2Q21 Results
August 10, 2021

Operator:

Good morning, ladies and gentlemen, and thank you for waiting. Welcome to Minerva's 2Q21 results conference call. Today with us we have Fernando 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. Afterwards, we are going to start the Q&A session with analysts and investors when further instructions will be provided. If you need any further assistance, please ask for help by pressing *0 to reach the operator.

The audio and slideshow of this presentation are available through a live webcast at www.minervafoods.com/ir. The slideshow can also be downloaded 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. Investors should understand that general economic conditions, industry conditions and other operating factors can also affect the future results of Minerva and results may differ materially from those expressed in such forward-looking statements.

I would now like to turn the conference over to Mr. Fernando Queiroz, our CEO, who is going to 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 earnings conference call for the 2Q21.

Minerva Foods reached the end of the 1H21 delivering a solid operational financial performance, thus consolidating our leadership in beef exports in South America. The good performance in the 1H is the result of the resilience of our team and consistency of our strategy, which combines operational excellence with profitability, cash generation and financial discipline.

The coronavirus pandemic continues to pose difficulties and generating greater volatility to the markets. In this regard, I want to highlight one of the main pillars of our business model, and also one of our many competitive advantages, geographic diversification, which allows us to quickly arbitrate markets and ends up playing a fundamental role in our strategy by reducing risks and volatility, but also expanding opportunities and thus consolidating the importance of our export platform from South America, in which we hold 20% of the total volume exported.

The global market of beef continues to be growing and driven both by the consistent Asian demand and by the beginning of the cycle of resumption of global consumption, and also by the rise in grains.

The recovery of the world economy with the reopening of markets and growth in demand is a movement that gained strength week after week with the advance of the immunization process. The prospects for the 2H21 are increasingly more positive, with the world economy returning to normality and supporting important segments such as tourism and food service, thus consolidating an increasingly heated consumption scenario, not only in the market at the international level, but also in the domestic markets here in South America.

Once again, I stress arbitrage, where Brazil growing its consumption in South America gives us the opportunity to bring products produced within Paraguay, Uruguay and Argentina. The global beef market continues with very solid fundamentals, with firm demand and restricted supply. And now, with the global economic recovery movement, we are confident that there will be increasingly more opportunities for beef exporters in our continent.

Let us now move to slide two to start presenting the results. Let us start with net income, which reached approximately R$117 million in the quarter and R$376 million in the first six months of the year. If we consider the accumulated results of the last 12 months, Minerva's net income totaled approximately R$515 million. This is yet another quarter which Minerva Foods presents consistent net result and in line with our strategy of creating shareholder value.

Free cash flow, which is one of our priorities, was positive for the 14th consecutive quarter, totaling R$425 million in the quarter and R$734 million in the 1H, reaching around R$1.4 billion in the 12-month period. Since 2018, the Company has accumulated more than R$4 billion in free cash generation, confirming Minerva Foods consistency in its operational and financial management.

Gross revenue reached a record level of R$6.7 billion in the quarter, and of R$24.3 billion in the past 12 months. I would like to highlight here the performance of our exports, which accounted for approximately 70% of our gross revenue, both in the quarter and in the last 12 months, being a natural reflection of the strong international demand for beef, and the export DNA of Minerva Foods.

Talking a bit about our operating profitability, in the 2Q21, were our EBITDA reached R$545 million, with an 8.7% margin. In the past 12 months, Minerva Foods' EBITDA totaled R$2.2 billion, an expansion of almost 10% on an annual basis, and delivering a solid 9.6% EBITDA margin in the period.

As in previous releases, another major highlight of this quarter and one of the main pillars of our management was the soundness of our balance sheet. We ended 2Q21 with a net leverage stable at 2.4x net debt vis-à-vis EBITDA, in line with Minerva Foods capital discipline. Our liquidity is also very comfortable with R$6.3 billion in cash at the end of the period, which, combined with the duration of 6.4 years of our indebtedness, guarantees a great peace of mind and flexibility in the face of the current challenges and opportunities.

Still talking about our balance sheet, I would like to emphasize the emphasis the Company has made to improve our capital structure. In 2Q21, I would like to highlight the completion of redemption of the 2026 notes, as well as the issuance of R$1.6 billion in the local debt market. These are initiatives that seek to reduce gross indebtedness, lengthen the amortization schedule and reduce the cost of our debt.

Other initiatives were implemented with the same objective, to improve our capital structure. And throughout our presentation of results, Edison will provide a little more detail regarding these efforts.

The 2Q21 was also an important milestone in the evolution and maturity of our sustainability agenda, with the disclosure of Minerva Foods' commitments and goals in fighting climate change and protecting the environment.

We announced seven goals of our sustainable agenda, with actions that involve the entire chain of stakeholders and that project investments of R$1.5 billion in initiatives that will be completed by 2035.

It is worth noting that we have had the implementation of one of the most challenging goals of our commitment, the integration of the Visipec tool with Minerva's tools proprietary geospatial monitoring system, which was originally scheduled for December and ended up happening in August.

Thus, Minerva Foods became the first and only company in the sector to integrate this effects as a risk analysis to foreign direct supplier farms in the Amazon bio. Later on, Taciano will bring more details about this initiative and other matters on the sustainability agenda.

Another highlight of this quarter goes to our innovation area, which is anchored on three main pillars: first, advanced data analysis; second, e-commerce platform and marketplace; and three, venture capital with the objective of reducing risks and maximizing opportunities and advancing in the value chain in the food industry.

In the case of advanced analytics, we already have a team of 20 specialized professionals and we are evolving in projects focused on maximizing our production matrix and dismantling the animal, and also improving and optimizing our pricing tools.

In addition, our recent venture capital initiatives such as Clara Foods, Shopper and Amyris are increasingly gaining operational maturity, with excellent prospects for the coming quarters.

And we do not stop there. We continue to evolve on the topic, seeking external partnerships with universities and research centers, in addition to the recent evolution of our Advisory Council for Sustainability and Innovation to advise the Company's senior management. These are initiatives that seek to position Minerva Foods at the forefront of the discussion of this very relevant and strategic agenda.

In the 1H21, we also have evolved with our corporate management. We started our Important Leadership Development Program and moved forward with a project to strengthen our corporate culture, which continues to be more solid every day, and as an important instrument in integration and alignment of the business strategy of Minerva Foods.

Minerva Foods corporate culture is a fundamental pillar of our business model. In order to continue to evolve and go further and further, it is essential to strengthen our five values: results orientation, commitment, sustainability, innovation, and recognition of our team.

Let us now move to the next slide to comment on Minerva's operating performance in the quarter, starting with exports. In 2Q21, we consolidated our leadership position as the largest exporter in South America, with a 20% market share on the continent. Minerva’s leading role in beef exports is the result of our geographic diversification in the region, which, supported by 16 international offices, ends up providing us with a great competitive advantage and a prominent position in the international market.

On the right hand side of the slide, we have the performance of the exports by region, where Asia remains as a highlight, representing about 60% of export revenue in the past 12 months in Brazil, an expansion of 10 p.p. compared to the same period last year.

It is worth mentioning that 9% of shares took places in the NAFTA region as a second main destination, which reflects the recent reopening of the United States to Brazilian beef.

In the case of Athena Foods, the Asian market has been the main destination for our exports, 37% of those exported by the division in the past 12 months, followed by the Americas region, which accounted for 26% of the total exported by Athena Foods.

The performance of exports makes increasingly evident the growing demand internationally for beef, especially in Asia, and especially in the Chinese market, where consumption habits continue to transform and benefit from beef protein, which is gaining more and more space in the local diet.

Another highlight in our client portfolio is the growing exposure to the North American market, a market of high income capacity and which, due to the advanced stage of vaccination, is already showing consistent signs of the resumption of economic activity and domestic consumption. I would also highlight the increasing meat prices in local markets, as a result of the increase in price of grains leaving a pressure on costs on North American producers.

Finally, I would like to point out that the fundamentals and prospects of the global beef market are still very sound and attractive. We have a combination of very positive factors for the coming periods that will benefit even more South America.

International demand for beef protein remains very consistent in emerging markets, especially in Asia. In addition, we have the advance of vaccination and the recovery of the global economy that gains strength week after week with the reopening of markets and prints a strong recovery movement in consumption, especially in tourism and foodservice, segments that were heavily impacted since the beginning of the pandemic.

Finally, we add to this the high prices of grains, the persistent restrictions in the supply of beef from Australia, which continues to unbalance the world market, and particularly benefiting exporters in South America.

Given this promising results, Minerva Food's strategy is to continue maximizing our competitive advantages, investing in innovation, niche opportunities, risk management and market intelligence to achieve increasingly efficient and profitable commercial and logistical solutions, always trusting our corporate culture, the work of our team, and respecting our commitment to ethics and sustainability.

Now I will hand over to Taciano, who will talk a bit more about Minerva's sustainability agenda.

Taciano Custodio:

Good morning, everyone, and thank you, Fernando, for the introduction in this 1H21, we reaffirm the word that best describes Minerva Foods positioning and sustainability: pioneering. Sustainability is consolidated as one of our corporate values, along with the results orientation, commitment, innovation and recognition. These are foundations for contributing to the conservation of the planet, the prosperity of people and the well-being of animals.

In April, we announced the Minerva Foods Commitment to Sustainability, a set of goals backed by those who work with great responsibility in the face of the challenges of climate change and the protection of ecosystems, which are the basis of Minerva Foods production chain.

It is worth reinforcing the path that has brought us here. We are leaders in fighting deforestation, being the first company in the sector with 100% of direct supply of farms geographically mapped in all operating regions: the Savannah, the Amazon, the rainforest, and the marshland of Pantanal.

When the Federal Public Ministry's audit, the main, safest and most transparent audit in the sector against deforestation, Minerva maintained the best results among large companies, result of our commitment to fight illegal deforestation in the Amazon.

We are pioneers in addressing real actions regarding the monitoring of indirect supply of farms in the Amazon region. In collaboration with the University of Wisconsin National Wildlife Federation and Friends of the Earth, we sped up the integration of Visipec, an indirect risk analysis tool in the Amazon. The target scheduled for December was brought forward to August of this year, making Minerva Foods the first and only company in the sector to analyze the risks of indirect farms in the Amazon.

Our pioneering spirit goes beyond the Brazilian border and reaches Paraguay, a country where we have already monitored 80% of purchases for a deforestation criteria overlapping with indigenous lands and environmental protection area. Remembering that our goal is to reach the end of this year with 100% of monitored purchases.

In Colombia, we have already started work on mapping suppliers and making geographic diagnosis through buffer zones. We became the first company in the carbon neutral sector in scope 2, regarding our energy mix. We are also the first Brazilian company to receive the Renewable Energy seal to all our units in Brazil. This view is issued by the Totum Institute in partnership with the Brazilian Association of Wind Energy and the Brazilian Clean Energy Association.

The works in the low carbon production and the production chain program continue to advance with carbon balance management in more than 50 supplier farms in all countries of operation. We are confident that the scientific research using primary data that represent the profile of our producer partners will be decisive for the recognition of sustainable practices applied in our value chain, opening up commercial opportunities in important countries and opportunities in the growing credit market with carbon.

It is our commitment to support suppliers in implementing carbon sequestration practices, generating benefits that include greater productivity and efficiency, greater resilience and protection of biodiversity.

For the next few years, we will continue to deliver measurable and transparent results to our stakeholders, taking on the challenges that lie ahead and engaging all the links in the value chain to leverage sustainable production practices in South America. We remain confident in our carbon neutral goal until 2035.

On the next slide, we detail the advances with the integration of the Visipec tool. In collaboration with Amigos da Terra, National Wildlife Federation and the University of Wisconsin in the United States, we present the result of monitoring indirect supply of farms in our operations in Mato Grosso, Rondônia and Pará. Visipec is a traceability to that performance of risk assessment by matching data from public databases connecting direct and indirect suppliers, significantly improving Minerva Foods decision making process.

We were the first company in the industry to start testing Visipec, from May 2020, and we are proud to announce today that we brought our goal of integrating the tool forward from December this year to august.

This means that Minerva Foods is the first and only company in the sector to analyze the risks of indirect supply of farms in the Amazon in an integrated manner with the cattle purchase processes of this months and material evidence of our commitment to climate change and ecosystem protection.

The results are motivating and support our pioneering spirit. 99.8% of indirect suppliers in meatpacking plants in Mato Grosso and Rondônia are in compliance with the GTFI best practices, and therefore in compliance with the monitoring of deforestation in farms in the Amazon. There were 7,725 indirect supplier farms verified, and 2,995 direct farms, a ratio of 2.5 indirect farms for each direct supplier farm in the meat packing plant.

To see more information on Visipec and Minerva Foods, you can see it on our website and also on the results released on the website of Investor Relations. Follow Minerva Foods on social media and follow our pioneering spirit.

I know hand over to Edison who is going to detail the operating and financial results. Thank you very much.

Edison Ticle:

Thank you, Taciano. Let us move to slide six. Let us talk about operating performance and breakdown of divisions' share of Minerva's gross revenue. In the 2Q21, Athena Foods once again increased its share, it now accounts for 51% of our consolidated gross revenue, while Brazil division remained with 44% and the trading division with 5%, complementing total revenues.

Speaking now of capacity, in the 2Q21, we operated on a consolidated basis with a capacity of approximately 74%, still reflecting the operational limitations imposed by the pandemic.

At Athena Foods, the level of utilization remained stable at approximately 77%. Worth noting that even with the restrictions on exports in the Argentine market that took place in part of the 2Q, the scale of production thus maintaining a level of utilization very similar to the previous quarter.

This movement confirms one of our main competitive advantages, the ability to arbitrate, speeding up and slowing down our plans in the various countries where we operate, always in search of operating and commercial options.

In Brazil division, the use was 71%, benefited, especially by the strong movement of exports. Domestic market is still suffering from the restrictions imposed by the pandemic, both in Brazil and in other countries on the continent, and we believe that the first signs of recovery should start to come up now in the 2H21.

As we have mentioned, consolidate utilization remains below our historical level of 80%, and should be resumed over the next few periods with the advancement of the vaccination process, the recovery of the global economy, and when we move to the end of the pandemic.

It is worth mentioning that in our analysis we also always consider the concept of net utilization, reflecting working days in operation of each one of the plants in activity in our portfolio.

On the right hand side of the slide, we highlight our consolidated exports by region, both for 2Q21 and for the past 12 months. As Fernando mentioned, Asia continues to play a leading role, representing 48% 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 as a major global importer of beef, representing 36% of our exports and remaining the main destination for our products.

Now on slide seven, let us talk a bit about our financial results. Net revenues reached R$6.3 billion in 2Q21, strong expansion of almost 43%, year on year comparison, a record amount for the Company even considering seasonality that was negative in the 1H.

When we look at it from the perspective of 12 months, we see a robust year on year growth with an increase of almost 28%, and totaling R$23 billion in net revenues in the past 12 months.

Part of this revenue, as I mentioned previously, we highlight the good moment of exports, which reached a share of approximately 70% of total revenue both in the quarter and the past 12 months.

Speaking of profitability, Minerva's EBITDA in 2Q reached R$545 million, with EBITDA margin of 8.7%, which means an increase of 30 bps when compared to the previous quarter. In the past 12 months, our EBITDA totaled about R$2.2 billion, an increase of more than 8% on an annual basis, and with an EBITDA margin of 9.6% in the period.

It is very clear on this slide the operational dynamics of the Company, that is very clear, which is the spread business, that is our profitability is based on the ability to transfer price, especially when we have a cost pressure scenario.

Despite recent increases in cattle prices, which corresponded to approximately to 80%, 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 few quarters, even with the upward movement in animal prices. If we look at 2021 against 2020, in certain periods we are seeing a cost pressure of almost 40% reflected in the price of cattle. Even so, we managed to keep the margins at a very healthy level with the growth of top line, and we are managing to deliver EBITDA in cash a lot higher than the market expected.

I want to highlight again our geographic diversification, especially when we talk about Athena Foods. Despite the more complicated situation in Brazil in terms of cattle supply, Athena Foods has had a very high highlighted situation, and continues to contribute enough with the growth of the Company's revenue, which, as I mentioned in the previous slide, represented 51% of the consolidated revenue in this quarter.

Moving now to Slide eight, let us talk about financial leverage. Our leverage ratio, measured by the net debt to EBITDA ratio for the past 12 months remained stable at 2.4x. The Company's net leverage indicator has remained stable since the beginning of 2020, even considering the disbursement of R$210 million in the share buyback program, and another R$541 million in the distribution of dividends throughout this period.

In other words, we return more than R$750 million to our shareholders, either from earnings or in the form of share buybacks. And given Minerva's high level of cash generation, we managed to maintain leverage below 2.5x, stable at 2.4x at very healthy levels that allows us to continue to forecast good dividend distribution to shareholders over the coming quarters.

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

On this slide, I would also like to stress that we still have R$230 million in warrants outstanding, which should be exercised by the end of 2021, thus strengthening the Company's cash. In other words, as soon as the fiscal year closes, these resources are ready to cash, and if we adjust this cash with the effect of these resources, our leverage ends up being even smaller, falling to 2.3x.

Moving on to next slide, let us talk about net results and operating cash flow. 2Q21 was another positive period. Net income reached R$117 million in the quarter, and accumulated R$376 million in the semester. If we consider the accumulated past 12 months, net income totaled practically R$550 million. This result is a reflection of our commercial and financial strategy over the past few years, total focus of free cash generation, risk management, and especially on reducing our indebtedness.

This has been a priority for the Company, and has contributed in a relevant way to the results we want to achieve quarter after quarter.

Moving to the right hand side of the slide, operating cash flow is positive, reaching R$484 million. If we have net income adjustments impacting in R$39 million, and working capital variation contributing R$406 million in cash, especially due to the good performance in the supplier line, we get to a cash flow of operating activities totaling R$2.3 billion.

Moving on to slide 10 to talk about Minerva's top priorities, free cash flow. On slide ten, we see free cash flow remained positive for the 14th consecutive quarter, reaching R$647 million. It means almost four years in a row with positive cash generation.

Even considering the negative exchange rate that hit the result this quarter, free cash generation remains positive, totaling R$425 million in the quarter, making free cash flow buildup in the quarter. We started with EBITDA before nonrecurring items of R$539 million, CAPEX of approximately R$69 million, concentrated on investments in the maintenance of our clients, then we have the capital account and turnover that was R$406 million positive, as I said, benefiting from the line of supply, and then we have the cash based financial results, which reached R$235 million negative.

After the nonrecurring assets of approximately R$6 million due to the social expenses in actions against the pandemic, we reached a positive recovery, free cash flow of R$647 million in the 2Q, which added negative cash result of R$222 million related to the foreign exchange hedge policy, with a free cash flow in the quarter of R$425 million.

Speaking now of the past 12 months, free cash flow totaled approximately R$1.4 billion. We started from an EBITDA of R$2.2 billion, CAPEX in the past 12 months of R$352 million, which was impacted by the acquisition of the Vijagual plant in Colombia, and also by our corporate venture capital initiatives; the variation in working capital was positive of R$547 million in the past 12 months, and cash base and financial result was negative of approximately R$1 billion shares. We also have R$37 million of nonrecurring items related to the pandemic. Thus, we reached a free cash flow of approximately R$1.4 billion in the past 12 months, reflecting an excellent operating and financial performance of Minerva Foods in the period.

On slide 11, we see the bridge of our net debt. At the previous quarter, our net debt totaled approximately R$5.4 billion. In the 2Q, we distributed R$353 million in the form of supplementary dividends to our shareholders. We also had a positive cash flow for the quarter before the result of foreign exchange hedge, which was R$640 million. In addition, we had impact of the hedging instruments that ended up increasing our debt, which were R$222 million in the cash concept, and another R$73 million negative in the noncash effect.

We also have a non-cash effect with negative impact of R$103 million net related to exchange variation in the portion of our debt that is pegged to foreign currency. So on one hand, we have positive impact on the debt from the exchange variation, and on the other hand, we have a negative impact on cash in USD from the same exchange variation, and the net effect of this was R$103 million.

So adding all these accounts and setting up the bridge, Minerva ended the quarter with a net debt of R$5.3 billion, a lower level both in the quarterly comparison, as in the annual basis.

This position confirms our commitment to continues reducing level indebtedness and gradually improving Minerva Foods capital structure.

I would like to stress that our current hedge policy continues to impose that we have at least 50% protection of long term passive exchange exposure, and this can be seen in the explanatory notes of our financial statements. And I am also available for any further clarifications.

So as our balance sheet, our exchange exposure is also highly protected, making us feel more comfortable to continue focusing on the execution of operation and financial performance, and to continue seeking the path of generating value for our shareholders.

On the next slide we will comment a little more on the capital structure and on the recent liability management initiatives. On slide 12, as we mentioned before, we have our leverage ratio measured by net debt over EBITDA ratio for the past 12 months that ended up stable at 2.4x.

Our cash position at the end of the 2Q remains comfortable at R$6.3 billion. Speaking of indebtedness, around 68% of our debt is exposed to exchange variation. The liability management operations allowed us to reduce part of this portion that was exposed to exchange rates, but as I mentioned a while ago, there is a commitment of the management to protect our balance sheet. So we have a hedge policy that determines that the Company must have at least 50% of its long term foreign exchange exposure hedged. With this, we protect our balance sheet, and this policy has proven very efficient, considering the foreign exchange volatility, reserve.

Currently, our duration is 6.4 years, and I highlight that over 80% of our indebtedness is in the long term. Almost 60% of our amortization concentrated only from 2028, as highlighted in the chart in the slide.

On the right hand side of the slide, I present to you a little more detail, all the liability management efforts and initiatives that the Company has been implementing since mid-2020. In the 2Q21, we highlight some initiatives such as the total redemption of 2026 bonds, which had a coupon of 6.5%, and issuances around the local market amount to R$1.6 billion, first series of R$1.2 billion maturing in seven years, and seconds series of R$400 million maturing in ten years. These series were swapped, they were issued initially on IPCA plus, but then we swapped to CDI. So the final cost of the instruments was equivalent to 128% of CDI for both series.

So we locked our cost of debt for seven to ten years at 128% of CDI for an amount of R$1.6 billion, which is an operation, I repeat, that is question interesting that will help us further reduce the Company's weighted average cost of capital.

In addition, we had the market buyback of R$41 million of the 2028 bond. Recently, in July we completed the 2031 bond repurchase, raising an additional R$400 million, which are in cash that is going to be used for the rollover of more onerous debt.

The result of all these initiatives, in addition to the cost reduction of our debt and gross leverage, also reflects the lengthening of our debt profile with the most relevant maturities being concentrated in 2028 and 2031.

Obviously, this entire liability management effort reinforces our commitment to financial discipline and the pursuit of increasingly healthy, less costly, with a lower risk profile, and especially well-aligned with our strategy for generating income in the long term.

Now I hand over to the operator so that we can start our Q&A session. Thank you very much.

Ricardo Alves, Morgan Stanley:

Good morning. Thank you for the call. Can you tell us about the scenario in Brazil in the 2Q? We have seen prices in USD in July quite high. Can you give us an update on what you see in terms of July and August in the internal market in Brazil?

The second question, in the 2Q you put over 50% in price *in natura,* and your volume maintains quite solid. If you can talk a bit more about the domestic market, this dynamic of supply and demand. If you have anything specific regarding channels that you could comment, something more qualitative to explain the domestic market, that would help.

And last question, and quite briefly, in Argentina, we were quite surprised with the results in terms of USD, considering that we have had these restrictions in the country. If you can give me some color in terms of the results of the quarter, perhaps more interested in how you see the situation now in the country in the 3Q. Thank you very much.

Fernando Queiroz:

Thank you for the question. Ricardo. Starting on the international market, increasingly, markets are interrelated. And what we see in terms of the international market is the increase of proteins due to the increase in the price of grains, soybean and corn playing a leading role, inventory quite low, and that increases the competitive protein. There is also an impact in the production system that we have in the northern hemisphere due to consignments for beef.

So this only reinforces the thesis that we have at Minerva Foods that is placing itself on a more competitive platform for beef in the world, being the largest and most diversified.

Thus, in addition to the grain market, there is a large crisis in Australia, where you do not see a production. The production has dropped over 30%. So what is happening is that in South America and its various countries they are taking up spaces of competitors.

Demand is positive. Looking at the demand side, it is a positive reduction in the restrictions, return to foodservice and increasing tourism, it brings a positive dynamic and only consolidates South America.

It is worth highlighting that in the past two years, even despite a pandemic, there were major market openings. So South American countries are taking up more space.

Regarding domestic market in Brazil, the move is interesting. We have a demand for products that are very cheap, beef products for industry, for hamburgers and processed foods are growing, and products that are more prime product.

We are sharing with you that Minerva has its distribution very much focused on special and premium segments. We are launching a campaign now that promotes Estância, which is our premium brand in Brazil, Cabañas las Lilas, our premium brand and Argentina and the Angus brand in Uruguay, along with Sabrina Sato. We are going to start a stronger campaign to promote that so that we can consolidate this work that we have within the domestic market.

In Argentina, what is happening has been positive, and we had major results in the mid-long term. The government actually paid attention to this foreign market dynamic in which there were price differences between exporters, especially as some there were less formal, keeping part of the funds outside Argentina so that they could actually materialize the differences from the official foreign exchange rate, and what they had in terms of current foreign exchange. And what they did was to take measures to restrict them, and that was positive.

So what we see in Argentina is a gradual formalization in the industry, with clearer rules that are better established, and rules that are more equitative for all players. This is being very positive and we are very excited about Argentina. The product has a very positive image on the international market. So we have very good eyes towards Argentina.

Ricardo Alves:

Thank you very much for your answers.

Gustavo Troiano, Itaú:

Good morning, everyone, thank you for the opportunity. My question is regarding Athena. Can you give me more details in terms of performance by region? Looking at consolidated evolution of slaughter has been quite interesting. I would like to understand the main driver for this improvement, and if you see that the availability of cattle continues supporting this level of slaughter that we have seen in 2Q moving ahead to the 2H. Thank you. Good morning.

Edison Ticle:

On page 23 of our release, we have a breakdown by country of Athena revenues and you can clearly see the countries that contributed most. Paraguay and Colombia were the great highlights. In Colombia, remember, we had an acquisition in October last year, in which we doubled the production and slaughter capacity. And the country of Paraguay is actually at a very favorable moment, both in the cycle and sales price. Uruguay too contribute is quite a lot for this performance improvement, and in Argentina, the expectation is that the performance, due to all the reasons that Fernando has just explained, ended up being a surprise, even though it was quite positive.

So by region, the main highlight is Paraguay, the is second Colombia, but we see Uruguay with a quite positive outlook for the short and mid-term.

Fernando Queiroz:

Gustavo, just adding to what he said, this decision as to how we speed up and slow down, that is a decision that we make weekly based on our analytics data. So there is not actually a rule, but it is actually using the platform that we have to maximize profitability and reduce volatility. So this is the major work that Minerva has been investing in the past three years.

Gustavo Troiano:

Very clear. Thank you very much.

Thiago Duarte, BTG Pactual:

Good morning. I would like to ask three questions. The first, I think it is for Fernando, if you could just describe a bit better what happened in this quarter. As Edison mentioned just now, there was a surprise in the topline performance of Argentina because of those temporary restrictions that have taken place. I understand, Fernando, when you say that from the standpoint, the regulation part of the changes is positive for the operations like yours, but just to understand, what was the export flow in the quarter that apparently was not only income revenue, but also volume increase? If you could give us some color explaining if there was some kind of difference in volumes, May, June, there was a restriction. So it would be interesting to justify the top line performance that was quite strong.

Second question, you do not usually do this, but if you could, even if qualitatively, explain a bit the margins in terms of operating industry in Brazil and Athena operations, just so that we can try to make up how the consolidated margins break down between these two geographies.

The third question is more for Edison, about working capital. You had over R$400 million in working capital in this quarter, a quarter of the strong revenue growth when we see cash circulation, but based on the history we have here, it is one of the smallest quarters that we have heard of. If you can talk a bit as to the trade-off between terms for receivables and price, if you could explain how the trade-off happened and its sustainability, that would be quite interesting. Thank you very much.

Edison Ticle:

Gustavo, I am going to start with the last question. In terms of working capital, we have a great focus in holding it. You know, we have the understanding that in this business, for you to maintain high levels and EBITDA conversion to cash, and you have to have strong working capital. We have an average conversion rate of 80% in the past 14 quarters, which I think is very much out of the curve for the industry.

In the case of receivables, we are always looking for alternatives, be it of better negotiations with customers and suppliers, and also being creative in operations and financial tools or instruments.

In this quarter specifically, we had a discount policy for our supplies and the monthly rate that is paid for the bank is lower than what I can pay in cash to suppliers. This is applicable to any supplier I pay in advance, and we have 30, 45, I pay cash and I can get a discount that is relevant, and I am funded by the financial institution, which lengthens the term for 120 days, on average to 90, and the financial cost of the 90 days is below the discount I managed to get with the partner.

So it makes sense. I am really releasing cash for the operation in the margin, gaining some, having some positive financial revenue as a whole, enabling growth of the operation with the maintenance of a high conversion rate, EBITDA cash.

On margins, you know that we do not usually disclose that. We may say that Athena this quarter had margins slightly above Brazil. Athena was 31% of our revenue, the trading was practically negligible, with 5% of the trading margin, it is a bit higher than the industrial margin, but it does not have such a relevant contribution in the final analysis.

Athena was better, with a highlight to Paraguay with a two-digit margin, quite consistent and sound, Colombia with margins very close to two digits, and the remainder of operations, 44% for Brazil in the operations, with margins that were a bit below consolidated margin of the Company.

Fernando Queiroz:

Thiago, just to add to what Edison said, Athena operations also had as one of the major clients, the very distribution of Minerva, the internal work of Minerva Brazil. The separation by geography is very relative, because when you have the margin for the place where you sell, the place where you produce, it creates some buyers in terms of analysis.

Therefore, what we have shown here with the arbitrage policy is how the ensemble becomes stronger. The internal market in South America is Brazil. Regarding Argentina, we have a policy that is very much geared to exports. We have put our work very much geared to niches within the foreign markets, benefiting from the positive image that Argentina has.

So we are able, even with the restrictions, and having within the restrictions the works that have been continued with the government, that the government allowed the quota system, since we are very well-placed within the export market in Argentina, we are able to react quickly and mitigate part of the restrictions, respecting the rules that were set by the government.

As I mentioned in the previous questions with Ricardo and Gustavo, we see Argentina in a very positive way, with a stronger or an increasing formalization in our industry.

Thiago Duarte:

Very clear. Thank you.

Isabella Simonato, Bank of America:

Good morning. I think most of my questions have been answered, but I have one that I would like to ask. When we look at the slaughter and try to reconcile that with the capacity use, you look at working days. But looking at Brazil specifically, we see a relevant increase year over year, and the volume of slaughter drops at the same time that we have an increase in sales. Could you help us reconcile this looking at 2Q20?

Edison Ticle:

Isabella, we look at slaughter, working days and the open plants. If you remember, we had two plants that were for some period closed during the 2Q, one of them because of maintenance, and in the other one we had some precautions regarding covid pandemic maintenance, and lack of supply of cattle in Mato Grosso.

When we manage capacity, we look at the plants on the dates that they were actually open. And then, even having a drop in slaughter, you end up using that resource a bit more when it was available.

If you want to get details, call Danilo, Luiz and Felipe and they can provide you with the details, but the concept is this one that I have just explained. Is it clear?

Isabella Simonato:

Yes, it is. But when we look at sales volume, this means greater yield, is that what we can conclude? Or is it a movement of having greater inventory over the quarter?

Edison Ticle:

There is more yield on slaughter on the cattle where slaughtering is heavier than the 1Q, and even more than last year. But we had regions where we had more availability of animals, so we had capacity use of over 90%. Rondônia, Rolim de Moura, which is a huge plant, on average, in the 2Q, it operated over 90% capacity.

So we have a larger plant operating over 90% with more days running, and with a heavier animal. So you have a greater average on the capacity use.

Isabella Simonato:

OK, super clear. Thank you.

Thiago Bortoluci, Goldman Sachs:

Thank you for the call. I have a question regarding the opening of new markets. Over the past weeks, we have seen some headlines suggesting a certain stalemate in the opening of China and the opening of new plants in Brazil. If you could comment of what has actually changed, if anything has changed, and what your outlook for the process is, that would be great. Thank you.

Edison Ticle:

We do not see any actual changes within the process. Obviously, we follow the news, but we do not have any confirmation, any reality, much on the contrary. Speaking to the Brazilian government, the people responsible for the opening, all the processes follow normally. So we should indeed have new market openings, new licenses for plants.

And then, Thiago, we do not see that only in Brazil, but also in other countries like Paraguay, Colombia. Uruguay itself, with the stronger policy, and everything is justifiable.

And with the world's supply demand thinking about the IMF, it is natural that commercial and also sanitary agreements between South American countries and the main consuming countries, that should be intensified and actually sped up.

Thiago Bortoluci:

OK. Thank you very much. Very clear.

Carlos Herrera, Condor Insider (via webcast):

What do you think about cattle price until the end of the year?

Edison Ticle:

We like to trust the market. The market is pointing to an average price of R$230, São Paulo base. If we see the future, it is approximately this estimate that we trust. We think that the prices should be flat for the remainder of the year. Again, we are taking for granted what the market is estimating.

Participant (via webcast):

About working capital, is this your strategy?

Edison Ticle:

Our strategy is to generate EBITDA, operating cash flow with the smallest consumption possible of working capital. This will improve and maintain high rates of our EBITDA conversion for cash at the bottom line.

Participant:

As to cash generation, do you think about having a share buyback?

Edison Ticle:

As I mentioned in my speech, last year, for example, a strong cash generation allowed us to return to shareholders over R$750 million, R$250 million approximately through share buyback over the year and a bit over R$500 million through dividend distribution.

Probably there will be a mix. Unfortunately, I cannot answer it because this is a Board decision. I can give you my opinion. My personal opinion and recommendation have been to consider that part of the profits that will be distributed to shareholders this year should be made in a more aggressive share buyback.

Participant:

Why is the share price not following the market prices?

Edison Ticle:

Our responsibility is to generate value. The only thing that we control is the Company's price. On prices or something decided by the government, I cannot influence or make comments. About value generation, we have been fulfilling our role, and this is the maximum we can influence.

Participant:

Any forecast resuming export market in Argentina? How much did this impact your results?

Edison Ticle:

We talked a lot about it in the call, We managed to actually curb difficulties in Argentina and generate a result that was quite significant. Exports in Argentina have been resumed. So no forecast. This actually has happened.

Participant:

Can you talk about Athena's IPO?

Edison Ticle:

As I mentioned a few times, it is totally out of the script. We have no need, no plan of pursuing Athena's IPO. That was a situation in which we had a capital structure that was more burdensome and less balanced. That made sense from the standpoint of releasing some value, and at the same time rebalancing the capital structure.

This happened through the operating cash generation. We have a structure that is really quite balanced, and even at a moment that is more complicated in terms of cattle cycle in Brazil, especially.

So it does not make any sense for us to sell an asset, especially such a strategic asset as Athena Foods.

Participant:

Can you talk about liability management strategy, the capital structure of the Company, if you are comfortable with the gross debt and the ideal cash for the Company? How should we think about capital allocation?

Edison Ticle:

As we said, we have a clear policy, the distribution of dividends, and we actually have a clear position, the minimum that is compulsory of distribution is 50% of net profit. So continuing the scenario that we have seen in past quarters, the Company should distribute at least 50% of its net income.

On liability management, we did most of it in the 2Q, and I would say that we are practically concluded. We have managed to have now much more favorable capital structure, but in some we reduced 200 bps in the weighted capital structure of third parties. We lengthened the debt and placed almost all debt maturing in the years 2028 and 2031, and we had a retap that we put more money in cash that is going to be used for us to pay shorter and more burdensome debts.

So the liability management exercise has really ended, unless we have an opportunity very much outside the curve of getting money that is cheaper and longer to refinance our debt.

Gross debt and cash level, we have been reducing gross debt. If you follow our cash flow quarterly, we have been rescuing more debt and rolling them. And we have in terms of foreign exchange, in our hedge policy, 2/3 of cash in USD, and this ends up bringing an increase to our cash, and therefore you end up feeling less the effect on the gross debt.

Edison Ticle:

So the question is on gross debt and gross leverage and cash. We have been reducing gross leverage between R$1 billion, R$1.5 billion of gross debt in the next quarters, and this should decrease 0.8x gross leverage, and with this in the same proportion, the cash should drop. R$6 billion, should go below R$5 billion, about R$4.5 billion, and so we have minimal cash implying three months at least of the purchase of inputs. This is about R$3.5 billion, R$4 billion.

Ideal cash would be between R$4 billion and R$5 billion. We still have some room for minimum cash, at the same time contributing to reducing the gross leverage of the Company.

Participant:

Can you talk about M&A?

Edison Ticle:

We have already said. The main goal recently at the Company has been to fix the capital structure and return money to shareholders through dividend payment. We are certainly open and attentive to good opportunities. We had a specific M&A in Colombia, we bought a plant in Colombia. So this kind of specific M&A is something that we are always keeping on our radar, and any step for M&A that we take will be towards not complicating, or not worsening our capital structure that we have reached since last year.

Operator:

Thank you. We now close the Q&A session. I would like to give the floor to Mr. Ferdinand Queiroz for his final remarks.

Fernando Queiroz:

I would like to close this conference call by thanking everyone and the entire Minerva team for their dedication and all the integration, all their dedication and drive to have results minimizing volatility and generating value to the Company and shareholders.

Despite the difficulties and challenges and regional differences, we have been able, along the period, to extract results from our operations. We move even in a very challenging moment. We will continue to face this together with the way we have conducted our business, with determination, with exports, good capillarity, being focused on distribution, getting closer to our customers, with great focus on sustainability, on innovation, as we have mentioned during our conference call, in our presentation, and focused on increasingly improving the teams, all the places with training, and especially with integrations.

If we move ahead, we have a quite positive scenario on the international market based on what we have mentioned of grains, reduction of availability of competing countries. And we continue to move forward on this export agenda along with South America that is increasingly taking up space on the international scene.

So we continue firm and paying attention to the global market opportunities, always with a financial discipline, with operational discipline, with a clear and transparent strategy for the whole market, always generating value in the short, mid-term and long term.

Thank you very much for your interest in Minerva Foods, and we remain at your disposal for any questions and clarifications that you want to further explore with our team. Thank you very much to you all.

Operator:

The Minerva results conference call has ended. We thank you all for your participation, and we wish you a good day.