Q3 2016 Earnings Call

Company Participants

- José Alexandre Carneiro Borges, Chief Financial & Investor Relations Officer
- Pedro de Andrade Faria, Chief Executive Officer Global

Other Participants

- Alexander Robarts, Analyst
- Lauren Torres, Analyst
- Luca Cipiccia, Analyst
- Pedro Leduc, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, ladies and gentlemen, and welcome to BRF SA Conference Call to discuss Third Quarter 2016 Earnings. This conference call is being transmitted via webcast in our website, www.brf-br.com/ir. At this time, all participants are in a listen-only mode, and after the presentation, we will conduct a question-and-answer session. Instructions will be given at that time. We would appreciate if each participant made only one question.

Forward-looking statements related to the company's businesses, perspectives, projections, results, and the company's growth potential are provisions based on expectations of the management as to the future of the company. These expectations are highly dependent on market changes, economic conditions of the country and the sector and international markets. Thus, are subject to changes. As a reminder, this conference is being recorded.

This conference will be presented by Mr. Pedro Faria, Chief Executive Officer; and Mr. José Alexandre Carneiro Borges, Chief Financial and Investor Relations Officer.

We now hand the call over to Mr. Pedro Faria, who will begin the conference call. Mr. Pedro, you may begin.

Pedro de Andrade Faria {BIO 15115819 <GO>}

Good morning, ladies and gentlemen. Thank you very much for attending today's conference call. In the second quarter call, I told you that the industry data at the time indicated that the worst of the cycle was already behind us. Since then, as a matter of fact, the main indicators matched our expectations and improved. Corn prices declined 31% compared to their peak in May, even though they remain above historical levels.

The reduction in chicken production in Brazil accelerated and this was reflected on International U.S dollar prices, which continue to recover nicely even though inventories are still above normal levels in certain regions. However, the positive impact of this improvement in the third quarter were completely canceled out by the appreciation of the real in the quarter

This appreciation not only affected our results, but also prevented Brazil from improving its competiveness in international markets. In the domestic market, the effects of the economic contraction continue to affect consumption, and consequently our mix of products and channels. Data from Nielsen shows a sequential reduction in the market of important categories such as ready-to-eat meals, which decreased another 4 percentage points since the last survey despite our efforts to reinvent the category such as the launch of Jamie Oliver's new line.

In order to improve the profitability of our operations, in September we have increased prices once again in Brazil. We implemented a 3.5% raise. All the work we did on execution and the implementation of our category and channel strategy help us improve our results. In the quarterly comparison, we expanded volumes, revenues, and operating margins in Brazil.

We remain confident in our global expansion strategy, which has been providing very positive results. The integration of the acquisitions we made, including Calchaquí and Campo Austral in Argentina and BRF Thailand continues to provide results above our initial projection. In the third quarter 2016, we announced the acquisition of a processed food operation in Malaysia, an important consumer market of almost $2 billion, which we added to our Halal platform.

We see great potential in this platform and I think we anticipate this would be a major driver of our global growth. Moreover, we have committed to invest in the IPO of Cofco Meat, which will provide a significant exchange of knowledge and best practices, helping us to accelerate our expansion in China, a market we believe has great potential.

We believe that we emerge from this moment even stronger and much more confident in our long-term strategy and our ability to mitigate cyclical effect through advancing the value chain and increasing productive and commercial efficiency, a reduction in expenses with our zero based budgeting, and a portfolio with ever stronger brand.

Looking to 2017, we see an industry scenario that is a lot more positive, in which the levels of chicken production in Brazil should get back to normal and corn prices should return to much healthier levels, closer to the historical export parity. At the same time, we continue to see room to increase international price in U.S. dollars, especially with the normalization of inventories and the return of Brazilian exports to more adequate levels.

In Brazil, we expect that the economy should start reflecting the improvements in consumer confidence. In this scenario, we are very well positioned to capture gains in price and profitability coming mainly from the improvement of volumes which will reduce the idleness of our plants and above all from improvement in our mix, which will allow us absorb gains in price that we implemented throughout 2016.

Our innovation program should intensify in 2017. It should be one of the main pillars of our strategy programs and categories as we had the opportunity to show to you during BRF Day and one of the main growth drivers for BRF in the medium-term and long-term. Finally, I'd like to reiterate we remain confident in our financial health and level of cash, even after all the acquisitions we made throughout the year. In the third quarter 2016, we have issued bonds in the amount of $500 million at one of the lowest rates among Brazilian companies showing the continued confidence of the market in BRF.

I will now give the floor to Alex Borges, who will provide more details about third quarter results. Thank you very much.

José Alexandre Carneiro Borges

Thank you, Pedro. I will reinforce some three quarter 2016 financial data. The third quarter in general was marked by industry improvements such as corn price, a drop in Brazilian production and increasing prices in U.S. dollar terms. However, we suffered a headwind from exchange rate. Brazil results have a gradual improvement, but international markets suffered more than expected, especially Europe.

Going to more details into our numbers, our net revenues increased by 2.7% year-over-year and was mutually stable compared to the second quarter, reaching R$8.5 billion. It's important to highlight that volume increased by 6.1% year-over-year and 3.4% compared to the second quarter. Even if we were to exclude acquisition, net revenues increased by 2.6% compared to the second quarter.

Despite the volume increase, revenue remained stable in the quarterly comparison due to the appreciation of the Brazilian currency, the real. The real appreciated 7.5% against the U.S. dollar, 15.2% against the pound, and 12% against the Argentine peso. In addition to the exchange rate, two factors affected our results in Brazil: first, weak domestic demand, which impacted our mix of products and channels; and second, sales at promotional price due to the shelf-life of products in the inventories, namely the FIFO effect.

Our gross profit reached R$1.9 billion with a gross margin of 22.1%. This result was strongly affected by the adverse business environment we are experiencing. Going to more details concerning the dynamics of the corn, even though prices decreased by 31% compared to its peak in the second quarter 2016, the supply remained tight and prices were well above the export parity.

This is totally atypical considering that Brazil is structurally a major exporter of corn. These dynamic maintain Brazil in an unfavorable competitive position in terms of feed cost compared to other producing countries, a scenario that should return to normality throughout 2017. As to the supply of chicken, market data indicates a decrease of 12% in the average daily placement in September compared to the peak reach in 2015.

As we had anticipated in our last earnings release, the cycle turned by the end of the second quarter 2016 and the Brazilian Association of Animal Protein, ABPA, expects production to continue to decrease in the next month, which should provide a scenario of greater balance between supply and demand.

Similar to the analysis we disclosed last quarter, we tried to isolate the main markets variable to identify the potential impacts of this cycle in our results. In the first nine months of the year, taking into account only the impact of grains, price in U.S. dollars and exchange rates we estimated the negative cycle would help generate an impact of approximately R$2.5 billion in our results.

We were able to mitigate approximately 40% of this total, a reduction of approximately R$1 billion. This is the result of better commercial strategies regarding the purchase of grains and the sale of products, hedge strategies, and an increased efficiency in the formulation of feed, and a better conversion ratio. In addition to the impact of the cycle, idleness also negatively impacted our results.

We had an impact of a R$112 million in the third quarter of 2016, which was well above, compared to the R$50 million in the third quarter of 2015. We should gradually revert this impact in our result as volumes start to recover and we optimize our production footprint. Given the industry scenario, we continue to seek greater internal efficiency, primarily in the terms of expenses. If you were to exclude the R$37 million expenses related to the Olympic Games in the quarter, our SG&A as a percentage of revenues would have reached 15.9%, the lowest level in recent years.

Our EBITDA totaled R$886 million in the quarter with a 10.4% margin. To better understand this number, let me go into more details in key markets. In Brazil, results were higher compared to the last quarter, indicating the beginning of a gradual recovery process. Volume has started to show signs of improvement, and profitability start to increase despite the negative effect of FIFO, idleness and the Olympic Games.

The price increase implemented in September should primarily affect the fourth quarter, together with a seasonal improvement from festivity products. We look at 2017 with optimism and expect a gradual improvement in the Brazilian economy, together with a reduction in cost and a better execution in service level. All of that, together with our innovation program should ignite growth in Brazil.

In the Middle East, volumes decreased in the quarterly comparison, basically affected by seasonality of the summer and vacation periods, which coincide with the post-Ramadan period this year. All of this resulted in a lower local consumption. Moreover, markets such as Saudi Arabia have been importing smaller volumes in the past months due to higher local inventories, which pose an additional challenge in terms of volumes and prices. The first month of operation of recently integrated business, showed higher operational expenses than initially expected. However, we expect a different dynamic in the fourth quarter, with consumption returning to normal levels and better results coming from cost to serve.

The great results challenge that we faced in the quarter was Europe, where the impact of exchange rate was even stronger, given the depreciation of 15.2% of the pound against the real in a quarterly comparison. The local competition dynamics did not allow us to further increase prices. To provide an idea of this impact, United Kingdom represents approximately 40% of our business in Europe. Moreover, high inventory of local producers who are not subject to the import quota restriction make price pass through even more challenging.

As to our financial results, net expense totaled R$425 million in the quarter. From this amount, we highlight the increase of net interest due to the increase of net debt and a payment of R$32 million premium related to the tender offer of bonds. The present value adjustment increased to R$105 million as a result of a bigger accounts payable due to the increase in purchase of grains and payment policies with extended terms. Once again, this quarter we did not have any significant net financial impacts regarding exchange rates.

Finally, we had a strong cash generation in the amount of R$1.4 billion, which allowed us to fund CapEx of R$641 million and to pay dividends of $460 million. Our leverage increased to 2.36 times, primarily due to the decrease in the past 12 months EBITDA. Net debt increased by R$410 million in the quarter, essentially impacted by the payment of interest on loan equity.

We did not buy back any shares and we did not make any significant payments for acquisition in the quarter. We remain focused on managing our cash generation to maintain our financial strength and current ratings, which for us is strategically relevant for our global growth project.

These are my initial comments regarding third quarter results. We will now proceed to Q&A session. Thank you.

Q&A

Operator

Excuse me, ladies and gentlemen. We will now begin the question-and-answer session. Each participant may ask only one question. Our first question comes from Lauren Torres, UBS.

Q - Lauren Torres {BIO 7323680 <GO>}

Yes. Hi. Good morning, everyone. Your comments for next year on Brazil, you seem quite positive with respect to the industry and the macro environment. So curious, just to drill down expectations for that business next year, you've been backward-pricing this year. Just curious if you feel similar price increases are possible for you in 2017 and what the competitive environment looks as a result of that if you think it will stay rational? And then just the other side of the coin on mix; as you focus on more value-added brands, is it more of that impact to the top-line or is it a price story? Just trying to get a better sense of the price mix opportunity next year? Thank you.

A - Pedro de Andrade Faria {BIO 15115819 <GO>}

Thank you very much, Lauren. This is Pedro. Good morning to you. We are hopeful that a lot of the past things we did throughout 2016, they will have a very positive cumulative effect in 2017. So this was a year in which basically every month we had to go back to our clients and the tough discussions around price increases, and tough input cost scenario, et cetera. We think that given the outlook on grains, given the outlook on inflation in Brazil, this would be a lot less in our agenda going forward, so we can focus on the things we should be focusing, more importantly execution, service level and making sure that traditional trade comes back.

I think we are starting to see the initial positive signs from our modern trade. We are gaining share, we are gaining volumes. I think we have a star performer in terms of channel, which is the wholesale (17:25) cash-and-carry. So we think that these things that we are slowly building into a very tough year 2016, they will have a accumulative effect. So we cannot anticipate market dislocations or other purpose (17:38) we don't control playing against us, but the way we are setting our strategy for 2017, as we mentioned in the RFP is, it should be a lot about growth, execution, service level, and bringing innovation.

So our innovation calendar for 2017 is really something that we are very proud of. We have launched 25 items, new items, new categories in 2016. We have 75 launches in our pipeline. Those have a gross margin that we anticipate being some 15% higher than the current portfolio. In terms of service level, we're seeing positive trends in very critical KPIs like stock outs, OTIFs, and things of that nature. And we just finished our go-to-market exercise. It took us nine months to roll it out.

I don't anticipate having any significant changes in the way we operate in the market. So there would be also a cumulative function as we ride the learning curve or much more segmented approach to the market. So these are the reasons for very cautious optimism for 2017. Of course, a bit of tailwind on our back would not hurt us, because we need that clients and consumers to be more confident and trading up and becoming again more oriented towards value and brand and not so much concerned about their disposable income. So, these are the things that cautiously we think 2017 can be a real good year for BRF.

Q - Lauren Torres {BIO 7323680 <GO>}

And can I just quickly ask as a follow-up then. Considering these new launches and the opportunities you have, how do you see Brazil as an EBITDA margin business? Are we returning back to 13%, 14% or you have higher aspirations on that front?

A - Pedro de Andrade Faria {BIO 15115819 <GO>}

Well, I think, we have to take a gradual approach here. We have to first confirm the brutal facts, where we are today, which is much below the potential of the platform that we have. So that we look at 2017, it should be a transition period towards what we think is the true potential. So not quite there, but I think it just feels very good to be on a positive trajectory. So I don't know. I cannot provide specific guidance on 2017, but I just hope that we'll be on our way back to what we think is the deserved margins for our industry.

And I think, maybe, the most important factor that I highlighted in my previous comment is I'm just very happy not to go back to my clients every month talking about price increases. We still feel like we should do something this year, okay. So, there are price increases that we are implementing somewhere in the fourth quarter. But as we go forward in the next year, if we are blessed with no input costs coming down, it may mean that we can focus on the things that matter most, which is execution and service level, and not so much trying to push prices to clients and consumers.

Q - Lauren Torres {BIO 7323680 <GO>}

Okay. That's clear. Thank you.

Operator

The next question comes from Pedro Leduc, JPMorgan.

Q - Pedro Leduc {BIO 16665775 <GO>}

Hi. Good morning, everybody. Thank you for taking the question. Regarding Brazil still, we get the cyclical factors to help you, but maybe your Brazil guys, Leonardo and Rafael, can talk a bit about the go-to-market rollout, which you mentioned just finished this 3Q. And in that sense, if the rollout itself was disruptive to your volumes and share losses and if now, once concluded, it's more streamlined and if you see opportunities to regain space. That will be the first question. Thank you.

A - Pedro de Andrade Faria {BIO 15115819 <GO>}

So, Pedro, Rafael and Leonardo are not in the call anymore. We had them here for the Portuguese call, but I feel they have to be out in the fields helping us achieve our sales targets. But you are right in your comment about go-to-market. We feel that in the last 18 months, we have significantly changed the way we service our clients. And there is a learning curve that we are waiting to benefit us. So, of course, I think a lot of the positive signs – we have piloted a lot of those things.

But in reality, if you are one of our sales guys and your approach to market has changed, you have new clients to serve, you have new routines and disciplines to do, it won't take us. And as a matter of fact we have been really, really focused on training, development, bringing more capacitation. We have a pretty strong rollout of our technological platform bringing algorithms and more intelligence to the palm, so sales guys – they can perform even better. So these are things that they are not a silver bullet, but they compound on each other. And then I think 2017, we can reap the benefits of a lot of the hard work we have been doing the last 18 months.

Q - Pedro Leduc {BIO 16665775 <GO>}

Okay. Thank you. I'll go back in the line for another question later. Thank you.

A - Pedro de Andrade Faria {BIO 15115819 <GO>}

Thank you.

Operator

The next question comes from Alex Robarts, Citigroup. Mr. Alex, you may proceed.

Q - Alexander Robarts {BIO 1499637 <GO>}

Yes. Hi. Sorry. Can you hear me? I wanted to go to Europe for my one question and I appreciated the color that you gave us on the Portuguese call about the factors that aligned to make the margin get significantly impacted. And I'm just thinking about going forward. You mentioned that it didn't seem to be, at this time, appropriate to try to raise prices. I guess we've got a lot of local production from very low and competitive grain costs. At the same time, I recall, one of the factors of interest with the BRF Thailand, Golden Foods, was exporting into Europe using a different quota. How can we think about the potential margin recovery in the European business going forward? And I appreciate the Brexit and the currency element, but if we can kind of – if you could strip out that currency element and kind of talk to local demand, competition and price increase flexibility? Thanks very much.

A - Pedro de Andrade Faria {BIO 15115819 <GO>}

Alex, thank you. In Europe, yes, it was a highlight of this quarter, unfortunately for a not so positive outcome. So what I'd like to share with you that our performance in Europe for the third quarter, it correlates very strongly with the pound depreciation, and the cycle of turkey. Okay? Turkey, not the country, but the animal. Turkey has enjoyed a big way up in the last two years, three years. And now, we really see this market, especially in Europe being oversupplied. It's oversupplied coming from local, as well as other sources.

So once you take those two factors out, you see that our product offering from Thailand is performing above expectations. Our cook items, we are having big success. We are actually gaining territories in retail, not only the UK, but in Continental Europe. Our food service business remains quite healthy, earning new clients, getting even more market share. But the reality is, the pound is a big thing. By the way Brexit, the way we are seeing this is more of a bad thing in the short-run. Perhaps, it's a very good thing in the long-run. We anticipate that we are really well positioned for an independent UK. So we don't know what's going to happen with the quota system and if the UK turns more liberal or not in terms of trade. I think it will. And I think we'll have perhaps a lot of space to gain territory.

So we remain cautiously confident in the game we are play in Europe; going downstream, earning more clients, customizing our offering. But all of those things, they are just clouded by the two things I mentioned; the sharp depreciation of pound, which depreciates 8% against the dollar and the dollar depreciates 8% against the real. So, it's a double effect. And of course the turkey, which will take the normal cyclical pattern to recover. So we are seeing still turkey prices in Europe on a downtrend, okay. We haven't seen the bottom for that specific protein, but we anticipate eventually in the next few months we'll see a turnaround. And I think also the matter of the relative comparisons (27:02) of Brazil. We need Brazil input cost to come back to normalcy, so we can have our fair shot at winning business for turkey as well.

Q - Alexander Robarts {BIO 1499637 <GO>}

And just a follow-up and understand the Golden Foods, Thailand angle. The sales continue with that cooked chicken product into Europe, I mean was that impacted – I mean, excluding currency, but from a kind of volume point of view did you feel that and are you seeing that the Thai product is making its way into Europe in the way that you had foreseen?

A - Pedro de Andrade Faria {BIO 15115819 <GO>}

Yes. Thailand, we are doing better than anticipated earning business in Europe, especially on items like steam cooked and honeycomb and all lines that we have. We are now full speed ahead in the process of doing reverse synergies, meaning we are now bringing some of the items, more basic items back to Brazil lines, filling our lines here in Brazil and we continue our journey of more customization, innovation in Thailand. But if you look just our volumes in Asia, which we show in the report, our Thailand platform is doing much better and over there we didn't have nearly the same impact of input costs. So I think we are quite effective hedging input costs in Thailand. And Thailand continues to gain ground in Europe.

Q - Alexander Robarts {BIO 1499637 <GO>}

Great.

A - José Alexandre Carneiro Borges

And, Alex, it's Alex Borges. Just to complement – just to clarify, right, sales from Thailand into Europe are still being reported under the Asian region, okay. And honestly, it's doing fairly well. In the first nine months of 2016, Thailand had close to 15% EBITDA margins, so very healthy results. Those results are not – it still not going to the European managerial numbers yet.

Q - Alexander Robarts {BIO 1499637 <GO>}

Okay. Okay, got it. Thanks very much.

Operator

Our next question comes from Luca Cipiccia, Goldman Sachs.

Q - Luca Cipiccia {BIO 6914452 <GO>}

Hi, good morning. Thanks for taking my question. Again, I just wanted to maybe ask you about the setup or how you are preparing for the fourth quarter – some of this was addressed already in the Portuguese call, but I wanted to follow-up on the view that in the previous quarters, I think there was always the expectation that things sequentially were improving. And then, they decelerated I guess in the fourth quarter. That type of expectation is a bit more delicate, given how important it is for size and for seasonality.

So I was just curious to understand how are you preparing, how are adjusting the mix? Clearly trading down is something that we are seeing across all consumer companies, even the one that reported yesterday, not only yourself. So how do you think that will play into the fourth quarter into the Christmas period, and how are you preparing your portfolio and your strategy for that?

A - Pedro de Andrade Faria {BIO 15115819 <GO>}

So Luca, the main thing for us in the fourth quarter is to handle well our festivities line, our Christmas line. So I think, Rafael was with us in the Portuguese call. I think we are doing things quite well for the festivities. Just last night, we had a press release. We are coming with a very strong campaign for the Chester which is the main start in our portfolio for Christmas. We are donating one bird per every bird that is actually bought by our consumers to people who are in need. I think it's a very neat campaign. It also brings some very positive commercial aspects, because it kind of goes in the way of preventing trade-down.

You give a very clear argument to our salespeople and merchandizers to say for as little as R$1.50 you can have the main brand, the one, that represents 60% of the category. And you can make the Christmas of some other family a much better Christmas. I think it's quite well thought out. It also helps us to anticipate a lot the selling, so that we gain more spacing in the outlets. And I think, indeed, we've seen October we gave some numbers there. We're seeing just a campaign that is performing quite well, as early, as October, when usually November should be the stronger month.

So I think it's well taken care of. We anticipate being quite bullish for the festivities. I think just because we turned from the third quarter to the fourth quarter, it doesn't mean that things get better all of a sudden. So we continue to have the headwinds of a consumer which is quite constraint in disposable income, making no choices in terms of purchasing and value, et cetera. And I think we've been adjusting a lot of our business and operation to actually operate in that kind of an environment. So the main thing for us is to continue to do on the execution grounds and to make sure that we have a pretty strong Christmas season here, which we're quite optimistic.

A - José Alexandre Carneiro Borges

Yeah. To complement, look, as Pedro was saying, there is no silver bullet here on how things are going to change overnight, but things are improving gradually. From the bottom that we saw in the second quarter, we've seen the sector key indicators showing gradual improvements. The placements and the productions are being reduced. The U.S. dollar prices are coming up. The grain and feed costs have coming down. And as we look into the future into the industry indicators they show to us that things will continue to gradually improve.

In this third quarter, we got the headwind of the foreign exchange. Who knows what's going to happen with the foreign exchange going forward? That may reduce the speed of the recovery or may help and accelerate the speed of recovery. But we're very confident and clear that we are in a territory of gradual improvement of all the aspects of our business. Despite of the number of headwinds that we're getting ranging from ForEx, ranging from a challenging still economic environment in Brazil and some of the many other aspects that we have laid out in our managerial reports in our previous calls and so forth. But what I can assure to you is we are very confident that there are no better quarters ahead of us and we will continue to have a gradual improvement of our financial performance.

Q - Luca Cipiccia {BIO 6914452 <GO>}

Perfect. Thank you. Thank you, both.

Operator

Our next question comes from Pedro Leduc, JPMorgan.

Q - Pedro Leduc {BIO 16665775 <GO>}

Thank you for taking the follow-up and it would be regarding Sadia Halal effort, if you can give us an update on how it's going? You mentioned a little bit on the Investor Days about monetizing or not and partners or not, just to get a sense on what your latest mindset is on that regard. Thank you.

A - Pedro de Andrade Faria {BIO 15115819 <GO>}

Thanks, Pedro. Sadia Halal project remains as one of the most exciting growth prospects that we have ahead of us. We really think that what we're building is to unleash the potential for this business to grow and to really accelerate the initiatives to take this to the next level. We continue to work internally. We are on schedule in the sense of – by year-end we expect to have completely – to have complete the carve-out of the assets. And Sadia Halal is expected to have – as a legal independent entity has its go-live early 2017.

In parallel, we continue to assess the alternatives to better potentialize this growth opportunity. As we have mentioned, we are not in a path to monetize this asset. We are in a path of looking for the different routes which could really maximize its potential for growth and really improve its profitability. I think we have made a very important step this last quarter with due (36:11) in a partnership in Malaysia. Although it's small, it's a milestone one because opens us with a local operation in a high certificate, high standard halal globally and goes exactly in the lines of what we say for the Sadia Halal.

We have also opened offices in Egypt. We are looking at best ways to really start our local operations. Going downstream, we already have significant sales to Egypt, but I would like to – we'd like to move it downstream similar to what we have done in other countries. And we are also looking for opportunities in the nearby geographies to continue to accelerate growth.

So, Sadia Halal, as a project is on track. We remain very excited about it. And as more as we advance on the discussions and the opportunities to take this as a more independent, autonomous entity, more excited we are about the growth perspective with it and what we can do with this business in our (37:22) Halal structure. And we think it's very on track from what we have shared with the markets in our previous interactions.

Q - Pedro Leduc {BIO 16665775 <GO>}

Great, Alex. Thank you very much. So we can assume that if there were any further acquisitions or any sizable ones in the Halal realm, it would be then via this vehicle. Then in that respect, you guys said 2.5%-some net debt to EBITDA. Is that comfortable for you to do more M&A or would then – that's one of the strategic patterns that would then come in?

A - Pedro de Andrade Faria {BIO 15115819 <GO>}

Yes. Sadia Halal is our vehicle to grow into the Halal global space as we see great opportunity to grow there. Regarding our leverage of 2.36% that we were in this last quarter, we have as a guidelines and the target to work around two times, so that to the extent that we pursue other routes for acquisition, yes, the Sadia Halal vehicle could be a source of funding to make this happen. Obviously, everything are under analysis and under studies, but that would be one of the ideas to go forward.

Q - Pedro Leduc {BIO 16665775 <GO>}

Thank you very much. Congrats again on well-navigated quarter, and good luck for the next one. Thank you.

A - Pedro de Andrade Faria {BIO 15115819 <GO>}

Thank you, Pedro.

Operator

This concludes today's question-and-answer session. I would like to pass the floor again to Mr. Pedro Faria.

A - Pedro de Andrade Faria {BIO 15115819 <GO>}

[Foreign Language] (39:12)

I would like to thank you very much for participating in our English conference call for this third quarter. As I mentioned in the Portuguese quarter, we are not pleased with our results. We see, they have a meaningful gap to what we think is the full potential and the profitability of the platform. However, we remain extremely confident going into 2017. We've seen the normalization of a number of the cyclical factors that have impacted.

And more importantly, we are increasingly optimistic about the impact of the initiatives that we have throughout the year of 2016. With that I'd like to invite you for the next conference call to be held for the fourth quarter early 2017.

Thank you very much and thank you for joining today.

Operator

That does conclude our BRF SA conference call. Thank you very much for your participation. Have a good day.