International Conference Call

Marfrig Global Foods S.A.

First Quarter 2020 Earnings Results

May 19th, 2020

Operator: Good Morning 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 the first quarter 2020.

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 *0 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 Mr. Molina you may now begin the conference.

Marcos Molina: Good morning, all. And thank you for participating in another Marfrig earnings results conference call. Before handing it over to our CEOs, Tim and Miguel, who will comment on the excellent results achieved during this quarter, I would like specially to thank our more than 30,000 employees who are working diligently at the highest safety levels, taking all measures to ensure that our customers receive Marfrig's traditional quality beef standards. It was a challenging quarter and we are very proud to have delivered a great result. I would also like to congratulate and thank our executives that both in North America and South America were highly efficient in leading the company in this new world.

Now, I'll hand it over to Tim Klein, CEO of North American Operations.

Tim Klein: North American operations posted record first quarter earnings in 1Q20. Net revenue was US$2,185 billion, up 7.5% compared to 1Q19. The revenue growth is explained primarily by (i) increased availability of fed cattle which led to additional throughput in the beef plants; ii) continued strong demand for U.S. beef products; and iii) improved volumes in our case ready and direct-to-consumer businesses.

Now, if you go to page 6, I will comment about the gross profit and EBITDA. Gross profit in the quarter was US$229 million, up 29.1% from the same period of 2019. Fed cattle prices averaged $118.78/cwt; down 5.2% year over year on a per hundredweight basis. The USDA comprehensive cutout averaged $215.55/cwt, down 1.3%, while the drop credit declined 1.7% to an average of $8.86/cwt led by weakness in hide and variety meat values. As fed cattle prices declined more than beef values, the cutout ratio increased to 1.82 *versus* 1.74 last year. The combination of increased throughput and higher per unit margins resulted in increased gross profit *versus* 1Q19.

In addition to the above drivers, our results in the first quarter were positively impacted as a result of the coronavirus pandemic that began to impact the U.S. economy late in the first quarter. As consumers filled their freezers in response to the shelter-in-place orders that were announced by federal and state governments, we saw a dramatic shift from foodservice sales to retail. Due to this surge in demand, beef prices moved sharply higher, further expanding processing margins.

Beef processing operations such as ours are considered essential infrastructure businesses and just two weeks ago President Trump issued an executive order in order to ensure meat processing plants would remain open during this pandemic.

Our primary concern continues to be the protection of our employees who work in our plants. To that end, we have taken several measures to achieve an increased level of protection, such as deep cleaning and increased sanitation, daily temperature checks and surveillance of workers, mandatory PPE equipment, such as face shields and masks. We have also installed workstation partitions to further isolate workers. Thus far, our efforts have worked to minimize exposure in our plants.

As the U.S. starts to reopen non-essential businesses, we are well positioned to make the necessary adjustments to supply the foodservice sector as demand improves.

Now, I move on to Miguel who will comment on the South American operation.

Miguel Gularte: Thank you so much, Tim, and good morning, everyone.

On slide 7, I would like to highlight the excellent performance of the South American operation and the factors that led to a net revenue of 3.8 billion. This is a growth of 26% *vis-à-vis* the same period of the previous year as noted on the second chart. This performance was anchored in an export higher volume as seen on the first chart on the left, and mainly revenue growth in more than 65%, which is presented in the second graph.

In the next chart in green, you can see that export revenues now represent 60% of our turnover. And I would like to highlight the last chart on the right, where we see a perfectly balanced portfolio taking into account the current world demand for protein.

The creation of the integrated commercial platform in South America, which is supported by a solid scientific pricing system, has allowed us to anticipate and capture various commercial movements that occurred during the quarter. We anticipated the logistic challenges caused by the global increase in demand and the negative effect of the pandemic.

In the next slide, 8, I comment on how the strategies mentioned were reflected on the operation margin. I begin by highlighting the second chart. An EBITDA of BRL 464 million, which was three times higher than that of the first quarter of 2019 and a 12.3% margin, which is a new record for operation. This performance is explained by two major factors: the export results mentioned in the previous slide, and the program for operational improvements and cost management that started in 2019.

Among several initiatives that we carried out, I here highlight the footprint review that resulted in the closure of less efficient plants and transferred its activities to plants with better performance and better qualifications, which allowed us to produce and sell more with a smaller number of units.

Additionally, we obtained improvements in performance in all operations through a high-performance management program and best practices. An integrated structure based on capturing opportunities and the comparative benchmark between operations allowed us to achieve greater productivity and to compensate with the surplus the new level of raw material prices.

I would also like to thank the entire board of directors who, in this challenging scenario, were able to make decisions that simplified and gave more agility and greater independence to our operations. This was fundamental in order to face the turbulent moment with serenity and focus. Now I hand it over to Tang, who will comment on the consolidated result of the transaction.

Tang David: Thank you, Miguel. And good morning, everyone.

We now move to slide 10, where I will talk about the consolidated results and then the financial highlights. Based on the factors previously mentioned by Tim and Miguel and the appreciation of the dollar against the real, we show in the first chart to the left the net revenue of BRL 13.5 billion in the first quarter of 2020, which considerably increased 26.6% in comparison to the first quarter of 2019.

Here I would like to highlight an important characteristic of the company's revenue makeup as you can see in this chart. Today, 72% of our revenue is generated by the North American operation, which translates into significant exposure to the U.S. domestic market and some of its importing countries, such as Japan and South Korea.

Now on the center chart, when we look at revenues by currency, we see that 89% is generated in U.S. dollars. That means three things. This total is the sum of the natural generation from North America and South American exports. That is, only 8% of Marfrig's revenue is originated in BRL, something that very few people pay attention to. And moreover, our revenue from now on has the potential to be much higher as the average dollar rate in the quarter was 4.46. This is 16% below the closing dollar and much lower than the current level.

Moving on to the chart on the left, we have the adjusted EBITDA, which reached a total of BRL 1.2 billion, a record for the first quarter. Its 112% growth *vis-à-vis* the first quarter 2019 was due to what was explained by Tim and Miguel and the devaluation of the BRL against the dollar. The EBITDA margin, in turn, was 9.1%, 360 basis points higher than the previous year, another very positive result. As well as in terms of revenue, it is important to highlight the composition of our EBITDA, where 64% comes from the North American operation, this is slightly below the first quarter of 2019 due to the great expansion of the South American margin in this quarter. Later, this ratio should be around 70 to 30. Now, looking at the total EBITDA, approximately 90% is generated in dollars, which is an important differential for Marfrig's financial strength. Furthermore, this means that our EBITA has an even greater growth potential, given the current level of the exchange rate.

Now we move to slide 11. Slide about cash flow. Traditionally, the first quarter of the year, due to its seasonality, impacts our free cash flow. But this year was different. We took advantage of a strong operating result and more efficient management of our working capital. We continued to settle the working capital operations that burden our financial results. We settled a BRL 938 million figure in operations, a very important milestone, and I will demonstrate its positive results later on. Finally, in this quarter we had a positive recurring free cash flow of 243 million, which doesn't take into account the specific items of the quarter, such as settlement of working capital operations and the payment of bonuses linked to the North American operations.

Now onto slide 12, net debt and leverage. Regarding our net debt, we ended the first quarter of 2020 at a level of USD 3.7 billion, 13% above the fourth quarter of 2019. This is basically due to the effects of the free cash flow that I mentioned on the previous slide. In addition to BRL 169 million write-off in senior notes repurchased from 2023 in January. Our leverage in dollars, which is measured by the net debt in relation to the LTM adjusted EBITDA, was 2.84 times slightly above the 2.74 times of the last quarter. We would like to highlight that we focused on dollar indebtedness, considering that both our revenue and our EBITDA are almost entirely concentrated in this currency. Our leverage measured in reais, which is affected by the exchange rate variation of BRL 4.2 billion and the mismatch in the average exchange rate. That translates into EBITDA stood at 3.56 times.

Now, please, let's move to slide 13. Debt profile. Today 97% of our debt is in U.S. dollars. And this is where I would like to remind you what I said earlier. 89% of our revenue and approximately 90% of our EBITA is in U.S. dollars. This allows Marfrig to strongly differentiate itself regarding the balance of the capital structure. And speaking of structure, we have a structural record on this slide. The average cost of our debt reached 5.81 p.a., a reduction of 16% or 113 basic points compared to the first quarter of 2019, when we were around 7%. This record is the result of the financial team's continued efforts to execute our liability management strategy defined by the Board of Directors, which now will be closer to the operation at the same pace.

Now, please move to slide 14. Our net financial results. Here is the recent history of our net financial results. As you can see, this quarter had a record and a structural reduction in financial expenses of BRL 135 million, or 31%, compared to the fourth quarter of 2019. This structural reduction was essentially due to the settlement of working capital operations and the reduction of 660 million in tax debts that also burdened this group. Additionally, I remind you that in January of this year, we prepaid with our cash the senior notes that are due or maturing in 2023, which had an outstanding balance of USD 446 million. This early settlement generated an on-time expense of 244 million, of which 169 million with no cash effect were write-/off the amortized issue cost.

Now please move to slide 15. Net results. Finally, I would like to highlight the net results of the first quarter of 2020. The chart on this page shows mainly how the exchange variation of BRL 632 million impacted the result for this quarter. Therefore, we can see that the result was positive by 32 million when adjusted by the exchange variation and the write-off of the cost of issuing the senior notes. Here we have a good indicator that the operational and financial actions are following the right path to achieve relevant profitability, and that during this quarter it was not possible to demonstrate this because of some isolated effects.

Operator:. I now turn over to Marcos Molina for his final consideration. Please, Mr. Marcos proceed.

Marcos Molina: Well, as you followed the presentation, we had a strong performance in this first quarter. I do believe that we were going to deliver much better results in future quarters. We're committed right now with our strategy and our simple and focused structure. We believe that this is the way to go to put us closer to our objective. Our objective is to pay our shareholders their dividends.

Marfrig has adequate capital structure with a low cost, and we are prepared to face the challenges of this new world scenario. In this scenario of uncertainties, our priority is the health of our employees. We are not sparing resources to provide the highest standards of best safety practices in the world.

Furthermore, we are socially committed with the communities we work at. In many of these cities, we represent the main source of income. Right now, it is our duty to help find a solution to this crisis and contribute with measures that will contribute to lessen the impact of this pandemic. We have reactivated an alcohol gel unit to be provided to our employees and local medical sites and other areas where they need our support.

In Marfrig's DNA, social commitment is a priority. Different measures were used to mitigate the impacts of the pandemic, to structure plans, which are very important to lessen the impact of the pandemic.

We should also be focused on our sustainability goals, our financial sustainability, above all, and environmental, which have always guided the company's objectives.

Our hope is that this situation will be over as soon as possible and that we're all safe.

Count on Marfrig. Marfrig has an important mission, which is to feed to the world, which cannot stop, and I thank you all for your attention. Thank you.

Operator: Marfrig’s teleconference., Marfrig Global Food S.A., is now over. We thank you all for your participation and hope you have a wonderful day.