Q2 2012 Earnings Call

Company Participants

- Don Jackson, CEO
- Jeremiah O'Callaghan, Director of IR
- Wesley Batista, President and CEO

Other Participants

- Bryan Hunt, Analyst
- Carla Casella, Analyst
- Farha Aslam, Analyst
- Jose Yordan, Analyst
- Marcelo Menusso, Analyst
- Reza Vahabzadeh, Analyst
- Wesley Brooks, Analyst

Presentation

Operator

Good morning, everyone. Welcome to JBS SA's conference call. During this call, we will present and analyze the results for the Second Quarter of 2012. As requested by JBS, this event is being recorded. The recording will be available to listeners this afternoon, and can be accessed by following the instructions posted on the Company's website at www.jbs.com.br/ir.

Taking part in this call, we have Mr. Wesley Batista, President and CEO of JBS SA; Mr. Jeremiah O'Callaghan, Director of Investor Relations; and Don Jackson, CEO of JBS USA.

I will turn the conference to Mr. Jeremiah O'Callaghan. Mr. O'Callaghan?

Jeremiah O'Callaghan

Hello. Good morning. Thank you, all for being with us today to discuss the numbers for the Second Quarter of 2012. We just finished our call in Portuguese from 10, 15 minutes ago, and so we're very pleased to have our international investors with us on this call now.

I will start by making reference to the press release we filed with -- again in Brazil last night. And we also have a deck of slides which we filed in English and in Portuguese this morning. And I will make some reference to those slides as we go through the call.

But firstly, I would like to start by highlighting the events of the quarter and bringing to the attention of everybody what we think is relevant during Q2 '12. We posted a consolidated net revenue of BRL18.5 billion, and that's 26% higher than the same period last year. We had a consolidated EBITDA also for the period for the Second Quarter of more than BRL1 billion. That's 72% higher than the same period in 2011.

And specific highlights for the quarter were our South American business, JBS Mercosul, where we had BRL4.3 billion of revenue in the period. And that's an increase of 19% -- almost 20% over the similar period in 2011. And the EBITDA increased 47% in South America comparing the same periods, reaching BRL630 million in 2012. Also in the US, as a highlight, our chicken business, Pilgrim's Pride Corporation, posted $2 billion revenue in the quarter, and EBITDA of just north of $125 million, which is an inversion of what we saw in 2011, where the -- our chicken business in the US had negative EBITDA.

Our adjusted net income for the period was BRL213 million -- more than $100 million. And that's excluding deferred income tax due to goodwill in Brazil. If we include that income tax, our net income would have been BRL170 million. Also, at the end of the quarter, we carried BRL5.5 billion in cash, and that's more than 110% of the totality of our short-term debt.

Looking at the semester briefly, just comparing semester with semester, we had BRL34.5 billion revenues in the semester. That's up 17.5% on the first semester of 2011. Consolidated EBITDA for the semester also was BRL1.7 billion; again, 20% up in the same period in 2011. Our EBITDA margin, our consolidated EBITDA margin for the semester was 5%. Adjusted net income, also for the semester was just north of BRL450 million. And again, if we exclude the income tax due to the goodwill, it would have been BRL286 million.

Some of the strategic events during Second Quarter 2012, we started up our chicken business in Brazil. The company was called Doux Frangosul. So now we call it JBS Frangosul. It's quite a substantial business and third-largest chicken producer in Brazil, with capacity to process more than 1 million birds per day.

We also increased our beef capacity in Brazil. We've been increasing the number of facilities over the last six months. And that has resulted in us increasing our processing capacity in Brazil during the Second Quarter, by 8,000 head of cattle per day, and that's quite substantial. And also, during the Second Quarter, we had the independent listing of our dairy business. That through a voluntary public share swap. That business has gone independent and is now floating as an independent company on the Sao Paulo stock exchange, in the same segment as JBS and Novo Mercado, since near the end of June. So there was a relevant matter during the Second Quarter of 2012.

Now, to talk a little bit specifically about each business unit, and making reference to our press release of yesterday, and specifically on JBS Mercosul to start with, speaking about how revenue has evolved over the last number of quarters, like I mentioned, we had BRL4.3 billion in revenue in this area and in the Second Quarter of 2012, and EBITDA of BRL630 million; 14.5% EBITDA margin.

This business has improved on a quarter-by-quarter business basis, and is demonstrating a lot of consistency. And our CEO, Wesley, will talk a little bit more about how we see things going forward in our South American business before we go to Q&A.

Our beef business in the US, again, we had revenue increase, and we had a slight improvement in margins, still negative but very, very marginally negative EBITDA of $9 million in the quarter. A negative EBITDA margin of 0.2%. But again, we see a trend from the first to the Second Quarter, and an improvement in profitability and an increase in our revenues.

Our pork business in the US JBS pork business in the US -- again, revenues, always in the $850 million category, and margins have been a little bit flat over the last number of quarters. We see that leveling off at, let's say, historical levels somewhere around 6% to 8%. And we've seen that happening over the last number of quarters.

Our chicken business, Pilgrim's Pride Corporation, we had $2 billion in revenues in the period. And again, we see margin improvement quarter-on-quarter from the end of last year, coming in to positive territory. And we were looking forward to a very positive 2012. And obviously, there was a grain issue, which we need to address, and we will address during the Q&A for the second half of this year. And we will talk about that later on. But we had $125.7 million in EBITDA in the Second Quarter and an EBITDA margin of 6.4%.

So all of that quite relevant. From a CapEx point of view, we had a total CapEx of BRL40 million -- just over BRL400 million in the quarter. That was a little bit above our quarterly average. And because of the ramp-up in the business in Brazil, we see that coming back to historical averages in the third and Fourth Quarter of 2012.

To speak a little bit about our indebtedness, our leverage net debt to EBITDA last 12 months was 4.27 times at the end of the quarter, slightly down from what it was at the end of the First Quarter of 4.3 times. And as I mentioned earlier, we had in cash or cash equivalents BRL5.5 billion at the end of the period, which represents more than 110% of the totality of our short-term debt.

Interesting to look at -- and we've highlighted this in our press release and then, again, in the slides we put on our webpage this morning, the fact that if we dollarize, if we convert into dollars our total net debt, and we take the average exchange rate over the last five quarters, we actually observe a diminishing total net debt in US dollars from $7.8 billion at the end of the Second Quarter in 2011, to just above $7.5 billion at the end of the Second Quarter 2012, a reduction of 3% in our net debt in US dollars, excluding the effect of the devaluation of the real in the period.

Also, regarding debt, the profile of short-term/long-term, we see our short-term debt diminishing. It's now at 23% of the total debt, 77% long-term. Again, that has been gradually improving over the last number of quarters.

To speak briefly about our exports, in the period, our exports for the first half of the year were just $4.4 billion for the first half of 2012. And again, we like to highlight the fact that our exports are spread in many emerging markets and very diversified into many markets. We had 15% of our exports went to Mexico; just under 15% going through China, Hong Kong and Vietnam; and just under 12% going to Japan; Africa and the Middle East was 9%; Russia, again, was 9% as well; South Korea, just over 6%; and then we see European Union representing (6.1%). Then the other markets, particularly in South America, Chile and Venezuela, markets that grew quite substantially during the first half of 2012, these markets in South America, Chile and Venezuela.

With that, I'll hand you back -- I'll hand you over to our CEO, for him to make some comments and some forecasts for the second half of 2012, before we take questions. Thank you very much.

Wesley Batista {BIO 15243148 <GO>}

Thank you, Jerry. Good morning to you all. We closed our Second Quarter, like Jerry mentioned, with BRL18.5 billion on revenue and around BRL1 billion on EBITDA. We believe that we have a reasonable quarter. Some business units performed very well and some business units was weaker in terms of results than we were looking for. But in the end of the quarter, we -- but in the end, we closed the quarter in a level that we believe that is a reasonable level in terms of results.

Looking forward, each business unit, we are very confident and we are very optimistic about our Mercosul business. We believe that the Mercosul business, especially Brazil, the Brazil business, will keep operating at a very high level, in terms of performance and in terms of delivering the results that we expect. We believe that this business will keep running at double-digit type of margins. So our beef business in Brazil, and also our hides and leather business in Brazil is doing very well.

As you know, and Jerry mentioned here, we did a quite large expansion in our beef business in Brazil in these last two quarters. So we have around 2 million heads annualized, at around 2 million heads capacity in our beef business in Brazil. And we are very happy that we were able to do this expansion, because the margin in Brazil is getting better. Things in Brazil, condition in terms of the market, is getting better.

I have been mentioning this that we are getting a new cycle in Brazil. We are seeing more cattle available. We are able to run our plants with a better capacity utilization and also exchange rate in

Brazil is helping the business. So export Brazil is more competitive today than it was a month ago.

So overall, again, we are very optimistic and we believe that this business will be -- will keep being delivering double-digit type of margin in this coming quarters and these coming years. In a sustainable base, these are important points.

So moving outside of Mercosul and outside of Brazil, going into the US and our different business units in the US, our beef business, as you all know, we have -- have been quite difficult in this first semester, in this first two quarters. First-quarter and Second Quarter was well below the margin that we achieved last year. We are seeing the business condition improving. We believe that the Second Quarter and the third -- no, sorry -- the second semester in the beef business will be better than the first semester. We are more optimist in terms of the results.

We are confident that Third Quarter will be a reasonable quarter. We will be able to make reasonable margin in the beef business. I think everybody is seeing a more better disciplined structure in the business in the beef business in the US. I think all the factors are looking to reestablish margin in the beef business. And I think we are getting the results of this discipline. And again, second semester, things is looking well better than it was in the first semester.

In the pork business, we have also a reasonable last two quarters, but below than comparing to last year. But again, also we believe that the second semester will be better than the first semester. We are already seeing some improvement in the pork business. So as you who follow the futures market in the US, so pork price in US declined quite sharply in the last 30 days or so. So margin is quite better. And the hog market is improving in some areas and in some points. Again, pork we believe we will see some improvement.

The chicken business that is First Quarter much better than the First Quarter last year, Second Quarter well better then Second Quarter last year. Second-quarter, you all know was a very difficult year for the chicken industry in the US. This year start in a much better mood and we are seeing better results. But again, also you all know that in the last 60 days, things has changed. The grain market has changed quite substantially in the US. And not only in the US, around the world, corn price and soybean prices much higher than it was 60 days ago. So this for sure will put challenge in the chicken business.

We will see a reasonable Third Quarter in our business. The biggest challenge will be for the Fourth Quarter, the last quarter this year. Even though we believe that the industry and ourselves, we can be able to best some -- to increase some sales price to offset or to try to compensate a portion or maybe the totality of the grain impacting our -- in our costs.

But again, it will be a challenge Fourth Quarter to pass the -- to increase price to offset this grain price impact in our business. But we believe that -- one thing that we believe that will help US that Brazil is also facing -- US and Brazil is the two largest chicken producers around the world.

So Brazil is also facing a challenge for the chicken industry. And Brazil will need to adjust price; we'll need to increase sales price. And is already doing this chicken price in the Middle East, is quite high -- is quite higher than it was 60 days ago. So this will help US to increase also the sales price, especially in the export market, Brazil doing this, this will help US, and this will help the chicken market overall.

Looking in our consolidated base, we believe that the second semester will be better than the first semester. And we will be very focused in our business to get the best results in each business unit, and to add value to all of our shareholders and all of our businesses.

So with that, I will ask the Operator to open for Q&A. Thank you.

Questions And Answers

Operator

(Operator Instructions) Farha Aslam, Stephens Inc.

Q - Farha Aslam {BIO 6151888 <GO>}

Wesley, you had finished your comments with a discussion on the current grain situation, and I'd just like to focus on that. Given the current grain situation, where do you think the rationalization is going to come from? Is it going to be in the US? Or are we going to see greater rationalization in the international markets? And how do you think that's going to impact exports and imports out of the US and Brazil?

A - Wesley Batista {BIO 15243148 <GO>}

Farha, I will give you my view and Don Jackson is also in the call. I will ask Don to make some comments also. But my view, Farha, I think the grain market is a global market. So it's not only in the US that it's facing a higher grain price. And I think around the world, the chicken industry will need to balance supply and demand, and prices will need to be higher all over the place.

So to compensate this impact in grain price, I think Brazil and US, then the two largest chicken producers, will be the places that will come -- the adjustment will come from Brazil and come from US. And we are already seeing this. So for you have idea, chicken prices in the Middle East was $18.00 per -- $1,800 per ton -- or $1,800 per (multiple speakers) ton in the Middle East, and today is already $2,200 per ton. So Brazil is already doing some adjustments and ration --.

A - Jeremiah O'Callaghan

Rationalizing.

A - Wesley Batista {BIO 15243148 <GO>}

-- rationalizing will come from US and Brazil especially. I don't know, Don, if you want to add something?

A - Don Jackson {BIO 4220219 <GO>}

Farha, again, I think, to Wesley's point, you'll see some rationing around the world. That will be reflected in the US market with left US corn exports. To date, we've not seen any further reductions in the US chicken placements. They're basically year-over-year at about par to last year.

I would expect that we will see some decrease in chicken placements but we haven't seen that to this point. We are beginning to see some liquidation of the sow herd on the pork side, and would expect that to occur as hog production had increased maybe 2% year-over-year. So there's plentiful number of hogs. And so we do think there will be some liquidation on that side.

Q - Farha Aslam {BIO 6151888 <GO>}

And can you also just comment on cattle? Because perhaps you have the most global view on cattle of all companies.

A - Don Jackson {BIO 4220219 <GO>}

Relative to the US, you mean, Farha?

Q - Farha Aslam {BIO 6151888 <GO>}

US as well as Brazil. Where do you think the supply is going to be here in the US? Could you talk about cattle flows into your plants? And as well as what you think exports will do, given the rise in price that's anticipated in cattle over the next year?

A - Don Jackson {BIO 4220219 <GO>}

Well in the US right now, cattle supply is plentiful, although cattle prices are edging up. You know, we would continue to believe that cattle supply will be adequate. There should be some tightening of supply in 2013, but at the same time, I think that there is a reasonable balance of supply and demand. And again, with good packer discipline in terms of the slaughter, I think that the margins can remain positive in 2013.

Q - Farha Aslam {BIO 6151888 <GO>}

Okay. Thank you very much.

Operator

Wesley Brooks, Morgan Stanley.

Q - Wesley Brooks {BIO 16407564 <GO>}

So a couple of questions from me. Firstly, on the Mercosul business, you grew 17% your slaughter year-on-year. I wanted to understand how much of that came from running your existing plants at higher rates, and how much of that was a contribution from the new plants? I'm trying to get a feel for how much incremental volume we can still expect in Q3 and Q4 from the new leased plants?

A - Jeremiah O'Callaghan

Wesley, this is Jeremy here. During the Second Quarter, we were ramping up business. So at the end of the quarter, the number would have been higher than at the beginning of the quarter. It's kind of difficult to give you something precise on that, but I would say 75% of the new capacity was up and running at an efficient level by the end of the quarter. So we will see some incremental slaughter during the second half of the year, during this quarter and the last quarter of the year, as a result of the new facilities. But most of them are up and running by the end of the quarter -- 75%.

Q - Wesley Brooks {BIO 16407564 <GO>}

(multiple speakers) Excellent, thank you. Then, my second question was coming back to the US chicken business, you guys have talked a lot at the start of the year about having price escalation clauses in most of your selling contracts. Naturally the move that we've seen in grains has activated that.

Can you talk around how much protection you have from those? And how those contracts are -- whether you're actually being able to escalate your prices, given that prices in the market aren't necessarily going up enough to recover the costs as yet?

A - Wesley Batista {BIO 15243148 <GO>}

Don?

A - Don Jackson {BIO 4220219 <GO>}

I'm sorry. I didn't understand the question, Jeremy.

Q - Wesley Brooks {BIO 16407564 <GO>}

Sorry, the question was, at the start of the year, you guys were talking quite a lot about having price escalation clauses in most of your chicken selling contracts. I wanted to understand how much those are working, and how much of a protection that might be, relative to how spot prices are looking?

A - Don Jackson {BIO 4220219 <GO>}

No, again, I can't quantify that for you on the call, but, yes, we do have some escalating contracts. Now they're all looking in the past, not into the future, so, until we realize the increases, it's really another quarter or two quarters away before those price increases occur. So we're not going to have immediate relief based on escalation in corn prices. We'd begin to see that again in 2013.

Now at the same time, realize we're entering the time of year when most of those agreements will actually be renegotiated. And so, between now and, say, the end of November, we'll begin to renegotiate those. And obviously, we'll be more focused on having that kind of sensitivity into our pricing formulas. But based on the existing agreements, you really wouldn't see any relief from those through the end of 2012.

Q - Wesley Brooks {BIO 16407564 <GO>}

Okay. Great. Thank you very much.

Operator

Reza Vahabzadeh.

Q - Reza Vahabzadeh {BIO 5842551 <GO>}

Under your US beef side, were there -- was there a meaningful hedging gain or loss in the Second Quarter?

A - Wesley Batista {BIO 15243148 <GO>}

Well there was a loss in the Second Quarter at around 60-some-million-dollars.

Q - Reza Vahabzadeh {BIO 5842551 <GO>}

Okay. Got it. Then you mentioned you would expect reasonable margins in US beef and US pork in the Third Quarter. What is the reasonable margin in the US beef and pork, in your mind?

A - Wesley Batista {BIO 15243148 <GO>}

Well the Third Quarter Reza -- my-- when I say reasonable margin, I'm talking about in beef, 3% to 5%. This is what I mean in a reasonable margin for beef. And for pork, between 5% to 8% -- 6% to 8%. This is the number that I mean when I mention reasonable margins.

Q - Reza Vahabzadeh {BIO 5842551 <GO>}

Okay. Then as far as the impact of the drought in the Midwest and the rising grain costs, how do you see that impacting the US beef and pork businesses? Is it really just a moderate tightening of supplies? And can that be passed through, for the most part? Any thoughts would be appreciated.

A - Wesley Batista {BIO 15243148 <GO>}

Reza, in beef and pork, as we are not fully integrated, we don't have hog production in terms of hogs. And in cattle, even though we have some cattle on feed, grain impact in our segment, in our hog business, in our cattle -- in our beef business is not meaningful. It is completely different than chicken.

So chicken, of course -- the impact is directly in terms of price and cost in the chicken business. This is not the same in pork, in our pork business and also in our cattle business. So I don't expect a lot of impact, because this movement in grain price in our pork and our beef business.

So and again I think one thing is important that I would like to mention here. In our view, in JBS's view, look, grain price it's (technical difficulty) $8.00 or $7.00 or -- this is for everybody. So I think we believe that the industry, the question is more about when and about the time to adjust. But the industry can adjust itself to run profitable with corn in $7 or $8. The question is the industry will need to adjust supply and demand to pass price through the system to offset this increase in grain price.

Q - Reza Vahabzadeh {BIO 5842551 <GO>}

Got it. Don, last week, US beef slaughter volume was roughly 640,000. Is that enough discipline for you?

A - Don Jackson {BIO 4220219 <GO>}

That's become a higher number for sure; when we're operating below that, margins, obviously, were more favorable. So I think that's definitely on the high side, Reza, and we probably need to see more moderation of that kind of slaughter going forward.

Q - Reza Vahabzadeh {BIO 5842551 <GO>}

Got it. And Wesley, one question since you see the global angle on exports, is the US -- has the US lost any share of the beef export pie because of the strengthening in the US dollar and some of the softening in the Brazilian real?

A - Wesley Batista {BIO 15243148 <GO>}

No. Basically, still very competitive even though the real is not as strong as it was, like it was a few months ago. But if you look in our presentation, Brazil still selling beef price out at -- almost at the same level that it was some months ago.

And it's important to remember, that US dollar is weaker -- or sorry, is stronger comparing to some other currencies, not with all the currencies. So like with comparing to the Aussie dollar, so US is still weak. So -- and Australian dollar is a very important currency in terms of the beef business, the competitiveness of the US beef business. So the US is still very competitive, Reza.

A - Jeremiah O'Callaghan

And also, bear in mind that the markets that the US serves basically are markets that Brazil doesn't serve very much, like Mexico, Canada, and Asia; whereas Brazil has its own captive markets in the rest of the world.

Q - Reza Vahabzadeh {BIO 5842551 <GO>}

Got it. Thank you very much.

Operator

Carla Casella, JPMorgan.

Q - Carla Casella {BIO 2215113 <GO>}

Thank you for taking the questions. On the US beef side, I wonder if you could just discuss the trends that you're seeing in food service versus retail? And if you seeing any change in food service demand?

A - Wesley Batista {BIO 15243148 <GO>}

Don, can you answer?

A - Don Jackson {BIO 4220219 <GO>}

Yes, Wes. Again, Carla, as a company, we're not overly subscribed in the food service on the beef side. Definitely, we're more retail-centric. Generally speaking, food service is stable; it's really not aggressively improving, relative to beef.

Q - Carla Casella {BIO 2215113 <GO>}

Okay. Then on the retail side, we had heard early in the year, there was a lot more promotional activity on beef than even on chicken. Are you seeing any change in that trend?

A - Don Jackson {BIO 4220219 <GO>}

Year-over-year, beef ads have decreased to the extent about maybe one less ad per month for any given retailer. So beef featuring has declined. On the other side, generally chicken featuring has increased.

Q - Carla Casella {BIO 2215113 <GO>}

Okay. Then just one last question. Is your -- have you changed your leverage targets at JBS SA or JBS USA?

A - Wesley Batista {BIO 15243148 <GO>}

No, Carla. We still have the same target.

Q - Carla Casella {BIO 2215113 <GO>}

Okay. Great. Thank you.

Operator

Bryan Hunt, Wells Fargo.

Q - Bryan Hunt {BIO 1530288 <GO>}

Most of my questions have been asked but just a few follow-up on poultry. You all mentioned that the industry needs to institute some production discipline to achieve pricing to offset feed. I mean, how does PPC plan to achieve production discipline in this environment? Is it through headcount reduction or is it weight reduction?

A - Jeremiah O'Callaghan

(multiple speakers) Generally speaking. Again, we've gone through some seasonal adjustments in our placements going forward. That would be head. We don't really plan any weight adjustments internally.

What history has taught us is despite increase in corn costs, that the only solution is by adjustments in supply relative to demand. We're very vigilant in that regard. And we continue to modify our placements to make sure that they are, again, in balance with our own company demands. So we're not seeing any changes on the industry side at the moment. But again, this has all changed so quickly, it's a little early to say that there's not going to be any change in industry placements.

Q - Bryan Hunt {BIO 1530288 <GO>}

Okay. And do you see industry placements being reduced by cracking more eggs in your opinion? Or do you think there will be some layer reductions or pullet reductions?

A - Don Jackson {BIO 4220219 <GO>}

Again, I would -- the breeder flock in total is still at a relatively low level based on historic numbers. So it looks like there has been some discipline in that regard. I'm not aware of companies breaking eggs, if you will. That would indicate that the reduction will have to come in terms of a further reduction in the greater flock. Not to say that that couldn't happen. I think at these prices, you'll see a reduction in broiler placements. But like I said, there's no material evidence of that just yet.

Q - Bryan Hunt {BIO 1530288 <GO>}

Okay. Then you mentioned earlier it's an important time coming up in terms of contract negotiations for food service in retail. Do you foresee a greater percentage or mix of variable-priced contracts based on what feed has done, and the impact to the industry overall? And do you foresee an event where you walk away from unprofitable relationships?

A - Don Jackson {BIO 4220219 <GO>}

Well I think that's always the case -- under any market conditions, you're always going to have some gains on the customer side, and you're generally going to have some losses on the customer side. So I don't know that that -- this year will be any more dramatic than it ever has been in the past.

I do think you'll tend to see a tightening in terms of sensitivity of pricing formulas, meaning that they will be shorter in duration and move more quickly as commodity prices move. So I think you'll tend to see formulas that will move faster and move more in concert with input costs.

Q - Bryan Hunt {BIO 1530288 <GO>}

Then my last question has to do with beef. Some large food service or restaurant operators in the US have talked about promoting more poultry to keep value on the menu, in light of higher inflation that's estimated going into 2013. That would imply per capita consumption decline next year. Do you believe, when you look out into next year, that there will be a greater mix of exports for the domestic beef business, or the US beef business, relative to domestic consumption? And how does that impact your business model?

A - Don Jackson {BIO 4220219 <GO>}

Well our business model in the US -- Wesley could comment relative to Brazil -- but our business model in the US is very focused on exports. We would expect in 2013 to continue to grow our export business. Although actually, I think year-over-year, a slight decline this past quarter on beef exports, still basically on a par with last year's exports. Again, we've grown our pork exports year-over-year. We'll continue to grow exports year-over-year. That's very central to our business model.

A - Jeremiah O'Callaghan

And Don, also, on the US beef balance, the US imports quite a bit of beef. We probably see a declining trend towards importing beef into the US, because there are demands in so many other markets around the world. So I suspect that also would be a factor, which would adjust supply and demand domestically inside the US.

Q - Bryan Hunt {BIO 1530288 <GO>}

I appreciate your time this morning. Thank you.

Operator

Jose Yordan, Deutsche Bank.

Q - Jose Yordan {BIO 1496398 <GO>}

My main question was answered, so I just had a couple of follow-up questions. One is if you could share with us your utilization rates in beef Brazil? And a related question is whether you're thinking or will eventually break out the results of Brazil poultry operations in Brazil? Or does that need to get bigger before you consider it?

And I guess a related question is, with all the -- with the high price of corn, et cetera, in Brazil, will this be likely to lead to additional M&A opportunities, distressed -- additional distress in some of the smaller players? Could that be an opportunity for you to grow that business in Brazil?

A - Jeremiah O'Callaghan

Okay. I'll answer the beginning of the question. I'll ask Wesley to take the last part about M&A potential in the chicken business.

Our utilization in Brazil is pretty much close to where we would like it to be -- 85%, 90% utilization of our beef facilities in Brazil. Our chicken business is -- it's almost like a day-old chick. It's really new still. Whether we are going to report it separately or not is something we will discuss, similar to the model that we have with the other business units that we report. And we make a decision about that through the second half of the year.

Regarding M&A in the chicken business, Wesley will comment.

A - Wesley Batista {BIO 15243148 <GO>}

Well basically, we -- as Jerry mentioned, we are like a day-old chicken. In the chicken business in Brazil, we just got Frangosul in the last two or three months. So our focus now is more to consolidate what we already did. So we are not active looking to M&A or to distress opportunity in the chicken business.

But after saying that, in some point, if we see opportunities to grow in the chicken business in Brazil, in a moment that we believe that we are with the Frangosul operation in a level that we are already comfortable -- so we can analyze. But for now, we are focused to run Frangosul very efficiently. This is where we are now.

Q - Jose Yordan {BIO 1496398 <GO>}

Super, thanks a lot.

Operator

Marcelo Menusso, Oppenheimer Funds.

Q - Marcelo Menusso {BIO 16872637 <GO>}

Just wanted to follow up on Jose's question. Can you disclose how much you're paying for leasing the Frangosul plants?

A - Wesley Batista {BIO 15243148 <GO>}

I apologize, Marcelo. We are not disclosing this number.

Q - Marcelo Menusso {BIO 16872637 <GO>}

Okay. Then also related to that, I understand you are going to consider M&A with discipline a criteria. But the Frangosul operations, could you consider acquiring Frangosul? Or are you going to keep with the leasing model?

A - Wesley Batista {BIO 15243148 <GO>}

No. We can consider to acquire Frangosul. Actually, when we agreed to lease the assets, we mentioned to the markets to everybody that the first stage was to keep Frangosul running, to not let the business stop completely. And in the second stage, we will look the opportunity if we can acquire or not.

At this point, we are doing due diligence to know exactly what is the amount of debt that is in the company. So looking out the liabilities to see, but in some point, we will be looking to talk with the creditors -- the new Frangosul creditors about the opportunity made sure acquired the business.

Q - Marcelo Menusso {BIO 16872637 <GO>}

Okay. Thank you.

Operator

This concludes today's question-and-answer session. I would like to invite Mr. Wesley to proceed with his closing statements. Please go ahead, sir.

A - Wesley Batista {BIO 15243148 <GO>}

Thank you. I'd like to thank you all to being with us today. Like I mentioned in the beginning of the call, we believe that we had a reasonable quarter. We believe that the second semester will be stronger for JBS globally or in a consolidated date. So we are very optimistic about our business, where we are.

We are very -- we believe that we've built a quite strong operation in terms of location and geographic location. We operate in the US, Australia, Brazil, and other countries in South America. That is the places that is the most competitive countries or areas to produce protein. So we believe that we are very well-positioned for the future. With the challenge that we have in front of us, we believe that we can go through this, and keep running our business profitable, and delivering good results to our shareholders.

So with that, thank you all, and have a good day.

Operator

That does conclude JBS auto conference for today. Thank you very much for your participation. Have a good day and thank you.