



Operator:

Good Morning. Welcome to M. Dias Branco conference call for the earnings results of the 4Q18 and the year of 2018. Today with us we have Mr. Geraldo Luciano Mattos Júnior, Vice-President of Investments and Controllershship; and Fabio Cefaly, New Business and Investor Relations Director.

We would like to inform you that this event is being recorded, and all participants will be on listen-only mode during the Company's presentation. After, we will have a Q&A session for investors and analysts, when further instructions will be provided. Should you need assistance during the conference call, please press *0 to reach the operator.

Today's live webcast may be accessed through the internet address at www.mdiasbranco.com.br/ir.

We would like to clarify that forward-looking statements made during this conference call regarding the business prospects of based M. Dias Branco financial and operational results are assumptions of the Company, based on available information. 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 the general economic conditions, industry conditions and other operating factors could also affect the future results of M. Dias Branco and could cause results to differ materially from those expressed in such forward-looking statements.

Now, I will turn the floor to Mr. Geraldo, who will start the presentation.

Geraldo Luciano Mattos Júnior:

Good morning to everyone, and welcome to M. Dias Branco conference call regarding the earnings results of the 4Q18 and year of 2018. This is the 65th anniversary of Fortaleza brand, a brand that has yearly earnings above R\$500 million.

We would like to recognize our employees that, although this was a complex economic context, have worked very hard and given value to our shareholders, always pursuing the satisfaction of customers.

In 2018, we received the award Prêmio Empresa Mais, given by O Estado de São Paulo, as the best company in the food category; number two, the Transparency Trophy, granted by ANEFAC; and Vitarella, our greatest brand in sales, was selected as one of the 60 most valuable brands in a survey by Isto É Dinheiro together with Instituto Kantar.

Throughout the year, with discipline and focus, we followed our strategy. As planned, we have made important investments, of which we would like to highlight the acquisition of Piraquê. We have established initiatives that will increase our efficiency to make progress in the studies to complement our portfolio in all the categories.

We would like to highlight some realizations: we executed our growth plan that is more accelerated in categories and regions with high potential of growth; in May, after the acquisition process of Piraquê, we started a process of integration, convinced of the potential of synergies of both companies.



We have evolved from 14% in 2017 to 15.3% between May and December 2018.

We had the first round of connections with startups – with Germinar Project –, which ended with very important investment opportunities. We made progress in environmental, social and corporate governance: we concluded our first inventory of greenhouse effect; we carried out the nutritional map for all our portfolio products; we started our work for the creation of a Governance Committee, amongst other that will be detailed in our annual report.

Our net revenues totaled R\$6 billion, 11.3% higher than 2017; we increased our market share in cookies and pasta; we registered R\$933 million of EBITDA, 3.5% lower than 2017; and we closed the year with a net debt/EBITDA of 0.6x. We have minimized the negative effect of 30.3% of the cost of wheat.

Regarding profitability, the high of the cost of wheat, and non-recurrent expenses with the Independent Committee and the integration of Piraquê affected negatively the EBITDA margin, which went from 17.8% in 2017 to 15.5% in 2018.

In addition to the acquisition of Piraquê, we invested R\$301 million in CAPEX. We would like to highlight the projects of expansion and overhaul of our plants and distribution centers, as well as the evolution of our service systems of operation and management of our cooperators.

Regarding the 4Q18, our net revenue grew 17.8%, compared to 4Q17, and 3.5% not considering the results of Piraquê. And there was a high of 44.4% in the cost of wheat in comparison to the 4Q17 and other R\$13.5 million in non-recurrent expenses.

To end, we are making an effort to focus on the execution of our strategy of growth and the realization of the investments that broaden and modernize our infrastructure, and, at the same time, we would like to pay attention to the challenges.

Now I would like to give the floor to Fabio.

Fabio Cefaly:

Thank you very much Geraldo, and good morning to everyone. The presentation is organized in two parts: in the first, we have some highlights to 2018, and the second will be to the 4Q18.

We start in slide five, regarding the main points of the (06:57 – *cracking audio*). We would like to highlight the innovation in traditional subcategories in our portfolio, like crackers and cookies; the first synergies for Piraquê; and the launching of specific products to be launched, like Adorita Tropical margarine, which does not need refrigeration.

Now we go to slide number six, regarding the acquisition of Piraquê. Piraquê is the leading brand in the state of Rio de Janeiro; it has items of high value add and is our seventh brand with over R\$500 million of annual earnings.

The integration is ongoing and we see the first signals of captured synergies. One, the EBITDA margin has positively evolved from 14% in 2017 to 15.3% between May and December 2018, and that is the period when we assumed the company.

Now, we go to slide seven. We maintained our investments in marketing, and we prioritized the actions that encourage sell-out; we carried out campaigns “buy one, get one free”; and we invested on the points of sales, and also on digital investments.

Now, exports: between 2016 and 2018, sales went from R\$28 million to R\$46 million, and we exported to more countries – from 18 countries in 2016 to 37 countries in 2018.

Now, we go to slide nine. We also evolved in sustainability matters. We carried out the first inventory of greenhouse effect gases, and we observed a drop of 8.5% of water consumption/produced ton.

To conclude this part of the highlights, we move to slide ten. The organizational climate survey carried out in 2018 showed a relevant evolution regarding the results obtained in 2013.

Now we go into our results. Let us go to slide 12. Including the Piraquê results, our total net revenue grew 11.3%. We would like to highlight the average price increase in all the product lines, and also the diminishment of volume in wheat and margarine. The net revenue of M. Dias Branco grew 3.4%, with the results of Piraquê.

On slide 14, we see the growth of 15.8% in net revenues of the 4Q18 vis-à-vis the 4Q17, due to the consolidation of results of Piraquê, and the average price of all the products.

Going to slide number 15, without the results of Piraquê, the net revenue of 4Q18 increased 3.5% vis-à-vis the 4Q17. In our product lines, as a whole, the average price increased 15%, vis-à-vis a 10.7% downturn in the volume.

Now we go to slide 16, about market share. In cookies, we observed a more expressive share value, due to the price increase and the consolidation of the results of Piraquê. In pastas, we had a better performance in terms of volume.

Now, let us go to slide 17. Our production capacity increased 6.7% during the quarter and 8.6% throughout the year, due to a drop of utilization level of the Piraquê units, and the holidays given in December.

Now, let us go to slide 18. We would like to highlight the 98.7% of verticalization of shortening, a result of the investments carried out in the productive unit of margarine and shortenings, and part of the Piraquê production be geared toward the productive unit of M. Dias Branco in Lençóis Paulista and Bento Gonçalves. The breakout of the verticalization of wheat is due to the purchase of wheat from third parties in the productive units of Piraquê.

On slide 19, we observe an increase of CPV as a percent of the net revenue, due to the high of the price of wheat, 30.3% in the year and 44.4% in 4Q, always compared with the same period of past year.

Now we go to slide 20. When we compare 2018 vis-à-vis 2017, we observe a drop of operational expenses as a percentage of net revenue. The strict management of expenses and gains of efficiency offset the non-recurring expenses with the integration of Piraquê.

Now, slide 21. We have the view of the expenses in the 4Q18, and we observed the same trend of drop of the expenses as a percentage of the net revenue.

Now, we go to slide 22. Both in the quarter and in the year, we observe a downturn of the EBITDA margin, mainly due to the high of the cost of wheat.

Now we go to slide 23, regarding net income. In addition to the factors explained in the EBITDA, the downturn was because of the increase in financial expenses. We needed money to pay Piraquê and resources for working capital.

It is important to highlight the non-recurring effects that were favorable, regarding the update of tax credits of R\$50 million, mainly due to the processes of the *IPI* over the packages, regarding the period from January 1993 to December 1998, and of the PIS/COFINS over imports.

On slide 24, our investments in expansion and maintenance totaled R\$301.1 million.

Now we go to slide 25. We generated R\$779.9 million in cash, due to the operational activities. We ended the year with R\$451 million in cash, a value inferior to 2017, because of the payment of R\$1.3 billion for Piraquê.

On slide 26, we ended the year in a position of net debt/EBITDA of 0.6x.

Now, we go to slide 27. To conclude this part, we can observe the evolution of MDIA3 vis-à-vis IBOVESPA and the Index of Corporate Governance.

Now, we will go to the Q&A session.

Operador:

Ladies and Gentlemen, we will initiate the Q&A session, only for investors and analysts, should you have a question, please press *1. And to withdraw your question from the list, please press *2. The questions will be answered in order of arrival. We request you to please take your phone of the hook when you ask a question so we can have a better quality of sound. Our first question comes from Daniela Paiger, Bank of America.

Daniela Paiger, Bank of America:

Good Morning, Geraldo and Fabio, and thank you for taking my question. My question is regarding cost. We saw that they were responsible for the margin, but, when we see the price of wheat in Argentina, we see that there is no major effect. How do you see the dynamics of cost for 2019? And how are you seeing prices? What are you going to do regarding your margins, for them to be better?

Fábio Cefaly:

Let us talk about the cost of the wheat. Today, we work with a perspective of improvement, and this means a reduction of the price of wheat, but more for the 2H.

I believe that, today, when we compare it to two or three weeks ago, we are even more positive from a gradual reduction of the price of wheat. And we will have to monitor the possible positive evolution, and we will have to see our prices.

Today, we are not working with an increase during the 2Q. In this moment, we are not working with an increase or a drop of price. We have to observe in the upcoming weeks and months if the hypothesis of the gradual reduction of the wheat will take place, so that we can make a decision regarding the price.

So, the expectation is to see an improvement at the end of the 2Q, and better results during the 2H.

Operador:

Next question, Luciana Carvalho, Banco do Brasil.

Luciana Carvalho, Banco do Brasil:

Good morning. I would like to ask about volume. You had a recovery in margarine in the 4Q. I would like your opinion regarding the upcoming quarters. Do you believe that you will have recovery in the other categories?

Fábio Cefaly:

To answer your question, I would like to give you the context for 2018. In 2018, for the two main products, we followed different dynamics. The cookies and crackers had a downturn, and this downturn was concentrated in the Northeastern region and part of the state of São Paulo. With Piraquê, we had a gain of market share; and in pasta, we believe we had better results. We had a growth in volume.

Luciana Carvalho:

Fábio, I do not know if it is my audio, but this is cutting.

Fábio Cefaly:

I will start again. Is it better?

Luciana Carvalho:

Yes, now it is better.

Fábio Cefaly:

To answer your question, it is important to see what happened in 2018. In our two main markets, cookies and crackers and pasta, that have different dynamic. The cookies and crackers had a slight downturn of 0.8%, and this took place in São Paulo and the Northeast, and presented a greater challenge to our performance, while in terms of pasta, the market grew. We grew more share in the market without considering the volumes of Piraquê.

In addition to this, in 2018, we have seen a non-uniform revenue level. This is because of the truck drivers' strike, the World Cup and elections. So, our performance was compromised because of these factors.

For 2019, our expectation, and what we are working on right now, is to have better revenues in cookies and crackers, and Piraquê will positively affect us. We are working with customers to have stable volumes throughout the year.

So, our prospects are highly constructive for 2019. But to adjust the expectation, we expect to see an improvement as of the 2Q. The 1Q19 is still receiving effects from 2018. December was a very good month, although the quarter was not very good in volume for cookies and crackers.

December was a good month, but in January we have seen a recovery and we will be more constructive as of the 2Q, with a more stable volume dynamic.

Luciana Carvalho:

Just to understand, you said that December was better, and both January and February presented a drop?

Fábio Cefaly:

They were weaker months. January traditionally is a weaker month, this is something that always happens. In the last part of the 1Q, there was a slight improvement, and because of the negotiation that we have with our customers, we feel more reassuring.

But I believe that we will see an improvement as of the 2Q. This is a context that could be of lower cost.

Luciana Carvalho:

Thank you very much, Fábio.

Participant:

A brief question here. Fábio, you mentioned some nonrecurring effects, restructuring effects and credits of PIS/COFINS in your financial results. What we see in the entry of other operational results, I believe that there was a gain of PIS/COFINS with an EBITDA effect.

Could you summarize, or could you explain the gains in the expenses that you had in terms of restructuring that you believe are nonrecurring, so we can purge them? Everything that you believe that affected the EBITDA, gains in EBITDA for the 4Q. I think this can help us to have a better view for the upcoming quarters.

Fábio Cefaly:

In our release, we have some charts that show the effects of the Piraquê's Independent Committee. These two effects are not in the line of other revenues and expenses, they are with management expenses and sales expenses.

We have two impacts in other entries that you mentioned that would be nonrecurring effects, they will not happen again. That is the IPI overpackaging that I mentioned in my release, the impact on the EBITDA that is favorable, that is R\$9.5 million; and there is another factor that is PIS/COFINS over imports of around R\$8 million.

Now, these last two points also presented a positive impact on the financial result because this is a monetary update. Now, when we talk about both of them together, this represents almost R\$40 million. Everything is connected to Piraquê, and the independent committee of restructuring is not part of the expenses.

Participant:

OK. Thank you.

Thiago:

Good morning. I have three questions. The number one would be the wheat market. During this quarter, we saw an erratic performance in volumes and prices, and this affects the average price. Sometimes you have volumes dropping and prices going up. Could you please explain, Fábio, what is happening in terms of market, what strategy are we observing? This could help us.

Question number two, perhaps piggybacking on Luciana's question on volume, when we see the volumes of cookies and crackers, with Piraquê it grows very little, and without it, it drops significantly, and when we see the sequential market share of the Company comparing the 3Q and 4Q and incorporating the effect of Piraquê, you gain sequential market share.

I would like to know what effect is responsible for the variation of the volume in cookies and crackers. You did not lose share, I do not know if there was some type of allocation in volumes. It would be interesting to understand what happened here.

And the third question would be regarding the changes, the second announcement of changes in the Company's management. You communicated that the exit of Geraldo would only take place until the 1H19, and would not happen until the end of 2019. If you could, please, comment on this change. And also, the change of Mr. Francisco Dias Branco to the Board, he exited the Commercial Vice Presidency. I would like to know why these changes. This is a Company that had a strong family presence in the vice-presidency. I would like to know if should we interpret this in a different way as some type of structural change.

Geraldo Luciano Mattos:

I am going to answer your third question, and then Fábio will answer the two first questions. Let us explain the two changes. Number one, regarding my remaining, this was a conversation of the family with me, because there are still some projects that we will conclude by the end of the year. This is a year where we intend to hone the family's governance.

We are concluding a number of strategic projects. These are projects with consultancies that are allowing us to better see the future of the Company. And together with the family, during a meeting, they asked me to remain for a longer period of time. There is no problem. I have been for years with Dias Branco, and I have no problem in giving an extra contribution.

Regarding Francisco Marcos, all of them are Francisco Dias Branco. Francisco Marcos, who occupy the Commercial Vice-Presidency, he personally wants to develop personal projects, and we believe that this is very positive for the Company, not because of his exit, because he contributed a lot, but this is an advance in the governance of the Company.

This is progress in professionalization. And through a headhunter Company accredited in the world, we want to bring an executive with a lot of experience in our market. This person will be part of the Statutory Board.

So, we see this as something very positive for the Company, and we are making progress in the process. And Marcos will participate in other family businesses, and he will deal with personal projects. We see this as something positive. He contributed positively to the Company, and now he wants to take on personal projects. This is something that is very positive.

Flávio Cefaly:

I will start with cookies and crackers. When we see the 4Q, it is important to mention that we have seen a non-uniform performance of the volume throughout the month. We have seen that, almost in all quarters of the year, we started a quarter with a weaker month that improved, and then the quarter ended positive in volume. When we see the 4Q, the first month, the month of October was weak and December was a very good month in cookies and crackers and other categories.

Now, when we compare, within this context, how we supply our customers, analyzing the 3Q and the 4Q in cookies and crackers, and everything that I am saying does not include Piraquê, you will see that there was a downturn in the 2Q of 2.4%, when we compared it 2017. It was very different from the downturn of 6.6% in the 4Q within the context that the cookies and cracker market was weaker than 2017. When see the semester and the market share dynamics, although there is a difference of sell-in and sell-out, the scenario was clear.

Of course, you are right, when you only the sell-in of the 4Q vis-à-vis the positive evolution of market share it does not make sense. The month of September was positive, and part of the sell-out of the 4Q came from the sell-in in September. And October and November were weaker, but December was a good month.

And this happened in the context of 2018, because we had to increase prices three times. The two first worked out fine, and in the other one we had to use discount.

In 2019, we are using the 1Q to make adjustments. We have a better perspective for the 2Q in terms of total volume and in terms of having a volume dynamic that will be more uniform throughout the month.

I believe I answered your question regarding question regarding cookies and crackers, or do you have something else?

Thiago:

I will follow up, but I understood your question.

Fábio Cefaly:

Regarding wheat, now we are talking about the high of the wheat. It increased a lot in prices as of May, so this was an intense high in wheat. We have to remember that the 1Q18 the price of wheat was below 180, 190, then it was above 200 in May, and it remained at these levels throughout the 2H. In September, there was a strong devaluation of the BRL, so we want to prioritize prices, and we had a significant drop in the wheat volume.

When we see wheat, it is important to separate the two markets: the market of food service that is a great part of the wheat that is sold domestically, when we sell in the retail market in packages of 1 kg. In this second market, that would be domestic wheat, we had a very good performance here. We grew. Our performance is restricted to the Northeastern region, and our market share at the end of 2018 was 28%. So, the performance of wheat was below expectations in terms of volume for food services, and it was better for domestic wheat.

In 2019, we have to follow up the evolution of the price of wheat. We will have a more constructive perspective as of the 2Q, and we are safer for the 2H.

Thiago:

This is clear. Thank you very much. If you could follow-up the competitive dynamic, because when we see your gross margin, excluding Piraquê, which contributes with a higher gross margin, the gross margin of M. Dias is at a historical low. I imagine that the competition and the other players in the market are not going through better periods than you. Your speech of margin recovery, wheat and the capacity of increasing prices is very conservative. Are showing an improvement during the 2H, or at the end of the 2H? I believe that the entire industry is undergoing pressure on costs.

Fábio Cefaly:

I would like to interrupt you. I believe I cannot answer on behalf of the competitors, but when you see what we observe, when we analyze the market, we will need some weeks and months to be more certain of what the dynamic of wheat will be at the end of the 1H and the beginning of the 2H.

Traditionally, there is a drop in prices during the 2H. This time, I believe this will happen before. This is because of the good news of the price of wheat in the Northern hemisphere. We have to see if this drop will be maintained, or if it will be stable. Is this anticipation? Will it happen, or will there be some type of reversal? We will only see this during the 2H.



Thiago:

Thank you very much.

Operator:

As we have no further questions, I would like to give the floor to Mr. Fábio for his final remarks.

Fábio Cefaly:

We would like to thank all of you for your participation, for your questions, and we expect you during our next call that will be about the results for 1Q19. Thank you very much.

Operator:

M. Dias Branco's earnings results conference call has come to an end. Please disconnect your lines now.



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