1Q21 Results
May 5, 2021

MinervaFoods

Operator:

Good morning. Welcome to Minerva's 1Q21 results conference call. Today with us we have Mr. Fernando Galletti de Queiroz, Chief Executive Officer; and Mr. Edison Ticle, CFO and Investor Relations Officer.

We wish to inform you that this event is being recorded and all participants will be on listen-only mode during the Company's presentation. Next, we are going to start the Q&A session for analysts and investors, when further instructions will be given. If you need any assistance during the call, please press *0 to reach the operator. If you are participating via webcast, please send a message in the appropriate field.

The audio and slideshow of this presentation are available through a live webcast at www.minervafoods.com/ri. In this address, you can also find the presentation for download from the webcast platform in the Investor Relations section of the 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 assumptions of the Company's management, as well as 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.

We would now like to hand over to Mr. Fernando de Queiroz, CEO, who will begin the presentation. Mr. Queiroz, you may start the presentation.

Fernando Galletti de Queiroz:

Good morning, everyone, and thank you for participating in Minerva's results conference call for the 1Q21.

Minerva Foods started the year of 2021 with a solid operational and financial performance, reflecting the resilience of our team, our quick ability to adapt to complex scenarios, and especially, the consistency of our strategy that combines operational and financial discipline with profitability.

In this 1Q21, we consolidated our position as one of the main players in the global market, and leader in the export of beef in our continent. The focus on operational execution, combined with our financial discipline, our risk management model, were fundamental for Minerva Foods to reach the good results of the 1Q with profitability, cash generation and a solid balance sheet.

Coping with the pandemic, it continues to generate greater complexity and volatility to the market. However, it is at times like this that our geographic diversification plays a fundamental role in our strategy, reducing risks, but also expanding opportunities, and thus consolidating the importance of our export platform from South America.

In this sense, I want to highlight our ability to arbitrate in the market, accelerating and decelerating operations, maximizing results and neutralizing risks and volatility.

Despite the traditional seasonality of the beginning of the year and the important challenges still imposed by the pandemic the 1Q21 was yet another quarter with good export performance.

The global beef market remains very heated and continues to be driven by both the consistent Asian demand and the beginning of the cycle of resumption of consumption worldwide, as vaccinations progresses.

We also have an upsurge in African swine fever, with new outbreaks of contamination in China and other Southeast Asian countries, in addition to Eastern Europe, further amplifying the supply shock and imbalance in the global animal protein market, and providing more and more opportunities for exporting countries.

Given this context, the global scenario remains very attractive for the coming periods, which, combined with the advance of vaccination against covid-19 and the consequent resumption of the world economy, should further encourage the strong international demand for beef directly benefiting South America and consolidating the region as a major supplier of bovine protein to the world.

Let us move on to slide two to start the presentation of our results. Let us start with net income, which reaches approximately R$260 million in the quarter, totaling R$685 million in the past 12 months. Minerva continues, quarter after quarter, delivering solid results, and in line with our strategy of creating shareholder value.

Free cash flow, one of our priorities, was positive for the 13th consecutive quarter, totaling R$309 million in the 1Q21 and accumulating R$1.3 billion in the past 12 months, reinforcing Minerva Foods operational excellence and financial discipline. Since 2018, the Company has accumulated almost R$4 billion in positive free cash generation.

Gross revenue reached R$6.1 billion in the 1Q21, and R$22.2 billion in the past 12 months. In this context, I want to highlight the performance of our exports, which accounted for approximately 68% of gross revenue, both in the quarter and in the accumulated over the last 12 months, a natural reflex of the strong demand for the international market and the great location of the Minerva Food in beef export.

Still on profitability, on 1Q21, our EBITDA, even in the face of market challenges, reaches R$485 million, a strong growth of 27% in relation to the previous year, and the highest historical level for the period.

In the accumulated result of the past 12 months, another record was broken by our team, with Minerva's EBITDA totaling R$2.2 billion, an expansion of almost 25% on the annual basis, and delivering a solid EBITDA margin of 10.7%.

As in the previous periods and confirming Minerva Food's discipline in its financial management, another major highlight of the quarter was the solidity of our balance sheet. We ended 1Q21 with leverage measured by the net debt over EBITDA indicator at 2.4x, a reduction of 0.5x compared to the 1Q20. Our cash position remains very comfortable with R$6.4 billion at the end of the period, which guarantees us a great deal of tranquility and flexibility in the face of challenges and opportunities of the times.

Still talking about our balance sheet, I want to highlight the efforts that we continue to make in managing our liabilities. Since the beginning of the year, Minerva has been working on initiatives to manage financial liabilities, such as the buyback of bond 2026 and the issuance of bond 2031, which significantly reduced the cost and also extended the term of a relevant portion of our indebtedness, thus restating our commitment to capital discipline.

Other initiatives were implemented with the same goal, to improve our capital structure. Throughout our results presentation, Edison will bring a bit more detail on those efforts.

In this quarter, we also advanced in our corporate venture capital strategy, with investment in the online retail platform Shopper and also with the development of joint venture with Amyris. These are initiatives aligned with the objectives of our innovation area, maximizing opportunities and advancing in the food industry's value chain.

In addition, we continue to strengthen our corporate management. The evolution program of our organizational culture continues to be solid every day, as an important instrument in the integration and alignment of Minerva Foods strategy.

And finally, I would like to highlight our work on the topic of sustainability, where we recently disclosed Minerva Foods, commitments and goals in fighting climate change and protecting the environment.

Sustainability has always been a central pillar in our strategy, so much so that more than ten years ago we created an area specialized in the topic, and year after year, we have moved forward with initiatives that allow us to guarantee a more sustainable production throughout our value chain, from producer to our end customer.

We have constantly reinstated our purpose of feeding the world in a more sustainable way, providing safe food through a business that combines expansion and global competitiveness, innovation, ethics and quality, with a decisive social environmental criteria in our industry.

And we understand that we can and must go further, and further increase the efforts in tackling climate change and protecting our planet. For this reason, I reinforce Minerva Foods' commitment to sustainability, the public commitment that allows us to further advance the ESG agenda with effective actions involving our entire production chain, with investments of approximately R$1.5 billion by 2035.

Still in this conference call, our Sustainability Director will speak in more detail about our ESG projects, and also about the commitment made by the Minerva Foods with the sustainability agenda.

Now let us move on to the next slide to comment on Minerva's operating performance in the quarter, starting with exports. In 1Q21, we strengthened our leadership position as the largest beef exporter in South America, with 20% market share on the continent. This is the result of our geographical diversification in the region, and supported by our 16 international offices that provide Minerva a great competitive advantage, in addition to a prominent position in the export of beef.

When we look at the export performance by region, Asia continues to stand out, representing 57% of export revenue in the past 12 months in Brazil, a strong growth of 15 p.p. compared to the same period in the previous year. The Asian market was also the main export destination for Athena Foods, with 38% of the total exported by the division in the same period.

The performance of exports makes the region's growing demand for beef increasingly evident, especially from China, but also from other important markets such as Indonesia, Malaysia, Thailand and the Philippines.

Another highlight is our growing exposure to the North American market, both from the Brazil division and Athena Foods, a market with high income capacity, which has already shown strong signs of recovery in the economy and consumption with the advance of vaccination.

To conclude, I would like to emphasize once again that the fundamentals and market prospects remain very solid. We have a combination of very positive factors for the forthcoming period. The international demand for beef remains quite consistent in emerging markets, especially in Southeast Asia. We add to this the advance of vaccination and the resumption of the global economy that gained strength with the reopening of markets, and points to a movement of strong recovery of consumption, especially in the food service segment that has been strongly impacted since the beginning of the pandemic.

In addition, the problems in beef production in Australia continue to imbalance the world's supply and encourage the opening of markets, which especially benefits South American exporters.

And of course, as I said before, we cannot fail to emphasize the persistent impact of African swine fever on the global animal protein market, driving demand for beef and impacting export volumes and prices. In this way, it is increasingly expanding the range of opportunities for exporting players from our continent.

Given this promising horizon, Minerva Foods strategy is to continue, maximizing our competitive advantages investing in innovation, niche opportunities, and risk management and market intelligence to achieve increasingly efficient and profitable commercial and logistical solutions, always valuing our team and respecting our commitment to ethics and sustainability.

Now I will hand over to Taciano, who will talk a little more about Minerva Foods sustainability agenda. Taciano?

Taciano Custódio:

Good morning, everyone, and thank you, Fernando, for the introduction. The recognition of sustainability of our business depends on the maintenance of the ecosystems that supports agricultural production is at the heart of another food commitment to sustainability.

We recently announced our strategy against the effects of climate change and monitoring supply chains, committing ourselves to bold and pioneering goals focused on actions and backed by public results from those who lead the sustainability agenda in beef production in South America.

The Minerva Foods commitment to sustainability is guided by the contribution to a healthy planet and prosperous communities, supporting South American producers and the implementation of practices that sequester and store carbon, protect biodiversity and increase resilience.

We expect to invest R$1.5 billion in diversified approaches to reach the goal of zero net emissions by 2035 in scopes 1, 2 and 3, and we will work on three major fronts: the environmental efficiency of operations, fighting illegal deforestation through geospatial monitoring of the chain, and finally, our low carbon program.

In environmental efficiency of operations, we will reduce the intensity of greenhouse gas emissions scopes 1 and 2 by 30% until 2030. We will maintain our carbon neutral energy matrix. This means zero net emissions, a goal that we reached in 2020.

In geospatial monitoring of the supply chain, our goal is zero illegal deforestation in all South American operating countries by 2030, including indirect suppliers, and thereby reducing Minerva Foods carbon footprint in scope 3.

We will achieve 100% geographic monitoring of direct supply of farms in Paraguay by December this year, in Colombia in 2025, in Uruguay in 2025, and the expansion to other countries in South America by 2030.

We will also apply the monitoring program for indirect supplier farms in all countries of our operation in South America by 2030, including the integration of Visipec in the geographic monitoring system in the Amazon by December of this year, and the availability of the app for verification of indirect supplier farms in Brazil in partnership with Niceplanet Geotecnologia until December 2021, taking to the hand of producers the same technology that ensures Minerva Foods the best monitoring result, publicly certified by the Federal Attorney's Office. It is worth checking out, it is public. Our performance is based on results and commitment.

And lastly, the third axis is the low carbon program in the production chain, which we will explore now on slide five. The beef production value chain is one of the most relevant socioeconomic activities in South America, representing an important local development mechanism for communities.

Minerva is present in 23 cities with industrial operations in Argentina, Brazil, Colombia, Paraguay and Uruguay, having a relationship with over 12,000 rural producers. We recognize that technology, logically, profitably and environmentally responsible agricultural activity has a unique opportunity to transpose its role in providing quality food to the world.

It also represents combating climate change through carbon sequestration and storage practices. The protection of native vegetation carried out by suppliers that are part of the supply chain of Minerva Foods, combined with soil conservation and pasture management practices, intensification and integration systems can represent large carbon reservoirs that help to combat changes in the climate.

In the Amazon in Brazil, for example, Minerva Foods suppliers preserve more than 1 million hectares of tropical forest within their private properties, according to the Forest Coverage Data from the National Institute for Space Research.

In the low carbon emission, Minerva Foods program as a partnership with research institutions that are references in South American livestock to measure carbon balance of our suppliers in all countries of operation, working with primary data in the MRV model, measurement, reporting and verification, defined by the United Nations Framework Convention on Climate Change.

Our goal is to have 50% of the beef suppliers registered in the Minerva Foods program for low carbon emissions by 2030, and we expect preliminary results this year.

To conclude, on site six, we bring the highlights of our Tenth Sustainability Report 2020, the first published in the sector, sharing updated information about ESG events in a holistic and transparent way.

We have adopted the content in line with TCFG, Task Force on Climate Related Financial Disclosure, addressing the governance and management of risks and opportunities in the financial, operational, supply chain, market, sanitary conditions and trade barriers, social and environmental issues and climate changes.

In addition to the strong performance of Minerva Foods in the communities in which we operate with actions to deal with the pandemic of the new coronavirus, we report important advances in different areas of sustainability, some of which are the highlights: leadership in combating illegal deforestation, 100% of direct supplier of farms with georeferenced maps in all regions of operation in Brazil. We are therefore the first company to monitor Cerrado, Pantanal and Rainforest, and we also have the best monitoring results in the Amazon.

We are geographically monitoring all regions of Paraguay besides Chaco, and we already have 75% of the production monitoring for illegal deforestation overlapping with indigenous lands in areas of environmental protection.

In the country of Brazil, we lead the indirect monitoring agenda with levels of above 99.5% of compliance for level 1 is direct suppliers in the preliminary result of Visipec, and we became the first company to actually be direct monitoring in the Amazon.

We presented important advances in water management with more than 13% in water consumption in Brazil and more than 7.5% reduction in other countries, zero in the scop 2 emissions through the purchase of renewable energy certificates, and became the first company in the CarbonNeutral sector in scope 2. 100% of our operations were analyzed for corruption risks, and 100% were also analyzed by quality assurance programs.

In animal welfare, we achieved 99% compliance in third-party audits. And lastly, we have a 30% reduction in the rate of occupational accidents in 2020. You can check out these and more ESG results in the 2020 Sustainability Report available on our website.

We also restate our constant evolution in a year of great learning, and our commitment to present material results to date, now contributing to the sustainability of our planet.

I would like to hand over to Edison who will detail the operational and financial results. Thank you.

Edison Ticle:

Thank you, Taciano. Let us move on to slide seven. Let us start by talking about operating performance and the breakdown of the share of the divisions of Minerva's gross revenue.

In 1Q21, Athena Foods expanded its participation and already accounts for 50% of consolidated gross revenue, while Brazil division took 44% and the Trading division with 6%, complementing the total revenue.

Speaking of operations, this quarter we operated at a capacity of approximately 70%, reflecting the negative impact of the expected seasonality at the beginning of the year, particularly in Brazil, and also operational difficulties imposed by the pandemic. In Athena Foods, the level of usage remains stable at approximately 73%. It is worth noting that this is the first quarter with full operation of our second unit in Colombia, the Vijagual plant.

In Brazil division, the utilization level was 63%. As we have already indicated, the consolidated use remains at a level below our historical level of 80%, which should be resumed over the next periods with the progress of vaccination process and the end of the pandemic.

On the right hand side of the slide, we highlight our consolidated exports by region, both 1Q21 and for the accumulated result of the 12 months. As Fernando mentioned, Asia continues to play a major role, representing 44% of exports in the quarter. In the past 12 months, the share of the Asian continent totaled 46% of Minerva's exports, with China currently being the major global importer of beef, representing 36% of exports and increasingly consolidating itself as the main destination for our product.

Moving on to side eight, we will start with net revenue, which reached R$5.8 billion in 1Q21, strongly expansion of more than 39% in the annual comparison and a record amount for the Company, even considering this seasonal impact of the beginning of the year.

In the composition of the revenue, as I mentioned earlier, we highlight the positive moment for our exports, which reached the share of 68% of total revenue.

Speaking of profitability, Minerva's EBITDA in 1Q reached R$485 million, with EBITDA margin of 8.4%. It is worth noting that strong 27% year over year expansion on our nominal EBITDA, even in the face of a very challenging scenario and sharp increase in the price of cattle in Brazil. In the past 12 months, EBITDA totaled about R$2.2 billion, record level for Minerva, with EBITDA margin of 10.7%, almost 50 bps higher when compared to the annual basis.

It is quite clear slide the operational dynamics of our Company, which is the spread business, that is our profitability enables us to transfer prices, especially when we have a scenario of cost pressure.

Despite the recent upward movements in the price of cattle, which corresponds to 85% of our total cost, the Company has been very efficient in transferring these increases to customers, especially in the export market, which is the main focus of Minerva Foods.

As a result, we have been able to deliver a consistent level of profitability over the past quarters, even with an upward movement in the price of the animals.

And I also want to highlight our geographical diversification, especially when we talk about Athena Foods, which, despite the more complicated situation in Brazil in terms of livestock supply, has a much calmer situation in countries like Paraguay and Colombia, where profitability has improved. In the 1Q, there was a very significant export growth in these countries, as well as the revenue that increased and also helped to increase the revenue of Athena Foods that was spectacular in the 1Q.

Obviously, the exchange rate devaluation helps to consolidate Athena Foods revenue, but we really had an extremely positive performance in other geographies than Brazil, and that is why Athena Foods accounted for 50% of our revenue in this quarter.

Moving on to slide nine, talking about financial leverage, our leverage ratio measured by the net debt to EBITDA indicator for the last 12 months remains stable in 2.4x, in line with 4Q20, but 0,5% lower when compared to 1Q20.

Minerva's current level of leverage reflects our commitment of seeking and maintaining a more efficient, less costly capital structure with a lower risk profile, fully aligned with our financial strategy.

On this slide, I also want to emphasize that we still have R$314 million in outstanding warrants that must be exercised by the end of this year and will reinforce the Company's cash.

In other words, as soon as the exercise occurs, these resources go into cash. And if we adjust this cash with the effect of these funds, our net leverage ends up being even smaller, dropping to 2.2x. It is worth mentioning that if we measure the net leverage in USD, it would be 2.3x today.

Let us move on to the next slide, where we will talk about net income and operating cash flow. 1Q was another quarter of positive results. Net income reached approximately R$260 million. In the past 12 months, it reached R$685 million.

The result reflected a commercial and financial strategy over the past years, total focus on generating free cash, risk management, and mainly debt reduction, pillars that have been a priority for the Company and have contributed significantly to the results we have achieved quarter by quarter.

Moving now to operating cash generation, operating cash flow in the quarter was positive by almost R$1.1 billion, with net income adjustments returning R$914 million in cash, and the change in working capital consuming R$124 million in cash, impacted basically by the expressive top line growth in the quarter. In the past 12 months, the cash flow from operating activities totaled R$2.6 billion.

Now let us move to slide 11 to talk about free cash flow. 1Q free cash flow remains positive for the 13th consecutive quarter, reaching R$309 million. It has been almost four years in a row with positive cash generation. Excluding the effect of foreign exchange hedge, free cash flow remains positive at approximately R$80 million in the quarter.

Making THE free cash flow build up in the quarter, we start with an EBITDA before non-recurring items of R$475 million. CAPEX was approximately R$73 million, and it is worth remembering that within the R$73 million we had an investment of R$29 million on the retail platform Shopper through our venture capital fund.

Then we look at the working capital accounts in the flow, which were negative by R$124 million, and the cash based financial result, which was negative R$208 million. Excluding nonrecurring effects of approximately R$10 million due to social expenses we had in actions against the epidemic, we reached the positive recurring free cash flow of R$80 million in the 1Q, which added to the positive cash results of the hedge policy exchange rate of R$229 million, reached a free cash flow in the quarter of R$309 million.

Speaking now of the past 12 months, free cash flow totaled R$1.3 billion. We start from an EBITDA of R$2.2 billion, CAPEX in the past 12 months, R$332 million, which was impacted also by the acquisition of the Vijagual plant in Colombia and by the corporate venture capital initiative.

The change in working capital was negative by R$61 million in the past 12 months, and the cash based financial result was negative by R$540 million. We have R$43 million of nonrecurring items related to the pandemic, so we reached a free cash flow of R$1.3 billion accumulated in past 12 months, reflecting the excellent operating and financial performance of Minerva Foods in the period.

Now onto slide 12 to understand the bridge of our net debt. At the end of the previous quarter, our net debt totaled approximately R$5.1 billion. In 1Q21, we distributed R$22 million in JCP to our shareholders, or interests on our own capital.

We had a free cash flow for the quarter adjusted by positive impact of nonrecurring items of R$70 million positive. In addition, we had a positive impact of hedge instruments in the cash cost of R$229 million, and we also had a positive impact of R$225 million with a non-cash effect also of hedge instruments. And then we have the non-cash effect of R$705 million related to the impact of exchange rate variations on the portion of our debt that is pegged to foreign currency.

So adding all these accounts and setting up the bridge, Minerva ended the quarter with a net debt just over R$5.4 billion, a level practically stable in the annual comparison, even considering an exchange rate depreciation of approximately R$0.43, or more than 8% over the past 12 months.

This position confirms the commitment to continue reducing the level of indebtedness, and mainly to gradually improve Minerva's capital structure.

I want to emphasize that our current hedge policy continues to require that we have at least 50% protection for long term passive currency exposure, and this can be seen in the note to our financial statements.

Just like our balance sheet, our foreign exchange exposure is also very protected, making us even more comfortable to continue focusing on the execution of operational and financial performance, and to continue looking for a way of generating value for our shareholders.

On the next slide, we will comment a bit more on the capital structure and the recent liability management initiatives. So on slide 13, as mentioned earlier, we present our leverage ratio measured by net debt/EBITDA ratio over the past 12 months, which ended the quarter stable at 2.4x. Our cash position at the end of the quarter was quite comfortable in the order of R$6.4 billion.

Speaking of indebtedness, about 80% of our debt is exposed to exchange rate variations, but as I have just mentioned, there is a commitment to protecting the balance sheet. So we have a hedge policy that determines that we have to have at least 50% of the hedge to long term foreign exchange exposure, and we have been very disciplined, and this has been proven quite efficient given the recent exchange rate volatility in Brazil.

Currently, our duration is around six years, with 77% of our amortization concentrated from 2024. In the picture of the balance sheet of the 1Q, main maturities are allocated in 2026, 2028 and 2031. This scenario will remain even more comfortable in the coming quarters.

We can also notice on the slide that, in addition to the traditional amortization schedule, based on the closing balance sheet of 1Q21, we also published a pro forma scenario with base data of May, which considers all the efforts and initiatives of liability management the Company has been implementing since mid-2020.

So in the 1Q we can highlight some initiatives, such as the offer of US$1 billion, issuance of new bond due to in 2031, with interest rate of approximately 4.3% a year. Proceeds from this issue were used in full for early repurchase of approximately 76% of the bond 2026 issue. More expensive debt that has an interest coupon of 6.5% per annum. With this operation, we achieved a reduction of more than 200 bps in USD in the annual cost of this portion of the debt.

It is worth mentioning that the 24 remaining that were open in the market at the end of the quarter were redeemed on April 30, through the exercise of the May call option. We are talking about an option exercise in the order of US$290 million, of approximately R$1.6 billion. In other words, we reduced not only the cost but also the gross leverage of Minerva Foods.

In the 2Q21, to continue with this liability management process, we made a recent issue of CRA in the local market in the amount of R$1.6 billion. The first series is R$1.2 billion with maturity in seven years, and the second series is R$400 million maturing in ten years. Both series were swapped, They were issued in IPCA plus coupon, but it was swapped for CDI. So the final cost of the instrument will be equivalent to 128% of CDI for both use.

The proceeds from this operation will also be used to strengthen our capital structure. We focus on reducing foreign currency debt that have a higher cost, and so we expect an additional reduction in the cost of indebtedness of this portion of approximately 250 bps per year.

And to close the matter, we also made some repurchases in the open market. We bought back US$41 million from bond 2028, something like R$235 million, which were canceled now in May.

The result of all those initiatives is very clear on the pro forma amortization scheduled, which is the chart on the right, where we can see the stretching of our net debt profile, with the most relevant maturity being moved forward with the main amortizations in 2028 and 2031. But, most importantly, this new debt amortization structure is considerably less costly than the old structure, and this is all the result of all these liability management initiatives that we have had in recent months, starting mid-2020 and ending now in the month of May.

Obviously, this whole effort of liability management reinforces our commitment to financial discipline and search for an increasingly healthy capital structure, less costly with a lower risk profile, very aligned with our value generation strategy.

I now hand over to the operator to start the Q&A session. Thank you very much.

Ricardo Alves, Morgan Stanley:

I have a problem on my line, but I hope you can hear me. I have two questions, if you allow me. Athena surprised us in consolidated margins. I would like you to comment specifically on Paraguay, 30% of top line, and Uruguay, if I am not mistaken, its growth is 70%. So if you could talk a bit about the evolution of those two countries in the quarter, what drove this performance. If you have something specific that you can mention, in addition to what is the performance of April and May.

And my second question, coming to Brazil, this evolution of the USD price increase, the 10% year over year in the foreign market, certainly above what we expected. Do you have any market to highlight apart from China looking at the 2Q, the 2H in a few months? Because from what I see, the supply is quite restricted globally. I do not know if there are expectations of more opening for markets here in Brazil, if there is a market outside China that has been driving this number. These are my questions. Thank you,

Fernando Galletti de Queiroz:

Ricardo, actually, operations outside Brazil have surprised us based on their volume. But what is important, as we mentioned on our call, is our arbitration capability. Different plants in different countries have different sanitary licenses, and the greatest investment of Minerva Foods is in the part of analytics that allows us to analyze which plant to speed up and which plant we can consider decelerating.

We certainly have consolidated by country and this work is very fragmented, identifying each one of the points. This quarter, undoubtedly, countries like Uruguay have increased the volume. If you look at Uruguay, it had export volume record in the past two years. It grew the volume of exports by 51%. With the plants and units that we have, we have surfed the wave and capture those values.

What is important to highlight is our arbitration capability. This may happen in a country today and tomorrow at another plant, in another country. And this is what differentiates Minerva Foods.

Regarding your second question of markets opening, South America is increasingly consolidating itself. We have mentioned the main destinations we have because of the pandemic and covid cases, especially in India. Other markets in addition to China, like the Middle East, started having a highlight in the past few months.

There is a market opening, there is a gain in South America of greater share in the international market. And obviously, Minerva, with this diversification that is unique, with a plant that is unique, we can capture this value and provide more predictability and less volatility in the margins that we generate.

Ricardo Alves:

Thank you very much.

Thiago Duarte, BTG Pactual:

Good morning, everyone. I would like to go back to this top line topic of Athena. Actually, the intent here is to try to understand the recurrence of those volumes, especially in Athena, or if we should think, as you suggest when you talk about arbitration, if we should look at the volume in a more consolidated volume of the Company.

I would like to consider the capacity use of Athena. When we look at this volume growth of slaughter of almost 40%, it does not seem to dialog with this capacity use of Athena, that based on the number you comment on, it seems to drop year after year. There has been the incorporation of the new plant in Colombia, there was the impact of the second plant, if I am not mistaken, in Argentina, but I still cannot reconcile it. If you could address these two points, both of sustainability of those volumes, as to what would the effective capacity use, I would be grateful. Thank you.

Edison Ticle:

Thiago, I am going to answer your second question. Regarding capacity, we always do the math based on net capacity. We exclude the plants that are shutdown or stop. If we make an adjustment in the size and put comparable things, the problem is that 1Q21 is not comparable to the 1Q20, because there are different plants that are open/stopped in three countries, Colombia, Uruguay and Argentina.

And Colombia had an expansion, indeed, with the acquisition of a new plant that leads the installed capacity to be greater. If we adjust that, we did the math because we actually thought this could be a question in the call, the 73% that you see in the 1Q20 would be comparable to 72.5% and the number of 67%. Actually, there was an increase of 67% to 72%, 1Q21 against 1Q20.

This adjustment occurs because the calculation is made based on net capacity use. If we take 1Q20 against 2021, we have a difference in Uruguay. We had two months in 1Q20 with the cold storage of Carrasco stopped, and this makes a difference when we consider capacity.

The first part of the question, I am going to hand over to Fernando.

Fernando Galletti de Queiroz:

Thiago, one of the technologies that we have developed within arbitration has been within Brazil. So many times, if we analyze individual plants, we will see Tocantins being accelerated vis-à-vis Goiás, Rondônia, deceleration in Mato Grosso, and this is the constant practice of ours.

What Minerva Foods does is to analyze this in all its South America operations. So we have had records in some plants like the ones in Belém and Paraguay, that was an all-time high. And on the other hand, in some plants, if the profitability is smaller, they have been decelerated and replaced to where profitability is more favorable.

So we reinstated for Athena and Minerva separately, because they are separate legal entities, but the analysis should certainly be seen as the top line as a whole. The greater the market volatility, the greater the currency volatility, cattle prices, etc., more the instrument is used, the protection instrument, and an instrument of value generation.

So there are 25 plants that are analyzed in depth, of which portfolios, which countries, to which destination shall we sell vis-à-vis from where we should source the cattle within that.

So we have developed projects of acceleration, deceleration that are very efficient, that allow us to respond increasingly faster to the market demand, and the market that is increasingly more volatile. As Ricardo said, it ensures more stability withing the margins.

Thiago Duarte:

This is very clear. Thank you very much for your answers. If I could bring up a second topic, regarding the use of capital and capital allocation, looking at the next year, I would like you to comment a bit, taking the minutes of the Board meetings, we see actions towards China, you are trading, from what I understand, the domicile of Athena from China to Spain. Last year, somehow you hinted the interest, actually there is an agreement of Salic of moving into Australia.

And on the other hand, the Company with a smaller leverage allowed itself based on last year's results to pay much more robust dividends. I would like you to comment a bit, Fernando and Edison, as to how we should think this trade-off between the growth platforms, which should we expect to materialize in the short term vis-à-vis the intent of continuing maintaining leverage below 2.5 % so that you can pay a higher payout. If you could discuss this, it would be interesting to.

Edison Ticle:

Let us go on point by point of what you brought up. So the tax domicile know is a matter of simply having tax efficiency. We carried out a study to see that keeping the headquarters of a holding in Chile compared to maintain it in Spain, Spain brings us many more benefits, especially in the part of taxes, dividend distribution, etc., then maintaining headquarters in Chile. Because of that, we decided to move. It is simply a domicile move to improve our tax balance for the Company.

Regarding Australia, we have already talked about this openly. There is the intent of having a JV with Salic in Australia, and the CAPEX of this JV has been disclosed, it is about US$20 million.

If you take CAPEX over the past 12 months, it is about R$340 million, R$340 million. And we believe that this year we will have CAPEX very close to what it has been in past 12 months, what it was in 2020, even including those US$20 million of JV in Australia.

If you remember, the CAPEX in the past 12 months has US$17 million of acquisition in Colombia. It is just as if we traded the acquisition of Colombia for the investment in the JV in Australia to keep the same order of CAPEX in 2020, the same number in the past 12 months.

Third point, regarding dividends. Our policy of dividends continues applicable. The board has approved January, February last year, and we continue with this policy in practice.

At the end of the fiscal year, if our net leverage is equal or greater than 2.5%, the dividend distribution is 50% of net profit. Considering all of that, prospect, the results that have been presented, that have been disclosed now, considering what we see in the market in the 2Q, similar to what we have seen in March, it was by far the best month in that quarter, we strongly believe that we will be able to maintain controlled leverage levels. Therefore, we are going to distribute dividends in line with the policy minimum of 50% of net profit at the end of this fiscal year.

Fernando Galletti de Queiroz:

Adding to what was said, you talked about the JV, there is the part of the VC that we have put, and also the other thing on the distribution in China, it is part of our strategy of downstream, where, with more popularity, more knowledge, having more market information, we undoubtedly increase the profitability. So this JV does not imply any fixed asset, only working capital, which is normal for a redistribution.

Thiago Duarte:

Clear. Thank you very much.

Isabella Simonato, Bank of America:

Good morning. Thank you for the call. I have two questions, the first one in terms of Brazil. If you could give further detail sequentially within the quarter, the margins, what they were like, give me a bit more taste between exports and domestic market in beginning of 2Q.

And if you can give me an update in Argentina as well, the price dynamics there, internal and external. After government announcements, we have seen a dynamics of processed meats there that was quite strong. If you can talk a bit more about Argentina, that would be really nice. Thank you.

Edison Ticle:

Isabella, speaking of Brazil, as we have been commenting and we mentioned on our release, January and February were much weaker months than March, especially because exports started gaining more momentum as of March. The data shows that we had weaker volumes in January, February, recovery in March, and April of major growth.

Obviously, this impacts the margins of a company that is mostly an exporting company. In Brazil, 2/3 of our production was for exports. Curiously enough, in January, you had a quite different phenomenon than previous years, the domestic market prices were still quite high, very close to the levels of the end of year. That usually does not happen.

Seasonally, January is a sort of hangover a month after the end of the year holidays. So in January, we managed to have very good margins, much better than we expected. February was a disaster, both in terms of export and domestic market. In March, domestic market continues pretty poor, but exports improved a lot.

In April, we have had some internal market recovery, but obviously the great highlight is exports, both in terms of volume and USD prices. You have the data in terms of the increase in USD, plus foreign exchange depreciation brings a greater value in terms of appreciation in the beginning of the quarter.

And this is a bit of the scenario of what happened in the 1Q. So April is better than March, and we do not see any changes in the short term horizon for this good scenario, especially for exports.

Second question on Argentina. It is interesting to comment on the following. First, there was a lot of noise regarding Argentina, but in practice, the measures taken there were good for professional companies, well-established, that followed all the rules, that do not try to bypass government regulations. In our case, we fit all of these requirements I have just mentioned. Therefore, the measures that turned export activities more controlled, the government with greater supervision, especially regarding bringing in resources, that brought us a gain that turned the export club even more restrained. So there are fewer companies that check all the boxes to continue exporting.

This has brought price gains, volume gains to us in exports. And as I have mentioned a long time ago, mostly, the volumes produced in Argentina are for exports.

Regarding domestic markets, the price increases that happened there are due to high inflation rates. We made some decisions that I consider tactically quite clever, which were to change the mix of products so that we can have products that can actually penetrate in lower income markets, so smaller retail prices, and expanding the margin we have in those cheaper products, processed foods, hamburgers, sausages, etc., that are cheaper in the unit prices, and the production cost is lower, and that does not worsen our margins.

So we are actually serving quite well in this difficult and volatile scenario in Argentina. So we have a quite diversified plant complex that allows us to actually move about all areas of the consumer market. And perhaps we are the most professional, best established, that complies to all the rules established by the government in the country.

Fernando Galletti de Queiroz:

So adding to what he said, in Argentina, we have a formalization that the government is sponsoring all industries. So this ends up being positive for companies that are well-established that follow all the procedures.

Within the internal market, both in Brazil and Argentina, we see two interesting phenomena: migration to much cheaper products on one hand, and other for much more expensive products. The intermediate products are those that are suffering, but those are the ones that we export the most.

In Brazil, we had a drop of beef as a whole because of the crisis, to 29 kg for inhabitant here, approximately, which is the smallest in the past 25 years. And this leads the companies that have an exporting platform to have a mix that is more geared to exports, as Edison mentioned previously.

Edison Ticle:

Just to close Isabella, if you want to discuss further details of all the measures of the Argentinian government and how they impact the market and the industry, and why they are beneficial to a company like ours, we are available. There are dozens of measures, but all of them are actually intended to be professionalizing and improving competitiveness of companies that are serious and professional in that market.

Isabella Simonato:

Very clear. Thank you.

Thiago Bortoluci, Goldman Sachs:

Hi, everyone. Thank you for taking my questions. I would like to talk about Brazil. First, you have been talking that you expect consolidated capacity use over the years. So I would like to understand a bit how you expect to have the curve in Brazil, and if you can actually comment and open up the gap between capacity growth and net with the 2020.

Still in Brazil, what is the outlook for short term to measure these things from now on? Especially if you could comment on the retail dynamics and service, how one channel can offset or not the increase in the others? Those are the two questions, please. Thank you.

Edison Ticle:

Thiago, in Brazil, we do not have many secrets. Just read the newspapers. We have a negative livestock cycle that has been worsening in the first months of the year because of the rainfall, and then we had rainfall that should come in March, April, still to come in May, June, July depending on the rainfall, etc.

So this is one of the points that made the supply. It should be more restricted because of the turn in the livestock cycle, and it should be specifically more restrictive in some states like Mato Grosso.

So naturally, because of the arbitration dynamics that we have, as Fernando mentioned, we ended up reducing slaughter in some plants and increasing in others, and with that, the capacity use in Brazil in the 1Q ended up dropping to that level of 63%.

How this is going to evolve over the year, in an average year, we expect that you have an offer that is a bit more uniform of animals for slaughter. We accelerate the capacity over the year.

Remember that this use is lower based on the measures that have been taken because of the pandemic. We changed the layout of the lines, they are a bit slower because of distancing, and this led the use of capacity to actually drop regarding the pre-pandemic levels.

But we are optimistic that over the year we will be able to increase capacity use in Brazil. As we said, the target for the Company as a whole is to go back to a level close to 80%, and this may happen probably in the forthcoming four quarters.

Fernando Galletti de Queiroz:

Thiago, just to add to what Edison said about cycle, in addition to the weather part, the other factor that reduced the supply in Brazil was the great profitability that the breeders started having.

Cattle breeding in the past month was quite favorable, quite profitable, and led breeders to hold the slaughter of cows that was greatly reduced. So what actually happens is that these females are producing more calves and we have record of births, and that is the cattle that is going to come to the market in 2021, 2022 and 2023. So you have a situation that is quite interesting in the part of Brazil that only shows that Brazil is consolidating increasingly more as the main world beef producer.

Regarding domestic market, we should see a reopening with the advance of vaccination and gradual reopening of markets, an increase in demand. But it is happening, as I told Isabella, in two extremes: very special products, special niches, expensive products, and very competitive products, with lower prices. So it is the angus and the hamburger that are growing.

Those are the two fronts, illustrating in a simple way, that we see in the domestic market. This just reinforces the importance of exports and the exporting strategy that we have in Brazil and around South America of conquering markets, that is increasingly sound.

João Bergamini (via webcast):

Why has there been a reduction of margin EBITDA for 1Q to 8.3%? Do you have some outlook of improvement?

Edison Ticle:

I think it is practically answered. The reduction of the EBITDA margin, obviously, is related to the increase in cattle prices, especially in Brazil. There was a reduction of slaughter in Brazil, considering the scenario of scarcity of animals that I have just described in some states specifically, but as a whole, Brazil moved into a part that is more of female retention, fewer animals available for slaughter. And we had rainfall season delaying and being extended, and this actually reduced the number of slaughtered animals.

Outlook for improvement, yes, animals that were not slaughtered in the 1Q should come to the market in the 2Q, probably. So you do have an outlook of improving the supply of animals in the short term.

José Pedro (via webcast):

Is there is an outlook for the IPO of Athena?

Edison Ticle:

As I said, no. The IPO of Athena had another context of locking in value, but actually helping in the deleveraging. With the free cash flow that we have had of over R$3 billion since 2018, we managed to get the deleveraging levels much faster than we expected. So there are no more plans for IPO of Athena Foods.

José Pedro:

And what about Argentina with exports?

Edison Ticle:

As I said, there is no restriction of exports. The rules are stricter. So if you want to export beef in Argentina, you have to follow stricter rules than before, and you have to comply with the resource generation rules. So you have to have your own plant there for slaughter. There are several rules that are stricter that have been enforced, and they benefit companies like ours that are totally in compliance with the rules that have been established. So the exporter club has become even more restricted, and it opens up greater opportunities for us, not only in terms of volume, but also price.

Ricardo Carneiro WIT Invest (via webcast):

I would like to know if you have any views or expectations of reducing cattle prices in Brazil and Latin America as a whole.

Edison Ticle:

We have to look at it country by country, the cycles in each one of the countries. In general, we have some countries that are in a very positive cycle, and then you have perhaps two countries that are in a cycle that is a bit more negative.

Speaking of Brazil, specifically, we see a cycle that is more negative. Perhaps we do not actually see a drop in the prices, which is not a problem for a company that is interested in gaining that. So we have the acquisition of the cattle, then we slaughter and sell.

So when we see the scenario of imbalance of supply and demand of beef in the world market, we see great spaces for us to continue to transfer prices, increase prices in exports. With this, we can not only ensure our margin, but also to have an important outlook of improving our margins over this year.

Operator:

We now conclude the questions and answer session. Now I would like to turn the floor back to Mr. Fernando Queiroz for his closing remarks.

Fernando Galletti de Queiroz:

I would like to end this conference call by thanking the entire Minerva team very much. This past year of 2020 has been very challenging, and the challenge has continued in 2021. The dedication, drive, focus and discipline we managed to have allowed the Company to reach the results that are so significant. And actually, sail in very rough seas allowed us to be profitable.

The year 2021 brings a lot of hope. We see in many places in the world the evolution of vaccination, and it will happen in South America. It is moving forward. The economic activities are resuming and recovering. We see a great global outlook for this year with the start of the recovery this year. And this allows us and our industry to have a comparative advantage regarding production than in any other part of the world. It makes us feel very confident regarding our strategy and how Minerva has positioned within this market.

We are still firm and looking at the opportunities and the competitive advantage, so that we can, in a sustainable way, maintain our production, and maintain our space within the international market increasingly more relevant.

I thank everyone for your interest in Minerva Foods call, and we remain at your disposal for any questions and any clarifications. Thank you very much.

Operator:

Minerva's conference call is closed. We thank you all very much for your participation, and wish you a good day.