International Conference Call
Marfrig Global Foods S.A.
2nd Quarter 2019 Earnings Results
August 15, 2019

Operator: Good afternoon ladies and gentlemen. At this time we would like to welcome everyone to Marfrig Global Foods S.A. conference call to present and discuss its results for 2nd quarter 2019.

The audio for this conference is being broadcast simultaneously through the Internet in the website www.marfrig.com.br/ir. In that address you can also find the slideshow presentation available for download.

We inform that all participants will only be able to listen to the conference call during the Company's presentation. After the Company's remarks are over there will be a Q&A period. At that time further instructions will be given. Should any participant need assistance during this conference please press star zero for an operator.

Before proceeding, let me mention that forward-looking statements are being made under the Safe Harbor of the Securities Litigation Reform Act of 1996. Forward-looking statements are based on the beliefs and assumptions of Marfrig's management, and on information currently available to the Company.

Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions because they relate to future events and therefore depend on circumstances that may or may not occur in the future.

Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of Marfrig and could cause results to differ materially from those expressed in such forward-looking statements.

And now a message from Mr. Marcos Molina, Founder and Marfrig Global Foods' Chairman. Please go ahead.

Mr. Marcos Molina: *Boa tarde a todos. Gostaria de agradecer a participação de vocês em mais uma conferência de resultados da Marfrig.*

Interpreter: Good afternoon everyone. I would like to start by thanking you for participating in another Marfrig's conference call.

Mr. Molina: *Começando destacando o forte trimestre de resultados da companhia. Mais uma vez, mesmo em base proforma, fomos melhores que nos trimestres anteriores reforçando nossa estratégia de atuação em proteína bovina e em produtos de maior valor agregado.*

Mr. Miron: it was a strong quarter with strong results in which once again in a pro forma basis we improved from our prior quarters reinforcing our strategy of focusing on beef protein and on higher value products.

Mr. Molina: *Na operação da América do Norte foi concluída no 2T19 a aquisição que fizemos em conjunto com outros acionistas da National Beef, da planta em Iowa. Essa aquisição além de adicionar mais capacidade à nossa operação também mostra o comprometimento de todos com o crescimento e rentabilidade do negócio.*

Mr. Miron: in North America operation during the quarter we concluded the acquisition which we carried out jointly with the other shareholders of National Beef of the Iowa plant, which not only will expand our operating capacity but also demonstrated the commitment of all shareholders to the growth and profitability of the business.

Mr. Molina: *Também destaco o acordo com a ADM para desenvolver em conjunto produtos com base vegetal. Vamos produzir um hambúrguer 100% vegetal com sabor e texturas similares ao da carne.*

Mr. Miron: another highlight is the agreement with ADM for the joint development of plant-based products. We are going to produce a 100% vegetable burger with flavor and texture that mimics the animal protein burger.

Mr. Molina: *Nós, como maiores produtores de hambúrguer do mundo, queremos dar ao consumidor o poder de escolha. Já temos um contrato com Burger King e o lançamento a acontecer em setembro.*

Mr. Miron: as the world's largest beef patty producer we would like to give consumers the power of choice and we have already closed a deal with Burger King with sales starting in September.

Mr. Molina: *Antes de passar a palavra para Miron e Spada, que irão entrar no detalhe do trimestre, quero falar um pouco sobre a missão do bond sustentável que foi feito recentemente.*

Mr. Miron: before I have the presentation over to Miron and Spada, who will go into more detail on the quarter's results, I want to talk about the sustainable bond that we recently issued.

Mr. Molina: *Como vocês sabem sustentabilidade é um tema que valorizamos muito na Marfrig. Recentemente criamos um comitê de sustentabilidade. Temos um conselheiro, Roberto Waack, que é um expert no assunto, e contratamos um diretor, Paulo Pianez, para endereçar o dia-a-dia dos temas relacionados à sustentabilidade.*

Mr. Miron: as you know sustainability is a key value at Marfrig. We recently created our Sustainability Committee, whose members include Roberto Waack, which is an expert in the field and we also recruited Paulo Pianez, who will be responsible for all matters related to sustainability.

Mr. Molina: *Esse time junto com o time financeiro foram responsáveis por uma emissão inédita no Brasil: a primeira captação sustentável não é só um green bond; é um bond além do aspecto do meio ambiente ainda traz a questão do bem-estar social.*

Mr. Miron: working together with the financial team this team was responsible for the first sustainable bond operation in Brazil, which is not just a green bond; but a bond that goes beyond the environmental aspect to include the social economic dimension.

Mr. Molina: *Essa captação obteve a menor taxa da história de juros da companhia. Isto é um reconhecimento do mercado para ações sustentáveis da Marfrig.*

Mr. Miron: the bonds were placed with the lowest interest rate ever obtained by the company, which reflects the market's recognition of Marfrig sustainability actions.

Mr. Molina: *Agradeço a todos por mais um trimestre de parceria e sólidos resultados. Meu muito obrigado a todos. Passo a palavra para Eduardo Miron.*

Mr. Miron: I want to thank everyone for a solid quarter and again I would like to thank you all very much.

Mr. Miron: thank you Marcos and good afternoon. I want to start by thanking everyone for attending this, a mother earnings call for Marfrig Global Foods that we will be commenting on the results of 2Q 19. With us today are also Marco Spada, the CFO and investor relations officer; Miguel Gularte, CEO of the South American operation; Tim Klein, CEO of the North American operation by phone; and we invited Paulo Pianez, our director of sustainability, to join us this time.

I would like to start saying that we are extremely happy with the results achieved in the quarter. They confirm our positive you for the year on the financial pillar and also in the other strategic pillars like sustainability and products and customers. Let us start on slide three with the quarter's financial highlights. For the third straight quarter we posted positive net income which this quarter surpassed 86 million BRL, which is an excellent result, compared to the net loss of 582 million BRL in the same quarter of last year. Net revenue was over 12.2 billion BRL setting a new record for the company while adjusted Ebitda was also a record at 1.1 billion BRL with margin of 9.1%.

As Marcos touched on we concluded the acquisition of Iowa Premium, which added 1.1 thousand head per day to the processing capacity of our North American operation, which now amounts 13.1 thousand head per day. The acquisition price was approximately 150 million USD with each partner contributing proportionately to their interest, which and Marfrig decays was around 75 million USD.

We also carried out transactions to reduce our debt cost issuing a 1 billion USD bond maturing 2026 with a coupon of 7% per year improving our average cost and average term.

Let us do not to slide four please. Here it shows our strategic highlight how. For the seventh straight year our compliance with the Public Committee of Amazon was confirmed by an independent Norwegian international consulting firm – DNV-GL. The audit analyzed our cattle purchases in 2018 and confirmed that all our units in the region, by with all procedures required by the commitment undertaken in 2009.

We also issued the first sustainable transmission bond in Brazil in the amount of 500 million USD for 10 years with a coupon of 6.625. This is the longest duration and lowest-rate-ever obtained by the company. The proceeds will be used exclusively to buy cattle in the Amazon Bioma. The issue is important since it attests to Marfrig's ongoing efforts in promote sustainability and financial discipline.

Let us go to the next slide, slide number five. Continuing with the strategic highlights we recently announced an agreement with ADM for the joint development of plant-based products starting with burgers. Under the agreement ADM will provide ingredients while Marfrig will produce, sell and distribute the products.

Our initial idea is attending the food service channel has already published. We will be producing burgers… Burger King's vegetable burger and in Brazil we must launch the Marfrig retail brand until the end of the year and then after that we think about the export market. So we start with food service where we have a lot of good relationship with a number of players; moved to the retail with our own brand; and finally expanded to exports. It is all based on the performance of this business and we feel extremely positive about it. I will pass not to Marco Spada who will comment on the operational results in more detail. Please Marco.

Mr. Marco Spada: thank you Miron good afternoon everyone. Let us continue the presentation on slide number seven. Here let us look at the performance of the North American operation, which once again delivered robust results. To facilitate the comprehension of the variations all amounts here are expressed in USD. In 2Q the operation posted volume and revenue growth with revenue reaching 2.247 billion USD. This increase is explained by the continued firm demand in the domestic market, which continues to support higher prices. Volumes were also driven by the expansion of the Moultrie unit, which allowed us to increase sales to an important supermarket chain.

Gross income which came to 288 million USD was stable YoY. Although but cut out ratio, which is the ratio of the average beef price to the average cattle price rose from 1.85 to 1.86 in the YoY comparison margins were slightly pressured by the reduction in carcass yield. The lower carcass yield was due to the severe winter of this year.

Let us turn to slide number eight place which shows the result of the South America operation. Net revenue from the South America operation grew by 8.8% on 2Q 18 to nearly 3.5 billion BRL. Revenue growth was driven mainly by the solid growth in exports sales volumes, especially to Asia led by China and also to the Middle East.

Remembering that we are the company with most plants in South America authorized to exports to China, as expected export volumes to the country began to grow in the quarter. Based on average for the period Uruguay's and Argentina's exports to China as a share of their total exports reached 62% and 46% respectively. Brazil, which has limitations in terms of plant authorizations, shipped 31% of its exports to China. On a consolidated basis 8% of total group’s revenue in the quarter came from sales to China.

Another factor benefiting revenue was the impact from exchange rate variation based on the average exchange rate in the period, which increased by 8.7% compared to the same quarter of last year. The operation’s gross income was slightly lower than 2Q LY at 395 million BRL. Gross income was affected by the lower sales volume while gross margin, which stood at 11.5%, was affected mainly by the higher cattle cost both in Brazil and Uruguay.

In Brazil the average cattle price compiled by Esalq was 8.9% higher than in 2Q LY. In the USD cattle price remained stable. This price increase reflects the pressure due to the local currency depreciation and higher export sales. In Uruguay cattle cost went up by 6.8% explained by the historically low inventories due to exports of live cattle and the growing Chinese demand.

Let us move now to slide number 10 where I will comment on the company's consolidated performance. All indicators you see here posted improvement in comparison with the same quarter of last year. Given the company's international presence the depreciation in the BRL played an important role in the consolidated results. The effects from currency translation combine and with growing domestic sales at the North American operations and growing export volumes at the South American operations support to net revenue growth on the prior year… period of 9.8% totaling 12.2 billion BRL.

With this performance Ebitda grew 13.3% to 1.1 billion BRL setting a new record for the company with Ebitda margin of 9.1%. Lastly for the third straight quarter we delivered positive net income now of 87 million BRL compared to the net loss of 582 million BRL in 2Q LY supported by the sword results of the North American operation.

Let us move on to the next slide where we will comment on cash flow. Considering the net profit I just mentioned and adding non-cash items and adjustments of working capital the operating cash flow was 876 million BRL. Most of recurring Capex, in other words funds allocated to maintenance and minor improvements, totaled 191 million BRL. Interest expenses came to 277 million BRL impacted this quarter by additional costs from the issue carried out in May.

As a result free cash flow generation before M&A activities and the distribution of dividends was 408 million BRL compared to a cash burden of 1.1 billion BRL in 1Q TY. These funds were used to settle the last installment of the acquisition of Varzea Grande plant in Brazil of 25 million BRL; and to settle the acquisition of our share of Iowa Premium in the United States in the amount of 218 million BRL, which results in a free cash flow after M&A of 103 million BRL.

Let us move on to the next slide where we will comment on our debt and our leverage indicators. As you can see that there was 2.6 billion USD, 6% higher than 1Q which was driven by the variation of the cash flow after M&A that we saw in the previous slide; added by the payment of dividends to third parties of a total of 151 million USD. In 2Q we paid dividends to the minority shareholders of National Beef was a mouse refer to 1Q 19, as you recall there was no payment in the previous quarter; referred to 2Q TY as well; and also to a surplus cash related to fiscal year 2018; and also as an extraordinary payment paid in advance in order for them to pay the Iowa acquisition.

The improvement in our Ebitda support but he continued advances in our operations is lowering our debt ratio, which fell once again this time reaching 2.65x. With the liability management exercise carried out in May we reduced the cost of our debt and extended the average term, which stands at 6.73% per annum and 4.49 years respectively. With these efforts we continue to lower our cost of capital and to reduce our borrowing costs.

Let us go now to the next slide where we will comment on our guidance for 2019. Based on the results delivered in 2H TY and on our positive outlook for 2H we reaffirm our guidance for the full year. The improvement between 1Q and 2Q is clear as you can see the charts and we have other factors that reinforce our projections.

Talking about the revenue we need to talk about the exchange rate as well. The scenario of a stronger USD against the BRL given our international presence we… our forecast of 3.9 BRL per USD is becoming realistic and recently even shy. About Ebitda I would like to recall that due to seasonality 2H Ebitda is usually stronger than 1H.

In terms of cash flow a few important points to consider: our investments in working capital were all made in 1H TY; recurring Capex should decline slightly over the coming quarters; cash flow in 2H TY should be higher due to seasonality - for example bonus payments are made in 1H of the year, operations to lengthen supplier payment terms which happened at the end of the year recovery in 1Q and also due to some typical market factors; and last we continue to reduce our interest rates. So given all this we reaffirm our guidance for the year and we are confident that we will achieve the targets. I will now return the word to Miron for his closing remarks.

Mr. Miron: thank you Marco. I am now in the final slide for today's presentation and here the atheist reinforce our commitment to a sustainable value generation. This is our goal, which is supported by five main pillars, strategic pillars that we demonstrated in this slide and are the same ones we announced at the beginning of the year. I will not go over the items as we somehow highlighted them, the main once during this call. So we always summarized here some actions and examples, even more important, that show that we are making progress in our strategy.

So we are very happy with 2Q results. I believe it demonstrates our performance and delivery capabilities, innovation and strengthens our commitment to sustainable value generation. We believe 2H TY will be much better. Our teams in all regions we operate are engaged, optimistic and focused; and I would like to finish thanking them all for their work in this journey. With that I would not suggest we moved to the Q&A session, thank you.

<u>Q&A Session</u>

Operator: thank you. We will now begin the question-and-answer session. If you have a question please press star one. Once again to ask a question please press star one.

Our next question comes from Brian Hunt, Wells Fargo Securities. Mr. Brian Hunt your line is open, you may proceed.

Mr. Brian Hunt: thank you very much sorry, I was on mute. While your competitors lost the plant to a fire it is probably going to be down more than a year, it is our estimate. Can you talk about your ability to adjust your production schedule to maybe grab some of that industry volume that may be spread around amongst the competitors?

Mr. Miron: hi Brian this is Eduardo Miron. As we have here with us our CEO for North America Mr. Klein I would ask him to address your question. Tim can you do that?

Mr. Tim Klein: yes. Brian to answer your question the plant that Tyson lost due to the fire represents about 6% of the industry slaughter of fed cattle. We believe that Tyson internally with the other locations will more than likely offset about half of that and then with the balance of the industry with think the net effect of the fire will be running at 6% industry capacity loss for like 2%.

As you know the US industry has been operating at almost full capacity and so there is not a lot of gas pedal left with the rest of the industry including ourselves. We do expect to increase production levels as much as we can without compromising programmed maintenance programs in our plant and employee welfare.

Mr. Hunt: and how many additional head per day do you think you could get by maybe running an extra shift on Saturday or just tweaking schedules?

Mr. Klein: well we are not putting numbers to it yet; but with think somewhere between, somewhere in the range of 500 to 800 per week.

Mr. Hunt: very good I appreciated your answer. My next question would be your leverage is low, you have just made an acquisition, 2H is going to be better than 1H. What are your priorities for free cash flow in 2H TY and going forward?

Mr. Miron: our leverage… That will start saying that we are convinced that we need to keep our leverage at a low level. That is a key top priority for the company. Our focus for the next six months is to extract the right profitability from the business. We believe our Ebitda for the rest of the year shall be better than the average of 1H TY and we will continue our discipline in the other components of the cash flow. We mentioned that in terms of Capex we should lower the Capex for the rest of the year and we should benefit from lower interest rates in our interest line given the exercise of the effort we are making in this area and we believe that in terms of working capital we will continue our discipline with working capital so we should not expect any major variations in working capital. So we are committed to our guidance for the year and that is our top priority as we speak.

Mr. Hunt: and just one point of clarification: when you say low leverage is that the number you would associate with low leverage? Is it below 3x or 2.5?

Mr. Miron: what we have already mentioned to the market in other opportunities is that we should expect something around the level we finished 2018, which is around 2.2, 2.4x.

Mr. Hunt: thank you very much I will hand up to somebody else.

Operator: once again to ask a question please press star one. As a reminder to ask a question please press star one.

Our next question comes from Catherine Janson, Luxor Analytics.

Ms. Catherine Janson: hello thank you very much for taking my question. I guess I have a follow-up; I would like to ask about the leverage. In other opportunity you have said that leverage would be around 3.5x; has this changed?

Mr. Spada: hi Catherine this is Spada here speaking. There was a target in terms of leverage that was put in place back in 2013 for the end of 2018, which was 2.5x leverage. We have reached that in the end of last year and going forward we did not put any further targets in terms of leverage. But we had said to the market and this might have caused some confusion is that we do have an internal agreement, the shareholders' agreement of Marfrig and there is a new limit between the shareholders set to be at 3.5x going forward.

Why this has changed? In the past this limits used to be 5x and now with the new situation of the company it makes much more sense to review this, and as it is an agreement between the shareholders there is this internal limit of 3.5x - but this is not a target or a goal to be achieved, we are way below this and our intention is to keep the leverage in the company as we just said and the intention is to finalize 2019 in a level at least equal to what we finalized 2018, maybe even lower than that.

Ms. Janson: okay thank you very much and regarding dividends to minorities we heard your expectation for the whole year because we just see an increase those and this 2Q?

Mr. Spada: what happened is in 2Q there was a concentration of payments basically. As you can see there was no payment in 1Q. Usually you see every quarter there is a payment related to that and so as we have already said in previous opportunities 54% of net revenues are distributed as distribution of dividends for shareholders every quarter. So in this quarter there was a concentration of payments and that is why the number is high.

Ms. Janson: so you do not expect any more dividends for the rest of the year?

Mr. Spada: no. Every quarter we should expect; I mean you should expect in 3Q more dividend payments, in 4Q more dividend payments as well; but much smaller than what you see at this quarter.

Ms. Janson: could you give us like a sense of the total amount please?

Mr. Spada: it depends on the revenue projection for each quarter so I cannot anticipate this to you.

Ms. Janson: okay and if I may please could you confirm your Capex for the rest of the year? You said it would be below 1H?

Mr. Spada: yes. Our expectation is that Capex, recurring Capex should be something around 600 to 800 million BRL for the whole year. That is why we see that it is should be lower than it was in 1H TY.

Ms. Janson: okay thank you very much.

Mr. Spada: you are welcome.

Operator: This concludes today's question-and-answer session. I would like to invite Mr. Eduardo Miron to proceed with his closing statements. Please go ahead sir.

Mr. Miron: I would like to thank everyone to listen to our 2Q earnings call. Thank you all for your support and company and we will continue very focused on delivering our objectives for the year. Thanks again.

Operator: Thank you. That does conclude our Marfrig conference call. Thank you very much for your participation and have a good nice day.