Q1 2012 Earnings Call

Company Participants

- Antonio Augusto de Toni, VP
- Leopoldo Saboya, CFO
- Unidentified Speaker, Unknown

Other Participants

- Alan Alanis, Analyst
- Fernando Ferreira, Analyst
- Pedro Herrera, Analyst
- Rebeca Sarmiento, Analyst
- Tim Tiberio, Analyst
- Wesley Brooks, Analyst

Presentation

Operator

Good morning. Welcome to BRF Brasil Foods SAE First Quarter 2012 Conference Call. This conference call and the presentation are simultaneously transmitted via webcast in our website, www.brasilfoods.com/ir.

At this time, all participants are in a listen-only mode. And later, we will conduct a question and answer session. Instructions will be given at that time. We would appreciate if each participant make only one question. (Operator Instructions)

Forward looking statements related to the company's business perspective, projections, results. And the company's growth potential are provisions based on expectation of the management as for the future of the company.

Those expectations are highly dependent on market change, economic conditions of the county. And are set for -- in the international market. Those are subjected to change. As a reminder, this conference is being recorded. I would now like to turn the conference over to Mr. Elcho [ph]. Please go ahead, sir.

Unidentified Speaker

Good morning. Good afternoon everyone. Thank you very much for joining our earnings call for the First Quarter 2012. In the conference we have our CEO, Jose Antonio do Prado Fay, our CFO, Leopoldo Saboya. And also, Antonio Augusto de Toni, our Vice President of

International Operations will be joining us for the Q&A session as well. With that, I'll turn it over to Fay.

Okay. Good morning, to all. We are presenting our quarter -- was a hard quarter, we've had some bottom line. The company has a top line growth of about 5%. But we have -- bottom line mainly due to external market performance.

The performance was affected by bigger inventories held in Brazil that brought on poor mix of our sales, not only product mix. But geographic mix which means that we have to move some volumes to less profitable markets which affected our net sales mostly.

We grew 6% in volume. But we -- we lose in net sales, 10% due mostly to price that was down in dollars this quarter. In the domestic market, we show resistance -- show a good performance, supported by our brand, STP and our distribution.

The pacing that we are having, that we are -- we fell some slowdown in volumes in the market itself. We experienced some growth. And we grew 2.5 less than we expected. And mainly driven by a slowdown in the market.

But the main concern there is -- still there is some raw material access due to the products that remain in Brazil instead of being exported in this quarter. In the dairy market, we have good news. And in cheese and yogurt. But few safety drums in UHD market that is the biggest regarding to net sales.

And it's presenting a poor bottom line, still presenting a poor bottom line in UHD. Cheese, we are having a good performance based on new -- cheese on Sadia brand mostly. And in food service, we had some difficulty in best price in January and February. In March, we could move the prices on. And we'll leave that -- the profitability, we'll recover. And then return to normal levels of profitability in food service for the next quarter. So I'll pass to Mr. Leopoldo, our CFO, to put some details. And then we have our Q&A session.

Leopoldo Saboya {BIO 16137418 <GO>}

Good morning. Good afternoon everyone. So let's -- back to the presentation here on page three, where we have some more highlights of our quarter. I just like to emphasis some other non-financial issues specifically on the asset exchange agreement with Marfrig that we had during the quarter. It was important for us to move on these agenda.

And it's performing according our perspectives. And we are very pleased to announce the investment grade for file -- on the three main rating agencies that we got in these quarters. So this is one more step towards a world classical file that we are building for Brasil Foods.

And at the same time, we got this investment grade, we were able to test the market with revolver credit for quality, with the amount of $500 million, it's for three years. So they were the first part of the revolver -- that the company is experiencing now. And again, it's part of a more intelligent way of managing our liquidity.

So going straight to our front line performance on page four, you will have this 5.3% growth in revenues. First of all, if you look only to this figure compared to what it was, the first, the Q1 '11 compared to Q1 '10 that it was, if I'm not wrong, it was in the case of 60% to 70% of fund growth. So we have the first, higher comparison in 2011.

And now, the 5.3% is split by 1.9% in volumes. And 3.3% prices. And these only 3.3% price is mostly driven by a reduction of 7.4% in prices in -- in the external market that I will give more details what happened.

Next page, we have the summary of our earnings. So it's -- everyone is down compared to last year. Again, the main court in our gross profit was due to the export market. But at the same time, a lack of growth in general also affected our EBIT margins because we have operating expenses, any dip, or any -- dip was done last year.

It's not for big, huge or dramatic. But it's our faith that is -- although we were able to cut some expenses because we had, we knew we won't have this two quarter. If you saw above last year's figures, especially because we were at that time, in a very, very optimized shape because we had that very high growth in top line, at the same time, we had a very -- we were facing a very lean operation in our both exports and domestic markets.

The EBIT comparison. So the gap between last year and this year, represents BRL257 million. So it is almost explained by the export market drop which was in the amount of BRL248 million. So only looking to the profit pool, the operating profit pool that we met for last year, it's pretty much fully explained by the export market operation.

So moving to the next slide, on slide six, we'll put into perspective each quarter which you have again, gross bad, gross below our expectation. And also plus a bit of this, we know that. But if you look to the quarter -- totally, this First Quarter is historically, the lowest within the year.

Moving to the financial position, we had another increase in our leverage to two times net debt to EBITDA. It is pretty much explained by our free cash flow because we had more investments. So the CapEx increased. At the same time, we had spent marginal or some incremental working capital in these times. And also not to forget, the EBITDA effect which means the EBITDA exchange effect between First Quarter last year versus this quarter.

But we -- important to emphasis that we are still in a very comfortable situation in terms of leverage. Also, deploying the advance synergies captured in this quarter, BRL176 million. So we are according to our guidance. Next slide is slide nine, we have the segmentation. No big changes compared to last quarter, or I mean to the Fourth Quarter in terms of split between domestic market and export market.

But when we compare to total last year figures, export market is smaller than it was last year, it was in average 40%, not just to 37%, pretty much because of this reduction in prices. And by product break down, we haven't had many changes.

So moving forward, again, some more color of every market that we would present. So here, some key messages. First of all, 3.5% in total, domestic will pay the market, it was not as good as we imagine. If we take the category at process, or the FTP category, grew 3.6% which is again below our historical, or short term growth. And below our expectation. But it is pretty much affected by certain slow down on the consumer goods, products that we faced during the First Quarter this year.

It was not only Brasil Food, it was affected by that, the -- kind of a trend that we saw move other players in this consumer market place. But we could group [ph] prices and mix affected by 8.4% compared to last year. When we look to the profitability of the domestic market with sales, it is -- yes, it's below last year. But it's pretty much in line with our project. So we expected such a performance. But I want to emphasize one point. If we pick again the process, our EBIT in that category increased 70 bps instead of decreasing.

Which means that this drop of 80 basis points is all explained by the in Acura category. Although it's not relevant in this segment, last year, we had a very important and good results. And this year, because of the need for more volume to be sold in this segment, we ended up having margins more, I would say comparable with historical levels. But it was at the end of the day, a reduction compared to last year levels. So this helps to explain this drop.

But again, the results are still solid. And in terms of operating profit too, is the same size than last year. Moving ahead to dairy. So on the right side, we see this very poor performance -- being that poor compared to last year. But here, maybe one important notice must be made.

So we have been doing a lot of -- in fact we will do. So we are being -- we do see volumes in the category that we have to play a different role. And this is basically the UHD milk division. So all these reduction in volume as we do to that segment.

And when we look to the profitability, comparatively to last year, we had our worst performance in this UHD milk despite the reduction volumes. So proven that we have been facing a tough scenario. But on the other hand, we have a much better performance in the dairy segment boosted by cheese.

So that's a good sign for us, just for you to have a flavor of this enhancement, it was in the amount of 500 basis points in high to mid of the dairy division as a whole. We are still missing the ride to -- and amendment in that category, we understand that this is important category in Brazil.

So the milk -- but we have to understand that the company is still working on the best way to manage that category. So there are many actions in place for us to better perform in a challenging category. Moving forward to the which starts the business on page 12. Here's we have again, starting with the right side, a performance that although is worse than last year, it's still in a very good level of margins -- categories.

And most of it, categories, the channels where we would sell to, they were affected by the so-called communicating vessels effect. Because of this access in the Brazilian market due to this oversupply situation now. And over [ph] venture situation, part of the volume is that would be exported, they were shipped back to Brazil.

And in some markets like institutional channels where price is key, we had more at least to pass on prices. And that explained by price and mix effect is all on this -- on 42.2% in our top line equation. But in this segment, as Fay said, we are seeing a turn to the bright side, being able now to start the pass on prices and backing through our let's say, normalized profitability in this segment.

This segment, this play and -- play a very important role in the mitigation process of the PPG absorption to walk as a cushion to absorb part of the effect we will face to reduce, to sell the brands to market and also to phase out -- in some categories starting on July.

So as for market now, we will give more details on what happened. Here on the right side, you can see the sharp or the important reduction in our EDIT for file. So as you can see here on the left side, price and mix dropped 7.4%.

And if you account the US dollar -- prices in US dollars, dropped approximately 50%. So it was the real depreciation in quarter over quarter basis. It wasn't enough to offset this sharp reduction on prices. And that caused a very significant reduction in our earnings.

As we are going to come in, in a while, we are seeing that the worst has gone. But we are seeing that we still -- we will still work with higher than optimal inventories throughout the last of the half prices are starting to increase in the two main markets where we faced more problems. So Japan and Middle East. But the recovery will be (inaudible).

Now, let's take a look on market by market. As you can see here in the first page, Europe and Eurasia, Europe, although we have this 10% reduction in volumes, this part of our status to brush up the portfolio and the channel that we operate in this segment. And in Europe keeps performing in the positive side.

And we understand we're trying, we found the right management. And the way for -- turn Europe to the positive side. Eurasia, although we had this sharp reduction in volumes due to the market closing back in -- to September last year, out performance. So our EBIT in that segment is positive.

Now moving to slide 15, Middle East and far east, here is where we have the concentration of our problems. As you can see, those two markets, they account for more than 53% of our sales. So that's why we face such a challenging scenario and so on, results.

This growth in volumes for this specific in Middle Eastern market ended up representing a pre reduction on margins because in some categories, we were working negative contribution on margin. So that's why we understand that we are kind of resolving the situation. But of course, every time you do that, you ended up pressuring your short term results.

But that's what we had to do. In the far east market, it's important to emphasize that we ended up drawing volumes a lot, despite we had to work with this slowdown in the Japanese market. What we did was to shift volumes to Hong Kong, Korea and China, which means a -- full notification, one hand. But on the short term is the worst mix. And ended up giving us our worst boarder line because the mix that we sell to those markets and the prices that we sell, they are more than what we can grant in Japan.

So putting everything together, we had in those key markets, those big corner stones of our export division, very poor quarter. And that's -- that situation, although is showing positive signs, it keep on being very poor [ph] on the Second Quarter for the over all of the global.

Looking to out -- in Africa, they have both regions that had been gaining market share in our exports, left for our new ventures. So here, this volume -- this 26% of volume factors is pretty much based to (inaudible) included in our earnings compared to last year.

And in Africa, it's all organic. And that should be emphasized how well we are performing although it's start up in terms of the business profile we have in the region, it is still based on more stable products. And not fully branded portfolio. But that's the way we start and we are pleased that -- not only with the current result. But the way that expects -- going forward.

Now investments. As we mentioned before, we increased our investments to almost BRL600 million. And B, BRL117 [ph] in stock -- and all the products are stood by a support investment, if we compete and grow. And this support investment, it's also important to emphasis that part of that has to do a lot we consider to be of cost and investments to merge.

It's always important to emphasize this type of investment that we have to do in order to put Brasil Food in the shape of a full integrate and synergized company. In terms of launches of products, first of all, I'd like to emphasize this new campaign of new rating of legally of the Calvo [ph] brand, it's a renewal of the Dutch Lady in there. And also -- and everything regarding to the packaging.

It's part of our strategy to reposition that -- in terms -- it's good to remind you, in terms of market share, Calvo is now pretty close to (inaudible). So being -- disputing the second position, the dairy segment, we also keep on launching products that will play important role in this transition of the UHD procedures in both the food charts and domestic market.

And here you have the sadia casio mozzarella which is the mozzarella cheese, launched it in the food services business. And we understand we will have the same positive acceptance we have in the retail so far.

So this is a summary of our priorities in 2012. The same as we have presented on the 2011 earnings call. So here on the last, you have the priorities and the status. So in all the main priorities, we have been doing everything that has to be done.

Of course on top of the international expansion, we have to deal with this short term challenges. It's in our vision, it's to do with -- construct through all challenges. We also have challenges to review our profitability in the same moments that we are facing some headwinds -- in the startup, the new market.

So which means that we have to pass on prices now, put into consideration some plans that we see in short term on cost. Thus we will keep on doing all those initiatives. And also working to better perform while we have now in the ending of Second Quarter. And beginning of Third Quarter, this important. But final step of our merger which is the execution of the (inaudible). So having said that, I turn to the operator to listen to your Q&A. Thank you very much.

Questions And Answers

Operator

Excuse me ladies and gentlemen, we will now begin the question and answer session. Each participant may ask only one question.

(Operator Instructions)

And our first question comes from Mr. Fernando Ferreira with Merrill Lynch.

Q - Fernando Ferreira {BIO 2389113 <GO>}

Hi everyone. I just had a quick question regarding the Second Quarter. When you mentioned that Second Quarter will still be challenging or margins will still be weak, are you expecting some recovery in margins from the First Quarter? Or margins to be at the same level? Or just to understand what's the magnitude here behind this comment.

A - Leopoldo Saboya {BIO 16137418 <GO>}

Let's say -- so we expect some recovery in external market, we have clear signs that the market are going better. The point is that in the internal market, we are preparing this to fulfill, to accomplish the agreement that we did with the antitrust authority which means that you have some costs to face during this period. So we expect some improvements in the Second Quarter. But still, it's a recovering period. I would not say that we will have -- we expect to have normal figures for next quarter.

Q - Fernando Ferreira {BIO 2389113 <GO>}

Thank you.

Operator

Our next question comes from Mr. Wesley Brooks with Morgan Stanley.

Q - Wesley Brooks {BIO 16407564 <GO>}

Hey guys. Can you talk a little bit about how the recent events in Argentina are impacting your business there and your plans to A, invest. And B, to you know, be selling processed products down the distribution channel that you now have there?

We believe that what happened in Argentina is more related to this oil industry. In some points, we do not see the scenario of Argentina, not our -- we have a partner in Argentina which is a very important business now. We do not -- that said, the problem in Argentina we've gotten to YPF could spread around the country.

We still have many concerns regarding to the short term scenario in Argentina, economic and business environment. But we put what we -- are building in Argentina, it's -- we are preparing for the next cycle of Argentina in our business. The potential that Argentina had in our business is really huge.

We are very well positioning there, we are developing now our internal network distribution. So we expect that we have good news from Argentina, not in the short term. But of course, for sure, Argentina will be next. And it's the next base to produce -- in the world, it's the one that is closer of that. And we will be there. And we will be building this together with Argentina.

I'm very keen regarding to the future of Argentina, of course. But I have some concerns regarding to the short term. But the movement was done according to my point of view in the right time to be well-positioned in Argentina in the future.

Okay. Thanks. And I have a follow up to the first question around these increased costs relating to the brand suspensions. And things like that. Would you be able to give us some sort of quantification of what those increased cost are? Because obviously, they're kind of -- they're one of. So it would be interesting to have your thoughts on the magnitude of that.

We don't have a specific number for that. But it's -- we have a total budget for several expansions in sales and marketing. And now we are seeing how bad are we -- in past that in the right moment in order to mitigate short term and long term impact due to this type of things that's going to happen to us.

So it's something that the marketing department and sales person is working into the market to see how much more money or not needed to be put on the trade to make our say, performance. Why is that? Basically because of course, we have a total commitment with the bottom line. But we cannot forget that at the same time this periods will be very challenging because we will be giving up part of our volumes and foot print with the suspension of putting together the market.

So we have to care about our size in the market beforehand in order to on the second moment to be able to capture better results out of that. So what I'm saying is that, probably, we will have in second. And also during the Third Quarter, our expenses, our total operating expenses to the revenue is going to be higher than -- probably it's going to be higher than what we have. And probably what we have last year. But as long as we be able to extend our volumes and so the revenue, this total investment or total cost will be compensated after that. But the negative too does not -- that significant. That's for you to --.

Thanks. Thank you very much.

Okay. Thank you.

Operator

Our next question comes from Mr. Pedro Herrera with HSBC.

Q - Pedro Herrera {BIO 15159561 <GO>}

Hi gentlemen. Just to recap one second. Your -- for the Second Quarter, you expect a recovery in the export primarily in pricing. Are you seeing that already? And second is, how do you -- expect positive resolution to the Russian trade embargo that will affect positive, your Second Quarter results? Can you give us a little update on how likely it to be a positive or a negative in the Second Quarter?

A - Antonio Augusto de Toni {BIO 15337840 <GO>}

Well this is Antonio Augusto de Toni International Market speaking. In Russia, we foresee for example that the prices will be stable, okay. But we are growing volumes from January for example when we got the two factors approved to the market.

And also, we are putting more volumes for example in new markets or expansions that we are (inaudible) like China. Okay. So we are preparing also factories to be more factors to be approved to China. And also to grow with the volumes into those markets. Okay.

This is the forecast for the Second Quarter.

Q - Pedro Herrera {BIO 15159561 <GO>}

Okay. Thank you.

Operator

Our next question comes from Mr. Tim Tiberio with Miller Tabak.

Q - Tim Tiberio {BIO 15194568 <GO>}

Good morning, I'm surprise not to see the China JV 2012 International expansion priorities. Can you give us maybe an update of how the JV is going and what your strategy is for 2012 and whether that's you know, at this point, adding any -- profit?

A - Leopoldo Saboya {BIO 16137418 <GO>}

Regarding to China JV, it's a priority that we have. And during this First Quarter, we are preparing all the formalities that is need to operate this -- the JV in China. And we feel that in March. So from April 1, we are already operating in this JV. The first step of JV is to move products from Brazil to repack and marinate it in China, in continental China which will be the -- during the year. But this is -- it takes time to being poised and to make difference in our results because this is a beginning of a business.

But we put a lot of effort in the formalities that is needed to operate and then when we did that, we have our JV working on China this month since April. But I do not expect that it will change in the short term our results there.

But in medium term, from 2014 on where we already -- we'll put in place a new business plan after that we know better, the consumer market for the kind of product that we intend to put there. So I expected that we have a strong expectation in the JV. And we'd leave that -- we are doing it step by step, we are building this relationship that will probably at the end of this way, we will have a factory there, distribution there, the kind of business that it's in our strategy which means to localize operations, localize distribution. And the JV is the right media to arrive there. And we are working hard on that.

Q - Tim Tiberio {BIO 15194568 <GO>}

Okay. Thanks. And just one follow up on the EBIT margin. I guess excluding some of the onetime charges and you know, factoring in the slow export recovery in the Second Quarter. But more precisely, looking at your current soybean prices -- based on your budget, is it still reasonable to think that you can get back to a 10% or plus EBIT margin in the current fee cost environment?

A - Leopoldo Saboya {BIO 16137418 <GO>}

You're talking about EBIT margins or EBITDA margins? This 10% you are mentioning?

Q - Tim Tiberio {BIO 15194568 <GO>}

Yes, I mean your EBITDA margin. Obviously you'd see the 8.4%. You're indicating that a lot of this is driven the foreign exports which is understandable as that fully recovers, that's one thing. But given soybeans prices are hitting $15 per bushel, just very curious how that changes your outlook versus last year.

A - Leopoldo Saboya {BIO 16137418 <GO>}

Okay, let me put it that way. Probably one month ago, when we're leaving -- earnings, the poor quarter earnings, we were -- we were seeing a Second Quarter better than the first. Nowadays, with the quarter at least, we cannot assume that. I would say that we have possibilities that will largely depend on our performance in the export market that would sign us. But there are some let's say headwinds specially due to costs.

And also depending on our strategy on the domestic market how we will prepare the way for the second half in terms of more investments and more expenses that probably will be required. So that's why when we resume saying that it is to see a Second Quarter -- was because we cannot affirm what is going to be better. Although the 10% which is the threshold of the two digits is something that we of course, we see as a natural consequence for the second half to be more feasible to be achieved. We keep on a very positive view on the second half of the year. But this quarter is specifically is still a construction to the better performance in general for the second half of the year.

Q - Tim Tiberio {BIO 15194568 <GO>}

Okay. Thanks for your time.

A - Leopoldo Saboya {BIO 16137418 <GO>}

Okay.

Operator

Our next question comes from Ms. Rebeca Sarmiento with Deutsche Bank.

Q - Rebeca Sarmiento {BIO 16493825 <GO>}

Hi. Good afternoon. I was hoping if you could discuss some of the steps Brasil Foods is taking to combat increasing competition coming from the US, France. And Thailand. And some of your important markets like Japan, Africa. And even the (inaudible), the US is becoming more aggressive in trying to gain access to the whole market.

A - Antonio Augusto de Toni {BIO 15337840 <GO>}

Well we can comment a little bit about what is happening in the market. We see for example US, they became more aggressive for (inaudible) in China. But this is only for late quarters.

The quarter in -- is more likely that we are running off, we are decreasing our production on that. And we are increasing the production for example in the items that we can sell whichever markets like (inaudible) Hong Kong, China, even China, Japan and maybe also Middle East. Okay. So this is the situation for US

The size that we have Thailand, Thailand is -- we have tried to export the -- product chicken for sampling -- (inaudible). But we foresee, for sampling, the second -- that they -- they are coming back to the market and the volumes became -- we can sell because they have to respect the focus. It's something like 8,000 plant a month which is -- are quite more volume.

So we don't expect many progress in the markets in the European market to reach this approval of the final views, quantities to European markets. But also commenting a bit, Brazil is becoming a more expensive cost in expansion. The labor in Brazil, the grade in something like this. But we're going to be helped in directors in second semester, we'll force for this. Okay.

So besides that, Brasil Foods has strategy where we are growing for example. In the dining, we are growing distribution, we are becoming a local company in some markets like Middle East and Argentina for example, we have already two factories and distribution available.

So we have a strategy where we can escape a bit from this kind of competition into the higher level company in the future.

And adding on what Augusto said, really the US improved its competitiveness. But still, there is not a big difference between Brazil and Europe. Brazil and US keep on the best place to produce and best cost related place to produce proteins and mostly chicken and hogs.

So although there is competitiveness that's improving the world, mostly last year where Brazil has to put dollars price very due to FX rate dollar; reais, then some new opportunistic players came into the market, there's Turkey, some -- even some Brazilian smaller companies. But at the end of the day, I think that we keep on being the very, very much competitive. And still keeping our advantage we got into mostly off our competitors globally.

Q - Rebeca Sarmiento {BIO 16493825 <GO>}

Thank you.

Operator

Our next question comes from Mr. Alan Alanis with JPMorgan.

Q - Alan Alanis {BIO 15998010 <GO>}

Hi everyone, thank you for taking my question. I have a couple of questions, the first one, regarding synergies. I see that on slide eight, you mentioned BRL176 million of synergy so far. Could you remind us what the latest guidance if there's any change, what's the amount of that synergy guidance. And also if you can explain how you have accomplished this 176. And how should we -- what's inside the remaining synergies, please. That will be my first question.

No, nothing has changed, Alan in terms of guidance. They are the same that we post last year. So this 176 is in line with the expectation to have what we think 2013 or somewhere in 2012 to '13, BRL1 billion.

The way we calculate that. So this is also -- I'll take advantage of your question. That's important to emphasize that we are very restricted in the way we account. So I believe that measure is accounted. The things that -- there are some other, I'd say visible or non-measurable causes to proceed a merger that is not in these accounts.

Some things that I was mentioning before on some adjustments, I think that we have to do to accomplish with the FDA [ph] for instance, they are not in these expenses. These are only the expenses restricted related to what we mentioned in the beginning with the project related to the synergy. So there are some other, let's say de-synergies that are not accounted. And we don't present this figure. But just to bear in mind.

A - Leopoldo Saboya {BIO 16137418 <GO>}

Anyway because this is more important for the next quarter and the next two quarter let's say. But mostly the main thing where we will move even to -- from some factories, another factories, we will have -- we will put more money in our brand strategy and so on. But this is only one shot.

Q - Alan Alanis {BIO 15998010 <GO>}

Got it. But mainly, the source of the synergy, you said moving inventory from one place -- if I recall correctly, we were talking about a lot of these being procurement synergies. Is that correct? And any other color that you can give us. Jose Antonio do Prado Fay: Okay, Alan. It's the same that we have been capturing last year. So there is no changing in the breakdown of the type of synergies we're capturing so far.

Okay.

Okay?

Got it. That's useful. And my second question has to do with -- when you do this acquisition, like the ones you did in Brazil. And the ones in Argentina, could your remind us what your usual timeframe for expected accretion, in other words to have this acquisition sort of start contributing to earnings once you have done them.

A - Leopoldo Saboya {BIO 16137418 <GO>}

The acquisitions that we did in Brazil regarding to dairy, it was achieved to gain capacity as we saw that the launches that we did was very successful. We acquired the capacity to fulfill the market -- that we saw. So indeed, we expect in two to three years have this aggressive position.

In Argentina, we didn't buy dairy business. We built the margarine business -- brands. Mostly looking for their distribution network for frozen and refrigerated goods mostly in the country side of Argentina because they had a very good position in this market.

Argentina suffer in the First Quarter mostly because of the salaries increase that we face. But we expected that this margarine business in Argentina turn to profitability for the next quarter. Although this is very small to move to the results, we expect that the results in Argentina in short term in margarines. And there still some job to do in the coffee [ph] production, there is some structural things that we have to deal -- arrive to a consistent profitability in Argentina.

Q - Alan Alanis {BIO 15998010 <GO>}

Understood. Thanks so much for taking my question again. Thanks.

A - Leopoldo Saboya {BIO 16137418 <GO>}

Thank you.

Q - Alan Alanis {BIO 15998010 <GO>}

Okay.

Operator

Excuse me. This concludes today's question and answer session. I would like to pass the floor to Mr. Jose Antonio Fay for his final statement. Please go ahead sir.

So summarizing what we discussed in this session, let's say we had a hard First Quarter, we still think that the next quarter will be a recovery period where we will be expecting to have the external markets, some improve in the KPI, in the general scenario of the external market.

In domestic market, we will be in the last -- in preparation, begin to put in place the agreement that we did with (inaudible). So we -- which means that we'll keep on building our company, doing not only the merge. But preparing the company for the future to put the infrastructure that is needed for us to be a global company in the next years. Of course, that it's better to do that when we have a good scenario. But this is not a choice. And we expect to return our profitability the second half of the year.

This next two -- this next quarter will be another challenging quarter. But we are very confident regarding to the strategy that we put in place, that we designed in 2010. And we are putting in place together with the merge process that we will lead the company to another level of profitability in the short term. Thank you very much.

That does concludes our BRF Brasil Foods SAE conference call. Thank you very much for your participation. And have a good day.