**

Thank you. Our next question comes from Jenny Gimenez, with Banco Aliado: “Good morning. Please indicate a percentage of exports that Russia will have at the end of December 2022.”

**Jorge Usandivaras:**

When you look at the whole year, it should be in the order of 10%, maybe a little higher than that, but it’s coming down dramatically and unless something happens that I cannot envision, the war ends, the sanctions are lifted, something like that, but today it’s almost impossible for us to send a shipment of containers, because there are no shipping lines that would take.

**Operator:**

Thank you. Our next question comes from Ignacio Ponce-Ocampo, with Altio Capital: “Your expected EBITDA margin for the whole 2022 is expected to be above 13, 14%?”

**Jorge Usandivaras:**

We don't know, the answer is we don't know. We always aim to get there, there is no business of interest if it's below two digits and we love to be in the low teens but, you



know, we are part of the industry and we recognize that we are having higher margins than the rest of the industry.

**Operator:**

Ladies and gentlemen, this concludes today's question and answer session. I would now like to turn the conference over to Mr. Jair Antonio de Lima for closing remarks.

**Jorge Usandivaras:**

We continue growing and we continue fulfilling the targets that we set upon the bond issuance last year. We really want to thank you for being with us as investors. Thank you very much and I may add on my own, the Investor Relations team is open to any additional questions that you have. We always have time for one to ones to all of you. We see you next time.

**Operator:**

That does conclude Frigorífico Concepción's conference call for today. You may disconnect your lines now. Have a great day.