Y 2013 Earnings Call

Company Participants

- Augusto Ribeiro Junior, Chief Financial Officer and Investor Relations Officer
- Christiane Assis, Investor Relations Director
- Claudio Eugenio Stiller Galeazzi, Global Chief Executive Officer and Member of Executive Board

Other Participants

- Alexander Robarts, Analyst
- Chelsea Konsko, Analyst
- Diego Maia, Analyst
- Mark Jason, Analyst
- Tim Tiberio, Analyst

Presentation

Operator

Good morning, and welcome to BRF S.A. Fourth Quarter and Full Year 2013 Conference Call. This conference call and the presentation are simultaneously transmitted via webcast in our website, www.brf-br.com/ir. (Operator Instructions) Forward-looking statements related to the Company's business, prospectives, projections, results and Company's growth potential are provisions based on the expectations of the management as the future of the company.

These expectations are highly dependent on the market changes, economic conditions of the country and sectors and international markets, those are subject to change. As a reminder, this conference is being recorded. At this conference are Mr. Claudio Galeazzi, Chief Executive Officer, Global; and Mr. Augusto Ribeiro Jr., Chief Financial and Investor Relations Officer.

I would now like to turn the call over to the management.

Christiane Assis {BIO 16226621 <GO>}

Good morning, everybody. Hi, this is Chris. We'd like to start our conference call in English right now. Claudio and Augusto are here with us. We're going to change the format a little, in the sense that we're going to run through the main points of the Q4 in 2013 and give you guys more time for Q&A. Okay? So, Claudio, let's begin.

Claudio Eugenio Stiller Galeazzi {BIO 2067419 <GO>}

Good morning or good afternoon, whatever be the case. It's a pleasure being here once again. Last experience was CBD, but it's a pleasure being here to give you a preview or, let's say, an organized playback of what we've been stating to the markets in the recent months. I will not address the numbers, I'll let our CFO do that.

What I will try to do, as I mentioned, is the structured playback of all the comments we've been making in the past few months.

When Abilio Diniz took over as President or Chairman of the Board, he established a 100-day program, seemed that the world has changed and the economy has changed as a whole and that we are entering a different and new cycle. During this 100 days that started in April, actually, it was about 120 days, two things was especially noticed and indicated. One of them was the 1.9 capture, which we had the opportunity to mention previously. They are divided in 28 actions and the 1.9, I think, because of the pure communication somehow was seen as being something that would be captured within a very short period of time. However, the ramp up is slower in the beginning and gradually increases, reaching its maximum peak at the end of 2016.

The other major point was a structural reorganization, viewing an oxygenation of the company. This change came from the participation of about 70 collaborators of the company that brought out the fact that we needed to change the mindset from an industrial company to a sales or a commercial company.

Also indicated that to do so, we would have to have two new CEOs; one for the international market, and the other one for the local market. Also, two new vice presidencies were created; one being the Integrated Planning VP; and the other one, the Marketing VP, which reunited the several marketing efforts spread out through the company.

In September, we implemented the new structure, basically. As of August 15, the new management took over, basically, and the implementation of the new structure occurred during the month of September. In October, November, we started to implement the 1.9 actions to capture value of 1.9, as I mentioned with 28 initiatives on a slower initial ramp and gradually, this ramp increasing during time.

We also in October, November, we strengthened our trainees program so that we could prepare them for being part of our management available talent of the future. We took a step, which was rather courageous, reducing our production for export in 210,000 metric tons per year, basically. And also, we implemented the -- we did not implement it, we actually concluded our strategic planning BRF-17 with 46 initiatives having as basic targets ROIC, EBITDA, margin, growth and share price and market price.

In December, we reorganized the external market where we had eight regional offices. We reduced them to four. And we also, during December, revisited our CapEx tower, basically, establishing real priorities that have not in view the increase in production or capacity, but basically viewing an increasing productivity, logistics, IT. Sorry.

In January, we implemented a very, very strong internal market, go-to-market. We established a test pilot that worked very well, increasing our client base, and this was done on a region in Brazil. And as it had a very good result, we started anticipating the rollout for immediate. Good year to the external market, we established new strategy in pricing, that also and generate. And we passed the grain sector, which is very relevant for us, under the VP Planning sector. February was a very intense month with a lot of reorganization, a lot of restructuring. One of the most profound change was in the operations. We cut levels, different levels. We cut three regional offices that had a duplicity in structure of human resources, CX administration, which was duplicated, basically, at the end of the processor at our units.

Today, we have three directors that are present in the VP's room, where they actually act as a one line, a direct line to our units. This, before, had a cascade of regions of activities that took a long time for any decisions to flow down to the production units. We also empowered the units, having much more action within their own areas. And the beauty of the whole thing was that we did a lot of internal talent promotion. We were able to identify these talents, and they were promoted and this has given us a very agile company.

Another point as far as the operation is concerned is that integrated planning did not necessarily talk with the production planning, which was actually based in each of the units. This has agilized tremendously all decisions which are taken at the -- we also implemented a very strong reorganization in marketing. We are looking at branding and pricing in a worldwide basis, reduction in SKUs and a better structured portfolio.

TI and logistic, also during February, has suffered very considerable and profound changes. We have established a war room that follows on a online basis, day-to-day or hour-to-hour, every action be it in delivery, distribution, production. So that we can correct the fragile performance, which we had during the fourth quarter.

In the external market, we had, in January 19, '13, bought 60% economic rights and in February, additional economic rights on Federal Foods. And the total amount invested at this February increase in the economic rights was of $27. We, also, during February, acquired 40% stake based on an enterprise value of $68 million of Al Khan Foods, a leader in food services and distribution in Oman and they represented Sadia in that region in the past 25 years. This is exactly aligned and according to the strategy of consolidating distribution wherever we are present.

The fourth quarter results, which Augusto will be addressing -- mentioning, has taken advantage of the 1.9 captures, which we did during that period, otherwise the results would have been a little bit worse. There is -- we also identified a lot of fragility in the distribution and logistics, which as I mentioned, we are correcting through the war room, and we are addressing logistics and IT very strongly with investments.

If I can speak a little bit of bird's-eyes view of the first quarter -- this first quarter, we have increased our market share in most categories. A reversal of the tendency -- of the previous tendency. We are right on top of our budget with initially reasonably good results, which does not necessary indicate a reversal of tendency, but is a very positive synergization. Of course, we are going to have in this first quarter some costs, nonrecurring cost, in reference with the very large changes which we implemented during the first quarter, specifically or more especially in February.

As far as our ongoing policies and expectation in the future is that we'll continue generating very strong cash. It's a generation, strong cash generation, which Augusto will be addressing. Our CapEx is directed in not increasing production, but productivity. We will have a very conservative M&A policy. In other words, digesting only companies that we can do so and we have competence and basically, looking for consolidation of distribution on the different regions. Our total objectives, as I mentioned before, is ROIC, is EBITDA, market share, market value, as well as increase in volume and better pricing.

We cannot forget that we'll have a production coming in Abu Dhabi with our new plant, about 80,000 tonnes a year. Initially, it will be a ramp up, getting to 50,000 metric tonnes. And depending on our results, we will increase the production locally. In other words, we will have very strong brand in the region, which is Sadia for over 40 years. We will -- we do have distribution. We have Al Wafi. Al Wafi is a distributor. We have Federal Foods with much more participation -- our participation and of course, we will have the production.

Basically, I would say this is a review of the comments we've made during this period, since August 15, a six months of very, very profound changes within the Company. And now, we'll pass the word on to Augusto, who'll mention our numbers and our performance.

Augusto Ribeiro Junior {BIO 17178608 <GO>}

Good morning. Good afternoon, everyone. Thanks Claudio for the brief. First of all, I just report, as Chris said before, that we'll not -- I will not go through the presentation that's available in our site. But instead, I will just highlight some points that I believe are important to call to your attention. Don't get me wrong. The idea is not to raise different figures or excuses or whatever. It would be regarding the results of fourth quarter. The idea is just to giving you a better view of what was the full-year results of our last quarter of 2013 in such a way that will help you to understand what are the two growth basis from the Company from which we are going to grow in 2014.

So first of all, we presented in the fourth quarter of -- in the year 2013, a growth of 7% of net revenue against 2012. It is important to take a -- to pinpoint here that we have to consider this impact from 2012. We took out part of volume in the mid of 2012 and when you do, that would be something like a same store sales approach in order to understand the real net revenue growth year-over-year. The number would be around 12% and not 7%. That is important because that reflects all the actions that we carried out throughout 2013 in the internal market in Brazil in order to recover those volumes that we lost given the TCD rules.

Talking about now with internal market, another point that I would like to raise here, we reached a net revenue in the fourth quarter of BRL3.6 billion, in line with the fourth quarter of 2012. But with 16.3% decrease in volumes. It is important as well to qualify this decrease in volumes because they are basically -- it basically happened given three main issues.

The first one, in the third quarter of 2012, in the fourth quarter of 2012, we had a huge volume. Huge, no, but a very important volume of birds, chicken, mainly, that we sold in Brazil that came from our external market business. So we divert volume from the external market into internal market of Brazil at the end of 2012. That inflated the volume of that period, but they're not good. The margin of that period related to those birds was not good. When you look at 2014, as we mentioned before, we do have some strategy for In Natura product. And the sales that we did of chicken were more aligned with this ramp up that we have planned and forecasted for our business but the difference between quarter 2012, 2013 were relevant.

Another one was the volume, actually, the feed volume, raw material volume that we sold to Du [ph] at the end of the fourth quarter '12, we do not have that business anymore. It was sold now to another company. So when you compare quarter against another, this will also impact our volume growth.

And finally, the processed food, the core of the internal market, that amount of volume decreased 2%. And that is basically because we increased strongly our price throughout 2013. The average price is, year-over-year, it went to -- in the fourth quarter against fourth quarter of 2012 was around 19%, which is a very strong price increase. So it affected a little bit our volumes in the last quarter. But when we consider what I've just said regarding volumes and all the action, further action that we did throughout the year, the internal market added -- increased almost 11% in the fourth quarter '13 against 2012. This is approximately BRL40 million, which we consider a very good result.

In external markets, we exported 2.5 million tonnes in 2013, growing 1.5% in relation to 2012. We get -- with a price increase of 15.9%, which we successfully passed on, but also we had some good impact from exchange rate. And the net revenue for 2013, amounted to BRL13.1 billion. Now if we break the results into regions, it is important to mention that all markets presented improvement in the fourth quarter 2013 with exception of Middle East.

So Japanese market started to get a better balance between offer and demand. The local stock decreased considerably, which helped us to recover partially the local prices. Europe, the consumption increased a little bit. The same for America. So the only major issue or the main issue that we had in the fourth quarter was related to Middle East and that basically because of the higher local inventory and an unstable demand scenario in December in Saudi Arabia.

However, if you take the year, as a whole, we grew 7.9% in net revenue against a fall in 2.3% in volume. Another point that is important to mention that in external market, we serve a little bit of countries that tend to suddenly seized import, given political reasons or financial reasons or something like that. So in the fourth quarter, when you compare it year against year, we did not sell volume to -- or the volumes sold are much smaller to Russia and Ukraine.

When talking about dairy products, our strategy of focusing on mix with greater added value and reducing our dependence on UHT milk continued throughout 2013. This contributed a lot to improve our results. If you look at 2013 versus 2012, full year, the dairy segment reported a growth of 3.5% in net sales, with less volume, 15%, but with a lot more price, 24%. So in that year, operating results were amounted to BRL60 million, representing a gain of 2.3%.

However in the fourth quarter, we get a negative EBIT of BRL27.7 million, basically because of three reasons. High costs of milk sourcing, decline in prices in which the UHT milk, so higher cost and less price in the market for UHT business but also because of some nonrecurring events that I'm going to mention here in a few moments, which impacted the dairy, specifically. In the Food Service segment, we grew 1.6% comparing to the fourth quarter of 2012 with a net sales of BRL500 million. For the year, as a whole, our EBIT increased 7.5% to BRL177 million.

Now I would like to open the space here to talk about those mentioned before, nonrecurring events. We can divide it those nonrecurring events in three main blocks. The first one is the one rate restructuring, people restructuring. We had restructuring cost of BRL71 million in the fourth quarter. If we add what we had in the third quarter, that view would go to approximately BRL100 million. So anyway, BRL71 million related to restructuring costs in the fourth quarter 2013.

On a smaller proportion, we announced to the market, the portfolio reduction program in 2014. So when we went through all these problems, we already identified a need of provision around BRL5 million related to leftovers that might happen at the end of the program. I'm talking about packaging and some raw materials that are might not be able to consume totally by the end of the program. So we already provided that as end of last year, around BRL5 million. And the third, which is more relevant, we went through a revision in our CapEx program and decided to cancel some investments for capacity increase, which is aligned with our strategy, is aligned with our current idle capacity in our factories. It did impact our resulting BRL35 million.

So if you sum up all these three issues, three points, we will end up with amount of BRL110 million of nonrecurring events. Why is that important? Because we do believe that these are truly nonrecurring events. You might question yourself, every single year, you might have your nonrecurring but we believe that this should be raised to your attention because they distorted a little bit our results in the fourth quarter.

For instance, if you talk about our EBIT at the end of the year, instead of a margin of 5.6% of EBIT, we would have a 7%, which would be higher than the 6.7% that we've obtained in the fourth quarter of 2012. When you're talking about EBIT again for 2013, the Company reported an EBIT of BRL1.9 billion, 48% above the EBIT generated in 2012.

An amount that line place, which is important to bear attention regarding nonrecurring events, is our EBITDA. So here just let me -- before I move on. This is going to be the last time we will mention an adjusted EBITDA. From the first quarter 2014, it will be only EBITDA. I think it will help your analysis, make our life easier. So but again, since we mentioned that throughout 2013, I'm still will relate to this specific number.

So if you took that nonrecurring event and add up into our adjusted EBITDA, our margin would grow from 11.6% to approximately 13%, which would be higher than the 12.5% of 2012. Again, this is not excuses. I'm not just trying to clean up the figures for you to understand the real performance, which is going to be the base from which we grow in 2014.

Finally, I will just would like to bear attention to some specific points which we are very proud. And they are actually coming from all the actions that we started to implement in 2013. First of all, a very, very strong cash generation in 2013. If you took the full year 2012, we generated BRL115 million of free cash flow against BRL1.5 billion in 2013. This is more than ten times growth, which is the good news that this tend to be a reality, constant improvement in free cash flow, mainly achieved from a greater efficiency in working capital and CapEx.

When I'm talking about now about CapEx, the investment in 2013 amounted to BRL1.5 billion. The majority of this in line with the strategy of the Company, more focused on improving process through investment and logistics, automation systems, IT. The guidance for -- in here, we gave a guidance for 2014 is BRL1.5 billion, the same number, including the biological assets, BRL500 million. So to CapEx, around BRL1 billion.

Another important point that I would like to mention here is that our improvement in working capital. The Company has been working on the optimization of working capital. We moved from 56 days in December 2012, which represented by that 14.5% of our net revenue, to 49.5 days in 2013, which represented by the end of the year, 13% of our net revenue. In 2014, we also expect to see an additional improvement in the management of account days, receivable and inventory.

And finally, which is also important, the Company net debt was BRL6.8 billion. The ratio of net debt to adjusted EBITDA was 1.87 times which are in line with our -- it's not a guidance, but a policy around two. So we are in a very good financial shape, ready to move on as we are moving in terms of M&A or other actions.

Thank you for your time, and let's move on to the Q&A.

Questions And Answers

Operator

(Operator Instructions) Our first question comes from Tim Tiberio from Miller Tabak.

Q - Tim Tiberio {BIO 15194568 <GO>}

Good morning and thanks for taking my question. I just have two questions that I'll hurl up into one question. First off, with some of the recent political developments in the Ukraine, do you see that as an increased opportunity for Brazil Foods to regain or gain market share in the Middle East? I know that there has been a large producer in the Ukraine that has been more aggressive in those export channels. I would assume that a weaker currency could help them, but on the other hand, maybe concerns about credit issues could create an opportunity for Brazil Foods. So I would love your thoughts on that development. And then, just lastly on the feed cost environment, if you can maybe provide us with a sense of how you're framing up the cost side of the business heading into 2014. Thank you.

A - Claudio Eugenio Stiller Galeazzi {BIO 2067419 <GO>}

Hi, Galeazzi. That's more than two. One is ability with the -- beyond anything. Actually, what -- we see Ukraine as a potential long-term competitor on the Brazilian market. They have a lot of package to Ukraine and a growing cooking industries. But we don't see any movement on the short-term on -- obviously, for the political instability that's going on the ground. And also, we're not sure about their access with European market either, because that divided the opinions regarding (inaudible) So for us, Ukraine right now is not a short-term player or we're not looking any short-term opportunities there.

A - Augusto Ribeiro Junior {BIO 17178608 <GO>}

And moving forward to the second question, you mentioned something about cost (inaudible) feed, more specifically, I guess you're talking about grain and that things. I'll try to summing up some of our views on that topic. So considering, for the current view of grain prices, our costs will be pressured, mainly in the first months of the year, of 2014. So if you talk about corn, there is, for instance, high speculation about the harvest size, as well as for the fact that the Brazilian farm are currently holding these corn sales, expecting better prices in the short future.

And for the soybean, the cost, that's under pressure because of Chicago prices, they are sustained by American demand and because Argentina farmers are also holding back their sales, which put pressure in the premium -- in the Brazilian ports. So all in all, we believe our costs will be in line with the figures from 2013. If you consider the dollar, the average dollar around BRL2.35 and that will be an average pressure at the beginning of the year but we have a lot of actions related to COGS, SG&A as well, but let's focus the answer in the COGS side, which we are proud to mention restructuring within the area, trying to speed up decisions, trying to speed up the flow of communication within the area, which then are already showing some very positive results, bringing the industry to our operating room, which has created a very good channel of conversation and communication. So far, the feed cost pressure are under our budget, aligned with our budget. It would be above if you ask me regarding the first month of 2014. But we see the year in average with the same pressure of 2013.

Q - Tim Tiberio {BIO 15194568 <GO>}

Okay.

Operator

Excuse me. Our next question comes from Alex Robarts with Citi.

Q - Alexander Robarts {BIO 1499637 <GO>}

Thanks everybody. I would like to have my first question on the exports and when we look at the EBIT margin of just under 1%, I mean, clearly, there's we've a lot of factors that were going on here, one of the lowest that we've seen in a long time. And if we think about the factors beyond cost and the dollar impact on soy, and we think about price, and specifically the dollar price, I mean, if you look at Sussex [ph] it looks like your dollar price per kilo in the export market was several percentage points weaker. And as we think about the first couple of months, Sussex suggests that the dollar selling price for poultry, right, is actually 3%, 4% below the fourth quarter.

So the question specifically on exports is that if you think about your bargaining power with your customers, was there a dynamic, that perhaps you could help us understand, that made it such that your average dollar price in the fourth quarter for the exports was below what seemingly is presented by Sussex in the industry? And as we think about the first part of 2014, is that price something that you think you could improve on? And kind of a larger picture, is it fair to assume that the export margin versus fourth quarter will start to improve as we kind of roll into this year? That would be great, and that's the first question.

A - Augusto Ribeiro Junior {BIO 17178608 <GO>}

Thank you. Thank you, Alex. Thank you for your question. You're right that our average price, actually, in Reais, were a little bit flat. But you mentioned the price in dollar. So what we have to say that is we would expect improvement, we should expect we have seen improvement in the first half of 2014, mainly works with market, in which we are working with a better offer demand curve. So part of these lost increasing prices in 2013 was due to rebalancing, we've started inventory regulation.

So we're not able to -- actually we decreased prices in order to move our volumes, the local volumes, especially Middle East. So that would be the main reason for the difference in terms for its shelf life, price and stuff like that. But in the first semester, first quarter I've already included, but the first semester, we should expect a better pricing external market, mainly because we do have a better offer demand curve within our company into the market. And also, the Real depreciation, that would help us.

So we answered straightforward for your questions, the first part of the year should be better than the fourth quarter what we have actually seen.

A - Claudio Eugenio Stiller Galeazzi {BIO 2067419 <GO>}

Now just complementing what Augusto mentioned is that, previously, the market always expected we would have a better result because of the parity. There was a devalue of the Real that did not always occur, because we were over-offering, we had overproduction and we had to actually because of our shelf life, had to actually decrease our prices to be able to reduce our inventories. Now as we mentioned, we've reduced our production for exports and we are following demand with the industry, not the contract, industry pushing whatever the market wanted or not wanted to absorb.

A - Augusto Ribeiro Junior {BIO 17178608 <GO>}

We're seeing results already.

A - Claudio Eugenio Stiller Galeazzi {BIO 2067419 <GO>}

Yes. We are seeing positive results from that action that was taken in October, November of planning and reduction of our exports. Basically, that has been very good and we do have a very good indication that our external market, at least, for this first quarter will be within our budget, which is aggressive.

Q - Alexander Robarts {BIO 1499637 <GO>}

Okay, very clear. Thank you for that. And the second to the last one is just on the restructuring plan. You mentioned in the earlier call today that you had some productivity gains in the domestic market, but you also had these restructuring costs related in certain part to the advisory fees and some personnel severance issues. And that, in fact, the margin expansion would have been better had it not been for these restructuring costs.

And I guess as we think about the BRL112 million in the fourth quarter that you associate with the nonrecurring restructuring cost, how should we think about that in the first half of this year? In other words, is it an amount that, really, you're kind of -- with these 27 projects, kind of taking on a case-by-case basis? Should we allocate, as analysts, some amount for restructuring cost, the nonrecurring ones for the first half? If you could give us any color of how we can kind of think about the sort of first half that would be very helpful. Thank you.

A - Augusto Ribeiro Junior {BIO 17178608 <GO>}

Thanks, Alex. Unfortunately, we do not give guidance on restructuring. That, I'm sure, is going to help you both a lot. But I'll try to answer you in different way and let's see if that works. We are still going through some initiatives that will probably have no recurring impacts, as we mentioned in our results, throughout 2014. I could mention initiatives in SG&A. We are going through a value-based budget program in costs. We have factories and distribution centers, footprint analysis. Some of them will happen in a short-term, first half of 2014 and others would depend on some strategic decisions with a medium-term impact.

I would like to give you numbers, but as I said, some of the initiatives I see are being analyzed and decided if we are going to move forward or not. For example, if we consider our dairy segment, we are going through a strategic review of the business. So all possibilities are over the table for decision. That's why it's difficult to put a figure for 2014 in terms of numbers. But I can't tell you that these figures are going to happen. They are part of our structure and we are not finished with them yet. I don't know, Claudio, if you want to.

A - Claudio Eugenio Stiller Galeazzi {BIO 2067419 <GO>}

No. We will have, as Augusto mentioned, restructuring costs that will be nonrecurrent. However, we've planned for this during the year and it should, will affect, of course, our EBITDA but not that significant. The first quarter, obviously, as you saw, we've implemented a very, very strong action in the different sectors, marketing, operations and TI and logistics, but this will occur, but we do not believe that it'll decrease significantly our expected and projected results.

A - Augusto Ribeiro Junior {BIO 17178608 <GO>}

And furthermore, to add to that, we also expect some positive nonrecurring events of the plan reveal the sales of -- in English farms and all this stuff that are going through to that will bring a positive nonrecurring event for the company.

A - Claudio Eugenio Stiller Galeazzi {BIO 2067419 <GO>}

Now this should balance out approximately.

Q - Alexander Robarts {BIO 1499637 <GO>}

Okay. Thank you.

A - Claudio Eugenio Stiller Galeazzi {BIO 2067419 <GO>}

You're welcome. Thank you.

Operator

Our next question comes from Diego Maia with HSBC.

Q - Diego Maia {BIO 16478658 <GO>}

Hi, sir. Good morning. Thank you for taking the question. I've just really on the domestic market. Should guys could help us understand what is the breakup between the impact in your cost regarding lower fixed cost dilution from the weak volumes, right now, 8% decline year-on-year and the impact, the pressure from higher labor cost and dollar-denominated items. If you could help us understand the breakup of the impact on your cost would be very helpful. And also if you could comment on the -- if you have seen any volume improvement in January, February, how should we think about that moving forward.

A - Augusto Ribeiro Junior {BIO 17178608 <GO>}

If you think about the first quarter of results, internal market, we are already seeing some improvements. Well, first of all, 2014 and to speak frankly with you and I think everybody knows that, expect that already from Brazil, we might have a decrease, a slowdown in consumption rate in Brazil, so due to economics, et cetera. But the majority of the actions that we have currently in place in BRF mainly dependent on ourselves. I'm talking about distribution. I'm talking about actions, some specific channels. I'm talking about the SKUs portfolio Brazil, which will add up to the bottom line increase.

So we are confident that even though with these economic slowdowns, potential economic slowdown, we might be able to have good results in our internal market given all the actions that are currently in place. In the first quarter, more specifically, we believe that we are right in line. We started some good actions in some specific regions of Brazil for the small channel and the results are pretty good. And we will roll out that by May onwards to other regions of Brazil, which is a good result. For instance, to give you an example, I'm not sure if you have the numbers, but if you look at -- if you have access to the news and numbers, the readings from November-December and the readings from December-January, this year, it's showing that we gained market share practically in all the categories that we are currently playing, which are very good sign of all the actions that we are going through. And the first part of the question related to the breakdown of costs and could you be more specific? I didn't get it.

Q - Diego Maia {BIO 16478658 <GO>}

It's regarding the impact of more dilution, right, given that you guys had a weak volume in the quarter and either the pressures that you're seeing from a higher labor and dollar-denominated COGS, if you could break that up.

A - Augusto Ribeiro Junior {BIO 17178608 <GO>}

Yes. Actually, I don't know how to correctly break down the COGS. Real devaluation is good for the company, as long as if they have a better curve demand relationship outside of Brazil. If I have low inventories outside of Brazil, definitely, a real depreciation will help the company but we had a cost increase in Brazil. We saw the feed, the soybean feed increased in fourth quarter of last year 12% against the third quarter of 2013. So this is public information, not from ourselves. That came mainly from that real devaluation, more than through the commodity price by itself. So I think that what it could given in terms of number for internal markets.

Q - Diego Maia {BIO 16478658 <GO>}

Okay. Thank you.

A - Augusto Ribeiro Junior {BIO 17178608 <GO>}

Welcome.

Operator

Our next question comes from Chelsea Konsko with TIAA-CREF. Excuse me, Chelsea Konsko, your line is open.

Q - Chelsea Konsko {BIO 17438250 <GO>}

Hi. I'm just trying to understand your adjusted EBITDA figure, for which you had 11.6% margin, I believe. And then you mentioned on the call earlier without the nonrecurring effects, the margin would be 13% in the fourth quarter. Correct me if I'm wrong, but I was under the assumption that your adjustments to get to the adjusted EBITDA, where you add back the other operating results, already was adding back the effects of the nonrecurring events. Can you please just explain what's included in those other operating results if it's not the nonrecurring item?

A - Augusto Ribeiro Junior {BIO 17178608 <GO>}

Yes, sorry. I mixed up the both lines adjusted EBITDA and EBITDA. It will affect the EBITDA, but it didn't affect the adjusted EBITDA, because we take out those all the results line. All the nonrecurring events that I mentioned to you were booked on that specific line of nonrecurring events. So the increase of the margin, we should add up that 110 million to the EBITDA figure of the Company and then you got an increase from 9.4% to something higher. Let me give you a quick computation here. 880. 10.7% -- 9.4% to 10.7%. That would be the EBITDA margin if we consider those nonrecurring events.

Q - Chelsea Konsko {BIO 17438250 <GO>}

Okay. Thank you.

A - Augusto Ribeiro Junior {BIO 17178608 <GO>}

Welcome.

Operator

Our next question comes from Mark Jason with Invesco.

Q - Mark Jason {BIO 4289233 <GO>}

Hi. How are you? I have just one question that relates to -- I just want to understand, how should we think about increasing the new routes in the small channel? Where do you stand in that process? You mentioned in earlier question that you're just starting in some cities. And how should we think about costs associated with that? What are the -- how should we be thinking about the increasing costs that is more difficult to get to those smaller mom and pops?

A - Claudio Eugenio Stiller Galeazzi {BIO 2067419 <GO>}

Well, as I mentioned, we did a pilot project in certain areas of Brazil. And we were able, actually -- remember that we've from supervisor on up, we have joined all of those, managers and management. So we have one structure as far as sales is concerned. By joining the forces, basically, we would have made redundancy in the number of our sales force that was addressing, basically, the market as a whole. But we did not use or did not place a redundancy program. Actually, we used this, let's say, excess sales force to reach the regions that we were not present. There is an increase, of course, in distribution costs in reaching this additional market, but it's overcompensated by the increase in the number of clients and customers.

A - Augusto Ribeiro Junior {BIO 17178608 <GO>}

Just to complement that, Claudio is right, of course, but where we are currently, we just started that pilot. We were successful in terms of our internal targets and our KPIs and we are moving forward into Brazil. But of course, we will still have to go through, for each new route, the profitability for each one of them. We need to look at the -- of the sales productivity per new client, because we started with a small volume and then we start to increase the volumes sold for each one of those clients.

If you put it all together and what we are looking at that, the route should be very good positive results. Mark, this is only the client, but the new routes would be positive. It should give us reason to move forward. We are current in way and what we can say to you right now is that we expect -- we did have good results in the beginning of the stage of this project and we are moving forward, as from May 2014, in all the regions of Brazil.

Q - Mark Jason {BIO 4289233 <GO>}

So how long do you think it will take you to roll it out throughout Brazil?

A - Augusto Ribeiro Junior {BIO 17178608 <GO>}

Six months.

A - Claudio Eugenio Stiller Galeazzi {BIO 2067419 <GO>}

Six months.

Q - Mark Jason {BIO 4289233 <GO>}

Just six months? You think you can get everywhere in six months.

A - Augusto Ribeiro Junior {BIO 17178608 <GO>}

Yes. Consider that a ramp up. Please, do not add up times x in our volume or something like that. In the six month, we will finish the roll out. What that means? That means that we will be able to have sales areas, refined the area, geographic area of responsibility. We will have all the majority of the IT systems already implemented to support sales force. We will have redeployed those guys, those sales force that already, today, are selling only Sadia, only Perdigao, only Batavo sets. So now we're working with -- like a bayonet approach, but again, this is a ramp up. Once we start it, even after six months, we will still be working with the first pilot, increasing productivity, increasing the correct mix, trying to sell products with more profitability than other ones. So it will take time.

A - Claudio Eugenio Stiller Galeazzi {BIO 2067419 <GO>}

All right. I would like to just state another fact is that in region where we made that pilot test, we went from 14,000 clients to approximately 18,000 clients. So we don't know yet if this will be the multiple which we'll place in the market, but it is an increase in our client base.

Q - Mark Jason {BIO 4289233 <GO>}

And from that 14,000 to 18,000, what was the incremental revenue that you saw?

A - Augusto Ribeiro Junior {BIO 17178608 <GO>}

Very few at the beginning. We are not relevant in terms of volume. We expect it to be relevant as we move forward. First of all or the first contact was like a one box. Here, hi, my name is whatever, I came from BRF. I'll be here attending you. It will start your relationship.

A - Claudio Eugenio Stiller Galeazzi {BIO 2067419 <GO>}

We don't know yet what will be the result as far as the portfolio, which we'll review often. Presently, it's an increase in the client base, but not very evaluated what will be the relevant factor as far as sales is concerned.

Q - Mark Jason {BIO 4289233 <GO>}

So, but was the productivity gains that we saw in this past quarter, was part of that relating to this increase in the movement to the mom-and-pop sales routes?

A - Claudio Eugenio Stiller Galeazzi {BIO 2067419 <GO>}

No, because we started the section in January.

Q - Mark Jason {BIO 4289233 <GO>}

Okay.

A - Claudio Eugenio Stiller Galeazzi {BIO 2067419 <GO>}

So it's additional, definitely additional.

Q - Mark Jason {BIO 4289233 <GO>}

Okay. Well, thank you very much.

A - Claudio Eugenio Stiller Galeazzi {BIO 2067419 <GO>}

Welcome.

Operator

Our next question comes from Jeronimo Contreras with GBM. (technical difficulty)

A - Christiane Assis {BIO 16226621 <GO>}

Hello?

Operator

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

A - Claudio Eugenio Stiller Galeazzi {BIO 2067419 <GO>}

We would like to thank everybody for their questions, their participation and their interest. I do hope that we were able to answer your questions and doubts. But I would like to state that we will be always available, Chris Assis and myself at any time for further questioning, for further presentations and follow-up of the Company events. Thank you very much. Thank you, Chris. Thank you, Augusto. Thank you for the rest of the people here present. Thank you.

Operator

That does conclude our BRF SA conference for today. Thank you very much for your participation and have a good day.