

## Y 2012 Earnings Call

### Company Participants

- Andre Nogueira, Chief Executive Officer, US
- Jeremiah O'Callaghan, Director of Investor Relations
- Wesley Mendonca Batista, Chief Executive Officer

### Other Participants

- Alan Alanis, Analyst
- Farha Aslam, Analyst
- Luiz Miranda, Analyst
- Unidentified Participant
- Wesley Brooks, Analyst

### Presentation

#### Operator

Good morning, everyone, and welcome to JBS SA's Conference Call. During this call we will present and analyze the results for the fourth quarter and the year of 2012. As requested by JBS, this event is being recorded. The recording will be available to listeners this afternoon and can be accessed by following the instructions posted on the company's website at [www.jbs.com.br/ir](http://www.jbs.com.br/ir).

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

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

#### Jeremiah O'Callaghan

Hello. Good morning. Thank you all for joining us this morning. It's our pleasure to talk with you a little bit today about the results for the fourth quarter of 2012 and for the full year 2012. We posted a press release on last night on the Brazilian Stock Exchange and we have a presentation which we've put on our website at [www.jbs.com.br/ir](http://www.jbs.com.br/ir), a presentation to accompany this call this morning. So I would recommend those of you who are listing in if you could have a look at the presentation because I will make reference to it during this call.

And starting just on page three of the presentation, we have a disclaimer. So I would recommend that all of you please pay attention and read the disclaimer on page three, I will not go through it here now.

And starting with the presentation and making reference to page four of this presentation that I've just mentioned, just a highlight, JBS posted consolidated net revenue of almost R\$76 billion R\$75.7 billion in 2012. There was an increase of just under R\$14 billion or 22.5% in relation to the previous year. EBITDA for 2012 came in at just over R\$4.4 billion and that was 40% above 2011. Adjusted net income for the year 2012 was R\$1.26 billion. We are proposing dividend payment totaling just over R\$170 million which we will submit to the general shareholders' meeting next month. We had positive operating cash flow for the year of R\$1.5 billion also and leverage, net debt EBITDA decreased from a high of 4.3 times in the middle of the year, decreasing in September to 3.7 times and at the end of the year down to 3.4 times net debt EBITDA. Also in relation to our debt profile, we finished the year with R\$5.4 billion in cash or cash equivalents, which corresponds to 90% of our short-term debt and separate from the R\$5.4 billion, we also have committed available lines in the US totaling \$1.2 billion, besides the R\$5.4 billion.

Just to talk briefly about some of the perspectives regarding the global animal protein market, I just wanted to go through a few slides with you this morning. Just to cover a couple of points, which we think are very relevant to our business, so that we can appreciate where JBS is located geographically and strategically.

In this presentation on page six of the presentation, we have a slide, which demonstrates where we've got surpluses and deficits (inaudible).

Hello, we just had an issue with our line, I don't know if we're back on stream again or not, could the operator please confirm.

### **Operator**

Hello, sir you can go ahead, that was the problem with another line connected to the conference, okay. You may return to your --

### **Jeremiah O'Callaghan**

We're back on stream. Okay.

### **Operator**

Okay.

### **Jeremiah O'Callaghan**

Pardon for the technical glitch there, apologies for that. So let's continue the presentation. As I mentioned, we were on page six of our presentation, talking about some of the

strategic issues we would like to highlight during this call regarding JBS and our geographic and strategic plans for the future.

On page six there is reference to where we've got surpluses and deficits in terms of food or feed for livestock, which would be converted into meat and it's really important now for you to highlight that surpluses coming in North America and South America and in Australia exactly where JBS is concentrated. And we see a lot of shortages in the Middle East and Africa and Asia and also in Eastern Europe. Thus, our strategic location, thus potential to increase trade exports basically out of the regions where we are located into the regions where there was a shortage.

Moving on in our presentation, and just wanted to talk a little bit to you today about the dynamics of beef production, chicken production, and poultry production basically and pork production over a prolonged period of time, just to see how trends are growing, how volumes are increasing, how demand is increasing or how much or how little it is increasing or decreasing for each one of these proteins.

So we have in our presentation on pages seven, eight, and nine we have three graphs, which demonstrate the evolution of beef production, pork production and chicken production over a 21-year period. So it's very much in order to demonstrate the trend line of each of those meats.

Firstly, on the beef. We're looking at global production going from about 60 million tons to about 76 million tons over that period of time with lower growth than the other proteins, just over 1% on average per annum, consolidated average growth for beef during that period of time. If we go to poultry, which is the next slide. Over the same period of time, we see poultry production going from just under 70 million tons, these are global numbers now, global production and consumption.

We seen poultry production going from just under 70 million tons to above 127 million tons in the same period. So much more substantial growth in the poultry business potentially as projected hereby the Food and Agricultural Organization of the United Nations.

And then when it comes to pork production and consumption, pork meat production and consumption, we see that today pork is the largest of the meats in terms of production and consumption. But there was lesser growth than there is in the poultry sector, it's going from about 90 million tons in 2000 to about 126 million tons in 2021.

So according to these estimates, in 2021 we will be producing and consuming more chicken globally than we are pork, which is not the case today. Pork is the number one of these proteins today.

And then progressing in our presentation, we've got just a little bit about each one of these in terms of consumption, in terms of millions of tons and then where that growth is coming from and really importantly in this slide is to look at, how much is emerging markets and how much is from the developed markets and we see that more than 80% of

this consumption growth is coming from these emerging economies that I mentioned earlier.

In our next slide, in our presentation, we have a little bit about the largest exporters of beef, pork, and chicken globally in terms of -- these are consolidated numbers and firstly, we have beef, beef exports, which countries are the largest exporters, we've got, excluding India, which is buffalo meat and which is moreover regional trade, we've got Brazil as the largest beef exporter, followed by Australia, then by the US, then by the rest of South America, which is exactly where we are located geographically. And then Canada also has quite a relevant volume exported and we've entered that market recently.

Pork exports, interesting to see that pork exports basically come out of either the US or the European Union. We've seen an increase in exports out of the US and a decrease in exports out of the European Union with the final destination basically being Asia. And we see that sort of trend continuing, good potential for the US to continue to serve more customers in Asia.

And then when it comes to chicken, it's really concentrated -- exports come out of two countries basically, 70% of all exports come out of either Brazil or the US and that's exactly where JBS is located in the poultry sector.

And then, on the next three slides, we have a little bit about how prices have reacted or have performed over the last couple of years in each one of these meats, out of each of these strategically important countries.

So we have, on page 12 of the presentation, we've got beef exports. These are country-wide exports, out of Brazil, out of the US, and out of Australia. We've seen volumes pick up quite a bit in 2012 out of Brazil, beef volumes pick up more than 15%, Brazil basically re-gaining its competitiveness on the global market with marginal price disruption which would be offset by the reality valuation.

Then, out of the US, we've seen volumes decline down more than 12% year-on-year but we've seen really strong pricing out of the US. US beef prices were up more than 15% in 2012 when compared with 2011. Obviously, the US is accessing more high quality, more value type markets. And then, out of Australia, what we see is a lot of consistency, very little variation. Although, I would highlight the fact that Australia is serving a lot more than Chinese market today and to the detriment of the Japanese market.

When it comes to chicken exports, I'm just comparing Brazil and the US on page 13 of our presentation and I've broken down the Brazilian exports by semester instead of by year, because I thought it was important that we had to look at how prices have reacted so positively in the second half of 2012 out of Brazil. Chicken export prices up 6% in the second half of 2012 and that is definitely a trend that we believe is a solid and continuous and we think we will see it through 2013 as well.

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When it comes to the US chicken exports, we've seen US chicken exports up every year 2010, 2011 and 2012 and we've seen price improvements also and substantial price improvements during the same period. Comparing '12 with '11, volume was up more than 4%, the pricing was up more than 10% poultry ex -- chicken exports out of the US and that's really quite substantial. And then when it comes to pork, just again to demonstrate how the US has become extremely competitive on the global pork stage. Again if we look at 2010, 2011 and 2012, we've seen substantial volume increase and very, very little price destruction over that period of time; 6.5% up in 2012, compared to 2011.

Now having talked about the market let's break into our numbers and the highlights for 2012, and for the fourth quarter in 2012, firstly and I will start here, to page 16 of our presentation to talk a little bit about the highlight for the year 2012. As we mentioned, net revenue was up from R\$61.8 billion to R\$75.7 billion, 23% increase year-on-year. EBITDA, up 40% from R\$3.15 billion to R\$4.41 billion. EBITDA margin going from 5.1% to 5.8%.

Net income from negative R\$76 million to positive R\$1.26 million, a really big swing in adjusted net income -- sorry -- I said million, billion reais, R\$1.26 billion in 2012. Gross profit again was up from R\$6.7 billion to R\$8.7 billion and gross profit margin year-on-year went from 10.8% to 11.5 %. G&A, quite relevant in terms of efficiency, declined as a percentage of revenues from 2.8% to 2.7% of revenue -- as a percentage of revenue. And then operating cash flow again, 2012, we had R\$1.47 billion of operating cash flow in 2012 against just over R\$600 million in 2011. And now breaking into the last quarter of the year and making reference to the next slide in our presentation, page 17 in our presentation for those of you who are accompanying us. Net revenue from R\$16.9 billion to R\$21.9 billion, 29% increase in relation to fourth quarter '11.

EBITDA from 940 to R\$1.17 billion, 26% increase. EBITDA margin marginally down from 5.6% to 5.4%. And then net income again comparing fourth quarter '11 with fourth quarter '12 from R\$25.6 million to R\$310 million adjusted net income, which we can talk about later the adjusted question.

And then on page 18, we've got the consolidated numbers by quarter. So we see some -- we see the evolution over a number of quarters. Our revenues have been increasing from 1Q '12 to 2Q '12, 15% from 2 to 3Q '12 5%, and then from 3Q '12 to 4Q '12 up and over 13%. With EBITDA and EBITDA margin also on this page and EBITDA above R\$1 billion over the last three quarters. If we compare EBITDA 4Q '11 R\$940 million against 4Q '12 R\$1.17 billion.

Then moving on to an quick analysis hereby business unit. And I will not go into any great detail here. We break up our business into four separate business units. Mercosul, our USA beef business, which today includes Canada and Australia. Our pork business in the US, and our chicken business in the US, which is Pilgrim's Pride Corporation. And making reference to slides on page 19 of our presentation, we see really substantial and consistent growth in revenues out of JBS Mercosul over the last four quarters R\$3.8 billion, R\$4.3 billion, R\$4.6 billion, R\$5.3 billion in revenues quarter-on-quarter over the last four quarters with EBITDA above R\$600 million over the last three quarters in EBITDA margin, double digit EBITDA margin quite consistently over those period of time.

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JBS USA again, we've seen substantial revenue growth particularly in 4Q '12 up to 4.9 billion and this is in dollars, this is not in reais, \$4.9 billion in the fourth quarter with an EBITDA just north of R\$100 million and an EBITDA margin of 2.1%.

Our pork business again concentrated in North America just under \$1 billion in revenues in the last quarter of 2012 and \$42.7 million in EBITDA, 4.5%. And Pilgrim's Pride, we see again revenue increase consistently quarter-on-quarter, 1.9 to 2.1 and \$2.2 billion quarter-on-quarter. Revenues and EBITDA and EBITDA margin, very, very consistent, particularly taking into account seasonality issues and the hike in grain prices during the second half of 2012. Then on pages 21, 22 and 23 of our presentation, we've got a little bit more detail about each one of these business units. I will not go in to those details, but I recommend that you read these pages when you've got an opportunity.

Talking a little bit about exports here and making reference to page 24 of our presentation, just under \$10 billion exported by JBS worldwide in 2012, \$9.83 billion and really important again to repeat focus on the emerging economies on those markets where we saw food deficit in the previous slide. Mexico, almost \$1.5 billion, in exports to Mexico by JBS. China, Hong Kong and Vietnam for -- \$1.4 billion practically exported to that region, then Japan, which is a medium port [ph] dependent. Africa and the Middle East also more than a billion dollars exported, then Russia, then we've got the European Union, Korea, Canada. And then in South America, quite substantial volume concentrated and between (inaudible) 4.3 to 3.7 -- 3.4 times over the last three quarters. And then we've got short and long-term debt always in that 25% to 30% category short-term debt and always at least 90% of our cash and cash equivalents representing 90% of our short-term debt.

Although we have not incorporated this into our numbers here, I just wanted to remind everybody, we did an issuance of a bond in January of this year, which we will -- which will be reflected in our first quarter '13 numbers. \$500 million and 6.5% yield and so that will be incorporated in our first quarter numbers. Then at the bottom of page 26, we've got a breakdown by parent company subsidiaries in reais and in US dollars, in bonds and in other types of financing just to give you some more color on our debt profile overall.

And briefly before passing you on to our CEO, to Mr. Batista, I just wanted to mention couple of other points here, which I think are very important in relation to traceability, sustainability, and in relation to our social initiatives.

We've heard a lot and we've spoken a lot in the past about cash credibility systems in Brazil, particularly in the Amazon Biome. And we've put in our presentation a couple of slides to talk -- to address that, to demonstrate how technified this has become, how sophisticated this has become and how JBS has been engineering innovative measures in order to be able to source livestock from origins which are guaranteed to be sustainable in every sense of the word.

And then just to mention also JBS has been extremely active both domestically in Brazil and globally with organizations that are working towards a more sustainable supply chain in the livestock sector generally. And I just wanted to mention three groups, which we

work very active in; locally in Brazil we have the GTPS which is the Grupo de Trabalho da Pecuaria Sustentavel, sustainable livestock in Brazil we are active members, then we are with the Global Roundtable for Sustainable Beef, we are founding members. And very active as well and actually we preside, one of our executive preside over the Global Roundtable for Sustainable Beef. And then we're also active in the Leather Working Group again in order to guarantee sustainability through the supply chain.

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And then finally before passing the word on to Mr. Batista, on our social initiatives and I've mentioned this in the past, but I think it is important to repeat it. We have a project here in Sao Paulo, which is run by the JBS Institute, which is a school for talented young kids that haven't got the opportunity to get the education they deserve. And so we've built the school, we finance the school and we will have a total capacity when it's fully ramped up with 630 students. We've already got more than 400 pupils studying at the school, completely financed by JBS and this is an initiative we are very proud of and we hope to be able to replicate in other parts of the world.

With that, I will pass you on to Mr. Batista for some comments before we open for questions and answers.

### **Wesley Mendonca Batista** {BIO 15243148 <GO>}

Thank you, Jerry. Good morning everybody. It's a great pleasure to have you all in our earnings call. We are here talking about our year-end 2012 and our fourth quarter in 2012.

So like Jerry mentioned, I will just talk -- have a summary here about our year-end and our fourth quarter. So, like Jerry mentioned, we closed 2012 with R\$76 billion on sales. That is an increase of around R\$14 billion comparing to 2011 and 22.5% growth comparing 2012 with 2011. So a strong growth in our view and growing in areas that we believe is very strategic to our business.

So, EBITDA, we ended up 2012 with R\$4.4 billion, much better than 2011. We believe that was a reasonable year for us. Of course, we are always looking to do better, but we are satisfied that we were able to achieve R\$4.4 billion in EBITDA.

So, our net income, adjusted net income, we ended up 2012 with R\$1.2 billion. We are proposing R\$107 million in dividends. Our cash flow -- our operating cash flow in 2012 was R\$1.5 billion. So we have been able to deleverage our balance sheet. So in the previous quarters we were above four times leverage and we have been consistently quarter-by-quarter deleveraging our balance sheet and we believe we will keep doing this, we believe we will be able to keep deleveraging our balance sheet. So we ended up 2012 with 3.4 times leverage.

Our cash position, we ended up 2012 with over R\$5 billion in cash and plus \$1.2 billion in cash availability in our US operation.

So our fourth quarter, moving to our fourth quarter more specifically here, we ended up with revenue, that's almost R\$22 billion in sales, there, if we analyze this number, we are

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going to see on a run rate base, over 80 -- around R\$80 billion in sales. So a strong number comparing through the previous quarters and comparing to 2012 also. Free cash flow that I think the important point here in the fourth quarter, we were able to generate over R\$300 million in free cash flow and around R\$800 million in operating cash flow.

So again overall, we are satisfied about our results in 2012. We look forward for a better year in 2013. I'd like to have the opportunity to thank you all, all of our team members. They have been working really hard with -- all of our members to improve our numbers, to achieve our targets and to improve our results and our company overall. So, thank you all for this hard work -- for your hard work and for your commitment.

Looking to in 2013, we are optimistic about the 2013. We believe we will be able to deliver better numbers in JBS in a consolidated base. We believe we will keep deleveraging our balance sheet. We are going to see consistently deleverage in our business -- deleveraging our balance sheet. We are very focused this year to generate market, to reduce debt and to improve our metrics overall.

Going quickly here about its division and its segments, so we are very optimistic about our Mercosul operation. Brazil, the cycle we are in a positive cycle. The beef business in Brazil and also our hides and leather business, also our chicken business in Brazil is -- overall Mercosul business have been very strong and we believe we'll keep being able to deliver strong numbers in this year. In the US our pork business has been -- running this business away from margins between 4% and 6% change in quarter-by-quarter, but we don't see a lot of upside in this business, but also we don't see downside on this business. So we believe this business will be a stable business this year generating reasonable results. So not a lot of big change in one side or to the other side for the pork business in our view.

In the chicken business Pilgrim's Pride, we are optimistic about the chicken business in West. We believe the market will be favored for the chicken industry in US this year and Pilgrim's, internally we are running the company every day, every month, every quarter better and we are making great improvements, our team is making lot of changes and improving our business. So we have an optimistic view about the results that will come from Pilgrim's Pride this year.

Beef in US was the most challenged business in our whole company the last year. So last year was substantially below the 2011, but we have some change in the marketplace that we believe that this will help the industry and will help the business this year. So some players in the industry is putting -- is (inaudible) so this will help the industry to be a more balanced industry in terms of supply and capacity. So -- and also the Japan yields, the Japan is going through, not just going, is already allowing US export beef from (inaudible). So this is two things that is, in our view, will help the industry. We saw this change some weeks ago, so this will for sure help the business in this year.

So, again, overall, I will open here for Q&A, but overall we are satisfied and we are looking for a strong 2013. And we have very, very, we have a lot of focus in our business internally



to improve numbers, to generate cash, this is where we are pretty much concentrated our whole team today. So thank you and please operator, open for Q&A.

## Questions And Answers

### Operator

Ladies and gentlemen, we will now begin the question and answer session. (Operator Instructions). Our first question comes from Ms. Farha Aslam with Stephens Incorporated.

**Q - Farha Aslam** {BIO 6151888 <GO>}

Hi, good morning.

**A - Wesley Mendonca Batista** {BIO 15243148 <GO>}

Hi, good morning.

**A - Andre Nogueira** {BIO 19941317 <GO>}

Good morning.

**Q - Farha Aslam** {BIO 6151888 <GO>}

The focus on the call today was on internal improvement and that focus on improving operations. Could you just give us some additional color on what specific actions the company is taking to improve operations? Is it that you're trying to price more closer to the market? Is it that you're spending CapEx in your plants, could you just give us some more color on that focus?

**A - Wesley Mendonca Batista** {BIO 15243148 <GO>}

Farha, basically, this is in a lot of areas. So I will not mention one specifically area, but we are improving our business, month-by-month in a lot of different areas. So we have been able to reduce cost in all our plants we have been able to reduce SG&A costs. We have been able to improve value-added a sales through, we have been able to sell more value-added product, exploring more products to a market that we can get a better margin. In US -- in our US beef business, we are making a strong progress in terms of our sales and we have been able to improve sales in our business in US in terms of how we are pricing our products in US

So overall Farha, we have a lot of different fronts and from plants to sales to export and also investing money in areas that have a strong payback. So that this can give us improvement. Then also in sale, we have been expanding our sales customer base and our sales force in a lot of different markets that we have been able to especially in Brazil, our customer base is much larger customer base than before. And we have been able to sell more and more products to end-users in Brazil, that this is for sure, this helps margins. So in a lot of different areas in summary Farha.

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**Q - Farha Aslam** {BIO 6151888 <GO>}

Well, thanks for the additional color. And just one follow-up on the US beef markets, Italy margins has been kind of soft. But you highlighted that you have had Cargill close a plant and that Japan opening up to 30 months and younger. When do you think those two actions will start to improve these margins going forward?

**A - Wesley Mendonca Batista** {BIO 15243148 <GO>}

Farha, I expect to see this improvement starting in the second quarter, I think so. We saw this change in the middle of February, so I think from the second quarter going forward, I think, we believe and we should see improvements in margin.

**Q - Farha Aslam** {BIO 6151888 <GO>}

Okay. Thank you very much.

**A - Wesley Mendonca Batista** {BIO 15243148 <GO>}

Thank you.

**A - Andre Nogueira** {BIO 19941317 <GO>}

Thank you Farha.

**Operator**

Excuse me, our next question comes from Mr. Wesley Brooks with Morgan Stanley.

**Q - Unidentified Participant**

(Foreign Language) Wesley and team.

**A - Andre Nogueira** {BIO 19941317 <GO>}

Yeah, welcome.

**Q - Unidentified Participant**

Couple of questions from me. Firstly on the Brazilian beef, can you just talk please a little bit about how you've seen the market, obviously your margins in Q4 were a little bit weaker than expected. And cattle prices seemed to be staying a bit higher than most of us expected. So we wanted to just understand your view on why cattle prices are higher? And how much of an impact your recent plant openings are having on cattle prices and margins?

**A - Wesley Mendonca Batista** {BIO 15243148 <GO>}

Wesley, basically I -- in terms of cattle price, I think cattle prices in a level that I think actually is stable, the cattle price in Brazil, the cattle price has been fluctuating between

R\$92, R\$94, R\$93 up to R\$98 in Brazil. So cattle price is changing by the functionality in Brazil, but is not, in our view is not expensive than the price that we were looking for.

So in terms of margin Wesley, if you look the decline in our margin from the fourth -- the third quarter comparing to the fourth quarter, we had some specifically reasons for this. We opened -- we re-opened some new plants so, and of course when you are starting up a plant, so you have some costs related to your start up. And also we incorporate some plants through lease agreement or plants that we acquired left here that was plants that were operating with the same kind of efficiency compared to other plants that are more mature plants that we have and that we are running for a long time. So I expect strong margins in this business in 2013 and my call, I have been saying that I expect double digits to margin for this business, but well, you see some fluctuation quarter-by-quarter, but I still believe that this business -- will the industry will be able to enjoy good margins on this business.

**Q - Wesley Brooks** {BIO 16407564 <GO>}

Okay, excellent, thank you and the other question was around US chicken. One of your big competitors in the US announced that because margins are good, they're planning to increase their production around the middle of this year. I just wanted to get your thoughts on firstly whether you feel the market can handle the increased production coming from them, and still keep the good margins? And also, do you plan to follow them and increase you operating rates as well?

**A - Wesley Mendonca Batista** {BIO 15243148 <GO>}

Wesley, basically, we are not planning to increase capacity or we are not planning to re-open plants or to increase a lot of volumes. So we believe that the market in US and also the export market can absorb some increase, but for sure discipline in terms of production increase is a very important factor for the industries should be able to enjoy good margin.

So we believe here [ph] we will not see a lot of production increase that can change their market dynamic and we believe the market -- the demand for chicken will grow outside of US We believe US can export more chicken. So some increase the market can absorb, but again we -- for sure is key discipline on this business for the industry not be in position that put more supply than they can absorb. And I think one -- I think the one thing that is an important point that the breeder flock in US is in a low level in terms of the amount of the breeder inventory in US So this will take time and the way if the industry works to increase capacity.

**Q - Wesley Brooks** {BIO 16407564 <GO>}

Fair. Thank you very much.

**A - Wesley Mendonca Batista** {BIO 15243148 <GO>}

Thank you.

## A - Jeremiah O'Callaghan

Thank you, Wesley.

## A - Wesley Mendonca Batista {BIO 15243148 <GO>}

Thank you, Wesley.

## Operator

Our next question comes from (inaudible) with Deutsche Bank.

## Q - Unidentified Participant

Good morning. Good morning.

## A - Wesley Mendonca Batista {BIO 15243148 <GO>}

Good morning, Dennis [ph].

## Q - Unidentified Participant

Thanks very much for the call. I'm wondering if you could tell me the seasonality in North America and Australia, is it similar to Brazil, although I guess in Brazil you have both the coming of summer and holiday coming together into, we what we refer to as the grilling season in Brazil. What is it like in the US with the, you have the year-end holidays, but it's turning [ph] fall into winter. Could you explain a little bit about the demand seasonality for the pork, poultry and beef businesses? And then I have a couple of other questions. Thanks.

## A - Jeremiah O'Callaghan

Okay. Jerry, here Dennis. The seasonality in Brazil is more related to the supply than to the demand. So there is more livestock available during the first six, seven months of the year. So there is more production and more exports during that period of time, particularly in the beef sector.

In North America, generally speaking, red meat consumption declined somewhat in the winter months. So you have a decline in production and in consumption towards the end of the year and again at the beginning of the new year and then it starts picking up basically from about now onwards through the grill season for both pork and beef.

Chicken consumption does decline after Thanksgiving and picks up again in January. So there is a shorter, let's say, off season in chicken. Normally, we see good consumption in January, normally it's the second or the third best month in terms of volume in the US. I hope that covers kind of your question regarding trends in seasonality.

## Q - Unidentified Participant

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So for beef in the US, it does -- the fourth quarter would be weaker than the third quarter unlike in Brazil where the fourth quarter is quite strong.

### A - Jeremiah O'Callaghan

Yes, that is correct.

### Q - Unidentified Participant

Okay. And then the first quarter is a bit slow again, similar to the fourth quarter and then it picks up in the second and third quarters.

### A - Jeremiah O'Callaghan

Yeah, because both exports decline towards the end of the year and consumption decline somewhat and then it really -- exports pick up February, March, and consumption about now as well. Sorry, Wesley.

### A - Wesley Mendonca Batista {BIO 15243148 <GO>}

No, no, I was going to say that, like Jerry mentioned. So, in Brazil, the consumption is not like in west. So we don't have the same kind of seasonality that we have in US in terms of beef consumption, but we have seasonality in terms of supply, cattle supply. So --

### Q - Unidentified Participant

Right

### A - Wesley Mendonca Batista {BIO 15243148 <GO>}

This is the difference.

### Q - Unidentified Participant

Right. Okay, thanks for those details. Second question, in terms of the roll out of your expansion of overheads per day in Brazil that you've mentioned at the last conference call during a road show and that you alluded to, I guess today as well. Could you remind me the total amount, 1.4, 1.6 and where you're adding that process, how many have we've done by the end of the fourth quarter and where are you at in the process now and when do you get to full rollout? And at what point would the plants expected to hit efficient capacity levels from ramp up?

### A - Wesley Mendonca Batista {BIO 15243148 <GO>}

Yeah, basically we -- if you look in annualized base, we are going to process two million ahead of scale more in 2013 compared to 2012. So if you look this increase, this two million in our run rate base, in the fourth quarter, we were already -- 80% was already in the fourth quarter, in our run rate base, so 80% was already incorporated in the fourth quarter. So we still have two more plants to open this year that we will open one in the second quarter, in the beginning of the second quarter and probably we will open the second one in the end of the second quarter. So basically two million more ahead of scale

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this year. 80% was already in the fourth quarter number and still two more plants to reopen.

Regards to your question, when these plants will be running? Let's say close to where we believe these plants can run, this will go from -- this usually take here in Brazil six months for you to be running a plant efficient -- in an efficient level. So we believe by the middle of this year, we'll be able to run all the plants with a very, very good level in terms efficiency.

### **Q - Unidentified Participant**

Excellent. Thank you. I was very impressed with the working capital management achieved in the fourth quarter, especially considering the roll out of 80% at a run rate base in those plants. Can you speak to that a little bit? Did you pay more cattle cash upfront with discount or was there any particular measures taken to focus your working capital in such an efficient way and generate free cash flow. It was very impressive.

### **A - Wesley Mendonca Batista** {BIO 15243148 <GO>}

Yeah, look, I think the market has been looking for us to generate cash and we are committed to generate cash. I have been saying that our biggest focus last year and this year and in this coming years will be to generate cash, to pay down debt, to delever them, I think we are doing what we have been telling the market that we are committed to do. Basically the improvement is management improvement.

So we have been able to reduce inventory, we have been able to sell products and collect money quickly. And we have been able to extend in some ways account payable. So we have been putting a lot of focus, all of our team is very focused on working capital usage.

So -- and this is where we are and I have been saying, look, we -- the market expect this from us, and we will deliver this to the market. So we are committed to manage our working capital needs better and in consequence to generate more cash.

### **Q - Unidentified Participant**

And so this level of days outstanding for as a percentage of sales, whichever way you want to look at it, this is sustainable and you intend to sustain it.

### **A - Wesley Mendonca Batista** {BIO 15243148 <GO>}

Yeah.

### **Q - Unidentified Participant**

Excellent, last quick question for the fixed income folks, how much of your debt would be secured debt that will be considered senior to bonds?

### **A - Andre Nogueira** {BIO 19941317 <GO>}

How much of that is secured.

**A - Wesley Mendonca Batista** {BIO 15243148 <GO>}

Sorry say again. Can you ask again?

**Q - Unidentified Participant**

Yeah. How much of your debt would be secured debt that will be considered senior to bonds?

**A - Wesley Mendonca Batista** {BIO 15243148 <GO>}

Are you saying the bonds, always unsecured.

**A - Andre Nogueira** {BIO 19941317 <GO>}

No senior to the bonds.

**A - Jeremiah O'Callaghan**

Senior to the bonds, I am sorry, I apologize. We can follow up with you, I don't have the number top of my head. But is not, if I -- I will give you a number is more quantity. We can give you all the details after the call.

**Q - Unidentified Participant**

Great, thanks. Can I follow up with you Jerry?

**A - Jeremiah O'Callaghan**

Yes, it's actually I think it's in our prospectus of the last bond.

**Q - Unidentified Participant**

Okay.

**A - Jeremiah O'Callaghan**

I don't remember, I don't want to say the number, not to mislead. But I think it is in the prospectus. We will follow up definitely today and give you that number.

**Q - Unidentified Participant**

Great, thanks very much, gentlemen.

**A - Wesley Mendonca Batista** {BIO 15243148 <GO>}

Thank you.

**A - Andre Nogueira** {BIO 19941317 <GO>}

Thank you.

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## Operator

Excuse me, our next question comes from Mr. Alan Alanis with JPMorgan.

**Q - Alan Alanis** {BIO 15998010 <GO>}

Thank you for taking my call. Hi, Wesley. Hi, Jerry. Congrats on the results.

**A - Wesley Mendonca Batista** {BIO 15243148 <GO>}

Hi, Alan.

**A - Andre Nogueira** {BIO 19941317 <GO>}

Hi.

**Q - Alan Alanis** {BIO 15998010 <GO>}

A lot of my questions have been answered already. So I'm going to take the opportunity just to ask regarding your, more on the balance sheet, on the share count. What's your thinking regarding the shares that you have in Treasury? How should we think in terms of those? I mean, I know you still have around 3%, which is equivalent to more than 20 trading days and in the usual those shares going forward. We know that you recently used some of these shares to do a small acquisition and if you can update, if I recall correctly, I think it was in poultry, what's your latest thinking regarding poultry in Brazil, please? Thanks.

**A - Wesley Mendonca Batista** {BIO 15243148 <GO>}

Alan, we don't have any committed plan to these shares that is in Treasury. So we -- like you said, it's right, we used some shares for small acquisition here in Brazil. And if we see good opportunity here in Brazil in the beef business or small things in the chicken business, we have been holding these shares maybe to support some small transaction.

So this -- we have been holding these shares and not canceled these shares, we view that maybe some is small transaction, can show a small opportunity, can show us and we can use this transaction, these shares to do some transaction.

**Q - Alan Alanis** {BIO 15998010 <GO>}

Got it. That is very clear. Thank you so much. And regarding your longer-term thinking of - now, that we have you on the line, your long-term thinking regarding the poultry industry in Brazil, Wesley, what's your vision there?

**A - Wesley Mendonca Batista** {BIO 15243148 <GO>}

Alan, basically, look, since 2011 and '12 and till year, we are -- like I mentioned before, we are very focused internally. We believe we still have improvements to be made in our company. We are committed to improve balance sheet and generate cash.



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So I think we will see JBS growing in this sector but it's not in a big way. So we want to be doing some things a little different than the market is trying to do. So the market is already, say, busy with companies trying to build a strong business in domestic market in terms of branding and value-added type of products. So, I think a lot of people is looking to do the same and I think the market has the risk to be overpressured on the domestic market and in terms of further process, because too much peoples are looking to do the same. So we would like to go in a little different direction, try to extend and we will in a small way, extend our chicken business in Brazil, growing more to exports that being a much lower cost operator and cost structure type of business, and look, this has been working for us. We've not disclosed the chicken -- our chicken numbers, but we have been very happy where we -- in the way how we are running our chicken business in Brazil.

**Q - Alan Alanis** {BIO 15998010 <GO>}

Got it. Okay. That's very useful. Congratulations for the results. Thanks Wesley. Thanks, Jerry.

**A - Wesley Mendonca Batista** {BIO 15243148 <GO>}

Thank you.

**A - Andre Nogueira** {BIO 19941317 <GO>}

Thank you Alan.

**Operator**

Our next question comes from Mr. Luiz Miranda with Santander.

**Q - Luiz Miranda** {BIO 20971802 <GO>}

Yes, hi, good morning. Thanks for taking my call. Just a follow-up question on whether -- you mentioned on the pork, the margin of a relatively stable 46%. And you also mentioned the recovery should start in the second quarter. I don't know if you could give us your view in the medium-term, what would be a sustainable margin in US beef operations with the current situation and also you're expecting some improvement in your capacity utilization rates in these.

And my second question would be on the direct distribution. You mentioned the improvements you've made in the domestic market. But I think you also touch upon it on the Portuguese call in the export market and the foreign operations. I don't know if you could give us some color of what's the evolution there. Thank you.

**A - Wesley Mendonca Batista** {BIO 15243148 <GO>}

Yeah, so about beef in US like I mentioned and like you mentioned here in the call, we expect and we believe the market will improve in some way from the second quarter on. We are not adding capacity. So we will not increase or improve our capacity utilization in US because we need to balance in our business supply and demand. So everybody

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knows that the US herd is shrinking and there is less cattle available. So we are not going to increase capacity or to run our plants with better capacity utilization. Actually the other way around, we are also reducing in some extend, reduce some hours to balance better the market and to try to improve margin in our business.

So, in terms of margin, sustainable margin for beef, I think is a little early to say because I think we should see more the impact of Japan after close of this plant in US I think it's early to say, but look, I think the industry should have a target to run this business between 4%, 3%, 4%, 5% in this range, I think, this should be the target. I think the industry deserve and the industry can run this business in a range between 3% and 5%.

**Q - Luiz Miranda** {BIO 20971802 <GO>}

Thank you, Wesley. That's very helpful for that.

**A - Wesley Mendonca Batista** {BIO 15243148 <GO>}

Thank you.

**A - Andre Nogueira** {BIO 19941317 <GO>}

Thank you, Luiz.

## Operator

Our next question comes from (inaudible) with JPMorgan.

**Q - Unidentified Participant**

Hi guys, thanks for --

**A - Wesley Mendonca Batista** {BIO 15243148 <GO>}

Hi, Isabella [ph].

**Q - Unidentified Participant**

Hello, hi. My question is regarding dividends, J&F was recently in the market trying to do a bond and I think one of the explanations of sources for cash flow was, exactly dividends from JBS. So I just wanted to know, if there is any possibility you increase your dividend payout at both the minimum 25 over the next three years or so to repay debt at the holding.

**A - Wesley Mendonca Batista** {BIO 15243148 <GO>}

Isabella basically for '12, we are proposing a R\$107 million, that is 25%, that is the minimum in Brazil, when you are in the new market. So to increase dividend for '13 or '14 or in this coming years, for sure, will depend the results and the balance sheet. And we have a clear target to delever our balance sheet. So we want to reduce leverage, we believe we can reduce our leverage this year closing to 2.5 times leverage by the end of

the year and we would like in '14 keeping the leverage in our balance sheet to around two times leverage.

So if we generate more cash, but don't compromise our target leverage, yeah, always we can propose more dividend.

### **Q - Unidentified Participant**

Okay, great. Is there a number that you guys are working for 2013 already, dividend estimates or no?

### **A - Wesley Mendonca Batista** {BIO 15243148 <GO>}

Say again?

### **A - Jeremiah O'Callaghan**

Dividend estimates for 2013.

### **Q - Unidentified Participant**

For 2013, do you have any dividend estimates?

### **A - Wesley Mendonca Batista** {BIO 15243148 <GO>}

No. No, not yet.

### **Q - Unidentified Participant**

Okay. All right. Thank you very much.

### **A - Wesley Mendonca Batista** {BIO 15243148 <GO>}

Okay. Thank you.

### **A - Andre Nogueira** {BIO 19941317 <GO>}

Thank you.

### **Operator**

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

### **A - Wesley Mendonca Batista** {BIO 15243148 <GO>}

Well, thank you, you all to be in our earnings call. Look forward for a good and strong 2013. Our team is 100% committed to what we are saying to the market and we believe the team is well formed and well organized and set to deliver a good and a strong result in 2013. So thank you. Have you all a good day.

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## Operator

This concludes JBS SA audio conference for today. Thank you very much for your participation and have a good day.

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