Q1 2015 Earnings Call

Company Participants

- Augusto Ribeiro, Vice President, Finance
- Christiane Assis, Investor Relations Director
- Pedro Faria, Global Chief Executive Officer

Other Participants

- Alexander Robarts, Analyst
- Jeronimo de Guzman, Analyst
- Lauren Torres, Analyst
- Unidentified Participant

Presentation

Operator

Good morning, ladies and gentlemen, and welcome to BRF SA Conference Call to discuss First Quarter 2015 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. (Operator Instructions).

Forward-looking statements related to the company's businesses, prospects, projections, results and the company's growth potential are 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.

As a reminder, this conference is being recorded. I would now like to turn the conference are Ms. Christiane Assis. Please go ahead, madam.

Christiane Assis {BIO 16226621 <GO>}

Good morning, and welcome to BRF's first quarter 2015 results. I would like to hand the call over to our Global CEO, Pedro Faria for his opening statement; and later to our Finance VP, Augusto Ribeiro. After their statements, we will open for the Q&A session. Thank you. Pedro, you may begin.

Pedro Faria {BIO 15115819 <GO>}

Good morning, everyone. (Technical Difficulty) results of the year 2014, we began the first quarter 2015 with growth additions, financially stronger and better demand, with we spent a challenging scenario, which will foresee for the short to medium-term.

As a decrement to that, today we'll present to you the results and performance of our business and solid consolidated results for the first quarter of 2015.

(Technical Difficulty) structural changes and strategy adopted in the last two years, now strengthened by the re-organization of the company's management model, which became more of a centralized through increased independent and (Technical Difficulty) to General Managers, (Technical Difficulty) divided by five geographical markets; Brazil, Latin America, Europe, Middle East and Africa, and finally Asia.

At the beginning of this year, we also adopted this organization model to Brazil, which is now divided into five regions; the North-East, the Mid-North, Sao Paulo South and the South-East, the last one comprised by (inaudible). Reporting directly to the General Manager for Brazil, no longer (Technical Difficulty). This is a very relevant milestone for the beginning of a new long-term cycle which empowers the regions even then more decision, more economies, the increasing focus on the consumer.

The good performance in Brazil, mainly in the processed products category, which represents 75% of our business. This has not wrapped us any loss percentage to the economic situation, which we are undergoing a year-ago, (Technical Difficulty) higher interest rate inflation, unemployment, devaluation of the Real, interest, in most public and private investments.

The effect of that scenario can be seen, there's no downward economic growth and decline in consumer confidence, which in turn increased the company, its possibility to then focus to deliver the results on internal projects in order to continue to grow volumes and revenues in Brazil.

Brazil economic challenges also presented social implication. During the first quarter of 2015, (Technical Difficulty) in some of the Brazilian highways, due to the truckers strike. This occurred mainly on (Technical Difficulty) Brazil, presenting the movement of raw material, finished products, impacting our operations located in these areas.

At the same time, this episode highlighted the efforts shown by DRF local leaders, whose strong efforts presented even greater impact in the company. I am a big believer that this has led to a much stronger organization.

Also in the Brazilian market, this year we continue to work on a number of projects that we began last year and continue to generate a good traction and positive results. This product -- go to market that we will focus much more on raising client profitability by increasing volume. We should make as well as improving the positive property. Our primary focus on boosting the lab was to provide to capture more sales on board losses as well as strengthening our relationship with clients.

Furthermore, initiated premium products in the positive field in line with our pursuit of constant improvement in our operations. The part includes the complete position of our operational footprint. They need to optimize our productive structure as well exploiting specific features in addition to -- as well as (Technical Difficulty) from geographical diversity within this year.

Second part is implementation of a new pricing model that will allow the positioning of prices according to distribution -- channel attention as well as the system improvement of our market intelligence through our dynamic analysis price winning and multimillion repaying. Third part is the acceleration of the automation processed in our plants. We have already planned later in process in automation this year which would be the new level of positive moving forward.

Moreover, regarding the domestic market, we are excited with (Technical Difficulty) in certain categories starting in July. We have been carrying out investment marketing and launching new campaign integrating for strategic plans on the brand.

The moderate results till today represents 90% of (Technical Difficulty) second most consumed brand in Brazil. In regard to the global scene despite instability seen in bond market such as Venezuela, Russia. We managed to deliver strong quarter, enter on some of the structural change achieved in 2014 as well as all advances in our international supply chain.

We saw our remarkable improvement individually in Africa, two of our most strategic market, Asia as well as Europe despite we have seen pressure by worsening conditions in Russia. Latin America result however will have invested by Venezuela. Given the strong economic situation (Technical Difficulty) we have chosen the country during the first quarter of 2015.

We continue to carry out our special brand in Singapore for example, we have set a new residential with SFI (Technical Difficulty) 49%. The largest provider of airport services in Asia listed in Singapore Stock Exchange. We have also just announced the acquisition of (Technical Difficulty) which you have main objective distribution in the United Kingdom, Ireland and Scandinavia as well as the (Technical Difficulty).

In the context of this transaction DIF we appointed this business as well as EBITDA so that we are up to 63% of the new entity. Both transactions are completely in line with the strategic to add local market, strengthening our financial standing out for product portfolio. Our consolidated EBITDA reached 951 million in the first quarter, having 11.2% year-over-year and the EBITDA margin changed to 13.5, which is 0.7 percentage points higher than the same quarter last year.

Net income for the period was 452 million, was 2.8% higher than same period for 2014, leading to a margin of 6.5% and 4.8 in the first quarter of previous year. During the first quarter 2015, our return on capital invested 12.3% and 7.2% in 2014. This improvement comes on the back of their results for the company as well as much more efficient in both in CapEx as well as working capital.

Our financial -- for the first quarter ended is 32.6 days which compares to 41.8 days in the same period of 2014. Free cash flow for the period was 1.1 billion (Technical Difficulty) during the last twelve months that is very, very improvement of 57.8%. Also going forward, on April 8 2015 we had Annual Extraordinary Meeting of Shareholders, which approved the election of the new Board of Directors of the company now composed of nine members in comparison to 11 members previously. The current Directors are independent members and they have (Technical Difficulty).

Now I will turn the word to our CFO, who will walk you through our results.

Augusto Ribeiro {BIO 18485971 <GO>}

Morning, good afternoon to everyone. In the first quarter of 2015 net operating revenues totaled BRL7 billion, an increase of 5.1% year-on-year. And the back of higher average in real was 13.3% (Technical Difficulty) increase in net operating revenue due to the seasonality we had in the last quarter of the year in Brazil as well as (Technical Difficulty) product in the fourth quarter 2014.

Furthermore, it is important to highlight that we had an extraordinary performance in the national market in the national market in the fourth quarter 2014, which was positively impacted by the expansion of (Technical Difficulty) in the European Union as well as the supply in the (Technical Difficulty) in the main market where we are growing.

In the first quarter 2015, our half of sales amounted to BRL4.9 billion showing a slight decline of 49% compared to same period of the previous year.

Cost as a percentage of net operating revenues was 4.2% going from 23.5% in the first quarter of 2014 to 69.3% in the first quarter of 2015. It was mainly due to lower cost soybean, down 8% as well as (Technical Difficulty) down 3.8% compared to same period last year, which impacted the result in spite the rise in the cost -- of 2.9% in the same comparison.

Among other (Technical Difficulty) it is worth mentioning that depreciation of the real is down and the cost of packaging other material increased cost and higher cost in food conversion business. Compared to fourth quarter of 2014, we saw an increase in the quarter four of 10% and sizing yield of 13%, which resulted in an increase of 2.7 percentage points in the quarter two as a percentage of net operating revenue.

Gross profit for the first quarter 2015 registered an important growth of 21.8% for the same period of previous year amounting to BRL2.2 billion. Gross margin grew by 4.2 percentage points going from 20.5% for the first quarter last year to 30.7% in the first quarter of 2015. This improvement was mainly due to their average price across all region. (Technical Difficulty) Africa and Asia.

Compared to the fourth quarter of 2014 gross profit declined by 90.5% going from 33.4% to 30.4% as (Technical Difficulty) mainly due to the seasonal effects on the Brazil revenue. As previously mentioned, in the reduction of volumes and prices (Technical Difficulty) international region. In the first quarter of 2015, we saw increase of 8.9% compared to the previous year amounting to 16.9% of net operating revenue, again 16.3% in the first quarter of 2014.

These are the results of 8.4% decrease in (Technical Difficulty) due to high-end market expense mainly relate the new institutional campaign for the very old brand as we anticipate the return of (Technical Difficulty) in line with the company's strategy. Furthermore, we also note that there is a variation in operating expense line while it has been impacted (Technical Difficulty) in the first quarter 2015, a company that we acquired in the year, which has been fully consolidated our results, since the acquisition of 100% of economical right [ph] later in 2014, (Technical Difficulty) result, in which we acquired 75% of its frozen food, regained traditional business in November of the year, compared to the fourth quarter 2014, which is very important, (Technical Difficulty) were down by 6.5%.

In the fourth quarter of 2014, we have been meeting the amount of BRL223 [ph] million in other operations, 126% higher than the BRL121 million in the first quarter 2014. This includes BRL147 million of non-recurring expense, of which BRL42 million are related to the quarter (Technical Difficulty) as a result of the focus (Technical Difficulty). BRL35 million in restructuring expense, BRL27 million regarding some tax adjustment, and there are many other items which altogether amount to BRL43 million.

Excluding the effect of these one-off items, other operating results amounted to BRL126 million, in line with the other operating expense for the first quarter of 2014. For credit assets, for the first quarter of the year was BRL641 million, up (Technical Difficulty) year-on-year, mainly due to higher gross profit, (Technical Difficulty) price in Reais in Brazil, which is estimated, which more than made up for the rise in operating expenses.

(Technical Difficulty) operating results, as well as impact of equity income, which raised from BRL9 [ph] million already in the first quarter of 2014, to BRL59 million of expenses in the first quarter 2015, mainly as a result of negative impact from our 50% (Technical Difficulty) by the fact that we no longer (Technical Difficulty), I would like to highlight that if we were to adjust for the non-recurring items, our EBITDA margin would have been around 16%, 16.4%, and increase of 2.9 percentage points.

This result of (Technical Difficulty), as already mentioned, and the initiatives adopted by the company, and most important of which were the (Technical Difficulty) of distributors in the Middle East.

Net financial expenses in the quarter were 45.3% lower on the year, and 46.5% lower quarter-on-quarter, mainly as a result of higher gains and solid (Technical Difficulty).

The results were worth mentioning that we had a gain from the current evaluation this year, resulting from the major contractor of Brazil operations (Technical Difficulty) to the dollar.

More sequentially, these revenues, which is the effect of (Technical Difficulty) current evaluation loans, and financing and other liabilities, amounting to a net financial expense of BRL180 million in the quarter.

Net debt for the company was BRL6.2 billion, 23.80% higher than that registered on the value on 31st December 2014, resulting in our net-debt-to-EBITDA, the rest amount, measure of 1.25 against 1.04 times in the fourth quarter last year. By the strong operational cash generation this year, there was an increase in net debt compared to previous quarter, mainly due to the increase in foreign currency debt, which in turn was impacted by a (Technical Difficulty) in US dollar compared to (Technical Difficulty) net debt was impacted by the share buyback program which occurred during the period, reducing cash by BRL1 billion.

Without the occurrence of the share buyback program, net debt would have been way ahead of the fourth quarter of last year. Impairment made in the quarter amounted to BRL313 million, 6.9% below that of the same year last year. We continue to focus this quarter for investments toward operations, (Technical Difficulty) direct part of the investment to the operational projects, as already mentioned earlier.

At the end of the first quarter 2015, the financial cycle came to 32.3% [ph], represented of net operating revenue, we went from 11% in the first quarter of 2014 and 10.1% in the fourth quarter 2014, to 8.8% in the first quarter 2015. This nine-day improvement in the last (Technical Difficulty) cycle is a result of implementation of important projects during the year 2014; especially related to accounts payable, where we differentiated a large portion of our supplier contracts.

Considering only our continued operation, net income amounted to BRL415 million in the quarter, 42.5% [ph] higher year-on-year, reflecting the net margin of 6.5%, 1.7 percentage point above that of the same quarter previous year.

In the end, I would like to reinforce once again, as already mentioned by Pedro, the constant improvement (Technical Difficulty) in the quarter. We generated BRL1.1 billion of cash, operational cycle was below 35 days. This number give us confidence on the strategy adopted by the company, as well as the investments we're making in our people with the qualification of the people involved in here. (Technical Difficulty).

We would like to thank everyone present, and open the call to Q&A. Thank you very much.

Questions And Answers

Operator

Excuse me, ladies and gentlemen, we will now begin the question-and-answer session. (Operator Instructions) Our first question comes from Lauren Torres, UBS.

Q - Lauren Torres {BIO 7323680 <GO>}

Yes, hi. Good morning, everyone. I was wondering in some way of isolating, seems like you can control versus saying you can't control, and I guess on (Technical Difficulty) in the first quarter there were obviously these non-recurring and other expenses impacting your results. I guess going forward, this year seems like the truckers strike still should weigh and there's concerns there and I don't know if there was any loss incurred that you could talk about with the structure to have (Technical Difficulty) more variable rates that could weigh on results.

And then I guess the other question comes to, you can control, knowing that the environment remains quite fast, there's a lot of initiatives you've mentioned, increased the kind of stimulate growth. I was curious to take your impression on kind of the leading (Technical Difficulty) consumers behaving and what you're doing differently to kind of stimulate that growth? Thank you.

A - Pedro Faria {BIO 15115819 <GO>}

Thank you, Lauren, for the questions. (Technical Difficulty) part of the non-recurring events and stable -- healthy within forecast for the year, and this thing that we are doing.

In general terms, the majority of (Technical Difficulty) the actual major events that amounted almost 100 billion. One of them was the truckers striker that happened in February, which will impact us right in that amount regarding higher capacity, the issue that we had in (inaudible) plants, we are not able to function properly.

But there was other impact on the first quarter related to the technical (Technical Difficulty) conversion, since that happened, because that we are not able to look properly through other months.

But anyway, those impacts happen only in the first quarter, majority of them. We do not see those being relevant for the next quarters. So for best part of the issue (Technical Difficulty) we must have it. But we should have them again in Brazil, it's quite happened again. We delivered on much more benefit there than we were at that time. We believe we had a very good operation throughout that strike. But anyway, we are much better, given the knowledge that we acquired for management.

The restructuring part of the non-recurring event is something that we are doing since the beginning of last year, actually since the start of the management -- when I start to (Technical Difficulty) all the potential with BRF and handle it.

So adjustments regarding that for example, we believe there is a churn in the last year and in this quarter. But we might have some of them coming forward. It is important to say that as long as we are seeing value on those restructuring we will do them positively this quarter and actually when we look at all the other (Technical Difficulty) we are believing that growth for the company.

We are believing that benefit as we saw. So that might happen. So we are looking ahead, we are now to finish on those items even though that they are now recorded for what happened in result of prediction, we are improving a lot, our risk management within the company in order to draw that hard as much as possible.

A - Christiane Assis {BIO 16226621 <GO>}

Good morning, this is Pedro, trying to draft growth part of your question since you are bringing the more fundamental question, which is -- which have the growth level that the company has and how well we are executing.

It's all difficult to say how much of your performance is actually in control as opposed to variables you can control but I would say that when we decompose our growth even in the first quarter with all the challenge that our group still discuss, you will see pockets of growth, pockets of strength, so it's seismic in the markets which shows to focus on the category as well as on the channels.

So very hard to see from the whole numbers bonded together. But I can firmly point you out that throughout this quarter, we have not been active in markets which are very available historically for the company, I would just quote them as well.

Even Russia which you had significant drop in volumes. Even in the Middle East largest is like Iraq, Egypt and India, all of those markets seeing a lot of turmoil. So when you see flattish growth broadens in international market and a very strong performance in Asia as well as Middle East in terms of profitability.

I'd like to believe that we are focusing on markets which are more sustainable which present growth of (inaudible) for the company with a lot more resilience. Same phenomena of course in Brazil where you have a 7.5% growth in volumes on process category.

Of course, we have numbers reporting your market share. I don't think that the market share figures we have recorded for the quarter. They adequately represent all of the initiative in place, there is also pretty good brand, the whole process of the centralized Brazil operations into five different region, five region leaders which are now doing a very good job understanding the granularity and the opportunities at a regional level as well as there are channel management.

I think it's a highlight of the quarter that we are getting on the key account sector back in track meaning that for a number of quarter you underperform that channel now we see more resilience. So I think as you look forward, I'd like to say that I'm pretty optimistic with the variables we control. However, we are playing against the backdrop of (Technical Difficulty) in the economic scenario.

Q - Lauren Torres {BIO 7323680 <GO>}

That's it from here. Thank you.

Operator

Our next question comes from (inaudible).

Q - Unidentified Participant

Good morning and thanks for taking my question. I just wanted to get your sense of how you are looking at (Technical Difficulty) poultry market, I know there is a lot of focus about (Technical Difficulty) their supply. Just wanted to get a sense of (Technical Difficulty) market is flowing in disappointment or whether you think supply growth is very slow? Thanks.

A - Pedro Faria {BIO 15115819 <GO>}

Thank you for the question. I'd like to say that yes, we are seeing some supply trends going up, of course we are operating at the margins which are fairly attractive so I think there is a genuine supply increase but the terms I think is demand equation, which is already surprising to the outside. So, a lot of the market participants (inaudible) of strong correction first quarter 2015, we did not see that with any (Technical Difficulty) in dollar terms; but through -- in the superior application, we managed to keep prices under control. And, you know, some of the markets, we are clear leaders, we continue to get market share.

So, I think there's some trends in the supply, of course, the issues which I think also impacting the ARPU side, like (Technical Difficulty) in United States. So, I think the scenario is still benign, even though of course we all can announce the fact that we are in a superior part of the cycle.

Q - Unidentified Participant

Thank you.

Operator

The next question comes from Jeronimo de Guzman, Morgan Stanley.

Q - Jeronimo de Guzman {BIO 15888043 <GO>}

Hi, good morning. I had a question on the international markets as well. Just wanted to get your outlook for these markets going forward, and in particular the markets we had results in the first quarter. So just wanted to see how we see the demand in places of Venezuela, Russia and Angola behaving going forward; and also if you see other markets (Technical Difficulty) the weaker demand from these markets?

A - Pedro Faria {BIO 15115819 <GO>}

Okay. Thank you for your question, Jeronimo. I think these markets that presented decrease in volume for the first quarter. I would not say that we are facing in the main issue of those markets. From what we understand, all these markets you mentioned, Venezuela, Angola, even Russia, there is demand and the demand has pretty much intact. I think there are other factors which create the situation that we are facing in those markets.

So, Venezuela, definitely a situation in which the ability to fulfill payments and credit needs becomes a big issue. Of course, in Russia, there is a strong devaluation of the ruble, which created instability among the importance.

In Angola, there is a process in which getting licenses have become quite constrained. So I would say that there is not a big impact in demand. The local agents and clients and players, they are able to license more certainly in times. I think BRF took a very cautious view on those markets, we try to rebalance our portfolio, growing substantially in market which you see more sustainable.

Again, last in last, expose or dependant on markets which have proven to be historically very well. So, when you look at volume trends in international markets, even though they are flattish or even downward, in reality, they are highly strength in markets we chose to focus a lot. But we continue to focus and try to understand trends in all those markets, because even in the markets we have less of participation likewise in the first quarter, we still like to be -- we have a very own role to play.

Noticably during the first quarter, after two year gap, the (inaudible) brand was launched in the Russian market, in the Russian modern retail market, with a strong success, of course, volumes will not appear, given the ramp-up. But we continue to very much focus on those markets, taking a very cautious view as far as credit -- as far as potential balances in the (inaudible) so on and so forth.

A - Augusto Ribeiro {BIO 18485971 <GO>}

And just to comment a little bit more, just remind you that we are now -- at the end of 2013 [ph] that we would make an adjustment with -- from demand relationship, that we actually decreased part of our production. By that time, we decided to decrease (Technical Difficulty) our volume to Venezuela, for example. So nothing that we just started to do, but we started to do that throughout 2014.

Q - Jeronimo de Guzman {BIO 15888043 <GO>}

Thanks. And just a follow-up on the volume trend. So you did have a volume decline in the first quarter in international markets as a whole. How do you see the volume trend going forward in international markets? Should we expect you to continue seeing declines (Technical Difficulty) on profitable market, you think you can naturally shifting more of the long ends to some of the markets that are looking pretty well (Technical Difficulty).

A - Pedro Faria {BIO 15115819 <GO>}

What you are continuing to see in the quarters is (Technical Difficulty) healthy growth trends in the markets we are focusing. I will quote a few like the whole region of the growth and you'll see us again more and more out and cautious on some of the markets which are proven to be more a stable or exposed to other kinds.

So, at the end of the day, we believe -- we see that looking at the large average you see volume trend flattish probably slightly positive, but at the end these are I'd say not increasing but these are hiding some of the markets which we will be getting market share in the new way.

And of course we expect also good market trends to improve given the initiatives you described.

Q - Jeronimo de Guzman {BIO 15888043 <GO>}

Great. Thank you very much.

Operator

The next question comes from (inaudible)

Q - Unidentified Participant

Good morning. (Technical Difficulty) a clarification on the other operating expenses. Number one we had another strategic reason for profit sharing and I was wondering that was during the timing and when (inaudible) payments or the more structural?

And then number two (Technical Difficulty) and then you have people in the past formed (Technical Difficulty) to why every company has the capacity and it's just reflected its higher cost of goods sold, what you trust very differently.

And I guess out of these capacity cost in the quarter how much is related to usual capacity cost as you care.

A - Pedro Faria {BIO 15115819 <GO>}

Well, thank you for your question. Yeah, we definitely increased -- the new point increase a lot in profit sharing within a company. We believe in that model, we believe in that people to be rewarded in the result of company is delivering and our object for it is to come.

So -- but the majority of those profit to employee is related to some restricting that we did and some I don't know how to translate that actually, some payments then to them as form of our sum exactly.

So, again for second quarter (Technical Difficulty) regarding their profit sharing.

A - Augusto Ribeiro {BIO 18485971 <GO>}

Yeah. I think it's important to say that in this process of transformation of the company, we have -- we have embraced the notion of the property. As you all know, we had probably historically high results in 2014, thanks to a number of achievement and I think -- philosophy, I'd say that the profit sharing mechanism was improved.

I'd like to say that if you look at the factory level worker, he probably got three times the variable compensation that he brought in 2013, which is really having a huge impact on the morale on the productivity and on the core philosophy of our company culture.

So, yes, it's a higher number, but it is following the historical results of 2014. And your second question is related to idle capacity and how much is within the (inaudible) and how much is -- how much is related to what license.

A - Pedro Faria {BIO 15115819 <GO>}

I guess in a more general way, that is right out of the profit accounted for outside of the profit goods. (Technical Difficulty).

A - Augusto Ribeiro {BIO 18485971 <GO>}

That's a good point. What we look at from the cost and we conceal all the results (Technical Difficulty) truckers strike.

All the other impacts regarding starting conversion, and the cost per se, they are moving the cost, that's why the total effect of the truckers strike left BRL143 million only in the first quarter. Yet, volumes there, there's no recurrent, because those are related to the higher capacity of the workers not being able to work, and they have the expense all their salaries on the month. But part of this cost increase that we had in the first quarter related to the strike, (Technical Difficulty) the cost.

So, when you consider total impact of the strike for BRF in the first quarter, it's more close to BRL100 million than BRL43 million. But we are recurring only, if I may say that, BRL43 million and there is recurrence. The rest is within our cost, within the first quarter, we try to enter prices, we try to put a lot of expenses in the company, to try to compensate with some rate within our P&L.

Q - Unidentified Participant

Okay, great. Thanks.

Operator

Our next question comes from Alex Robarts with Citi.

Q - Alexander Robarts {BIO 1499637 <GO>}

Thanks for taking my question. Hi, everybody. I would (Technical Difficulty) go back to Brazil and very interested in just some of your commentary in your earlier call, around pricing; and you commented on your call around the process (Technical Difficulty). But when you look at other portfolios, right, in the 9% sales growth excluding others. The sales growth right now in Brazil being driven by volume, I mean, to a large extent in the average price, excluding others being flat. Is this something that we can perhaps think about the record eight years and feel like and all figures increase in the next quarter in the poultry commodity volume. Is this the strategy that you've been rolling out more throughout the year?

And is the volumes (Technical Difficulty) market. Is there a function of just carrying down the soft general consumer demand and hence you figure out kind of the work change for exclusive volume as part of the -- eventually some pick up. So could you comment around that? That would be helpful.

A - Pedro Faria {BIO 15115819 <GO>}

Thank you, Alex. I will start answering (Technical Difficulty). In general terms, not in the first quarter, it's hard for us to speak in macroeconomic environment and all the actions that we are doing in Brazil. We're increasing our lot, if you remember, more in the sales force in the first quarter -- it's a matter of last year, we went through a lot of new product sales catch-up mainly on the second semester of last year with the new sales force that emerged.

We implemented these regional offices, which means a lot more responsibilities within these regions. So, we despite of seeing a better management on the product sales levels.

So, when you put all of those together, that will part of our gross volumes came from those regions. And in the first quarter, we did not increase prices as much as we are planning to do now. And look forward in the year, it is not a guidance, but definitely the -- if you consider the size of the company, our position relative to market share, et cetera, of course, BRF is a company that has to leave price increase in Brazil on the smaller categories. And that will probably lead to -- as the inflation keeps -- continues to be a hot topic in Brazil.

Probably, we won't get any to get more close to the inflation rates in Brazil for 2015. But coupled with our target, we now -- we have, again, coming back to those projects that I mentioned before, we have our second quarter of those regional offices already doing that. So they are -- they started to get used to the new format -- mental format. So we are increasing our capability of delivering the actions that we need to increase to gain market share, to increase volume.

So, it will be a mixture of both, price increase we do that definitely. We are confident that everything that we are doing within BRF will help us to get growth (Technical Difficulty) that we want to grow, it's very important to say that even in Brazil we thought our target with the products will have the effect of mix in our numbers

So we are quite confident for 2015, but I do not even though (inaudible) is going to be a best environment for Brazilian players for the rest of the year. Do you want to continue?

Yeah, let me just compliment what I will suggest that I think on the Brazil scenario and you are asking specific downgrade trends etcetera, then of course a big impact on the poultry and other products which is coming from institutions while let me build some markets like

Venezuela, which of course we have indirect product to Brazil which has impacted the mix substantially.

But I think the more important development as the first quarter performance, the quite healthy growth on the quarter (Technical Difficulty) market reacted quite substantial.

And like I said, I think current initiative in place should continue to bullet proof Brazilian operation against the backdrop of broader economic reflection or adjustment.

Q - Alexander Robarts {BIO 1499637 <GO>}

So, that's very helpful. So saying that, what we think about (Technical Difficulty) might have a little bit of a downward pressure on the average selling price. However, (Technical Difficulty) pricing can be stable this year, is that a fair assumption?

A - Pedro Faria {BIO 15115819 <GO>}

Yeah. I think you are right. I think in terms pricing, we actually have the same question in a call in Portuguese. We put that as well as the core initiatives of the company, the strategic drive being implemented now. I think it brings two major benefits to us and should also have (inaudible). Number one, it's actually the capability of implementing our price strategy.

It is much easier said and I think right now with this structure which is more independent economist, we have been able to enforce a bright strategy as a whole to just taking actions in one part of the variable which is on the price declines, but we are very focused on consumer through a number of initiatives.

And the second part precisely, the granularity of the pricing strategy. I think for the first time now, we have strengthening of the team, we are now able to understand specific trends in particular markets, regions, channels and categories to implement much more granular strategy than the price, which will allow in one side to recoup some of the cost actually been taken.

But on the second, to more adequately price against certain market share goal that we have and that we are going after.

A - Augusto Ribeiro {BIO 18485971 <GO>}

And to that point, you should look at the first quarter, we are able to increase 2 percentage points in the gross profit in Brazil operation even though we have all of these points already presented in the first quarter.

Q - Alexander Robarts {BIO 1499637 <GO>}

Okay. Got it. Thanks very much.

Operator

FINAL

This concludes today's question-and-answer session. I would like to take the floor to the Mr. Pedro Faria for his final statement.

A - Pedro Faria {BIO 15115819 <GO>}

Thank you very much for all the participants in our first quarter 2015 call. I think the quarter of 2015 was marked by some very important events that are I think created some relevant impact in our results.

Having said that, as we said throughout the call, we remain quite confident in our ability to execute the strategy. We see clearly in terms of profitability trend, the success of the initiatives being taken, of course growth in market share trends, something that will be quite truly monetary. But I just like to emphasize our management team's confidence in continuing to execute its strategy. Thank you very much and look forward to see you on the next quarterly call.

Operator

Thank you very much for your participation. Have a good day.

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