Q3 2014 Earnings Call

Company Participants

- Abílio dos Santos Diniz
- Augusto Ribeiro
- Pedro de Andrade Faria
- Unverified Participant

Other Participants

- Alexandre Amson
- Diego Maia
- Fernando F. Ferreira
- Giovana Araújo
- Pedro Leduc
- Thiago Duarte

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, ladies and gentlemen, and welcome to BRF Day. We would like to tell you that this presentation is being simultaneously transmitted via webcast in our website www.brf-br.com/ir. At this time, all participants are in a listen-only mode and later, we will conduct a question-and-answer session. Instructions will be given at that time.

Forward-looking statements related to the company's business, prospects, 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 changes, economic conditions of the country, and the sector and international markets, thus are subject to change. We must remember that this conference is being recorded.

We have present here Mr. Abílio Diniz, Chairman of the Board; Mr. Cláudio Galeazzi, Global CEO; Mr. Pedro Faria, International CEO; Mr. Augusto Ribeiro Jr., VP of Finance and Investor Relations; and Ms. Christiane Assis, Investor Relations.

I now would like to give the floor Ms. Lucy Souza, Member of the Board of Apimec São Paulo, who will open this call of the third quarter 2014.

(00:01:57 - 00:03:04)

I'm very sorry. The interpretation cannot hear the floor. We cannot hear the speaker. This is a technical problem. Ladies and gentlemen, please bear with us.

(00:03:17 - 00:04:54)

Please bear with us, ladies and gentlemen. We're trying to re-establish our connection.

(00:05:01 - 00:08:45)

Abílio dos Santos Diniz

And also through the union or the joining up of these sales areas, we have had an increase of 76% in the cross selling. The real results of the increase of revenue will have already started in the third quarter, and from now on will expand, not to forget that we have a market that could reach 500 points. So the expectation in terms of the domestic market is significant.

And also, we have brought about a rationalization in reducing SKUs, bringing about or with the supply of more profitable products, optimization of logistics and simplification of processes in the last quarter and December - or in December, we had - logistics were not good and we had many problems. I'm sorry. I found this very, very bad indeed.

Abílio asked for a survey among our clients and it was very bad. It was like a terror movie that - which was truly seen. We had not realized before. Fortunately, with this request from Abílio, we began to attack the quality of our services vis-à-vis our clients. We had an improvement, significant improvement in the last few months, and we had a growth since January of 2013 to date of 13% of our services.

So we have really begun to meet the expectation of our services. I think we have been a strong company for a long time dominating the market, so perhaps what was lacking was humility, and this is necessary to have. One must have humility.

And when we saw that survey, which was like a terror movie, we realized what was happening. It is better, but much still can be improved, and something else which will contribute to our growth in the domestic market. In terms of SG&A, it's incredible. This company, the team, is always seeking results, and we must have a considerable reduction of our expenses. We have also implemented, or we analyzed ZBB, and we are implementing the ZBB, which will - significantly contributed to the reduction of expenses. We have also reduced costs in the plants, and here I wanted to mention that we in February of this year made a change with relevant redundancy in the industrial area, particularly in the overheads of management.

We closed five regional offices, industrial offices. We had many different levels, hierarchical levels. We reduced this down to three. And today, the three regional offices were kept. We only kept these three regional positions. And they work out of our larger room which - and commanding straight from the company. So that which sometimes took months to do, and because of market demand, until it flowed through the different hierarchical levels, sometimes was too late, other market demands came up and nothing happened because we did not have time to implement anything.

Now things are much faster and more agile. That which the market demands, that requires, that wants, flows through immediately and is implemented in the different units, this both domestically and internationally. And this is very, very important. There is no more lag time of the decision taken and the implementation in view of these hierarchical levels. And we also reduced by 17% the back office which has brought very relevant gains. So these were draconian measures, and when I say that we brought about tremendous change and relevant change in the computation in industrial areas, we have not yet implemented all the industrial steps which should bring – of the concentration of certain production lines so they will not be so dispersed. This has not yet been implemented. This is still another thing that is sought, and this project will start in January. So Pedro will be commanding that important phase of this project, and this will bring gains as well.

And also, we must focus on the core business, according to Abílio, to go after our core business in which we are competent; to run after that which we know how to do best. Consequently, a decision has been taken that as much as possible, disinvest in or from those activities that we are not so competent in. So we have sold off our beef business which was concentrated in Mato Grosso.

We did not have the necessary penetration for managing the beef business or the competence that Minerva has. So we decided to sell off this unit. We have a share in Minerva of about 16%, and this is very, very important because we recognize our limitations and we seek to maximize our qualities.

And dairy products as well; we have just signed an agreement. And this was a decision also to focus as well, to sell off this dairy production. And we will have – we have significant better results than we had before. But even the best results did not justify our keeping this unit which was sold to Parmalat, Lactalis. And this concentration, I would say, maybe this obsessive preoccupation of doing what we know how to do best, has brought good results.

I could stay around here perhaps another hour telling you of other activities which are being implemented all seeking results, but I will leave the numbers which will be presented by Augusto to speak for themselves. And he will give you lots of details of all the results that we have obtained so far and obviously which signal the future.

I was saying that one or two quarters do not lay down a trend, but definitely three consecutive quarters, and this third one already is giving clear signs of the future trend of expectations which we can have for this company.

My last comment, well, after Abílio came in and we had a change in management, our stock has gone up significantly, but much more with the expectation of a miracle than the projections of a past which would justify this. He was always saying both domestically and for the market internally and outside that it was not the time for the stock to go up at that time.

There was nothing which could justify this except expectations, wishful thinking, perhaps. And now, I am very happy, and would like to mention that part of my bonus is tied to future results. So I definitely can now shout in the ear of my dear colleague and to the President and CEO, in fact, and by right of BRF.

So now I'd like to ask Abílio to take the floor.

Thank you, Cláudio. Cláudio has said the last time he participated in an event like this that I hate to say goodbye. I hate alarm clocks and I hate saying goodbye. And I prefer not to see this as just saying goodbye but see things in a different way. We have done a lot of work together, and I think that the two first jobs we did together were great.

Let's now wait for the results of this one. And it's great to work together but, Cláudio, you know very well that the most important thing besides professional work, which you have always done so well, you have been a wonderful companion; always present, always a companion, friend. And this is so important so we can always attain our results.

But also, very important is because this is a moment of transition. So – and as from January 1, we will have a new CEO. Well, things that have to be done will be done, and I wanted to tell you about the story of Pedro, BRF, and his relationship with me and Cláudio, before he came to BRF in April of last year.

I studied this company in depth before I came and we worked a lot together to get to know this company. And these studies, this previous work, led me to get to know Pedro. And I said to Zaca, Zaca, good news and bad news. The good news is that we have the ideal Global CEO who is Pedro; and the bad news is that you're going to lose your other CEO.

And we then decided that it was not good for Pedro to take over as Global CEO at that moment. So we were correct and we chose Cláudio to take over in this interim period with all the knowledge that he had, and we decided he'd take over as International CEO. And it's good now to look in the rearview mirror and we can see that the decision was correct for all the things that have happened.

Well, why did I choose Pedro? The first idea was mine. I chose Pedro first of all because I knew him. I had worked with him, and the first thing is because I found in Pedro a total agreement with my values; humility, determination, discipline, and all the other values which I consider to be important. We worked together for two years, and the more I get to know Pedro, the more convinced I am that he is different.

He is very young. However, he is going to be 40 now. And if you don't believe me, just think the following. A blend between a Chairman and Global CEO, the average age is great. So together, I think that we will be able to do a great job. But it's important that you look at this when Pedro takes over as Global CEO presenting his credentials, the work which he has done as International CEO. This has been an important job.

To me, the domestic market was changing so much. Listening from the other side of the counter, on the commercial side of things, the international market, as it is far away, we have a relationship with about 120 countries in the world, and we opted, as Cláudio has mentioned, taking things as a whole. Pedro took part of the external part, and once again, this decision was correct.

The work that Pedro did on the international side had an objective, and particularly because it caught the company in a very disorderly fashion. And they had to clear up Argentina, the Netherlands, China; and Pedro would tell you how many offices he closed down in Europe.

Today, things are so much easier with videoconference and Internet, and we are much more centralized now and so although we still have POSs, they are more like support points.

The work that Pedro did in the Gulf; the Middle East is so important for us. We made no spectacular acquisitions, and nor are we going to. We do consistent work every day. The work that we did in the Gulf was to buy ownership in our distributing – distribution companies and this has been wonderful as result.

Now we have the budget planning, recovery of Russia, and the doors that are opened in Asia, Singapore. So Pedro as Global CEO has established a very sound platform internationally to do one of the tough tactical when I was here, make this company truly global.

And this is what we are doing. So for the future, we will look to the future serenely for those who – like those who are used to doing this. We want to be first. And we are very optimistic and to see what is coming.

And now Pedro, with a sound basis, can focus on the domestic market where we have an enormous number of things to do. And he is making an effort these months to learn about the domestic market, as he knows about the international market.

We have a new configuration. In August, I met him in Europe, and he called me three days later. He was going to the airport. And he said, I'm going to go past South Africa. I haven't been there yet. And so he went everywhere.

And now he has to get to know the domestic market. And so I have no doubt that with all the programs and plans that we have, we will make a great leap in the domestic market. So the prospects are great. I think we are fulfilling the tasks that we have given ourselves.

And at this moment now, I will give Pedro the floor for the first time as Global CEO, or indicated Global CEO and wish him good luck. And, Pedro, we are together on this.

Continue to do the same always, because the same is excellent.

Pedro de Andrade Faria {BIO 15115819 <GO>}

Good morning, everyone. It's a great pleasure to be here. And this is a new experience for me because for many years, I was sitting on the table, taking notes, trying to understand the path of the company. I have followed this company since 2012 as a shareholder.

After that, I became part of it. It is a great privilege to be on the stage with all of you, especially Cláudio. And I usually say that he has given me the baton of the company probably in the best moment this company has been at, and I have learned a lot in this last 18 months.

And I'd also like to thank Abílio's words as well as his fully support (00:32:47) that he has given me since the day we started on the journey. It's not only a matter of age, but also the fact that working together, you can have complementary visions and I can learn every day from him. This was the first person that made me believe that being here was possible, and he is someone that really fills me up with hope every day. We have here Chris and Augusto. They are working with IR in a way that the company hasn't worked in the past, so it's nice to see the company working in all the areas in a nice way.

I am here with you, and very happy to be here with you, but I also would like to bring to you some data about the process in the international market, what we have found, where we were able to do something different; and try to be very straightforward and tell you that in spite of the company being at a very interesting cycle where uncontrolled factors are favoring our results, we also have a strong base work that has already been done in the past. And therefore, I am confident about the company's future, no matter what is the price of our commodities or the dollar price.

So just trying to bring to you some data and we try to let you know, to bring to you the real sources of results of the company. I would like to show five relevant indicators relevant to the transformation of the international markets, and that has to do a lot with our export base. We have what we consider a key indicator, our OTC, order to cash. Really, that is an indicator that shows our efficiency, the efficiency of our supply chain.

And as usual, we are managing our shipments, the right allocation of products on customers. And here, we had a significant improvement. We went from the beginning of the year of a little less than 80%, and now we are at 86.5%. That is translated, for instance, in the relevant drop of our working capital, because now we have less products in the ships, less products in the post. And so the products are not staying there, are not there. So that really shows the big difference in our balance sheet.

While our major expense account is sea freight and our suppliers have learned quickly about Cláudio's reputation. Therefore, we were able to work and bring down those expenses. And there is a promise of core efficiency because the vast relationship that we can establish with suppliers is a win-win relationship. And we tried to provide more efficiency in our chain that allowed us reducing in 22% our sea freight costs. We also reduced a lot our stocks with our sales in international market once again. And a very long chain where we are talking about perishable. It's not a good idea to have a stock without a – the find final destination, so we were able to drop a 50%, more than 50% since the beginning of 2012.

And adding to what Cláudio said and just wanting to make sure that we are controlling our expenses and our matrix (00:36:32) packages making them aligned to the company's efforts, so the international market was able to have an expenses package that was even below than the ZBB. So there is a significant reduction of our overheads.

And it was also possible to control some sources of negative results which were a loss of products due to FIFO or expiration date. So there was an improvement of our chains, the efficiency in which we are bringing to the market and that result on the balance sheet, on the results and much more in the satisfaction and on bringing back customers.

Abílio was with me on the largest food fair in the world and he realized the change in the relationship among us and all the clients saying BRFS, a long-term strategic partner. Obviously, that is translated in results. We have an improvement in the figures and you can see that in absolute figures as well as in percentages. All of those are relevant.

We went from a peak of margin where we had an EBIT that was almost zero and an EBITDA that was positive adding depreciation and amortization. Now in the third quarter, we already to have a profitability level that is the special and the growing one. We have a process in which we know how to take advantage of that favorable moment of the market but that favorable moment has to do with a sound and structuring work developed in our business.

Obviously, we have price management being done and this was one of my learning. When we manage the international business efficiently, we have commercial margins to negotiate to review commercial policies with our customers.

And therefore, we always have the ability to implement policy prices that are favorable to the company. So you can see a strong growth of our prices, our average prices in dollars, in an environment where we believe that the average dollar prices would drop, because that has been the history of the company.

Whenever the grain price goes down or the dollar goes up, the counterpart is to have the price going down due to commercial pressure from our customers, traders or distributors. I think we're able to sustain that based on the cautioned the strategic (00:39:09) that was conducted by Cláudio.

We were able to eliminate SKUs and were able to eliminate a lot of complexities of our systems and to make the right choices about the markets we wanted to supply. We left some markets or some product families and we concentrated ourselves where we have real competitive advantages, just like Abílio mentioned about the Middle East.

Now I would like to tell you a little bit about NOR or net sales but I can tell you something about the different regions. In Europe, we have a market that has benefited from this consistent policy of integrated planning.

We zeroed all sales of products that were out of the quota. And just to understand a little bit more of the European market because that's not every market basically everything that we sell out of the quota represents a product in our portfolio that has a negative gross margin.

Also we're able to refocus the sales of our products in our platinum customers in Europe, which are the ones with whom we have a long-term relationship. Therefore, BRF is relevant to their portfolio. We are talking about those that count on our raw material. And we're able to work on our price policy above the reference price for commodity market because there is a promise to deliver quality, service, innovation, which is very relevant. This is a little bit about Europe. They have been contributing to strong results.

Americas. Maybe here what we could show you that is the major Achilles' heel for the company is the traditional presence in the Venezuelan market. I think all of you know about the difficulty of Venezuela allocating payments. We have done a strategic choice to reduce everything that we send to Venezuela. But that's not good to our EBITDA. This market generates accounting results.

But usually, you know, I say that I'd rather have cash generation. So here, we took the conscious decision of reducing our market share in that market, obviously without giving up the market because it is very promising and interesting.

So we are trying to be a more long-term sustaining base there. But you see that the figures show a drop in our presence in Venezuela. That in the past has been responsible for larger margins in the company.

In the Middle East, I also have to say that we're very proud of what we were able to do there. This is the second market after Brazil, and that's where we have a reality - we are there for already over 40 years.

Our brand is the preferred brand by the consumers, just like they prefer it here in Brazil. And we have very good and well-established relationships there with our suppliers and with our partners. So here, we were able to improve our presence.

In terms of volume, there was a real gain. And I usually say that this is the volume gain that is really interesting for us because it is based on an expressive market share increase in the main markets of Saudi Arabia, Oman, Kuwait.

I'm sorry, we lost connection. (00:42:57 - 00:43:06). Also to have a margin that was related to the chain of our distributors. Therefore, now we are able to dialog and to negotiate with important markets for us, because maybe the dollar will go down, the grain will go down. But the reality is that those markets are going up and the price of poultry there at the end is not changing much and so we are playing a game that is similar to Brazil's game.

Finally Asia, this is the growing vector of the company. We just found out that Asia should be a driving force for the company. We were happy enough to strengthen our team there. And we know that Asia is better understood by local people. And it is far from us.

Therefore, we are having a consistent ramp-up there and we are gaining market share. And even in traditional markets, such as Japan, we're able to do consistent work to conquer an even higher share in the import market. Therefore, in more traditional markets, such as Japan and other markets in which we are strategic to focus, such as China and the southeast of Asia, we are very - have a very promising base here.

We also have some markets in which the company is strong, just like in the Middle East. In the press conference, I answered a question. In Hong Kong, we have - we are 100% present. We are in all points of sales with our brands, with our products. And also, with local processing capacity that is done by our partners. That is a model that we can duplicate and replicate to other areas, to Asia and Singapore. And we are going to focus that on the next three years of cycle of the company.

Eurasia. And I think all of you know what happened to Russia, and the banning of the traditional markets that were suppliers for Russia for pork meat. And what is reflected here in our third-quarter figures have a very negative contribution from Russia for us because within this very complex geopolitical scenario and very important complications, BRF has positioned itself as a leader in the market, not being weak.

Therefore, some of our plants were not in operation during the second quarter. So here now, we have a market that had no contribution in the third quarter. And with all the positive news that we have about the sector, we have in Russia opened itself to Brazil, I think this is going to be just reflected on the fourth quarter and not on the third one, because on the third one, the contribution here of that area is negative.

Finally, Africa. There is an interesting path for growth. I went to South Africa. I think we are going to be successful there. I think Brazil has all the right to be very relevant to the area, not only because we're close to them and we have a competitive price, but also we have there a potential of local processing installation. And we are paying attention to that. Africa is a market that in the past for the company we would basically sell off - everything that we could not sell in the market here we would sell there. But now, we are paying attention to this market. This is one of the markets that is most interesting for the company in terms of profitability and margins.

We are at a very special moment on November 26. We are going to open the largest Middle East plant. This is an investment of $155 million and we have a capacity of almost 70,000 tons of processed food. And with a very simple economic rationale, we already have a relevant market share in the region in industrial products, poultry and chicken cuts. And we believe that with this plant and with our brand strength and the distribution system established, we will be able to reach organically a market share in processed food in the six lines that this plant will have that will be relevant.

We'll be able to supply growth in the adjacent markets that are part of the Arab League, We have been able, as I said, to have a volume growth based on real gains of market share in the region. Both in Saudi Arabia as well as the Emirates, we were able to have expressed our shares in what is our business today, exporting poultry.

And that already shows the potential of our brand and our commercial strength. And that will leverage that investment and bring a very important return and very important results for the project in which we have been working for the last two years.

We are very motivated with this landmark in this company's globalization to have a plant, maybe the largest one for processed food, in a market that we are already present for the last 40 years. And that shows that we are concentrating our work. We are always working on that tripod to be consistent in supplying to have the brand and the robust model of distribution, synergistically working to have market share gains that are expressive.

And Argentina, just to conclude our trip around the world in less than 15 minutes, that represented a major challenge for us, not only due to the economic adversities that we find there, but also problems with BRF.

Our presence in Argentina had to do with an acquisition of four different companies with all challenges of integration, with difficulties in the portfolio that was unbalanced. It was very strong on the one side with leader brands such as Apache, and an American distribution of over 98% in Argentina.

But we had a challenge to integrate business that are different, in different stages as well. So in spite of the difficulty that we faced, we did work to recover our operations in Argentina. It was very important. We were able to significantly reduce our operating costs. We closed two plants. And it was important to make that decision, that footprint decision.

And now we are reworking here Brazil our operation capacity. Once again, we did ZBB work and expenses control that was very strong, and once again worked on the working capital because inflation there is around 40%. So a large part of our gain and capacity for cash generation has to do with a smart working capital management.

With all of that, in the last quarter, we placed some bonds. Augusto is going to talk about the local market and about things that we've just had in the company for BRF. So, BRF took a totally different position in Argentina. Obviously, we expect that this market has a robust growing. They will have an important election moment there next year, but I believe that BRF presence there now is much more robust.

So now, I'll turn the floor to Augusto so that he can try and consolidate all the information. But that's why - what I wanted to bring to you, more details. I do believe that the work that we have done in the international market is not 100% linked to the improvement of variables that we do not control; grains, the FX rate, raw commodity cycle, but there is a backdrop work, and we're able to establish the platform that Abílio mentioned.

Thank you very much, and I'll be available for your questions later on.

Augusto Ribeiro {BIO 18485971 <GO>}

Good morning, everyone. I do not intend to take too long on my presentation, because I think that you might have a lot of questions, especially because of a lot of things have been said – have already been said, I won't repeat myself. But what I think it is important it is very nice if you are following the company as I am. And I have participated in some NDRs in the last two years, and we have been walking the talk.

You can just see what is being reflected in numbers now. That's what we have been doing in the last two years. Especially last year, we worked hard. I usually say that near the beginning in Saudi Arabia, what was harder for us was to work on the soil because the land was very hard. So now, if you see a picture of that plant and it seems to be a model only, but it is really a plant. So we'll be there in November to the formal opening of that plant.

So, the net operational results of the company in summary. Here, we have two major topics; a good growth in Brazil's top line. So Brazil, we had again a good growth of volume in despite of our economy, and part of that is associated to our penetration strategy, our go-to-market strategy that helped us increase volume in the company, and international market that contributed. We have worked to reduce volumes and that contributed a lot to the bottom line. The profitability of the company was impacted by the international actions.

Now, about costs. We are already having, and it is obvious that in that zero-based budget that I mentioned when you talk about expenses, Cláudio talked about SG&A, but in terms of operations and structure simplification, we had an impact in our physical structure, in our COGS.

Also, we had improvements in the stock reduction of SKUs. All of that impacted our cost base. Grains specifically here has a shorter cycle. We already have a benefit. But now the long chain that depends on processed products and pork, those that take a little bit more time to reflect the results, here in the third quarter they show a little, but we'll see that more in the future as the animals are slaughtered.

And gross profits there was an improvement after we improved our capacity, even with reals valuation. But we had the positioning in the market, as Pedro already mentioned, and that is reflected not only in the bottom line, but also in other lines.

So, gross margin in the company has increased almost 30% of the consolidated. And I'll talk a little bit more about that. And despite of not having access here of the Brazil's gross margin here is only top line (00:54:55) and EBIT, that performance is the same for both units.

And I will – sorry, tell you more about it. And EBITDA and EBIT did have an impact – were impacted, and you already have access to this figures. As Cláudio mentioned some of the reasons, Pedro as well. I'm not going to go much further into it. But here, you have a historical results for the company to have this type of profitability.

And every quarter I say and I talk about extraordinary effects in January, and now we do not have the publication of that adjusted EBITDA any more. This is the EBITDA of the company. But there are costs for Argentina's restructuration, for instance. There are also costs for another restructuring process that we held in Europe.

So net of positive and negative points, because we also had some asset sales that generate gains, but net we had an approximate loss of BRL 60 million to BRL 80 million in other operating results. Therefore, our EBITDA margin in the quarter would be of around 16%. Every quarter, I mentioned that this is not written anywhere. This is just a reference, so that you can have an idea about what we had in terms of the profitability of the company in this quarter.

When we follow the net income of the company, the relevant comment that I – we could make here is that in despite of the problem that we have in the second quarter of 2014 that was caused by our bond buyback that had BRL 217 million in our financial expenses in the beginning of the year, so if I did not have that impact or net profit, according to EBITDA, according to EBIT and gross margin, would be improving quarter-on-quarter and we would have around BRL 400 million approximately of net profit in the second quarter in Brazil.

And I think I could say that first volume, therefore, we are not in a recession much on the contrary, but we have a more difficult moment in the economy we're following all the information, but we're able to grow, not vis-à-vis the prior year, but vis-à-vis the second quarter of this year. This was a growth of 4.5% in volume and Cláudio has already mentioned. But this was the first quarter in which we had full with the new go-to-market structure implemented on the small retail. You see what we call the small retail route that was an improvement there.

So now the name of the game for us obviously continues being the potential growth of the sale – points of sales, but also the efficiency of the sales force, the productivity of the sales reps. This is a focus that we will have for the next years. And something else that is interesting and important to say is that in despite of EBIT Brazil being flat vis-à-vis the first quarter of 2014, the gross margin of Brazil year-on-year has increased almost 3 percentage points.

If we analyze the margin growth, and you don't see that reflected in EBIT, and considering that SG&A also has dropped, and that means that we are re-investing in our brands so that we can sustain the market share that we have in the company – and the company. We had a year-to-date of 60% of trade marketing vis-à-vis 2013. So this is a conscious decision of the company, we are following that and I do believe this is something very important that we should continue working on.

And international growth I will not go much deeper because Pedro has already mentioned those figures. Dairy, I think I could say something about it. We had a difficult beginning of the year. This is a cyclic and seasonal profit. The big news here is the agreement to sell the division, but the third quarter provided good results in the dairy operations.

And food service, there was a change in profitability. Now we start with – we sold bovine. What we have here is a more profitable portfolio. There was also an increase in the profitability for food service routes, which already reflecting in the results of the third quarter, an increasing volume, 4%. Actually, Brazil's behavior as a whole in the third quarter vis-à-vis the second was a growth concentrated in volume rather than price. So quarter-on-quarter, this is something that we are trying to implement in Brazil.

And here a quick summary, this whole slide here. What is more important is that 75% of our debt is the average cost here. We have the average cost of five for two years; seven years our debt in dollars. 60% of our debt is with the capital market, so this is a strategy above 50%; depends on many lines. We are taking money from the BNDES and other banks, but this is a more active market and we intend to keep a profile, which is similar to this for the next few years.

Net debt over EBITDA. We always mention this. And we continue to keep the leverage. The net debt, there's a slight increase in value, but very little and especially because of the payment of interest of the capital and also the exchange variation, but the company continues in a process of cash generation. We could see that in the next few slides, and the deleverage short-term in this – particularly in this indicator.

CapEx, the guidance. We'll keep BRL1.5 billion for the year, excluding the leasing, et cetera, and the same M&A. We – a lot of focus on efficiency support and growth has had a lot of consumptions because of the plant in Abu Dhabi, but we maintain the guidance of approximately BRL1.5 billion in 2014.

If you remember the second quarter, I mentioned in the call, that we should have a slight deterioration, or an increase of the capital. In fact, the reason has been dedicated to the increased stock of grain.

We have said that the strategy, because of the signaling (01:02:16) of price, we are one of the few companies, the only company in Brazil with a capacity for storage. So we have advanced our position, especially in maize, with – the physical storage of grain is about four days in variation from the third to fourth because of the physical storage and also buffer stocks. So we generally have – generally the third and fourth.

The third builds the stock; and the fourth, when we execute the sale, the stock falls. But it's concentrated in January because the sale – we have a lot of sale in – at Christmas. So we have a stock of four to five days, which gives us a stock of 36 days. There is much more opportunity ahead. Working capital; this is one of the demands I receive. We have the opportunity. We work very strongly in accounts payable. There is still room in stock.

The international market was one of the great contributors to reduce stock in the Company, and we still have room as we advance in those indicators of efficiency and supply. We still have room here, so we can still work on inventory in the next year, and accounts receivable too. The international market offers good conditions for receivables. It's a question of strategy. So working capital will improve.

And consequently, with this, we have cash – generated in the third quarter 2014, and in spite of the increase of profitability, in spite of CapEx having kept around BRL 400 million here as working capital, the variation in working capital pulled this indicator down a little, but it's still robust; about BRL 450 million and what we have been talking about in the last quarters.

And now thank you very much.

Unverified Participant

Before we go on to the questions, I would like to deliver on behalf of Apimec São Paulo, our seal of assiduity or diligence, which represents a number of years. First of all, the cycle was opened by CDF (01:04:37), but the company has been holding meetings with our association. And I would like to say, Abílio, Cláudio, Augusto, Pedro and Christiane, that you are as a group the company that has had the longest relationship with the regional analysts' association in São Paulo.

So I'd like to congratulate you and I hope that our meetings will continue forever. So symbolically, I'd like to give it this seal to Cláudio and thank him for his work, and thank you all. Congratulations. 32 years you have been meeting with us.

Q&A

A - Operator

Ladies and gentlemen, we will now go on to our Q&A. We would like to remind you that those who want to ask a question, we would like to ask you to please, in the auditorium, raise your hand and give us your name. We will start with our Q&A.

Thank you for your presentation. It was very interesting.

I'm sorry. I cannot hear the person from Bradesco who's asking a question.

Thank you for your presentation. It was very interesting and I'd like to understand. You talked about the reduction of SKUs, and if in fact the volumes have dropped in the last two years about 15%, and the – but the factory size is much the same – or the number of factories is much the same as two years ago. So what can you do about this revision of factory footprint, and what savings can be generated with this review and perhaps a reduction of the plants?

Well, we have an idle capacity of about 30%. When we've re-thought the plant footprint, we do not intend to increase capacity but rather productivity. So basically, that is what I would have said. Pedro.

A - Pedro de Andrade Faria {BIO 15115819 <GO>}

Yes, a very good question. Something which I always learned in BRF, it's very difficult to infer a lot by looking at the whole. We have to look at the part. So although you see a reduction in volumes, there are some parts of our portfolio where we have had significant increases in volume, which have given us more competitiveness in some markets. I could mention the example of the Gulf, because we gained in market share. And today I would say that we have a good or brilliant (01:08:20) scale which is quite different. Also the reduction of SKUs has come in some places where we had the opportunity of presenting here, as in the case of Europe everything which we sold outside of the quota.

So all of this just to say that the opportunity of the factory or plant footprint is real, it does not mean the reduction of plants, but it means first of all a greater - clearer objectives for the factories. Some plants will have a greater capacity reaching the objective or be more productive, reducing idleness, re-thinking our business and concentrating on the factories that are more productive and realigning some of the factories between domestic markets and export markets.

And the third element, which becomes clear with Abu Dhabi, re-thinking our footprint on a global basis because we are still caught in a paradigm of having a productive line in Brazil. But now we are operating on a productive basis which is worldwide, where we do not have the manufacturing assets. Like for example, now we have Hong Kong. So the journey of the footprint starts and it is mapped out but I think that there is a capacity to add now to this which is very important.

Q - Giovana Araújo

Giovana Araújo from BBA. Thank you for your results. My question is regards the margins of the international market. You said, Pedro, about all the initiatives which were taken and structural markets in the international or in structural changes. So what about this delta of a margin? How can you explain that? And in the future, what kind of margins could be normal for these margins, ex the cyclical effects and the question of the commodities for protein and grain?

A - Pedro de Andrade Faria {BIO 15115819 <GO>}

* This question I think is worth billions. In fact we considered this internally and there is a certain level of inferences or assumptions that we must take. But the best thing that we can see is in the process of one cycle which begins to show internationally is a reversion where we will be able to sustain our margins.

I am also curious to know how much the model will be resilient, but I am very confident that we will not go to historic levels internationally of productivity. I'd like to complement the question of the drop of volume. We have made a harsh decision for a company that has its industry. We have reduced by 220,000 tons the production for exports, which also contributed to reduce volume.

One of the main objectives, recapping all of this is to increase the profitability of the company. We wanted to and we want to continue to reduce the degree of risk and volatility which we have in our assets on the international market. So more than to promise future margins or participation, this is what is important for valuation.

More important is that we are sure – we believe with confidence in everything that we have done and that Pedro and the international team have delivered that we probably have no more room to go back to the EBIT results, which we had in the first quarter of last year, which was almost a break even. So more than ever, we have to decrease volatility and keep a good profitability.

Q - Fernando F. Ferreira {BIO 2389113 <GO>}

Fernando Ferreira from Merrill Lynch. Congratulations on the results. Going back to the plan which you announced in August of 2013, remembering that those four pillars which were proposed, the question of demand, the go-to-market planning, support, and all the area of upstream; thinking about the evolution, the growth that you've had up to now, I'd like to understand which of these four are you more advanced in, and where do you still have to make progress, so we can manage to make it by 2016/2017 and see the number of BRL 1.9 billion. And when can we get to this number? I'd like to understand. More from a qualitative point, where are you more developed? Where must you still make progress, and more or less where are you with the rest of the plan?

A - Operator

Well, remembering that BRL 1.9 billon would be the result of capturing – or through 28 shares. We are much in line, a little ahead, not much but a little, regarding the ramp for the capture of this BRL 1.9 billion. We don't even mention BRL 1.9 billion. This has been already incorporated into our budget. So we are in line and some points have already had larger results, others less. But on average, we are in line.

Well, I think qualitatively speaking, in the main project that we have been successful in and go-to-market in May. We joined many sales forces together. This allowed us to work in a more structured and organized way. And on that chart, we draw your attention not only to the growth of new POSs, but the synergy and that you can offer, where we sold just one brand, now you can sell two brands and vice versa.

And so GTM has advanced very quickly, and vis-à-vis the level of service, you will see that it dropped to begin with and some changes on the system, but then it ramped up systematically. So qualitatively, I'd say that GTM is what we are trusting and we continue to bet on it.

And logistics also we are working very hard on. It's more complex. It involves systems, and we are implementing the new systems. And this is an implementation curve which will go up to next year and logistics software, which is going to allow us to help to qualify things, understanding the real costs of the chain, and this is going to add a lot. So I think that logistics is also something we are running after greatly – no, not after perhaps, but comparatively, we were a little bit behind compared to GTM, for example.

Q - Alexandre Amson {BIO 4119036 <GO>}

Good morning, Alexandre Amson from Credit Suisse, and congratulations for your results. My question has to do with the domestic market, and not only the average prices. Sequentially, there seems to have been a slight drop, which was followed by an increase of volume. I'd like to understand a little bit in greater detail how you'd see the competitive market here in the domestic environment, whether this drop was perhaps a question of mix. What led to this to drop? And was there an impact of the competition, or has the consumer become less avid in buying or what has happened?

A - Operator

Well, here there's a little bit of everything, I think a question of price relativity, and depending on the channel of the network, the competition in fact generally speaking. And in some areas, we increased the price in the second half of the year. Some competitors did not follow and so it was a question of adjustments. But it was not only this. There was also a question of product mix, and so much so that the margin – we increased the gross margin of the financial products.

But in the average price, we have a big (01:17:04) mix and the average price of some products is high. So when you reduce the price, it becomes more selective. This affects the average price. And so let's say it's a composition of all many different factors. It's not a question of reducing the price to sell more. It's a mix. It's a little bit of channel in some networks, the relative price versus competitors, and also position of portfolio of products.

Q - Thiago Duarte {BIO 16541921 <GO>}

Thiago Duarte from BTG Pactual. The question is about growth and the use of cash. We have seen the chart that also showed about leverage. And further on, there was probably the sale of dairy products and the seasonal question of the working capital. We will see the leverage of the company on levels. I can't remember what you showed us. And the year where the company also opted, I'm not if this is correct, correct me if I'm wrong – opted for growing less.

The volumes of the external market are less, less SKUs. So what is the next growth cycle of the company? For the use of this cash, will there be more dividend? Will there be more acquisitions? And what is the growth level that you are seeking after these adjustments that you have shown quite a lot of optimism about? And regarding the question, before you cut me off, the question of several billions, worth billions for Pedro.

You talked about a normalized level of margin of 6% to 8% for the outside market, generally speaking. And is this the level which makes sense to think about without the indigenous adjustments, cyclical adjustments of the business?

A - Operator

We have noticed that to grow less, we opted to make more money. The responsibility of this company is huge. We are the largest poultry exporters in the world and we have a significant exports. And the world's consumption of poultry is huge, so we have to manage our supply and our inventories according to demand. So this was a decision, an intelligent decision of managing our production and not produce something, which I said to you in August of last year – just produce and the salespeople had to sell.

Now the market is different. It's a market of the consumer. And these are the changes; paying attention to the market, to the sales of the consumer, and let's manage our production. Second, excess cash or too much liquidity is not good and we have a responsibility of giving the best to our shareholders with this liquidity and with this money.

We also had a proposal that I mentioned when we came here – of we are going to examine each cent that we are going to invest, so that there'd be an adequate profitability for our shareholders. We are looking – at the end, we look at the profitability for the shareholders, and we see here, in the case of the demobilization of beef, this did not involve cash. We had an interesting business with Minerva.

And now, the dairy; yes, there will be a considerable inflow of cash. And we will continue to examine things, doing our work that we have been doing, growing in an organized way, particularly from the – in the external market with the increase of POSs.

Well, growth through acquisitions will be in the international market. We have the basis for growing. Let's grow. And we will grow with intelligent acquisitions, as we are doing in the Gulf, in the Asian market; finding opportunities, and not just go anywhere just to make up volume.

So you can't just buy any company. You don't know the synergy of this company, how much will it increase in value. We seek value. Anything that we buy has to add value to the whole and not just at that moment. So I think that we are managing this very carefully and we know the responsibility we have that we have to remunerate our shareholder well; not just leave money in cash and give the shareholders (01:22:56) plus a little bit more. No, we have to give them their fair value. I think perhaps I have answered you.

Q - Thiago Duarte {BIO 16541921 <GO>}

Well, just to tell you, Abílio, I think that this is a very strong characteristic of Abílio, Cláudio, (01:23:11) as well. I think that this – we should become aggressive when the rest of the team is worried, and not the contrary. Obviously, we have to examine this question, and it's more anti-cyclical that pro-cyclical. The other thing that you mentioned, if it is below your lower limit, I – would be worried, but the number is okay.

A - Operator

Regarding the growth or not, in fact this year, the objective was not to grow. We never had this objective. The objective was to prepare the company for growth. I think that from now on, we have a very good sound basis, a well-established basis, which allows us to give – take a tremendous growth leap. The objective was results, to prepare the company for yet another cycle.

Q - Thiago Duarte {BIO 16541921 <GO>}

So we have sacrificed growth?

A - Operator

Yes, we have. But this was on purpose and it was planned.

from the Bank of Brazil. Congratulations on your presentation. My question regards to domestic market and competitive environment. So much has been talked about the go-to-market. I think this is quite a developed process, and the growth of brands and productivity, et cetera and the opening of POSs. But how do you see the competition environment for the next two years? How can the company create entry barriers? Is this a problem or not? So I'd like you to elaborate, please, on this thing.

Pedro?

A - Pedro de Andrade Faria {BIO 15115819 <GO>}

Well, obviously, in the last few years, we are experiencing a new competitive experience. Regional – some regional companies are growing regional brands. We are well aware of this. And now there is a second competitor in most of the categories and in some categories is right behind us.

So, yes, the competition has heated up. But I think you're talking about the next two years, what has been planted in the company, this basis that Cláudio mentioned, both from the industrial point of view and efficiency; what has been done from a marketing point of view. Augusto has said how much in this guideline of what we are giving back to the market. And as we have the great wealth of the company brands in – the most valuable in Latin America, one coming back now in 2015, in categories that are very relevant for us as ham and sausages, I think that the competitive scenario – I think that we are very strong players and we have a very strong competitive differentials.

Well, there is one point. I would have lived all my life with hot competition and recurrent competition. That's the name of the game. And competition always copies what we do. But we can rest easy. They can never copy what we are. So let's just get on with it.

Q - Operator

Thank you.

Q - Diego Maia {BIO 16478658 <GO>}

Diego Maia from HSBC. My first question is a follow-up about competition and what you have for next year. Can you tell us a little bit more what your plans are for next year for Perdigão? And more than that, how do you intend to work, and how do you intend to avoid cannibalization between Perdigão and Sadia? How are you going to deal with this issue internally?

And second question about the international market as this quarter was very good. But do you have any idea of how much would have been the positive impact – if the original market was normally opened to you, how much more that margin would have been? Thank you.

A - Operator

Well, going backwards, we do not do that math how much it could have been because it doesn't add much what could have happened. But the fact is that in the third quarter, all international area has been impacted by all areas, and it was good. So we did not do that math – of how much I would have made if I had sold for a specific price. That's very difficult to estimate.

In the domestic market, we already talked about the competition. Perdigão strategy, we cannot tell you anything about it. Much on the contrary, there are a lot of people listening. So that strategy – going back to the market, this is an internal strategy, you understand. But it is obvious that the less we cannibalize Sadia's brand, better to the company, the more we have Perdigão coming from competition much better. So we understand that Sadia and BRF still has 56% of market share in the category. Ham, for instance, is over 60%, so we do have a higher market share. So, maybe a small degree of cannibalization certainly happened. We are still analyzing it and its part of the strategy of re-introducing the market – the brand. So we cannot talk much further about it. Sorry.

So now we are going to start answering the questions of the participants that are following us in the call conference.

Question is from Luca Cipiccia from Goldman Sachs.

Well, since our friends from the Internet have not asked any questions yet, I am back here on the floor. I would like to – anyone from the audience who would like to ask a question? So now back to Bruno (01:31:27).

Thank you very much for this possibility of asking a question. I have a question about acquisitions in the domestic market. Good morning. I will repeat the question. I would like to know about acquisitions, opportunities in the domestic market. We know that there are limitations, but you have said before that the company would like to hold a smart acquisition. Wouldn't it be smart, if you look at the long-term and leverage that ability of commercial for added value and add new categories to it where not necessarily the company operates today? But that could be a new platform and new capacity, and other focus more for precise than for products of added value, more than you have been working within the past. So that is my question.

I think what is the most important has to do with the way you say that – your question. The market has a mistaken understanding about the company not being able to do acquisitions out of Brazil, and we do have a brand platform that allows us to think not only in adjacent categories, but also things that are related to our core business. Therefore, we have to create a correct strategy to follow through with it. Thank you.

The next question comes from Pedro Leduc from JPMorgan.

Q - Pedro Leduc {BIO 16665775 <GO>}

Good morning everyone. Thank you. About SG&A, that is in absolute figures 4-something-percent year-on-year showing that you have – we will be more efficient in the fourth quarter. Can you tell us a little bit more about it, if there's more or less of the same that what already has been done? We can expect different figure, right? And still talking about SG&A, when we look at 2015, the Brazilian market shall be more challenging. And do you still see a drop in SG&A for next year, or do you believe you are going to have the increased marketing expenses to re-introduce Perdigão in the market?

A - Operator

Actually, we have a strong restructuring on the zero-based budget. In the beginning of the meeting, we've discussed that. I think I talked about that with (01:34:52) as well. ZBB, this is an annual planning. Obviously, the first leverage comes out right in the beginning, but that is something that is here to stay. We have an expensive discipline in the company today that is much stronger than in the past.

Next year, we are going to have a new round of zero-based budgets. We want to keep on working like that and now we are focused on the consumer. That is still our core. So, yes, we still intend to heavily invest now that we are very aligned to our strategy, not only in marketing but also in trade marketing. We have to improve a lot in the points of sales. Once we have a new point of sales, we need to ensure that we capture and we gain that point of sale. So SG&A still shows opportunity, and here we anticipated ourselves in major restructuring process. But that is – just like nails, you have to trim them every week.

But it's difficult to say what we expect in terms of SG&A for the next year. But I can tell you that we will have much more control on our SG&A, much more than what we had in the past. Whatever is considered redundant and is not adding value to the company will be worked on.

Q - Pedro Leduc {BIO 16665775 <GO>}

Thank you very much. I think this is a good indication of the company's strategy. Everything that the consumer sees, that probably – should increase our level of expenses, and whenever the consumer doesn't see something that should decrease the cost. So I think and I hope that this adds up to a good profitability equation to the company. Thank you.

A - Operator

We now conclude our question-and-answer session and I would like to turn the floor to Mr. Abílio Diniz for his final remarks.

A - Abílio dos Santos Diniz

I think I made it very clear that I deeply trust in this company. I trust the team and the teamwork. So now starting in 2015, the company is going to be under Pedro Faria's management. And I would like to say that I truly believe in our country. We are coming out of a very difficult moment, a moment in which there was an up-roar in the market, the period that was right before our elections last weekend.

The company that - I mean, a country that is divided in two major blocks; President Dilma and our candidate Aécio Neves, had a very close margin of difference, therefore the country is divided.

But on Sunday night, President Dilma, I think said that she is going to govern for all Brazilians. This is an indication that is very important. I believe that she will do it. She will work for that. I believe that right now in the moment, where the country seems to be divided, this is a conciliation moment, a moment when we have to understand ourselves.

And for those that analyze the economy, I don't think we have serious problems. We do have sound bases. We might have some problems here and there threatening inflation, but I believe that inflation is still under control. And everything else that is happening could be corrected could be adjusted. And so I would like to convey to you my optimism message, and I truly believe that things are going to be okay.

We have gone through the worst. There was already a volatility in the market. The scenario is defined. We already know what is the day after. So I think now we businessmen have to work and try to build. That's what we have to do. That is what is better for the country, for the companies and for all of us. We that are in the consumption market, such as BRF, we do have a very positive scenario ahead.

I believe consumption will increase. We have an international scenario in which the international economy is recovering. United States is showing signs of recovery. China is still at a good base. I think we do have very good perspectives, excellent perspectives, for BRF.

Thank you all for being with us, and see you next time. Thank you very much.