Q2 2014 Earnings Call

Company Participants

- Augusto Ribeiro
- Christiane Assis
- Cláudio Eugênio Galeazzi

Other Participants

- Alexandre Amson
- Diego Maia
- Jose J. Yordan
- Tim J. Tiberio

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, ladies and gentlemen, and welcome to BRF SA Conference Call to discuss the Second Quarter 2014 Earnings. This conference call is being transmitted via webcast in our website www.brf-br.com/ir. The presentation is available to download in our website. At this time, all participants are in a listen-only mode and after the presentation, we will conduct a question-and-answer session. Instructions will be given at that time. We would appreciate if each participant made only one question.

Forward-looking statements related to the company's business, perspectives, projections, results, and the company's growth potential and provisions based on expectations of the management as to the future of the company. These expectations are highly dependent on market change, economic conditions of the country and the sector, and international markets. Those are subjective to change. As a reminder, this conference is being recorded.

At this conference are Mr. Cláudio Galeazzi, Chief Executive Officer, Global; Mr. Augusto Ribeiro Jr., Chief Financial and Investor Relations Officer; and Mrs. Christiane Assis, Investor Relations Director.

I would now like to turn the call over to Mrs. Christiane Assis who will open the conference call of the second quarter 2014.

Christiane Assis {BIO 16226621 <GO>}

Good morning, and welcome to BRF's second quarter results conference call. We're glad to discuss with the market another good set of results, showing management focus on profitability and value maximization. Today, our hosts are Mr. Cláudio Galeazzi, Global CEO; and Mr. Augusto Ribeiro, CFO.

I now turn over to Mr. Cláudio for his opening remarks, and afterwards, we will continue with the results presentation. Thank you.

Cláudio Eugênio Galeazzi

Thank you very much for your interest and hearing us out in this call, and also for the opportunity to answer some questions which you may have. I would like to start; I'm here present with our CFO, Augusto, that will actually go into the details, the numbers of the company. I'll just mention some highlights and some of ongoing IR activities.

BRF's performance in this second quarter indicates that the management strategy are on the right track, while focusing results and increasing value. We had a very strong cash generation in the tune of BRL 954 million vis-à-vis last year same period, BRL 365 million, an increase of 25% over the second quarter 2013. The first semester of 2014, we had actually a BRL 2.1 billion increase in our cash generation against same period last year of BRL 434 million. The increase is, in this period, of 381% of free cash flow generation. This was achieved with a much more solid operational result, focusing in the result, investment optimization and a consistent reduction of working capital that went from 57.4 days, 14% of the net...

Augusto Ribeiro {BIO 18485971 <GO>}

Debt.

Cláudio Eugênio Galeazzi

No, net growth.

Augusto Ribeiro {BIO 18485971 <GO>}

Net revenue.

Cláudio Eugênio Galeazzi

Sorry, net revenue blank. Representing 14.6% of the net revenue in June 2013 to 36.4 days or 9.8% of the net revenue in June 2014.

We will continue to address with active efforts in balancing accounts receivable and payable; hence, of course, adjusting our inventories. We expect to maintain these efforts in spite of the fact that we are initiating at the present moment a gradual buildup in our seasonal inventory looking forward to the end of the year.

We also expect to take rational advantage of the decreasing grain prices as we have storage capacity of three to four months' consumption. As the prices are decreasing, we will not take speculative move, but we will take certain position to maximize, of course, or to reduce as far as possible our main cost which is grains.

Our net debt fell within the last three months 14% to 15% to BRL 5.1 billion of net debt. This represents 1.5 times EBITDA.

We would like to repeat what we've mentioned at last quarter that one quarter does not give an indication of trend and definitely does not establish a trend. The second quarter of good results starts indicating that we will have an establishment of trend. So, we are very positive that in the next semester, we will continue these indications and we'll be establishing then definitely a trend.

Our net revenues added up to BRL 7.7 billion, a 2.2% over the second quarter driven by higher revenues from processed food products, fresh poultry in domestic market and higher revenues in the international market in spite of the sales volumes of 1.3 million lower and 12% during the same period last year.

This decline in volume was due to several factors. Our reduction in volumes for the export market, the reduction in lower beef volume in line with our strategy of core business concentrating core business, as well as a slower internal market demand. EBITDA reached BRL 1.0 billion, 25% above the second quarter 2013, bringing EBITDA up to 13% vis-à-vis 10.6% of the second quarter 2013. The total for the first semester of 2014 was BRL 1.9 billion.

The net profit was BRL 267 million against BRL 208 million equivalent period last year, 28% above the second quarter 2013. If we consider expenses of BRL 197 million due to our repurchasing of bonds in May, our profit will be close to BRL 500 million.

The internal market had a challenging quarter due to the slowdown in economic growth. During this period, we focused our strategy in rationalizing our portfolio; we repositioned our brands and launched 18 new products aligned with the demands of our clients and customers.

We concluded the GTM, the go-to-market rollout, an important phase in our acceleration plan with very encouraging results. We are convinced that we will capture significant volumes and gains during the second semester of this year through the rollout of the GTM actions which we took. We are also convinced that our GTM project mitigated the declining event. We are starting the second phase of our go-to market with the objective of training and better qualifying our sales force.

Many of you will remember that we integrated all our sales force and we didn't make our sales force redundant as we did implement significant reductions in other areas of the company, qualifying our sales force, increasing our sales and cross-selling, as well as better servicing our clients.

At the end of 2013, we announced the reduction of approximately 40% of SKUs to simplify process, reduce complexity, focusing in better product turnover, and higher margins. We have already reduced 95% of these SKUs production in our plants. We have reduced the availability of these SKUs to 50% in the point-of-sales and approximately additional three months, which should conclude 100% not having these SKUs available.

In the external market, we increased gains by prioritizing the markets, choosing our markets per region, reducing volumes to less profitable markets, and simplifying process and reducing also for the external market in the SKUs. We've been implementing other actions such as adequate inventory planning oriented towards the demand and higher prices. This helped a much better performance of our export, and Augusto will address the different issues within this export market.

From our strategy in the external market specifically in the Middle East, we have concluded the acquisition where we've formalized the acquisition of food distributor, which is Federal Foods in the Emirates with a final value of BRL 65 million, the objective being to strengthen our brands and expand our product portfolio in the region. In the same line of thought, we also made an acquisition of 40% of the working social capital or working capital of AKF, a distributor of our own brands in Oman.

We continue our strategy in expanding our distribution. Sorry for that. We also concluded our Zero Based Budget Program during this second quarter and already during this quarter, we generated small gains; expecting, however, larger benefits of the Zero Based Project for the second semester of 2014. Our acceleration plan was absolutely in line with our expectation and we do expect a very – a steeper capturing ramp of the benefits of our acceleration plan as of the second semester of 2014 up to 2016. (13:53) We are pleased with those initiatives. It is important to emphasize that these actions resulted in lower expenses, cost of goods sold and in spite of inflation, labor salary negotiation costs were, during this semester, lower than last year's. Augusto will give also more details.

We are presently undergoing divestments of our dairy division. We do have several international strategic players, we're very much interested, and we should come to a definition in the very near future of the future of our dairy division. In the production area, we are concluding our studies of the industrial footprint, another very, very relevant project within the extrapolation plant. Now, the footprint towards production industrialization, product line concentration and actions increasing modernization and also remuneration (15:04) to increase productivity and definitely not increase capacity as we do have some added capacity.

We would like to reinstate our CapEx policy prioritizing it in logistics, environmental projects, IT and plant optimization and modernization.

We don't have plan or envision large acquisitions unless a very interesting opportunity arises. We are open to smaller acquisitions in regions we consider a physical presence or a higher presence that will increase our local production, brand, and distribution, not concentrating only in these regions as exporter of commodities.

We are presently maintaining context, viewing joint ventures, partnerships, and association in several regions of the world. Our present strong financial and cash position, our very low level indebtedness and exceptional funding availability at relatively low costs as we are investment grade allows us to consider aggressive CapEx and M&A investments. However, we will proceed carefully and conservatively in analyzing opportunities that arise. We'll continue prioritizing and maximizing our evident existing human production and commercial resources.

In our estimates, we believe that the second semester should be more difficult for retail, which will affect food industry. We observed that the construction industry, which is a large employer, is suffering decline in demand of new construction; as well as the automotive industry, which is suffering a decline in its sales. This be – and which we'll definitely increase or decrease, sorry, the available income or disposable income of consumers aggravated by the rate of – by the increasing unemployment and, of course, the scenario of the inflation and indebtedness of the consumer.

We would like to mention also that we have implemented in the past six months, intensively in the last quarter, a profound cultural change. This change is a rethinking of the company model. We are investing significantly in developing our internal talents, bringing new talents into the company. And we are definitely targeting our company as a meritocracy-based company looking – focused in results.

I would like to thank very much all of our collaborators which have dedicated their time, their efforts in going after hard work. Thank you very much, and I would like to pass to Augusto where he will detail (19:15).

Augusto Ribeiro {BIO 18485971 <GO>}

Good morning to everyone and good afternoon to some of you. I will talk some operational figures and then moving to financial ones. So, let's start with the overall company. Net revenue has come to BRL 7.7 billion in this quarter, 2.2% higher than in the second quarter of last year due to the increased sales of processed products and (19:43) poultry in the domestic market in line with our strategy. An annual comparison shows that the revenues in the quarter are driven by domestic market where we were able to pass through price adjustments given the higher input costs, mainly grains, cattle, and milk collection, as well as a better mix that offset an ongoing weak macroeconomic scenario.

Revenues from domestic market increased by 7% over the second quarter of last year and grew 3% compared with the first quarter of 2014. The recovering international market was 7.3% higher than in the first quarter of 2014 on a quarterly comparison. While our NOI comparison shows that net revenue fell slightly by 2.2%. This is in line with our strategy of reducing the volumes from regions with lower margins, a move that continues to be effective. By the way, even with the current – despite of the current devaluation of real, it was this adjustment in the off/demand curve that allowed us to increase prices in dollar terms for the last two quarters consecutively.

Despite the cost pressure felt in the second quarter 2014 mainly for grain, soybean, we were able – our gross profit amounted to BRL 2 billion in the second quarter of 2014, 8.9% above second quarter 2013. The gross margin rose by 1.7 percentage points from 24.9% in the second quarter last year to 26.6% in the second quarter of 2014. A quarterly comparison shows that the gross margin increased by 0.8 percentage points against first quarter 2014. There was a reduction of 1% in operating expenses in the second quarter of this year compared with the same period of last year.

With a higher gross profit, and lower expenses achieved in this quarter, we have continued with our strategy of applying back into our operation part of the savings generated at marketing and trade marketing investments. Only in the second quarter 2014, we invested more than BRL 50 million compared with same period of the last year.

As I mentioned in the two – in the last quarter call, we always gave a disclosure regarding the non-recurring events, if there's any. In this case, in the second quarter 2014, we had approximately BRL 58 million all related to redundancies. The majority of that happened in our international operation.

So, EBITDA came to BRL 1 billion, 25.1% higher than the second quarter 2013. This translated in margin EBITDA of 13% compared with 10.6% last year. A quarterly comparison showed that increased 16.5% of EBITDA compared with the result in the first quarter of this year with an increase of 1.3 percentage point in the margin. If we exclude the non-recurring event that I mentioned to you that those BRL 58 million, the net recurring event, our EBITDA in the second quarter 2014 will be around 13.5%.

Net income in the period was BRL 267 million with a net margin of 3.5%, an increase of 0.7 percentage points against the second quarter of last year. This occurred despite the payment made in relation to the bond buyback operation. Again, if we exclude this non-recurring event, we would have approximately BRL 0.5 billion as net income in the second quarter of 2014.

Now, I'll start to go briefly through the market. So, let's start with domestic market. With all the initiatives, revenue from domestic markets came to BRL 3.3 billion in the second quarter of 2014, 7% higher than the second quarter of last year. Average prices increased by 13% due to better portfolio and passing through of costs.

Here, it is important. I'd like to you mention a specific point. As was the case in previous quarter, during the second quarter 2014, we felt the impact from the other sales line which has significant variations in price and volumes. This difference was due to the improved sold to the Doux plant sold in May 2013, a non-recurring event. If you exclude the other sales line from the analysis, the figures from the quarter give us a better idea of the real scenario of the domestic market with net operating revenues of BRL 3 billion. This was 6.4% higher than the same period of the previous year and an increase of price, an average price of 10%, 9.9%.

The operating result, EBIT, came to BRL 384 million, 70.4% higher than in the second quarter of last year, reaching an EBIT margin of 11.6% compared to the 7.3% of the same quarter last year and an increase of 4.3 percentage points. If you compare – so that (25:35) again a 4.3 percentage points against last year.

Now, talking regarding international market, it achieved the important results on an annual comparison in the second quarter 2014. Although it still faces some challenges during the period such as pressure from grain cost and lower supply of beef and hogs at a good level.

The net revenue from this division declined slightly by 2.2% on an annual comparison and was 7.3% higher than in the first quarter 2014. The operating margin EBIT came to 7.8% in this quarter compared with 6.4% in the second quarter of 2013 and 6% in the first quarter 2014. This shows that we are in the right track regarding our strategy to decrease the volatility within our international business.

Now, I'll go through market by market and external market just to give you some main figures. Middle East/Africa, the sales volume in the period amounted to 269,000 tons in line with the previous quarter. And revenues came through BRL 1.4 billion, 4.1% higher than the first quarter of 2014. Far East, we have sold 123,000 tons in the Asian market in the second quarter this year with revenues up BRL 727 million, an increase of 4% over the previous quarter. Japan was the main market in the region. Following the trend of the first quarter of this year, we'll continue reducing the local inventories and the possibility of raising prices.

In the Asian market, it's also worth noting that BRF ended its joint venture with a Chinese company, Dah Chong Hong, in April. Both companies still maintain a non-exclusive commercial partnership focused on the market in Hong Kong and Macau.

Europe and Eurasia. The short bit of pork meat (27:43) for Eurasia gave the company good opportunity with higher volume sold in higher prices. Europe registered an increase in sales of turkey meat. Sales in this region came to 87,000 tons and net operating revenues amount to BRL 800 million, a rise of 14.2% over the previous quarter.

Americas. There was a big increase in sales in the Americas region in the second quarter this year. Volumes grew to 77,000 tons and net operating revenues grew BRL 456 million, both were higher than the previous quarter.

Now, I will go through some financial aspects, most of them are already mentioned by Cláudio, but just I would like to pinpoint some specific topics as well.

Furthermore, in terms of financial aspect, net financial expense came to BRL 393 million in the quarter. It was something like 52% higher than the second quarter 2013. The main issue here – this happened mainly due to the repurchase of bonds with a face value of BRL 450 million in May, with the subsequent issue of a 10-year bond of BRL 750 million with a coupon of 4.75%. By the way, that operation was one of the benchmark for the region, not only for Brazil, but also for Latin America companies.

This transaction extended duration of – and just another point, if we exclude this non-recurring event, this premium pay given the liability management that we did in the second quarter, our net financial expense was between 5% – 30% smaller, lower than those of the second quarter 2013. This transaction extended the duration of our debt denominated in foreign currency from 6.4 to 7.2 years, while our average cost in dollars was reduced from 5.5% to 5% per annum. With the liability management, the annual savings will be approximately $11 million less financial expense.

The company net debt continued to decrease and reached of BRL 5.1 billion. This is 14.6% lower and that registered only three months ago or the end of March 2014, which gives us a leverage of 1.5 times, which again demonstrate this administration's constant search for value and capital synergies.

I will not go through the investment detail. Cláudio gave you some – a good result. Anyway, we are – what I would like to say that we are in the half of the year. We are starting to – as we start the second semester, we are right on target regarding our guidance of that BRL 1.5 billion that respect to use as (30:42) CapEx in 2014. And those reimbursements are related to the process plant in the Middle East, as well as automation and improvement process in support of an improvement in our level of service.

Regarding financial cycle, the company has been consistently working to optimize its working capital, which led to an improvement in the financial cycle, which fell from 67.4 days in June 2013; by that time, representing 14.6% of net operating revenues to 36.4 days in June 2014, which is 9.8% of net operating revenues. The largest gain in this quarter occurred in accounts payable and accounts receivable respectively.

I just would like to make a specific point here. Although the active management of accounts payable and receivable inventories is expected to continue throughout 2014 and to the years to come is something that we are paying a lot of attention.

It is important to highlight here that we might have not a decrease, but it's like impact in our financial cycle improvement phase. Why is that? Because in the second semester, as usual, I just would like to remind you about that, that we tend to increase our stock level for the seasonal product that we sell in November and December. So, we start to build up the stocks in July and moving forward month by month until the end of the year. As well as we might increase our position of grains; physical position because that would happen only if the price, the market prices regarding grain are aligned, they have been aligned with our strategy. So, those are two increasing stocks that would go against our optimization working capital but align everything okay with our strategy and the way that we conduct our kind of business. I mean, the seasonal products.

With operational results improvement, better working capital management, and the CapEx optimization, the free cash flow generation amounted to BRL 954 million in the second quarter of this year compared with the BRL 365 million that we generated in the second quarter of the last year. If we took what we generated in this semester alone, it's more than we generated throughout the entire year of 2013.

And finally, I would like to share with you, actually to remind you, you're well aware of that already, we received a positive outlook from S&P in this quarter, showing that we are in the right track in our strategy and the way that we're applying it.

So I open now for Q&A. Thank you very much.

Q&A

Operator

Excuse me. Ladies and gentlemen, we will now begin the question-and-answer session. Each participant may ask only one question. Our first question comes from Diego Maia with HSBC.

Q - Diego Maia {BIO 16478658 <GO>}

Hi, guys. Thank you. Just curious trying to get your sentiment regarding the second half of the year. As seen in one hand, you have more favorable cost scenario with falling grain commodities, which could help especially your export business which is more commodity. But on the other hand, you have more difficult scenario into domestic market with decelerating consumer, higher inflation and maybe lower growth. So, I'm just trying to see what your views are as far as the outlook for the second half, and if you are maybe more optimist or more bearish versus what you were before looking at this quarter. Thank you.

A - Augusto Ribeiro {BIO 18485971 <GO>}

Thank you, Diego. Definitely, the grains will play an important part. As you know, it's an important part of our COGS. If that – everything is showing currently that we get some – we might get some price benefit from the grains in the second quarter so that would be good for all the players that use that as a raw material for their animals.

Regarding this scenario, one thing that is important that I would like to stress here is that we are – do you know the expression, walk the talk? As we'll be talking regarding our strategy of a lower top-line growth for the company in 2014 and all the strategy (35:46-35:56) we have good results in the external market given the strategy of decreasing the volumes there in the region. In internal market, we merge the sales force. We started to increase our operation within the mom-and-pop stores.

So, when you look at – take all that we did in the second – in the first semester of this year and you look at the second semester of 2014, we expected to be able to keep the good momentum of the company. But again, 2014 is not going to be a growth year in terms of top line. What we...

A - Cláudio Eugênio Galeazzi

In volume.

A - Augusto Ribeiro {BIO 18485971 <GO>}

In volume, top line growth in volume. Specifically in volume, of course.

What we think of second quarter given the prospect of Brazil, we still will be heavily paying a lot of attention within our internal projects, our capability to deliver them. After the merge, now the name of the game in our case productivity. We are going to pay a lot of attention on the sales force productivity, so we believe we will be able to get value outside of that in the short term and still in 2014.

But again, the economy is not booming. And then it would be great if you had a tailwind, the economy would've been growing. That would be great. But I believe we have all these tools to deliver a growth aligned with our expectations. 2015 is something different. By then, we should be able to have – we have went through the major projects of – that we are right now implementing, and then we might get back with the growth more aligned with our historic path.

Q - Diego Maia {BIO 16478658 <GO>}

Okay. Awesome. Thank you so much.

Operator

Excuse me. Our next question comes from Tim Tiberio with Miller Tabak.

Q - Tim J. Tiberio {BIO 15194568 <GO>}

Good morning and thanks for taking my question. I'm just wondering if you may be able to quantify the magnitude of fee cost reductions that you're expecting maybe second half over first half and then for the full year over 2013 just so we can get a sense of the magnitude of what you're projecting.

A - Augusto Ribeiro {BIO 18485971 <GO>}

Well, thanks for the question, but unfortunately, we might – we cannot give you a number on that because it will depend a lot on what will happen in the market. Everything that we are saying is based on common information. And given the production in Brazil, given the harvest of the crop in Brazil, given what is forecasted and is happening in U.S., even Argentina, we expect that that decrease in costs and price, grain prices but I cannot give you a precise percentage of decrease of that based on our assumption.

Q - Tim J. Tiberio {BIO 15194568 <GO>}

Okay. Probably, I guess I can build up my own private forecast. And it doesn't sound like you're aggressively hedging so...

A - Augusto Ribeiro {BIO 18485971 <GO>}

No.

Q - Tim J. Tiberio {BIO 15194568 <GO>}

Okay.

A - Augusto Ribeiro {BIO 18485971 <GO>}

We do have our hedge – let me make it clear, we buy stocks. We have the – by the way, we are the only one in the industry in Brazil that has the capability to hold stocks...

A - Cláudio Eugênio Galeazzi

Inventory.

A - Augusto Ribeiro {BIO 18485971 <GO>}

...inventory for more than three months. So what might happen in the second semester, given that price that we might find there, we might decide to increase our physical stocks. That's the hedge that we do, buy more grain.

Q - Tim J. Tiberio {BIO 15194568 <GO>}

Okay. That's very helpful. And then back to the export markets, you're saying one of your competitors within Brazil expanding their capacity in the poultry segment via acquisitions. I'm just trying to get a sense outside of the proactive stuff that you're taking to rationalize unprofitable or less profitable opportunities in the export channel, are you also just seeing more competition in these channels than a couple of years ago? And does that concern you at all that you may see more competition going forward in the export channel and maybe that could potentially trim some of the growth expectations that we have seen in the past?

A - Cláudio Eugênio Galeazzi

We find that the purchases or the acquisitions of production is not an increase in production or the purchase of existing capacity. As we mentioned, we have idle capacity. What we are concentrating our efforts is increasing productivity, rationalizing our productions, unifying production lines. In other words, we are looking at the costs of increasing and supplying the finished products. I think that we will try to rationalize our production, our facilities, maximizing, as I mentioned, productivity.

Q - Tim J. Tiberio {BIO 15194568 <GO>}

Yeah. I guess I was addressing directly, obviously, JBS purchasing Tyson's business in Brazil, and some of their prior acquisition seems like they're expanding their presence in the poultry segment. And I'm just trying to get to a sense of whether you think that it may disrupt the dynamics that you've seen in the export channel versus the past, or do you think since they're just buying existing capacity that, in fact, it could actually create more discipline because Tyson never really had much, I guess, operational scale as I would put it there to begin with. So, having these assets within a larger operator maybe that actually – is it positive?

A - Augusto Ribeiro {BIO 18485971 <GO>}

Actually, I will not comment on their strategy, but that would be better if you ask them. I think that would make more sense. But going into your direction of the market balance, there is no building up of new production capabilities since there is no more chicken out there. Actually, just the consolidation of the volume that's already there, that someone blamed, (43:04) I would go with the direction of more discipline in the market. That would be my call. But anyway, that is a different strategy, different company.

As Cláudio mentioned, we want to increase what we have within our house. We're very big. We have a lot of – lot of a (43:24), a very good growth to develop in terms of asset utilization. So, we have to space to grow in terms of volume based on that.

Q - Tim J. Tiberio {BIO 15194568 <GO>}

Great. Thanks for your time, guys.

Operator

Excuse me. Ladies and gentlemen, we would like to remind you that each participant may ask only one question. Our next question comes from Alexandre Amson, Credit Suisse.

Q - Alexandre Amson {BIO 4119036 <GO>}

I think I have a problem with the connection in the first call, the Portuguese call. So I'm not sure if you were able to listen to my question or you have answered to that. But my question was regarding the potential impact in terms of taxes, income taxes for subsidiaries abroad because of the provisional measure that was approved a couple of months ago, correct me if I'm wrong. And I haven't heard anything new about this since then. So I just would like to check whether you had any updating concern in this matter. Thank you very much.

A - Augusto Ribeiro {BIO 18485971 <GO>}

The updates that you – not only us, but the entire industry are still discussing with the government some changes in the current law. We strongly believe that it's not procompetitive for Brazilian exporters or Brazilian that wants to become multi-national. This is something that is based on an ambition to raise more money from the government side, but it doesn't make sense when you think of longer term. We need to actually to foster the internalization of Brazilian companies.

So we are still on that front yet, trying to come up with different possibilities. But in the short term, there's no impact for BRF, I would like to make it clear. Our current business, the way that it's structured, will not be impacted for that law. However, in the future, as the plant, for example, in Abu Dhabi and other regions start to grow or even if we've made some investments in regions with lower tax rate than in Brazil, that would start or might impact our results.

So, in the short term for 2014 even for 2015, I would say that impact is not that big for BRF. But again, we are still working with the government trying in other companies, not only

BRF but all the – they're being exporter from that matter. So we came up with a different solution that could merge all the interesting results.

Q - Alexandre Amson {BIO 4119036 <GO>}

Okay. That's very helpful. Thank you very much.

A - Augusto Ribeiro {BIO 18485971 <GO>}

Thank you.

Operator

Excuse me. Our next question comes from Jose Yordan with Deutsche Bank.

Q - Jose J. Yordan {BIO 1496398 <GO>}

Hi. Good morning, everyone. I just have a quick follow-up to the hedging question. You mentioned that right now, you just do it with physical inventories. But I mean, is it just a matter of company policy or why not use future to hedge grain cost when – like when there's extraordinary circumstances like what you have today?

A - Augusto Ribeiro {BIO 18485971 <GO>}

There are policy regarding grains related to physical lines, so we'd buy physical stock. We had some deals regarding the – not actually hedges; regarding some – define some price, future prices within a certain level that is within our treasure policy which is approved by our internal risk committee we have in the company. And so, there is a lot of rules within the company that gives us step by step what we're supposed to do. But the majority of the hedge that we have is not 100% related to physical inventory, holding physical inventory, and taking positions, physically speaking, of grains.

Q - Jose J. Yordan {BIO 1496398 <GO>}

Are you saying that it is possible to do if you take it to the committee, et cetera, to extend the four months? And is that something you might...

A - Augusto Ribeiro {BIO 18485971 <GO>}

Sorry, could you repeat, please?

Q - Jose J. Yordan {BIO 1496398 <GO>}

Well, I guess what I was getting at is you seem to be saying that if you bring it to a committee, et cetera, that it is within the policy of your company to allow hedging it with derivatives. And therefore, you could extend the period of hedge beyond the four months that you can do physically. Is that the right way to look at it?

A - Augusto Ribeiro {BIO 18485971 <GO>}

No. we don't physically hedge off grains.

Q - Jose J. Yordan {BIO 1496398 <GO>}

Okay. All right. Thanks.

Operator

Excuse me. This concludes today's question-and-answer session. I would like to pass the floor to Mr. Cláudio Galeazzi for his final statement.

A - Augusto Ribeiro {BIO 18485971 <GO>}

Sorry, guys. I really would like to apologize, but I'm running late. I have to get some airplane after a week of meetings in Hong Kong, jet lag. It's been a tough and busy week. A lot of things going on. And I just like to apologize and thank you for your time. I'm going to the airport now. So, Cláudio, thank you so much.

A - Cláudio Eugênio Galeazzi

I would like to state that unfortunately, Augusto will not be able to extend the present call. But I would like to place all our Investor Relation plus Augusto and myself, the whole team, will be always available for further explanations, answering the questions, and the doubts you have. I think we have established practically an open house practice where we do appreciate investors coming to talk with us either by phone, directly, or in person in Brazil, or when our team and myself are travelling outside of Brazil. So, please feel free to contact us through Chris Assis, that we will always be meeting and giving the necessary attention and comfort to your questions and doubt.

I would like to thank everybody for their presence in this call, for the questions asked. And once again, placing our team available for any further information you would like.

I would like to thank Augusto, Chris, Abilio for participating in the Portuguese version of our call. And thank you very much for your presence in this call. Thank you.

Operator

That does conclude our BRF SA conference call. Thank you very much for your participation. Have a good day.