Q3 2015 Earnings Call

Company Participants

- André Nogueira de Souza
- Jeremiah Alphonsus O'Callaghan
- Tarek M. N. Nasr Mohamed Farahat
- Wesley Mendonça Batista

Other Participants

- Alexander Robarts
- David Kuck
- Farha Aslam
- Jose J. Yordan
- Lauren Torres
- Luca Cipiccia

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, everyone, and welcome to JBS Conference Call. During this call, we will present and analyze the results for the third quarter of 2015. 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 on this conference call, we have: Mr. Wesley Batista, Global CEO of JBS; Mr. André Nogueira, CEO of JBS USA; Mr. Gilberto Tomazoni, President of Global Operations; Mr. Tarek Farahat, President of Global Marketing and Innovation; and Mr. Jerry O'Callaghan, Investor Relations Officer.

Now, I'll turn the conference over to Mr. Wesley Batista. Please go ahead, sir.

Wesley Mendonça Batista {BIO 15243148 <GO>}

Thank you. Good morning, everyone. Thank you for being in the call with us today. So, we are reporting our third quarter numbers. I'm going to refer to the presentation and the page for you to be able to follow what I am going to present here today.

So, page 1, JBS at the glance. So, I should talk a little bit about where we are. So JBS, we have BRL 150 billion in last 12 months revenue. We are today the second largest food company globally. We have a global and diversified platform, operating different segments, different countries and regions. We have a broad value-added product portfolio with strong brands in different countries that we operate. So, we are today over 230,000 team members that we are very proud about our team, and we consider this team a high-performance team. And I would like to use the opportunity to thank each one of our team members that has been in this journey with all of us.

So, we are a company that we are very focused in operational excellence. Our culture, we have a strong culture that we believe it should be very focused in things that we control. So, we control how efficient we can operate our business, and we are very focused to operate our business as efficient as we can, more than being focused on market because market is market; conditions is for everyone. So, we are a company very focused in things that we control.

So, moving to page 2 is to give you a flavor. When we say - sorry. Page three. When we mention that we have a global platform and we are a global company today, you can see here our revenue by each country, by each region. So, we have a very diversified platform today. We can access through each different business unit any country around the world in terms of our market access. So, we are very happy with our global platform.

So, moving to page 4, it's a little bit about the evolution of our company and where we came from, where we are and where we are looking to go. So, we are a company that basically in 2007, before we did the IPO in JBS, we were a Brazilian beef company with a small operation in Argentina. So, we have been working these last eight years transforming this Brazilian beef company in where we are today, the largest global protein player globally. So, we have been able to - in these last eight years in this journey to transform this beef company, this Brazilian beef company in the largest global protein player.

So, a lot of times I have been getting questions to where we are going and where we see ourselves in the coming years. So, we have a strong focus and a strong view that, as we were able to transform the company in these last eight years, we can look ourselves being a global protein player in the coming years, transforming to a global food player with operation, with a very strong product portfolio, with strong brands. So, the last acquisition that we did in the last year or so is clear in this direction. Adding more value-added products in our portfolio and as well brands that we can connect ourselves with directly consumers or consumers around the world.

So, moving to the next page, the page 5. I think we have been showing this for a while, this graph here, the strategy. So, we start JBS looking to build strong production platform, and we did. Today, we have over 300 production units in more than 15 countries. So, we were also looking to expand our sales and distribution platform and we have been doing so. Today, we serve more than 350,000 customers, directly customers, to more than 150 different countries.

So, again - and in the last few years, we thought that our production platform was really well organized, our sales and distribution (07:44) time for us to start investing more and putting more energy in expansion in our portfolio, expand in our portfolio and as well, invest in our brands. So, we have been doing - we are in this journey, and we are very happy where we are. We still have a lot of opportunities to keep improving and expanding our business through this direction.

So, moving to page 6 in our presentation. To talk about our historical performance, I think, is very important. We put here in the last two years, we grew our business 77% in revenue but we expanded 124% our EBITDA margin - our margin EBITDA.

Jeremiah Alphonsus O'Callaghan {BIO 19817115 <GO>}

EBITDA margin.

Wesley Mendonça Batista {BIO 15243148 <GO>}

Our EBITDA margin. So, it's clear that our team, we have been able to expand more our margin than our sales even though our sales expansion has been very strong in these last many years. And now, so I think it's important, this point here is even we have inside of our company different segments like the beef business, the chicken business, the pork business, the packaged food business, and in different countries, we see functionality and we see volatility inside of our business units, but when we consolidate our numbers and we strongly believe that JBS will build a platform and not diversification in terms of segments, in terms of countries, in terms of project portfolio that give us strong confidence that we can deliver a stable earnings even though we have seasonality inside of different business units.

So, it is important for us. We have been very focused on that, and this is clear here. You can see that in the last two years we have been delivering consistent earnings and, again, even though in spite of our business units, we saw some volatility. So, moving forward, on our presentation and going through our numbers, third quarter numbers. So, in page 8, so our revenue for the quarter was BRL 43 billion that represented 40% growth compared to the same quarter last year that was BRL 30 billion, so 40% growth, strong top line growth. Our EBITDA, we delivered BRL 3.8 billion in EBITDA with 8.9% margin comparing to last year, BRL 3.6 billion, so 6% expansion. And the margin last year was 11.8%, quite a hard comparison because when we see our third quarter last year, we had our Beef business (11:32) margin.

The other was very, very strong and more strong than the normalized margin for the quarter in the U.S., our beef business in the U.S. But when we look at 8.9%, it's quite and is in line with our performance – more recent performance in a consolidated basis. So, our net income, we reported BRL 3.4 billion in net income, that was a strong growth, over 280% growth, comparing to last year that the net income was BRL 1.1 billion. Our earnings per share this quarter was BRL 1.19 per share. And we put here a normalized net income that if we normalize our net income, it goes from BRL 3.4 billion to BRL 4.2 billion.

And why we are talking about the normalized net income is because BRL 800 million is deferred tax that is part of the goodwill, when the – that we amortize here in Brazil that is never going to have cash impact, it's only account impact. So, the truly net income in terms of cash impact is BRL 4.2 billion. So, this BRL 800 million in deferred tax is not going to end up being – translate in cash or being paid in the accounting rules that to amortize the goodwill that we have is the way that we need to book this in our books.

So, free cash flow, we end up the quarter delivery BRL 5 billion in free cash flow comparing to BRL 2.1 billion last year. Again, strong growth comparing this quarter and the same quarter last year. I think it's important to mention that this BRL 5 billion in free cash flow was after the acquisition of Moy Park in Europe that we spent BRL 6 billion. So, over the acquisition – or over the payment of the acquisition, we generated BRL 5 billion. So, before the acquisition, actually, the free cash flow was BRL 11 billion. So, strong and we've – the amount of cash that we were able to generate in the quarter.

So, moving to page 10 in our presentation, talk about our debt. When we look our debt in dollar, and every day we look our numbers more in dollars term as we – majority of our business is dollar-denominated business, and is more appropriate that you look in dollars. So, when we look our net debt in the third quarter in 2014 was $10.5 billion and this quarter the net debt is BRL 10.5 billion. (sic) [$10.5 billion] (15:31) So, flat year-over-year. But in this last 12 months we spend, and we did $3.5 billion in acquisitions. So, bottom line, we generated $3.5 billion in free cash flow as our debt is stable. And we acquired or spent BRL 3.5 billion (sic) [$3.5 billion] (15:58) in acquisition that brought $5 billion in revenue in our company.

So, looking our leverage, so the same quarter last year, third quarter 2014, our leverage was 2.5 times; and this quarter, the third quarter 2015, it's flat, it's 2.5 times leverage. The same, but it's important to mention that knowing of Moy Park's number is included in our earnings or in our presentation and also six months of Primo is not included here. So, when we pro forma annualize the numbers including the Moy Park results and six months on Primo, so actually our leverage drops to 2.32 times leverage.

So, keep moving in our presentation, page 18, about our hedging strategy – page 11. Sorry. Our hedging strategy and policy. Look, we are a company that – we have been saying this for a long time and for quite a while, we don't believe in natural hedge. Nothing against to who believes in natural hedge, and why we don't believe in natural hedge is very simple. Because in our view, revenue don't pay debt. So, what pay debt is earnings. So, as a lot of times I hear people say, oh, but natural hedge, as you are exporter, you have revenues in dollar, you have a natural hedge. We don't believe this is applicable in our business and why, again, because revenue don't pays debt. What pays debt is earnings, net income and free cash flow.

And as currencies devaluate, it's difficult to guarantee that you are going to have the same earnings or free cash flow in dollar because normally, when like here in Brazil, the real, only reminding everyone, the real closed December 2014 at BRL 2.6 and is today around BRL 3.8. So, in 10 months or 11 months, the currency moved a lot. So, and it's naturally that you have pressure in the input cost because grain and a lot of the input cost is dollar-denominated type of cost because it's the international market. And in the same time, when you see a big devaluation like we saw here in Brazil, you'll see pressure in the sales, in the sales price of our products.

So, as we don't believe in natural hedge, our way to see this is very simple. So, here you can see our net exposure that has an impact in dollar is BRL 43 billion and we were in the end of the quarter with BRL 41.4 billion in hedge. So, we were fully hedged and we'll see this hedge in a very simple ways. Like you, the insurance, when you feel that the risk is high enough that the cost for the insurance worth should pay the insurance and we will look our strategy in this way. So, we were fully hedged and our strategy is always keep looking.

This insurance cost, how much is the cost and how much is the risk presents in terms of market. We're still cautious about the currency in Brazil as we're still seeing quite a big amount of risk, not only in Brazil but also outside of Brazil. I think China is still a question mark in terms of the China economy. And this can impact more in commodity price globally and this can have more impact as I think the market is figuring out where exactly the China economy it is today or is going.

So, we see outside risk. The increase in rates in U.S. is another risk for emerging markets, and we think it's coming, the question is only time if it's December or January or February, but we clearly see this getting close to us. And another we still have challenge in the Brazilian market, in the Brazilian economy, in the politician side of Brazil. And with this risk, we're still being cautious and we still placing hedge against to our exposure in dollar.

So, I'm going to stop here, and I'm going to ask Jerry O'Callaghan to go through each business units to discuss more with you the details of our business units. Thank you very much. Jerry, please.

Jeremiah Alphonsus O'Callaghan {BIO 19817115 <GO>}

Thank you, Wesley. Thank you and good day to all of you. So, continuing in our presentation and, again, using the page number so that you can follow exactly where we are in the presentation. I'm going to start talking about page 14, which is our JBS Foods business in Brazil. So, if we look at net revenue associated with this business compared with the same quarter last year, net revenue went from BRL 3.37 billion up to above BRL 5 billion in the third quarter 2015, almost 50% increase year-on-year.

EBITDA also from BRL 576 million to above BRL 1 billion in the same comparable periods. EBITDA margin going from 17.1% to 20.7%. So, that's quite an expressive increase in revenue, in EBITDA and in EBITDA margin. Obviously, EBITDA growing above 80% when revenues grew just under 50%. And we saw, during this period that we are comparing expressive organic growth, and also, we made some acquisitions in the period, obviously. But at the same time, we see the EBITDA performing well.

And we continue to be committed to the improved performance of this business. We're seasonally coming into the last quarter of the year. There are lots of Christmas items on the JBS Foods portfolio. And so, there's an expectation that our fourth quarter numbers will reflect those additional items that are traditionally sold during the period. We continue to have a focus in quality, innovation, and in brands in this business.

Moving on to page 15 in our presentation and if we look at the evolution of this business since basically we acquired Seara at the end of third quarter 2013 and how the business has performs since then, we see net revenue consistently growing period on top of period. And we see the EBITDA margin also – the EBITDA and the EBITDA margin also very consistently growing. So, again, something that Wesley mentioned earlier, the consistency of our numbers, the lack of volatility regardless of some of the items being seasonal. And there is a lack of volatility in these results and a constant performance over the period.

If we look at operational excellence at JBS Foods and making reference to slide 16, our on time in full, OTIF, improved 23%; out of stock at the point of purchase, 24% improvement; the number of active customers over the period, 29,000 additional active customers; a 26% improvement in the quality drivers of the products; and an increase of 400 basis points in our operational efficiency index.

Moving on now to talk about JBS Mercosul, our beef business in South America, beef business and other related businesses such as the by-products associated with the beef business, primarily in Brazil. We're doing operations in Paraguay, Uruguay, and also in Argentina. We had revenue in the third quarter this year of BRL 7.15 billion, that was up above 10% in relation to the same period last year which was at BRL 6.47 billion. EBITDA went from BRL 555 million to BRL 641 million in the same period, and EBITDA margin improved year-over-year from 8.6% in the third quarter last year to 9% this year.

A couple of highlights with regard to this business. In the recent past, we saw recovery of exports. And particularly during the third quarter, we saw the opening of the Chinese market. Recently, just this month, we've also seen some other markets opening up, more specifically the Saudi market, an announcement made very recently. We see a better supply and demand dynamic in this business. And we continue to invest in adding value to our products domestically in Brazil through the Friboi brand. So, we continue to invest in that brand. And obviously, there is potential, when we look at this business unit in South America, that there will be trade between Brazil and the U.S. and this would be a value enhancer for this business going forward when this trade starts up.

The new business unit that we are reporting – that we will be reporting the results of from now on, we call it JBS Europe, which is basically the Moy Park acquisition together with smaller business we had in Europe prior to the Moy Park acquisition. Revenues in reais over the last couple of years just to give you an idea about the growth of this business. This is up prior to the acquisition. So, BRL 4 million in revenue in 2012, BRL 6.4 billion LTM to prior to the acquisition. Operations in Northern Ireland, Ireland, the UK, France, Holland, and Italy; 15 production units; 12,000 people working with us in Europe; and 450,000 tons of products processed in these different 15 production units annually.

On page 21, a little bit about the type of products that Moy Park produces: In Natura, Prepared & Breaded products and Convenience & Others, we can see the percentage of each 42% is In Natura; more than 50% is Prepared & Breaded; and 7% in the Convenience & Others categories. And in terms of the channel mix: 62% is in retail; 27% in foodservice; and we've got some of the brands in both the retail and the foodservice on the side on page 21.

Innovation benchmarking. Moy Park has a very large team of R&D, more than 70 people working in the R&D department. It's looked upon as a reference company with regard to its R&D capabilities and it works jointly with its customers both in the retail and in the foodservice sector in developing products in the private labels and under the company's own labels as well. It's also a company that has been in reference in terms of antibiotic-free products, free range, and organic products in Europe.

Moving on now to our business in North America and starting with the JBS USA Beef business. And in this business unit, although we call it JBS USA Beef, there is business in Canada and quite a substantial business in Australia as well. So, when we look at revenues in the last quarter, third quarter 2015, $5.75 billion in revenues, so all the numbers here now are in dollars not in reais, down marginally from $5.85 billion in the same period last year. EBITDA was down from $505 million to $197 million, $196.8 million year-on-year, coming back from an 8.6% EBITDA margin to a 3.4%. But it's more about the fact that the EBITDA margin at JBS USA Beef last year was above the average curve. So, in terms of comparable, it's a little bit of a comparable that reflects the performance of the quarter in 2015, a little bit more negatively than perhaps it should be demonstrated.

We see lower cattle availability in the U.S. And obviously, this is as a consequence of higher heifer and cow retention. We've seen beef retention numbers reported by the USDA, 6.5% more heifers this year than last year and also more cow numbers. The Australian dollar within this business – the Australian business is quite a substantial business. So, the devaluation of the Australian dollar affects this business. It reduces the revenues in – when we convert them into U.S. dollars. But it maintains a very competitive environment for the products exported out of Australia. So, it boosts the margins out of Australia.

We have new management in our Primo business which we started in the second quarter of this year. So, six months of management there. And we are working on the process of reorganization, integration, and the synergy-capturing associated with that business. We've seen a big expansion in our value-added products in the U.S., our consumer-ready or case-ready products up 30% this year in relation to last year. And we are making investments and gearing towards having another 60% increase in this value-added type of category for 2016, reaching about 340 million pounds in production in this category in 2016.

The Primo business, it's a value-added business in Australia, very strong brands. The Primo brand and the Hans brand in Australia, and Beehive brand in New Zealand, reference brands there. We exhibit some of the products in the slide – in page 25. And then on page 26, we can see some of the market share of these brands in both of these geographies. Primo with a 40% market share in Australia and well above that in some categories. This is the average. And in the Premier Beehive brand in New Zealand, having a similar market share in the New Zealand market, very strong market share locally there. And the potential to produce these value-added products in these markets and export them out into some of the South Asian countries.

Our JBS USA Pork business, so pork revenues were down because pork prices were down in the U.S. from $938 million in the corresponding quarter last year to $785 million this year, down 16%. EBITDA was also down from $113 million to just over $48 million, and 12.1% EBITDA margin to 6.2%. And perhaps the 12.1% was a little bit above the average and the 6.2% potentially is a little bit below the average because of an enormous supply of product particularly into the U.S. this year.

We've seen an increase of products and clients portfolio through the acquisition of the Cargill Pork business. We have a slide on this. The next slide talks a little bit more about this. We again increased sales of our value-added products within this business unit as well. And we've defined our management already for the new JBS USA Pork business after we finalized the acquisition of the Cargill Pork business right at the end of last month. So, just 15 days ago, we finalized that business and we paid for that business.

So, the new company – the financial highlights of the new company would be $6.3 billion in sales, $6.3 billion annually. A pro forma EBITDA, we are estimating at about $565 million and that is pre-synergies. And we see substantial synergies in this business and that would give us a 20% market share and a very relevant market share in the U.S. Pork business.

The operational highlights of this business, capacity to process 90,000 hogs per day across the five processing units. 5 million pounds of prepared and value-added products per week and 2 million pounds of bacon also possibility to produce per week. Besides the downstream, there is also some upstream capabilities coming to us with the acquisition, where we will be able to produce a portion of our own hogs and thus customize some of the light-hog production for specific customer demands. About 15% of the hogs that will be processed going forward will be raised on our own farms.

Now, on to Pilgrim's Pride, what we call JBS USA Chicken, which is Pilgrim's Pride, which I already reported these numbers at the end of the last quarter. So, I will go through this quickly here. $2.1 billion in sales in the quarter, down from $2.26 billion. And, again, as a result of the decline in the average price of the product, there was also a decline in the average cost of the product produced because of the decline particularly in feed cost.

EBITDA went from $435 million down to $275 million, down 37%, and EBITDA margin, which was close to 20% came down to a level of 13%. Nonetheless, we saw robust cash generation at Pilgrim's. And just to take into account for this quarter, there was a $30 million nonrecurring cost in the quarter to do with some operation adjustments that we did. We closed some operations over the period to do some upgrades and investments. And so, there was a $30 million non-recurring cost associated with the third quarter.

We also announced at the beginning of the year a $200 million operational improvement, and that is going to plan through 2015. There is a challenging environment for exports of poultry out of the U.S. and I think that is well-known because of the outbreaks of Avian Influenza in the first half of 2015. We haven't seen any cases recently, and we've actually begun to see some of the markets reopening. South Korea recently announced the reopening for U.S. poultry products, which should help boost the price of dark meat, particularly, the chicken leg quarter product which is primarily exported.

A little about Pilgrim's in Mexico. At the beginning of the third quarter, just four-and-a-half months ago, we finalized the acquisition of the Tyson business in Mexico, and we merged that business with the Pilgrim's business in Mexico, so a little bit of the highlight with regard to our Mexican business on the slide in page 32. 6 production units and 17 distribution centers, $1.6 billion in revenue out of Mexico, 28% market share in the Mexican market; and the synergies associated with the acquisition, we announced $50 million and, potentially, we can go above that number but they are in progress. After the quarter, we can report that they are in progress.

The integration is already fully done. 10,000 team members there, processing 1.3 million birds per day. And we have some good brands - one brand, particularly, which is very well-known in Mexico, the Del Dia brand. That's a good strong local brand. And then we have a new complex which we are investing in, in Veracruz. We will start initiating that business in December of this year. We will have the first business out of that new complex in Veracruz in December of this year.

So, with that, I will hand you over to our Global Marketing and Innovation President, Tarek Farahat, and he will talk some about our marketing and innovation on the slides from page 33 onwards. Thank you.

Tarek M. N. Nasr Mohamed Farahat

Thank you, Jerry. Good morning and good afternoon to everyone. Building on Wesley's earlier comment that we're evolving to become a food company this is a strategic choice. And what I'm going to talk about is basically to exemplify and support that choice that we are making. We are creating brands around the world in order to create value for our consumers, create value for our customers and our shareholders. And that strategic choice is very important for us because with the geographic footprint that we have with the multiple portfolio of categories that we have, this will enable us to deliver consistent results and become much less exposed to - or much less vulnerable to external environment.

So, if you're on chart 34, it's just showing couple of our brands that we are building and we are innovating on. We use as a reference here the water market. 30 years ago, everybody was drinking tap water. Today, it's a gigantic branded business anywhere you go in the world. So, we believe that these things happen and they are possible, and we have a lot of tools in our hands to make it happen.

If you move to the next chart, if you go to chart 36, I'm going touch base on two brands just to give an example of a brand that we have repositioned from being a low-tier player to become a flagship, creating a lot of value by focusing on quality, which is Seara. And then later, I will talk about Friboi which is a market that we decommoditizing here in Brazil.

So, the story behind Seara is pretty straightforward. It was a brand that was playing in the mid-tier. It was focused on football. It has only one tier – had only one tier of product, and what we have done on top of significant improvements in the operation and the execution and the quality of the product, we have repositioned the brand to become a flagship focused on quality. We saw that this a huge market for us here in Brazil. And we have all the capacity and the tools to be able to win in that market.

So, what we have done basically is repositioned the brand and make it focus on quality. We created an advertising campaign. Unfortunately, we will not be able to see it here. We'll play this in the morning to our audience here, and it basically tells the story about how the brand is positioned on quality. So, our – basically, the idea was that you try Seara and the quality is going to surprise you.

If you move to the following chart, which would be on page 38, this is what happened to consumers after they have been exposed. There are improvement in quality, our repositioning of the brand. We are seeing that the preference of the brand has increased three times. The brand became among the top of mind in consumers. This is based on quantitative research. 90% of the consumers consider Seara when they consider purchasing the category. The brand is being repositioned and this is in the brand equity data that consumers see it as a modern brand for the modern woman. So, it's a major facelift for the brand. And together with that, we managed to make the brand play in the upper tier, and the flagship segment, which is quite significant. We're talking here about the big business of BRL 4 billion plus, and this has happened over quite a short period of time.

Now, what has driven all those changes? Basically, there's one number on the following chart which I want to zoom in a little bit is the repeat rate. The repeat rate of 67% is quite significant. What does that tell us? It basically tells us that every 10 consumers that have tried the product, seven of them or about seven of them will go back and buy it again. That basically speaks for the quality of the product. And that basically makes our work cut out for us which is we are making more people try the brand, which is basically what we're doing.

So, we have increased the number of penetration in the household by about 3.5 million household. That's quite significant in a couple of years. This is 46% increase. We have managed to increase the volume per purchase by 7%, and we have managed to increase the frequency of purchase of Seara by about 12%. Very robust numbers here. Now, as a consequence, the share has gone up. So, we have managed to grow share by just focusing on driving quality, trading gap, and repositioning the brand to become a flagship brand that stands for quality. So, that's briefly the story about Seara.

The story about Friboi is equally exciting. If you go to slide number 42, beef basically was a commodity business in Brazil and there was very little marketing investment behind it. But we believe that we have a point of difference. And our point of difference was that the origin of our product and the way we treat the product. So, we felt that we can have a competitive advantage by going out there in the market and telling that story, telling that story on TV, telling that story digital. So, we have increased our marketing investment. We have contracted a famous celebrity to become our spokesperson. And basically, we cater the selling line and that is, ask for a beef that you can have confidence in.

And we, in our advertising, which unfortunately we're not be able to see but we have shown it also in the morning, there is a big picture in the advertising, and it is consistent throughout our advertising campaigns. And this is something that consumers highly remember, and that is the visual of our factory showing people with white coat, very clean. It's an environment that you can actually trust.

So, what happened as a result of that is that the brand equity has grown much stronger and it has manifested itself in the pricing in the market. So, before we started that campaign, the average price of Friboi was 2% lower than the average price in the market. Today it's 3% higher.

Another important indicator is that, within the Friboi or within our meat sales, the meat without bone used to represent 80% and within this, Friboi was less than half of that. Today, Friboi is about 90% of that. So, we are seeing that consumers are actually going for the brand, and we're seeing category growth and customers are satisfied with that.

So, basically, this ends our opening remarks. And now, I want to thank you very much and I want to open it for Q&A.

Q&A

Operator

Ladies and gentlemen, we will now begin the question-and-answer session. The first question comes from Bryan Hunt, Wells Fargo.

Q - David Kuck {BIO 18863599 <GO>}
Good morning. It's actually Dave Kuck on for Brian. First of all on your...

A - Wesley Mendonça Batista {BIO 15243148 <GO>}
Good morning, Dave.

Q - David Kuck {BIO 18863599 <GO>}
Good morning. On your hedging position, you're fully hedged at the end of Q3, I saw. Can you talk about how that hedge position relative to your exposure compares to prior periods? Have you certainly been fully hedged or did that increase or decrease based on where you thought the real was moving relative to the USD?

A - Wesley Mendonça Batista {BIO 15243148 <GO>}
No. In the second quarter, we were fully hedged also and you can see in our...

A - Jeremiah Alphonsus O'Callaghan {BIO 19817115 <GO>}
Financials.

A - Wesley Mendonça Batista {BIO 15243148 <GO>}
...in our financials. In the end of third quarter, we let a portion of the hedge position expire. So, we reduced some our hedge position. So, we reduced by $2.5 billion our hedge position. But during the third quarter compared to the second quarter was the same strategy, to be fully hedged.

Q - David Kuck {BIO 18863599 <GO>}
Okay. And then on the USA piece in Pork segment, we had expected some better numbers just based on cattle and hog cost and selling prices throughout the quarter. Can you talk about how

those performed relative to your expectations and what weighed on profitability given the further depreciation in the Australian dollar versus the U.S. dollar, we would have expected that to help the numbers as well.

A - André Nogueira de Souza {BIO 20244486 <GO>}

Well, Dave, let's divide it in two parts. First is, the beef. The beef was in line with our expectation for the point of the cycle that we are now. Still have a very tight cattle supply. Saw a lot of volatility in the cattle price and the cattle's price (49:39) during the quarter. So, considering all these volatility in the early stage that we are should see better numbers and more cattle available was in line with our expectations, the overall beef performance.

And you're right, the 20% depreciation of Aussie dollar compared to U.S. In fact, the number that we translates to U.S. dollars, this was the part of the equation. We export to (50:08) the quarter. (50:10) JBS is doing well, but the whole market is exporting less.

We have seen a very strong cattle retention in the U.S. We view the herd and we believe that they're going to see better half (50:32) of cattle, especially, starting the second part of next year and in 2017 and 2018. Combined with the reduction that we saw in the capacity of production in U.S. that was with the shutdown of 90 plants the last two years reduce the cattle – the capability of U.S. to process 3.5 million. I think that will be a very good position, balance in the industry in 2016, 2017, and 2018. So, this is about beef.

Pork was below expectation. Again, we saw a lot of volatility in the quarter. Hog price was much lower, pork demand was good. It was an unusual quarter for us, then I think that we are going to see in the fourth quarter just come back to more, the normal level for the year in U.S. Pork. And if you look, year-to-date, we're still 8.8% close to 9%, and that's the way that we think that we will close the year, between 9% and 10%.

Q - David Kuck {BIO 18863599 <GO>}

Okay. And then looking forward to 2016, can you talk about the profitability you guys expect from those two segments? Do you expect it going to be up year-over-year?

A - André Nogueira de Souza {BIO 20244486 <GO>}

We just need to – in the Pork, since we just did acquisition, and we'll have a lot of work to go to integrate in this business. And thus the original JBS Pork business, I would say that will be in line this year, there's no reason to be any less margin than we saw during this year in the Pork business. We are just – there's two weeks now that are managing the new business. We need a little bit more time to see how long will it take for us to put that business in the same level for margin, therefore running the JBS Pork business.

In the beef, we expect that the year overall, for the industry and for JBS should be better. We're going to see more cows available especially in the second part of the year. I think that we are going to see U.S. going back to the normal margin. And the beef the second part of the year, above the normal margin. So, the expectation for this overall is better – considered much better than the end of the year.

Q - David Kuck {BIO 18863599 <GO>}

Okay. And the last one from me. Just want to touch on value-added mix. What is your current mix of value-added products by volume in beef and pork?

A - André Nogueira de Souza {BIO 20244486 <GO>}

I'm not sure if I understand what you are asking about meat. I put here the volume that we have now. We did a lot of investments in the last two years in terms of capabilities in case-ready, consumer-ready products. We bought a plant in Lenoir in North Carolina. We bought a plant in Riverside. We did the investment. And we just start to run two months ago in Tolleson, Arizona. So, we are going to achieve – we grew this year 30% in beef and are going to grow again 6% next year. So, we believe that it's still part of being or rather can be a very important volume next year, we still have a lot of space to continue to grow in that area.

In the pork, we did the investment in Marshalltown. We start to run this, the plant, this year in the consumer-ready product with one line. Now, we run two lines, and next year we'll put the third line, and are going to see much more consumer-ready pork with the Swift brand in the stores in U.S. Has been very well-accepted by the retailers for our customers and expect that opportunity to grow.

The mix, beef now represents 155 net tons. It's a very important one.

Q - David Kuck {BIO 18863599 <GO>}

All right.

A - Wesley Mendonça Batista {BIO 15243148 <GO>}

To add a little more on your question and add in what André said. So in JBS, overall, all of the business units together, so a quarter of our revenue is prepared products and value-added product. And we see this is going to half in a short period of time. So, this is our internal goal going from a quarter of our revenue to half of everything that we sell in the prepared, in the packaged foods side of our business, in our brands carrying our brands and connecting our products and brands directly with consumers around the world. Thank you.

Q - David Kuck {BIO 18863599 <GO>}

All right. Very helpful. Thanks for your time.

A - Wesley Mendonça Batista {BIO 15243148 <GO>}

Thank you.

Operator

The next question comes from Farha Aslam, Stephens.

Q - Farha Aslam {BIO 6151888 <GO>}

Hi, good morning.

A - Wesley Mendonça Batista {BIO 15243148 <GO>}

Hi, Farha.

A - Jeremiah Alphonsus O'Callaghan {BIO 19817115 <GO>}

Hi, Farha.

Q - Farha Aslam {BIO 6151888 <GO>}

Just to follow up on your last answer where you said a quarter of the revenue goes from value added to half. Do you have any targets of how much that will be achieved internally, organically versus how much from M&A, and a time horizon for that target?

A - Wesley Mendonça Batista {BIO 15243148 <GO>}

Farha, I clearly see us moving from this a quarter to 50% of our revenue in the value-add and the packaged food side of our business in the next two years, three years max. So, I think this is doable. We can deliver that. And the proportion in terms of organic and through acquisition or M&A is 50%-50%. We have huge space to grow our business organically especially in the Friboi brand, in the Seara brand, in the Primo, in the Beehive brand in Australia and New Zealand, and as well in Moy Park in Europe, Swift in the U.S. We have the acquisition of Cargill Pork is going to give us a good start and a good base in the bacon segment. So, this is how we see ourselves going forward.

Q - Farha Aslam {BIO 6151888 <GO>}

Okay.

A - Tarek M. N. Nasr Mohamed Farahat

Just to add to Wesley's comment here. We'll just flashback from Australia where we spent more than 10 days there and took a deep dive into the Primo business. It is clear that we have a huge opportunity to grow organically. So, the 50% goal is actually quite achievable. The Primo business is a large business. We acquired it. We think that we can accelerate growth by investing a little bit further the investments that had been made on the brand, recently have been quite high.

So, we think with our know-how, with the capacity that we have, the scale we have in Australia, the quality of the operation, and people we have there, will be able to really drive this and also take it beyond Australia. I mean, north of Australia, there is very, very big companies with very large populations, and we think that Australia can be an excellent springboard for us to those countries.

Q - Farha Aslam {BIO 6151888 <GO>}

That's very helpful. And then just one quick follow-on, again, going back to U.S. Beef and Pork business. It looks like the strong U.S. dollar is here to stay with us for quite a bit of time. So, it was pretty interesting that you were so constructive particularly on your U.S. Beef business. Is that something because of your particular product mix because Australia's factored into that, could you just give us a little of a deeper color on your optimism regarding your U.S. Beef business?

A - André Nogueira de Souza {BIO 20244486 <GO>}

It's a combination. I think that's an important tool. (59:26) part of the mix. We are going to see less production in Australia next year. And if you look, the most important market for U.S. export is exactly the market they compete with Australia. So, we are going to see more cattle available. Cattle price will go down. You can see that already in the future. I think that this is a little bit ahead of the real but anyway it's there. And with a little bit less production in Australia is the perfect moment for U.S. to recover some of this market. And as we talk about 2% or 3% more production in U.S. next year, and I think that the export will be – will grow much more than that.

But if you consider the position of the U.S. compared with the accounts that are relevant for U.S. in terms of export (01:00:20) But the more competitive price of beef that we're going to see from U.S. put U.S. in a position to go export again and because Australia will produce a little bit less, and production of beef in this market are going down. If you look at the domestic production (01:00:41) is down, if you look at the domestic production in Korea is down. So, it's the perfect environment for U.S. to grow again exports.

Q - Farha Aslam {BIO 6151888 <GO>}

That's very helpful. Thank you very much.

A - André Nogueira de Souza {BIO 20244486 <GO>}

Thank you, Farha.

A - Wesley Mendonça Batista {BIO 15243148 <GO>}

Thank you, Farha.

Operator

The next question comes from Luca Cipiccia, Goldman Sachs.

Q - Luca Cipiccia {BIO 6914452 <GO>}

Hi. Thank you. Good afternoon, everyone. I have two questions, one on...

A - Wesley Mendonça Batista {BIO 15243148 <GO>}

Hi, Luca.

Q - Luca Cipiccia {BIO 6914452 <GO>}

Hi. One on Brazil and a follow-up on the U.S. On the Brazilian business, especially for JBS Foods, my question was how much of the gross margin expansion or the margin expansion we're seeing also reflects some of the, let's say, ramping up of the acquisition or lower dilution from the acquisitions that you made and also partly contributed to the revenue growth and what do you spend in that process anyway? How much – there is the covered conversions dynamic there happening?

And then the second point, maybe on competitive environment and market share. I'm not going to go back to pricing and then some of the things you already discussed. But I was curious to understand where do you see the market will land an equilibrium between the market leader and yourself? I'm not saying whether you have a target, but where do you think the equilibrium should be or will be just by a natural rebalance? And that would be my questions on Brazil, and then if I can follow up with a quick one on the U.S. as well.

A - Wesley Mendonça Batista {BIO 15243148 <GO>}

So, on the margin, let me go to the margin here and Tarek can talk also about the market share. So, on the margin, it is coming from two – three areas, not two, three areas. So, we feel and we are capturing some operation improvements in terms of cost reductions, in terms of being more efficient in our supply chain. So, there's still opportunity for us. Also, product mix plays a big, big role on this quarter. We have been very focused, and we put a lot of effort in this last quarter as the market was more competitive to improve our product mix, to improve the mix of our channel, sales channel. So, the product mix, the improvement in sales channel, improvement in cost. And also won't be enough (01:03:23) the more recently – recent acquisitions is delivering and it's translating a stronger margin. So, this is where the improvement is coming from, and we're still very focused on that.

Since the beginning when we acquired Seara, we have been very consistent in our approach, how we are approaching this business in the market. We were, we are, we're still very focused on our results and our profitability. Market share is consequence for us. It's a consequence of what we are doing. We are growing, but we are not focused on that. We are focused on return and profitability. And the consumer is deciding, and we were able to manage our product mix and portfolio in this last quarter. And we are going to keep doing so. So, Tarek.

A - Tarek M. N. Nasr Mohamed Farahat

Hi, Luca. This is Tarek.

Q - Luca Cipiccia {BIO 6914452 <GO>}

Hi.

A - Tarek M. N. Nasr Mohamed Farahat

Market share is really not our objective here. We're not in a race for market share. Our philosophy and that's what I also tried to explain a little bit in the presentation is that we want to win the consumer through innovation and in the process, we want to create value, with the market share comes as the consequence of the consumer choice. So, we want to continue to improve the quality. We want to trade up. Want to give consumers the best quality. Want to create a cost structure that would create financial growth in the whole categories of clients, also support the category.

We have plenty of opportunities with the consumers beginning from the number of households where we can increase, going through the number of SKUs in each household, going through innovating and introducing more products. So, when we do that, consumers will decide whether they will buy us or not, so that's really our intent. We are not a price competitor. We don't want to be. This is not good business. We want to be an innovator and we want to win at the top.

Q - Luca Cipiccia {BIO 6914452 <GO>}

Asking the question a little differently, I understand that there's a market share target per se. That's not where you're worrying. But even when you look at the Brazilian market as a whole, with this type of offering and the type of structure that you have now, I don't think it's fairly concentrated market with essentially two large players. Where do you think a fair equilibrium would be, even compared to other markets given that I would assume there's no structural reason why that part of equilibrium shouldn't through time be reached?

I don't know if you can answer that question. But it's not more in terms of target, but like, where do you think the market would be balanced even from a retailer's perspective or from a consumer's perspective in terms of choice given that now both the two largest companies are pretty much on track and delivering on a strategy or executing on a strategy that's quite clear?

A - Tarek M. N. Nasr Mohamed Farahat

I think, Luca, that there is market for everyone. There is huge potential for category growth. Customers would like to see categories grow fast in a more profitable way. There is a huge room for innovation, like really big. And the beauty in this type of business, you can really innovate at tough cycles. So, that's where we're focused on.

I don't have any magic number, neither do I think about it on what the equilibrium would be. What we just want to do is – again, in the hearts and minds of consumers, when at the top, innovates, and tell consumers to try our product because we really believe that they would like our products. And then 7 out of 10, when they tried, they come back and buy it. So, that's our focus really.

Q - Luca Cipiccia {BIO 6914452 <GO>}

Perfect. Well, thank you. Very clear. And then just quick one, not to take too much time from everyone else, but just on the U.S. margins for beef, you made a reference that 2016, 2017 may go back to normalized level, maybe exceed it. What do you consider internally a normalized level given the product mix and the business you have there?

A - André Nogueira de Souza {BIO 20244486 <GO>}

Just talk about U.S. Beef, we always said that it's between 4% and 5%. I think that with the improvement that we did in the business in the last two, three years in terms of investment in the consumer-ready product, we can expect that in the normalized, it can be (01:08:26) or a little bit above that. You could put on top of that the Australia business with the Primo business in Australia now. And again, this probably proves that in the business you should expect something north of that.

Q - Luca Cipiccia {BIO 6914452 <GO>}

Okay. Thank you. Thank you very much. Thank you.

A - Wesley Mendonça Batista {BIO 15243148 <GO>}

Thank you.

Operator

The next question comes from Lauren Torres, UBS.

Q - Lauren Torres {BIO 7323680 <GO>}

Yes. Hi, everyone.

A - Wesley Mendonça Batista {BIO 15243148 <GO>}

Hi, Lauren.

A - Jeremiah Alphonsus O'Callaghan {BIO 19817115 <GO>}

Hi, Lauren.

Q - Lauren Torres {BIO 7323680 <GO>}

Hi. I guess, this is a follow-up to some comments you just made to the prior question. And I do appreciate you highlighting what you're focusing on, what you can control. But I guess, my thought is going into next year, particularly first focusing on Brazil. There's been a lot of question and concern about pricing power in the food category. And as you talked about being somewhat disciplined here and having other advantages beyond pricing, I was just curious to get your thoughts about the ability to pass through pricing, acceptance of pricing if the consumer continues to struggle or potentially get worse. And once again, this is in Brazil.

And then if you can also just talk about pricing power in the U.S. because, I guess, in this past quarter, we saw lower domestic and export prices. So, if you could kind of explain or thoughts going into next year, what you think the pricing ability or capacity could be, that would be helpful. Thanks.

A - Wesley Mendonça Batista {BIO 15243148 <GO>}

Lauren, let me start to answer the first part of your question. Even though we are seeing the Brazilian economy under pressure and we are seeing a contraction in the Brazilian market, this is not impacting our business, I mean, the Food business overall, in our view, in the same magnitude. So, actually, we are seeing consumers and volume stable and growing despite market share gain. If you look the numbers, if you look year-over-year, the packaged food category actually is growing in Brazil even though the challenge on the Brazilian economy.

So, we see the industry and we are going to be focused to price to pass through the increase in the input cost to our products. Of course, we are not alone in the market. The market is the market. The market speak by itself. But we see ability to pass the input price increase through the system.

So, Tarek can add more.

A - Tarek M. N. Nasr Mohamed Farahat

Yeah. Well, just one more thought also to what Wesley said is we think we have also a lot of opportunity to price with innovation. And we have done that, and it's actually quite successful. We have recently launched our chicken, which is antibiotic-free. And when you compare the price, it's 30% higher price. So, consumers and customers will continue to accept pricing through innovation, and we really see that that's going to be also one of the strategic choices that we'll continue to do.

A - André Nogueira de Souza {BIO 20244486 <GO>}

So, Lauren, can you repeat your question on the U.S.?

Q - Lauren Torres {BIO 7323680 <GO>}

Yeah. It's similar on the pricing front where this quarter we saw lower domestic and export prices. So, thinking about your ability to take pricing and then maybe recover some that was lost this year, how do you feel about the environment in the U.S. next year?

A - André Nogueira de Souza {BIO 20244486 <GO>}

Lauren, what you saw price lowering in U.S. especially in beef and pork was more production. And pork was very, very high last year. This year, it came back for a bit more normal level. So, hog price was very high and pork meat was very high last year with a little bit more production (01:13:09) they came back for a normal level. This really do not impact our margin because the other way around, I think, it's more of the ability – over time, we can put this margin in the high level.

Q - Lauren Torres {BIO 7323680 <GO>}

Okay. And I guess, one other question just on M&A. Obviously, JBS has been quite active. It seems from your language today that there's still high interest for expansion. Can you just talk about that with respect to the regional expansion or within proteins? I mean, what's the particular interest to you at this point?

A - Wesley Mendonça Batista {BIO 15243148 <GO>}

Well, look, we – even though we have been expanding our business and doing acquisition and being active in M&A, we have been also disciplined in terms of using our balance sheet, keep improving our metrics in terms of leverage, in terms of rating. And we are going to be disciplined on that. So, this is clear for us. In the other hand, we are a company that have been growing our business. We are going to keep look at opportunities if this don't jeopardize our financial metrics.

And where and in which sector in the region that we already are, North America and Australia, South America and Europe, this is the places that we see opportunities to keep expanding our business and we're not going to be out of these regions. And in the segment, is in line with our strategy to grow in more prepared, more packaged food products, value-added products and branded products. This is where we are going to concentrate.

But to make sure, we are not going to – we are not engaged, as we speak, in anything. We just did two large acquisitions, Cargill and Moy Park. And we are going to keep following our free cash flow generation and being disciplined with how we are going to use our cash.

Q - Lauren Torres {BIO 7323680 <GO>}

Okay. Very good. Thank you.

A - Wesley Mendonça Batista {BIO 15243148 <GO>}

Thank you, Lauren.

A - Jeremiah Alphonsus O'Callaghan {BIO 19817115 <GO>}

Thank you.

Operator

The next question comes from Alex Robarts, Citi.

Q - Alexander Robarts {BIO 1499637 <GO>}

Hi, everybody. Thanks for taking the question.

A - Wesley Mendonça Batista {BIO 15243148 <GO>}

Hi, Alex.

Q - Alexander Robarts {BIO 1499637 <GO>}

I was hoping first to ask – hi. I was hoping first to ask about the cost in poultry, and then secondly on free cash flow. I mean, I think just looking at the drivers in your poultry business both in the U.S. and in Brazil, a lot of it has come from structural cost reduction but the component that's more cyclical, which is grains. And I guess that's really the question when I think about the outlook in the U.S. It seems that there is a benign outlook in a six-month horizon. And in Brazil, we haven't seen the soy and corn move up kind of more of a kind of FX-related move.

So, I mean, are you seeing and can you comment on your six, nine months view on grains in both in U.S. and Brazilian poultry? Are you seeing some of the – any pressure on the margins in Brazil right now as we come in to the holiday season? So, yeah, so the first question is really about any color you can give us on grains as it relates to poultry businesses.

A - Wesley Mendonça Batista {BIO 15243148 <GO>}

Alex, we don't see the grain market changing. We don't see pressure in the input cost coming from grain in dollars; I'm referring in dollars term. Of course, in reais, we saw an increase in grain price as the real got weak. But in dollars term, this is still in the same level that it was months and quarters ago. So, we don't see risk on input cost coming from grain.

And one thing more, Alex, I mentioned in the presentation, even though we look each business unit and we have volatility inside of our business unit, but I'm very confident that JBS, in a consolidated base, we are going to see ups and downs inside the different business unit, but in a consolidated base, I'm very confident that are going to keep delivering stable earnings, consistent margins, and there's still (01:18:45) improvement that we can get from our business. And I'm confident that JBS is a company that when you add all the business unit and different segments, we are confident that it's already proving that we have stable earnings.

Q - Alexander Robarts {BIO 1499637 <GO>}

Okay. All right. Fair enough. Thanks for that. I just secondly wanted to ask a question about free cash flow. I mean, in the quarter if we take a look at the payment for Moy Park, the financial gain on the hedge, I mean, free cash flow was positive. But I mean, in the end there was a nice – I think it's fair to say a nice windfall, cash effect from the hedge in this quarter that I guess might make you think a little bit about deployment of cash in the short term. And I'm wondering, is that fair to think – or it might be a consideration to increase investment in some of the new assets, Moy Park, Cargill Pork. Might you'd be interested (01:20:20) some of the investments and you're doing marketing – your global marketing effort (01:20:24) thinking a little bit about now that you have this extra financial cash effect, might you deploy that in the short term in certain businesses or areas? And so, that was the last question. Thanks.

A - Wesley Mendonça Batista {BIO 15243148 <GO>}

Alex, look, we generate a strong amount of free cash flow last quarter, so BRL 5 billion. Last year, we paid for the Moy Park acquisition. Is there a Moy Park or Cargill? No one of those acquisitions needs or is acquisition type of acquisition that required a figurative (01:21:11) amount of CapEx investment. All these assets was well-invested, so you don't need to invest. Where we are going to deploy the free cash flow that we are going to generate going forward to keep improving our balance sheet, this is one area, clear for us, to keep investing in innovation, in our brands is another clear, improving our product portfolio and analyzing opportunity.

We just approved a new buyback program two months or a month ago, and we have a buyback program open in JBS that is reasonable and quite a reasonable size. But we are going to be looking at alternative opportunity inside of our company through share buyback in our brands in our product portfolio. This is where we are going to deploy the cash.

Q - Alexander Robarts {BIO 1499637 <GO>}

Got it. Okay. Very helpful. Thank you for that.

A - Wesley Mendonça Batista {BIO 15243148 <GO>}

Thank you.

A - Jeremiah Alphonsus O'Callaghan {BIO 19817115 <GO>}

Okay. Thank you.

Operator

The next question comes from Jose Yordan, Deutsche Bank.

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

Hi. Good morning, everybody.

A - Wesley Mendonça Batista {BIO 15243148 <GO>}

Hi, Jose.

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

How are you? Now, my operational questions were all answered, and I think everybody is happy with the performance of the different divisions. I think the recent market concerns on pricing power, especially after your competitor released their earnings are really turning it back to them as a concern of their vulnerability, let's say.

But having said all that, your stock is up basically $0.09 today, I think, because investors are finding it hard to get past your great operational performance because of this hedging issue, right? I mean, I agree with your skepticism about natural hedges, et cetera, and the need to protect the dollar debt in Brazilian subs. However, you're defining exposure as the total debt including the debt in U.S. subs, and it opens you up to what many people are saying, is that you're speculating on FX, right? And so, investors are willing to overlook a great operating performance because they see you as a half a food company and half a macro hedge fund at this point.

And I guess the question is, I mean, how concerning is this to you that at a time when you're performing very well in the market, that more and more investors are beginning to be concerned about the size of the hedge, not necessarily the presence of one which I think they agree is quite a prudent thing to do at this point given the uncertainty in Brazil?

A - Wesley Mendonça Batista {BIO 15243148 <GO>}

Look, we – I got your point. We have been consistent in our strategy. We clear – don't work in our business to generate our earnings coming from anywhere different than from our core business, our operation, we are now a hedge fund. We are a food company. We are confident that our strategy has been prudent even we hedge our debt in our subs, we are hedging our leverage doing that as you (01:25:10-01:25:20)

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

I just got cut off. Did you get cut off?

A - Wesley Mendonça Batista {BIO 15243148 <GO>}

We are one of the few Brazilian companies that has the end of the quarter delivering a solid strategy in terms of our hedging policy and not being hurdled by currency or pulling our leverage in place that we don't control. So, we have been very consistent in our view. And we're still consistent in what we do our business. And this what we are going to keep doing and running our business.

A - André Nogueira de Souza {BIO 20244486 <GO>}

And the reality, Jose, is JBS balance sheet is in reais. So we publish in reais, despite of the operational side of (01:26:26) Brazil. It's a company decision when we start to cycle more risks of exchange rate to us lock the leverage. So, despite where we did in the current, JBS leverage would be around 2.3, 2.5 times. For me, to stipulate on a company that take the risk that this leverage (1:26:45) can come back to one or can go to four because we publish in reais and we need to translate our results in reais.

A - Wesley Mendonça Batista {BIO 15243148 <GO>}

Yeah. And the interest is there because in our view and you have debt in dollar and you don't decide what are you going to do with that. This, for us, is that you are speculating because if you don't decide what to do, you are putting ourselves – the market is going to decide for you. So, we are happy where we are. We are confident in what we are doing. Fortunately, the market is looking our strategy, and I think fortunately, we have been able to show that we have consistency.

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

Okay. That's great. And I guess, it's safe to – you're still reviewing this size of the position on a monthly basis. Because, obviously, as the real keeps moving, the risk/reward changes, regardless of what your overall hedging philosophy is. I mean, at some point, you may come to the conclusion that the real has gone far enough. Is that something that...

A - Wesley Mendonça Batista {BIO 15243148 <GO>}

Yeah. You're 100% right. We are revising this actually in a weekly basis. We have a committee that our team discuss this in a weekly base and we analyze the risk/reward. And like I mentioned in my remarks, we (01:28:45) in the end of the third quarter, $2.5 billion in hedge because for sure, the real already devaluates in a magnitude that reduce the risk. So, and we are re-accessing this in a frequently base, and we are going to keep doing that.

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

Okay. Sounds good. Thanks a lot.

A - Wesley Mendonça Batista {BIO 15243148 <GO>}

Okay. Thank you.

A - Jeremiah Alphonsus O'Callaghan {BIO 19817115 <GO>}

Thank you, Jose.

Operator

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

A - Wesley Mendonça Batista {BIO 15243148 <GO>}

I'd like to thank each one of you to being in the call with us. We are pleased with our result, with our strategy, where the company is going. I'd like to again, thank each one of our team members for their affection, their commitment, and their involvement with the JBS family. So, thank you very much, each one of you.

Operator

That does conclude JBS audio conference for today. Thank you very much for your participation. Have a good day. And thank you for using Chorus Call.