



## **FRIGORÍFICO CONCEPCIÓN - 2019 EARNINGS CALL**

**Operator:** Good morning and welcome to the Frigorífico Concepción 2019 earnings conference call. All participants will be in a listen-only mode and after the presentation we will start a Q&A session, when instructions will be provided.

We request our participants to ask only one question. Should you need assistance during the call, please contact an operator for assistance by pressing \*0.

Please remember forward looking statements during the conference call regarding Frigorífico Concepción business outlook, projections and results and the Company's growth potentials are merely assumptions based on the management expectations regarding the Company's future.

These expectations are highly dependent on the overall performance of the country and the sector and on international markets and are subject to change. Please note this event is being recorded.

I would now like to turn the conference over to Mr. Joaquin Lagos, CFO to Frigorífico Concepción. Please go ahead, sir.

**Mr. Joaquin Lagos:** Hello and thank you for joining the first conference call presentation of consolidated financial results of Frigorífico Concepción. My name is Joaquin Lagos, Financial Officer, and here with me are Jair Antônio de Lima, Chief Executive Officer and President, Pedro Pascutti, Vice President and Chief Operating Officer, Amilcar Ferreira, Financial Advisor and Yolanda Escobar, Planning and Control.

This is the first time we have presented consolidated financials that includes Frigorífico Concepción and BFC subsidiary in Bolivia. We will begin this call by commenting on the situation we're experiencing with the pandemic. Never before have we experienced a situation like this, and we continue to assert the changes it will bring in the future and its impact on the food business.

To comment on the subject I give the floor to Amilcar Ferreira, who will give you some highlights of our performance and then some background on the economic situation in Paraguay and Bolivia, as well as the situation in Paraguay with the pandemics.

**Mr. Amilcar Ferreira:** Thank you, Joaquin. Good morning everyone. I would like to begin with the highlights we had in 2019 on page 3. 2019 stood out for being a very important year for us, primarily due to the rehabilitation of the plant 38 in Concepción to export to Russia, as well as the start of our export to China by our Bolivian subsidiary.

In the fourth quarter, we managed to recover our level of turnover in the international market, consolidating our presence also in the local market. We obtained a total net profit of USD 12.7 million in consolidated numbers.



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I would like to comment on the measures taken by the government of Paraguay to stop the spread of Covid. When the first case was detected in March of this year, the government established the total closure of borders and total quarantine, with the suspension of most of the economic, public and social activities of the country.

Protocols were established for certain economic areas to continue operating, such as the agro industrial area, so our plants continue to operate. Last week, the so-called smart quarantine plan was launched in order to reactivate all activities in the country. This smart quarantine will be implemented in four phases, as you can see on page 4.

Phase 1, which began on May 4, established that industry, service providers and delivery services can begin operations.

Phase 2, which begins on May 25, will allow the opening of the stores of up to 800 square meters and corporate offices and will permit professional sports matches without spectators, among others.

Phase 3 will start on June 15 and allows shops with more than 800 square meters to open, sport complexes, etc. are enabled.

Phase 4 there is still no start date for the reopening of the other economic sectors of the country, for example bars, restaurants, events, etc. At this date, Paraguay has the lowest number of confirmed cases and deaths in the region.

For our part, as a food company, we understand the importance of continuing to operate to feed people. Although we have reduced our operations, our plants continue to work, taking sanitary measures to care for our employees.

We have separated the risk group, constant disinfection of work areas, measuring the temperature of employees, supply of gym straps for daily use and we are applying the distance in common areas, making different schedules for administrative staff.

In Bolivia, we are also applying all sanitary measures according to local legislation, as we understand the importance of maintaining food productions.

On page 5, we can see the economic indicators of Paraguay. We have a population of seven million inhabitants, with a nominal GDP of USD 39 billion, an inflation of 2.8%, with a foreign credit rating only one notch below investment grade. Please note the graph of the distribution of the GDP of the country.

On page 6 you will find the concrete export figures for the last five years, with meat standing out as the third largest exported product behind soy and electrical energy, with an average of 13.4% of total exports in the last five years. In 2019, according to USDA data, Paraguay has the eighth largest exporter of meat in the world, with a total herd of 13.8 million heads of cattle.

As you can see on page 7, 331 thousand tons of meat were sold on the quarter at a value of USD 1 million. Paraguay exported to 44 different countries during 2019, its



many markets being the countries of Chile, Israel, Russia, Brazil and Taiwan, as shown in page 8.

Bolivia's economic indicators are on page 9, with a population of 11.2 million and nominal GDP of USD 44 billion, an inflation of 1.47%.

I would like to give the word back to Joaquin Lagos to talk about the consolidated figures of Frigorífico Concepción. Joaquin.

**Mr. Joaquin Lagos:** Thank you, Amilcar. On page 11 you can see the detail of the slaughter by quarter of the fiscal year 2019. We have slaughtered a total of 303.1 thousand heads of cattle in 2019, in particular, please note the last quarter of the year, when we reached a slaughter of 100,224, 31.3% higher than the 4th of 2018 and 9.1% higher than the third quarter of 2019.

This increase in slaughter, in the last quarter of the year, is due to two factors. Firstly, as mentioned previously by Amilcar, the opening of plant number 38 for the Russian market, after its closure for 18 months, which is our main plant, with a daily slaughter capacity of 1,800 heads per day. And second because of the increase in slaughter at the Bolivian subsidiary, due to the start of exports to the Chinese market.

On page 12, we can see our total income for the year 2019 where, in consolidated numbers, we have registered a total of USD 298.2 million in sales, which is 84% that came from export.

As you can see on page 13, in 2019 we exported to 38 different countries around the world, with our main market being Russia, 29%, Brazil 25%, Chile 16%, Israel 11%, Taiwan 4%, this graph available on page 14. In the Bolivian subsidiary, the main destination was China.

On page 15, we show on the cost of sales. The purchase of livestock is our main cost component, which represents 81.9% of total cost. The gross margin for the year was 13.9, 4.5% higher than in 2018. This improvement in the margin was mainly due to the decline in livestock prices in Paraguay and the attractive prices of sale in the international market. Also, by the price we pay for the cattle in Bolivia compared with the prices of sale to the Chinese market.

On page 16, we detail our operating costs, salary and administration expenses and their impact on income. The total of the 3 items represent 4.3% of total sales, 0.1 less than in 2018. The annual EBITDA was 28.5 million. The EBITDA margin of 9.6% shows a strong correlation with the gross margin seen previously. As for the results, as mentioned at the beginning, we can see in slide 18 we have obtained a profit of 12.4 million, 135.5% higher than 2018.

On page 18, we have detailed our indebtedness. At 31 December, 2019, as you can see in 2019, our debt is primarily concentrated in short-term loans. This has changed favorably in 2020 with the issuance of international bonds in January 2020. This



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extension of gratuities and reduction in cost has had a very positive impact on our results and will be seen later in the publication of third quarter results.

Before going to the Q&A session, I would like to thank you again for your participation, apologize for presenting the results of 2019 a little late, but we are working so that the next publication is as early as possible.

On page 22 you can see the preliminary figures for the first quarter of 2020, where we had a substantial Improvement in sales and operations compared to the first quarter of 2019, as well as the change in our debt position, which was at a high percentage in the short-term.

On page 23 we have the FC sales and slaughter data for the first quarter. On the situation in China, in the first quarter of 2020, I would like to tell you the following: in the middle of the Chinese New Year, in January 2020, we began to notice the impact of Covid-2019 in our industry. Although we did not notice material changes as to sales or payments, there were delays with the containers due to logistic traffic.

While demand in China continues to be extremely strong the prices that were previously paid returned to normal prices since October of last year. China began to suspend consumption of exotic animals that were being sold in the country's popular market.

With this suspension, the consumption of other animal protein increased again. Later the Covid arrived in the United States, the main export of proteins to China, resulting in the closure of plants of major producers such as Smithfield Food, Tyson Food, JBS, which benefits producers' demand in Latin American countries.

With this I would like to open the call for questions and answers. Also, as this meeting is progressing there is the news that we just received regarding China and Australia, whereby China has closed the access to four plants from Australia, two of them belonging to JBS. Ok.

**Operator:** We now begin the question and answer session. If you have a question, please press the star key followed by the 1 key on your touchtone phone now. If at any time you would like to remove yourself from the question cue, please press star two.

Our first question comes from Omar Ziolla, OpenHarmour.

**Mr. Omar Ziolla:** Good morning. Thank you for the call. I just wanted to ask you is there any news about the opening up of the U.S. market to beef exports from Paraguay? And is there any other markets may be opening up for you or for the country as new extra markets?

**Mr. Joaquin Lagos:** Regarding the opening of export to the U.S. market, there has been no new developments and it's basically not moving in the sense of obtaining access to the U.S. market.

**Mr. Omar Ziolla:** Ok, thank you. Any other markets that might be opening soon?



**Mr. Joaquin Lagos:** Russia, in the previous years we've had reduced activity, were visiting the plants in Paraguay and we expect that they will come back again to buy from us. And the other one that will begin at the end of this month is Israel.

**Mr. Omar Ziolla:** Ok, thank you.

**Operator:** Our next question comes from Oliver Spoor.

**Mr. Oliver Spoor:** Hi, good morning guys, thank you for the call. Just a couple of questions regarding your 2020 outlook on guidance on your revenues, EBITDA and EBITDA margin, basically, and Capex for the year and also just a couple of quick questions on your cash balance and your minimum cash balance, because at the end of the year you have 1 million, 1.5 million, do you have also uncommitted or committed revolver or standby letter of credit for additional liquidity?

**Mr. Joaquin Lagos:** Regarding the question on the Capex, the assumption is that for this year and for the remaining of this year, the Capex will be equivalent to the amount of the depreciation, so this reinversion of the depreciation into Capex.

**Mr. Oliver Spoor:** Ok, thank you. And revenue and EBITDA for this year, maybe?

**Mr. Joaquin Lagos:** Ok, regarding the question of earnings for this year, if you see on page 22, you have there the effective sales of the first quarter, which is 109% higher than last year, so that gives an idea of the tendency. Regarding the consolidated EBITDA, there is a margin of 10.3% over sales.

**Mr. Oliver Spoor:** So that's a further improvement in Q12020, compared to Q42019 or compared to 2019?

**Mr. Joaquin Lagos:** Yes, there is an important improvement because of the fact that Russia was not there last year.

**Operator:** Excuse me, our next question comes from Joon Ku, investor.

**Mr. Joon Ku:** Could you kind of give us a sense of what you guys are paying in terms of price per kilo for the carcass, and also on the sales side, since at the end of first quarter, just trying to get a sense of, you know, how the market is trending for purchases and for exports?

**Mr. Joaquin Lagos:** The price of carcass this year has come down 28%. The dollar price that we are paying at this moment has come down and today is USD 2 per kilo.

**Mr. Joon Ku:** And what's your average selling price per kilo for export and domestic, out of Paraguay?

**Mr. Joaquin Lagos:** The average price on exports is USD 4.20 per kilo. And for sales in the local market that is about a little over USD 3.



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**Mr. Joon Ku:** Ok and my last question is I know there was some ban on exports to Russia earlier. Can you kind of give some color on how that's changed or if that has normalized again for your exports to Russia?

**Mr. Joaquin Lagos:** No, that happened during last year and the year before in the sense that there was a ban and we could not sell to Russia for 15 months. In August of last year, the ban was lifted and today this is official.

**Mr. Joon Ku:** Ok, so all sales channels including Russia is normal right now?

**Mr. Joaquin Lagos:** Yes, they are all available.

**Mr. Joon Ku:** Ok, I'll hop back on the cue. Thank you.

**Operator:** Our next question comes from Adrian Garcia, Invesco.

**Mr. Adrian Garcia:** Hi, good morning and thanks for taking the call. I'm curious if you have been experiencing any difficulty in transporting cattle to export, given to understand that there's been a drought, so accessing the port may be difficult, so any difficulties in terms of your transportations? Thank you.

**Mr. Joaquin Lagos:** We have no difficulties in transportation in Bolivia right now.

**Mr. Adrian Garcia:** What about Paraguay?

**Mr. Joaquin Lagos:** No, there is no difficulty in Paraguay.

**Mr. Adrian Garcia:** Thank you.

**Operator:** Ladies and gentlemen, as a reminder, if you would like to pose a question, please press the star key followed by the one key on your touchtone phone now.

Our next question comes from Joon Ku, investor.

**Mr. Joon Ku:** Hi, I have a follow-up question. Given what's going on in meat plants sort of across the world, especially in developed markets, can you maybe talk about what your buyers are telling you about what other countries are doing in terms of, you know, how markets are trending for markets where you're not exporting directly from Paraguay?

**Mr. Joaquin Lagos:** Ok, If I understand, ok... in general the markets that have been more affected in their capacity to absorb our sales is Europe, in particular the European Union, because as we know the problems in Spain and Italy, so I would say that clearly the market that is closed and that we have no access to today is the European Union. Chile is normal with a little downward tendency, but normal. And Russia and Israel, as I mentioned, they will be coming, Israel at the end of this month to restart production. That one is ok?

Cowhide, which was closed because of market conditions and prices too low, is starting to recuperate again, slowly but steady. I would say, as I said, apart from European Union, the other ones are moving normally.



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**Mr. Joon Ku:** Now, if I look at the Russian ruble compared to the average for the first quarter, it's depreciated quite a bit. Are you hearing anything, any demands of concession from the Russian buyers at this point?

**Mr. Joaquin Lagos:** Well, in line with the reposition of the ruble, the Russians are buying, but obviously the prices have come down and prices in Russia so far, since late last year, has come down 15% in dollar terms.

**Mr. Joon Ku:** Ok, that's it for me, thank you.

**Operator:** Excuse me. If you want to pose a question, please press star one. Our next question comes from **Benjamin Cryer:**

Can you please address what the company is doing to prevent the spread of Covid in your processing plant? We can see significant disruption in the U.S... Do you expect similar disruption in Paraguay or Bolivia?

**Mr. Amilcar Ferreira:** We are taking sanitary measures to care for our employees. For example, we have separated the risk group, constant disinfection of work areas, measuring the temperatures of employees, supply of gym straps for daily use and we are applying the distance in common areas. We think that we are taking all the measures in order to protect our plants, our employees and continue operating. As we said, Paraguay has the lowest number of computed cases and deaths in the region.

**Operator:** Our next question comes from **Robert Nelson:**

Please expand Capex plan for Bolivia and given that bond prices were slightly lower than expected.

**Joaquin Lagos:** Well, in the case of Bolivia, originally, before the issuance of the bonds, the idea was that we were going to invest USD 20 million for the expansion in Bolivia. The amount of the bond issuance was reduced by USD 20 million and therefore we have made no investments in Bolivia, it was only the original investment that was already built and operating in Bolivia, but the USD 20 million Capex has not happened and we are evaluating for next year to incorporate in our Capex, but not for the remaining of this year.

**Operator:** Our next question comes from **Robert Nelson:**

Do you expect any impact from the announcement that China will not import beef from Australia?

**Mr. Joaquin Lagos:** The fact that Australia will not be available I think is going to benefit in general the *frigoríficos* in the region. China supplies 11% from Australia and yearly the plants in South America will be benefited by that effect.

**Operator:** Our next question comes from (incomprehensible and unlisted): How is the external debt in dollar hedged in regards to the revenues, please?



**Mr. Joaquin Lagos:** In general, the foreign currency is hedged. We buy from farmers in dollars, in actual dollars, and we export in dollars, there is a very small percentage in Euro currency, but in general we have natural hedge in buying from the cattle breeders in dollars and exporting to the international market in dollars, so we face no effects risk.

**Operator:** Excuse me. Our next question comes from Adrian Garcia, Invesco.

**Mr. Adrian Garcia:** Hi, thank you. I want to see if I can get a follow-up on the liquidity position. I don't know if you addressed that before, but can you comment on your minimum cash that you require for operations and where do you currently stand, how much extra cushion do you have, and on that vein if you have any bond credit facilities and related to that when you did the bond issuance I believe there was USD 20 million were set aside in an escrow account and that would only be drawn as receivables were created. I would like to know what's the balance of the escrow account. Thank you.

**Mr. Joaquin Lagos:** Ok, the reserve that we have on the accounts receivable are USD 43 million. And our net cash is about USD 3 million, and we have, under the bond agreement, the capacity to contract new short-term facilities up to USD 70 million.

**Mr. Adrian Garcia:** So, just to understand, so you have on the escrow accounts, from the 20 that you set aside at the beginning of the bond issuance you've drawn 17 and you have 3 million now and in addition to that three million you have 3 million that's unrestricted, is that correct?

**Mr. Joaquin Lagos:** We have increased our reserves from 20 to 43.

**Mr. Adrian Garcia:** Ah, 43. Ok. Got it. So, and your cash balance stands at 3 million and what would you say is your minimum cash balance?

**Mr. Joaquin Lagos:** The minimum we are in that level today.

**Mr. Adrian Garcia.** So, you're currently more or less at your minimum level?

**Mr. Joaquin Lagos:** Yes.

**Mr. Adrian Garcia:** And aside from what the bond prospectus allows you to draw in regimental facilities, I'm just curious in your banking relationships, do you have availability in revolvers that you could draw?

**Mr. Joaquin Lagos:** Yes, we do, we have a short, up to one year, short-term lines, from local banks.

**Mr. Adrian Garcia:** Understood, thank you

**Mr. Joaquin Lagos:** And we have also the option to issue short-term local bonds, which goes up to between 270 up to 360 days, with no guarantees.

**Mr. Adrian Garcia:** I got it.



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**Operator:** If you want to pose a question, please press star one. This concludes today's question and answer session. I would like to invite Mr. Joaquin to proceed with his closing statement. Please, go ahead, sir.

**Mr. Joaquin Lagos:** Well, thank you very much for your interest in this presentation. As I mentioned earlier for the first quarter of this year, we hope to be calling for a new meeting between mid to late June, ok? Having said that, have a good day today. Thank you.

**Operator:** That does conclude the Frigorífico Concepción audio conference. Thank you very much for your participation and have a good day and thank you for using chorus call.