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Bloomberg Transcript

Q1 2020 Earnings Call

Company Participants

- Lorival Luz, CEO
- Patricio Rohner, VP
- Sidney Manzaro, VP

Other Participants

- Isabella Simonato, Analyst
- João Soares, Analyst
- Leandro Fontanesi, Analyst
- Lucas Ferreira, Analyst
- Luciana de Carvalho, Analyst
- Thiago Duarte, Analyst
- Unidentified Participant, Analyst
- Victor Saragiotto, Analyst

Presentation

Operator

Good morning, ladies and gentlemen, and welcome to BRF's First Quarter 2020 Earnings Results Conference Call. We would like to inform you that this conference call is being webcast online at brf-br.com/ri, where the presentation is also available. (Operator Instructions)

Forward-looking statements during this conference call regarding the company's business outlook, projections and results as well as the company's growth potential are merely assumptions based on the management's expectations regarding the company's future. These expectations are highly dependent on market changes, the overall performance of the country and the industry and on international markets and are therefore subject to change.

We would like to remind you that this call is being recorded. This call will be presented by Mr. Lorival Luz, global CEO, and we also have other executives from the company present. We would now like to turn it to Mr. Lorival Luz, who will begin this conference call. Mr. Luz, please go ahead.

Lorival Luz {BIO 16180455 <GO>}

Good morning. Thank you. First of all, I'd like to greet you. Thank you for listening in to our earnings conference call for the first quarter of 2020 at BRF.

First, I'd like to inform you that we are publishing this from home. We are respecting the quarantine regarding COVID-19. So if there are any occurrences during this call, I'd like to apologize in advance.

This presentation should last for an hour. We're going to be talking for about 15 to 20 minutes at first, and then we'll open up for the Q&A session immediately so that we can talk more about our results in the company.

So we start off on Slide 3. What I'd like to highlight here is shown on the slide. We have four indicators, which were very important and relative for the company, and the results are shown here for the quarter.

The first of them is our 8.1% growth in total sales volume. And this is especially true in Brazil, 10.7% growth here, and the domestic market grew 6.6%. Important to highlight, in Brazil, the growth of processed foods representing 14.9%.

In other international markets, we saw robust growth up over 13%, which was boosted by China, which had 89% of the growth. And this is also the result of the effort we put in over the year, releasing new plants to export to China.

And our net revenues, you can see that we had a relevant growth of 21.6%, where Brazil represented a growth of 18%; and in the international market, 25.6% of growth. This was especially from Asian and African market as well as the Americas and Europe, which had a growth of 45.9%, and the Halal market also had a growth of 14.5%.

Now looking at the third item, gross profits for the company. The growth we saw was 48.5% year-on-year, and this is across all markets. Brazil had a growth of 37.4%, and the international market had a growth of 58.3%. Where we can highlight on the growth in other markets, as I said, Asia, Africa, the Americas, which grew fourfold to BRL 523 million.

Concerning the adjusted EBITDA, we had an important growth of 67.2% year-on-year, where Brazil presented a growth of 63% and the international market grew by 83.7%. The international market, as I said, had a growth of 89 -- from BRL 89 million to BRL 445 million.

So this is how much the international market grew, especially Africa, Asia and the Americas. The next page of our presentation highlights the consistency of our results, reaching a new level for the fourth consecutive quarter.

So both for gross margins, where we reached 25% on average and the adjusted EBITDA margin, which reached 14% across the last four quarters. So this shows the alignment that the company has and the discipline we've had in delivering what we planned in our strategy.

So everything that we have published has been followed since 2018. And it also shows how our management is based on the company's long-term perspectives where, as we've said, decisions are made respecting our chain and respecting the nature of our company, which is to have long-term strategies. And of course, we have to manage the short term. But our goal is to have a long-term performance.

So I'd also like to thank the engagement and commitment of over 90,000 employees that BRF has and also the support of our Board.

So in the first quarter, we delivered a gross margin of 25% and an adjusted EBITDA margin of 14% and EBITDA, BRL 1.2 billion. I'd also like to highlight here that among this BRL 1.2 billion, we also have the provisions that we laid out to prepare the company for the impact that we might have due to COVID 19.

So about BRL 65 million is dedicated towards that provisions for COVID-19 and other contingencies. Which are already included in these results here. In addition to that, as you saw in the report, the company had a loss of BRL 38 million in this quarter.

But this was due to these provisions, which I've mentioned, besides the negative impact of the currency exchange of BRL 123 million and the provision for the class action, which was concluded in the U.S., which also had an impact of BRL 204 million.

So we have that negative result, which received a negative contribution from -- of around BRL 390 million due to all of these adjustments and impacts, which I just listed.

Now to talk about the challenges that we faced during the first quarter. It's important to highlight that 2020 has been a year of many uncertainties, a lot of volatility. We have been working here intensely from the beginning of the year to try to mitigate them.

We're learning, of course, with the experience that we saw in other countries, we're making -- basing our decisions on the information that we've received from other places so that we can make the best decisions for the company.

So in 2020, it's been a very challenging moment, and the company is trying to do its best. And of course, we have to have solidarity with everyone else.

So we see that in the beginning of the year, we were already facing some challenges. There were many questions on contract negotiations in China. You might remember that. And the company since then has done all it could to have a very relevant position to have a good long-term contract with China. So we didn't suffer any impact from that, and that shows in our results.

In February, we also had additional challenges regarding a suspension of our exports in a couple of plants, so we managed to redistribute that to other plants so that we didn't suffer a great impact.

And in March, with the pandemic being declared for COVID-19, that is something that we had to work on in managing our operations here in Brazil. And the class action, which I've mentioned before, came to a conclusion. I just want to highlight how important it was to conclude it right now, which is really our strategy to turn the page so that we can move forward in operating the company.

Now to talk specifically about everything we've done regarding COVID-19. I think from the beginning, we started focusing on three main goals. One of them -- or the first of them was to take care of the health and safety of all of our employees and everyone who is involved in our production process. Our second was to work effectively, being aware of our responsibility in this moment. We run an essential activity, which is to produce and distribute food to the population.

So we are protagonist during this moment. And the third was to also work effectively and with solidarity to others in such a difficult moment. And that's why we announced from the beginning that we were going to provide donations of over BRL 150 million in food.

But it also included hospital equipment, hospital supplies and research funding for -- in order to find a treatment for COVID-19. So we also announced that we were hiring about 5,000 employees a goal was to ensure production capacity during the pandemic.

Moving on to the next page. We're now on Page 7, and it discusses COVID-19 and its impact on the first quarter of 2020. The demand, as we've said before, was stable, and it remains stable on an aggregate basis in Brazil. Of course, there was an impact on channels, especially food service. Exports were not affected by COVID-19, and we've kept the same workflow as we had planned before from the beginning.

Continuing with the next slide, I'd just like to briefly make a side note from COVID-19. Just to remind you that African swine fever, ASF, is not being so wildly discussed. But it still continues. It's still there.

It's a problem that hasn't been solved so far. We see that the production in China dropped by 26%, and we expect to see a further drop of 20%. And obviously, as we said, in other opportunities, this is reflected in the number of hogs [ph [ph] of about 50% since September 2018.

I'd just like to reinforce the message that I previously said. The demand from China for protein will continue. It will remain strong throughout 2020.

So we are still far from the end of the cycle. We see that our breeding cells are recovering. But they are low to -- excuse me, slow to recover, which makes this recovery a little bit slower.

So referring to some of the operational highlights we had in the first quarter of 2020. In Brazil, we saw that our client basis and the number of items per client went up as well as our net revenue, as I've said. We also focus on innovation with a new line being launched in this quarter.

Also in the international market, we saw robust growth, which demonstrates once again that the company has been present and effective in international markets, and it's also working very effectively in the logistics so that we can supply for the robust growing demand that we see internationally. So that's how we're working.

And in the Halal market, we also had a market share growth, a lower growth in terms of volume and revenue. But I just wanted to highlight the three points. In the first quarter of 2019, if you remember, was when the Halal market suspended a number of exports from Brazil, which made prices go up, and that generated an opportunity we had in the first quarter of 2019.

And in the first quarter of 2020, we had some challenges in Turkey regarding exports to the Iraqi market, which started again in the last quarter, so we suffered an impact there. And also the suspended exports to Saudi Arabia, which ended up having a negative effect.

Moving on to the next slide, Slide 10. Just to make sure this is our strategy. We've been talking about it, and that's how we've been acting in operating 2019, 2020 and the expectations for 2021. Of course, in 2020, we have this challenge presented by COVID-19, and we'll be talking about what kinds of impacts that might have.

On the next slide, Slide 11. We have a picture of how we're robust our financial strategy is, talk about our financial leverage. We are now sitting at around 6x early '19. And now today, first quarter 2020, we are at 2.68x.

The numbers on the top of the slide are worth noting. The growth back came mainly from an FX variation, especially as it relates to our dollar bank debt at around BRL 3.3 billion. In terms of Capex, we are around BRL 490 million [ph].

But I'd like to highlight our operating cash flow, which sits at an amount, BRL 1.5 billion. Our debt went up. But it was driven by a noncash effect, mainly due to FX variation.

In such a way that our leverage now at 2.68 has an impact of 0.36x, which, of course, as I said, was affected [ph] by the FX variation on our debt. That FX impact, if you were talking about a U.S. dollar at around 4.0, we will be having a leverage level of around 2.3x.

Our cash on the next slide, slide 2020 [ph] remains quite robust. Our net cash sits at around BRL 9 billion, have reinforced throughout March our cash position of new hirings to maintain our cash in a robust level. We have our credit facility at around BRL 1.5 billion, [ph] which provides a liquidity level of around BRL 10.5 billion.

It's also important to note that average term for debt has been going up with the new operations that were conducted last year, so the average sits at around 4.5 years now.

And the maturities in foreign currency will only start in mid-2022. Investments made in 2020, 2021, mainly coming from operations done in Brazilian real.

Moving to the close of our presentation. We have a list of our pillars for our long-term strategy, and that's what grounds our company's long-term expectations, working towards achieving those objectives. In more detail, we seek to have a high-performance organization, focused on management stability, diversity and force, looking at the company's assets.

I'd like also to reinforce the next pillar of our strategy and the Arab market, very important. We have just acquired a company in Saudi Arabia to produce process cycling. We're increasing our production capacity by fivefold. And that, of course, aims at reducing the effect of other companies, especially the one in Abu Dhabi, which has been brought to a halt.

And that, of course, has consequences on all the other initiatives. And you see the results in our Excellence program aiming at more efficiency, better management in the operating commercial and logistics front. We've seen the results with operating margin going up and also the EBITDA margin, which has been delivered this quarter.

Moving on to the final slide of the presentation, a summary of the four main events for this first quarter. Once again, a very solid and robust result has taken the numbers to a different level. We have taken proactive measures to fight COVID-19.

The focus has been on people, on continuing production and be able to bring food to people's tables, always following a very strict financial discipline. And before I (inaudible) I'd like to say that the pandemic is a recent event. It started early March.

So in the second quarter, we'll certainly have all the main impact coming from these last three months. But we are trying to address and manage those impacts. My expectation is that from the demand side, which we always address on the mid- to the long run, so I can tell you that demand tends to be somewhat stable. But of course, there will be differences between different channels, different categories.

But the perspective is somewhat positive, given the effect coming from a potential recession across the globe. But we can to benefit, especially from chicken protein given the quality that we offer in terms of chicken protein. And also in cattle, our quality is recognized. So in a recession environment, we tend to believe that quality will be much valued.

On the offer side, on the supply side, of course, we are going to face big challenges in terms of low supply. And as the disease of the virus advances in different areas of the globe, the different cities, different plans, production plans will be affected.

And of course, we also have to keep in mind that decisions might be taken by government or local administration that will affect us as well. With that, I close the first part of the presentation, and we'll start the Q&A session.

Questions And Answers

Operator

(Operator Instructions) First question from Citibank, Mr. Soares.

Q - João Soares

Can I ask two questions?

A - Lorival Luz {BIO 16180455 <GO>}

Yes.

Q - João Soares

Yes. Okay. Well, first one about processed items. The price of the swine in Brazil dropped significantly, so that might have led to some kind of impact and (inaudible) relief in the price of processed items in Brazil. Can you give us some more color on that?

And you also mentioned about chicken and the supply of chicken. The COVID-19, specifically for chicken, we saw in the U.S., quite a strong adjustment, especially in the second half of April, we (inaudible) the health conditions of the chicken, eggs being broken.

Can we see a positive impact in pricing in the second quarter, globally speaking? And do you see any kind of -- or somewhat similar adjustments being made here in Brazil?

A - Lorival Luz {BIO 16180455 <GO>}

Thank you for your question. I'll address your two questions together. Number one, and under this scenario, in the second quarter, we need to pay attention to the short run dynamic. I'm sure we'll have a very volatile scenario.

As I mentioned, we might see a drop in local market in terms of prices for swine and chicken. But we're always looking at the mid run when we make our decision, and we're trying to look at the overall picture. And then we go to your second question.

On based in our experience, based on what we see happening in the U.S. right now and based on the level of the stock that they have right now, we imagine there will be a reduction in production capacity and the production for the second quarter, coming from two factors.

A different pace of advance for COVID [ph] in different regions that might lead plants to operate with fewer employees, depending on where they are located. And others might reduce the number of employees as a preventive measure to avoid a higher impact on production. So that's what we have been seeing around the world. What do I mean by all of that?

That drop in pricing, which we might see happening sometime in the second half, I do not expect it to affect the price process items. Why not? Because given that production scenario we have now, this would lead to a different level once again in terms of supply.

So we see a scenario where we'll have a higher stability of prices, both for process items and for prices as a whole. But of course, we need to keep close attention, what impact we might have, both in terms of housing and in terms of production capacity and then depending on measures that are taken by government professionals and local authorities.

When we have that in hand, then we might have some difficulties in supply that might lead to product lacking in the market. And then we'll have an imbalance in supply and demand, and that will reflect and market prices, no doubt.

Operator

Next question from Isabella Simonato from Bank of America.

Q - Isabella Simonato {BIO 16693071 <GO>}

I'd like to address two issues. Number one, Brazil's revenues, the volume of processed items. And then we see a lot of share in the first quarter when compared to last year's fourth quarter. I'd like you to share with us how you see the dynamic by category and? How -- what kind of impact will have in market share in the second quarter?

And also costs, we see a cost, which is quite controlled despite the increase in grain prices. You had enough growing stock for the first quarter. But how can we look forward in terms of cost? Especially if we do have stable demand as you just predicted?

A - Lorival Luz {BIO 16180455 <GO>}

Okay. Isabella, thank you for your question. As for revenues in Brazil, it is a very important pillar of our strategy. I'd like to congratulate our commercial team and all channels of categories for the strategy they put in place and by the level of service they provided to meet demand.

Throughout last year, as we had predicted, we prioritized the company's profitability even under a scenario where we had some loss of market share. But I do believe we have recovered that in the past two months.

When we look at the last few months, we can see a recovery in marketing and other categories for process items. And that is our strategy: profitability. But with a strong positioning of our market share when we see a growth of 15% year-on-year from what goes against that drop in market share year-on-year.

But that also goes to prove that our activity in different channels. We reflect that. I only have a cash-and-carry channel. Things operate differently. And that's why the different -- difficult to have a overview of that. But again, we always have our eyes on high profitability and the right position in different channels, different categories.

So to focus on innovation, new launches value-added products, that's the (inaudible) company intends to thread throughout this year. Of course, we'll need to make adjustments because this is a very special different year because of the COVID-19. As for your question about cost, we have been announcing our cost reduction measures.

I do believe we are well positioned, especially for the first half of this year in terms of costs. We are positioned to buy inputs from the four different regions, and that number dropped in the first quarter.

We hope to extend this strategy steady throughout the second quarter as well. And that has allowed us to avoid the possibility of making purchases at the peak of the crisis because we were well adjusted in terms of inventory.

So we suffered -- we didn't go through all the stress presented by the peak of the crisis. We didn't have to operate in a stressed market because of our high inventory levels enough to face that period.

So the strategic management of imports and inventories was key to our strategy of keeping prices and costs under control and be able to likely manage our working capital. That's how we've been working, and that's how we are going to be working going forward.

Operator

Our next question comes from Thiago Duarte from BTG Pascual.

Q - Thiago Duarte {BIO 16541921 <GO>}

I have two questions. Number one go, I'd like to go back to the volumes of process items in Brazil. If you could give us some more color in terms of how demand advanced in the quarter?

We know that starting in March, some retail categories saw an important mix [ph] in demand. I'd like to understand if that level of growth was somewhat spread throughout the quarter?

Or was it concentrated at the end of the quarter as the effect of COVID-19 changed consumption habits? And if you could tell us that you -- have you seen something different in April?

So that we can understand the commercial dynamics that you mentioned in the previous question. And the second question, as to the Halal market in the last earnings call, you highlighted some concerns you have in terms of price demand coming from Saudi Arabia and then, of course, pressure margins in the fourth quarter.

I was under the expectation we would see something similar now. Margins, though, they were lower than others, they were surprisingly positive when compared to the past quarter. How can you interpret that?

Can we see some recovery in terms of profitability? Can we assert that profitability has improved? Can we state that an FX variation was also an important driver? So if you could give us some more color on the Halal market, I'd appreciate it, please.

A - Lorival Luz {BIO 16180455 <GO>}

Okay. Thank you, Thiago. Just to let you know, we have other people connected to answer. But since we're working remotely, that is each one in one location, we're trying to concentrate questions here just to avoid any problems with connections. I just wanted to make that clear before I answered you.

Now Thiago, regarding processed foods, I think your question was very important. It's true the company's strategy had a drop, and that was a fact. In the first quarter, you saw, especially from March, some changes to that trend. So you see, for example, margins, regaining market share. We also had an expectation for people to buy more since people are staying more at home.

So they end up consuming some more margin, and that generates an opportunity for us given the leadership we have in that sector. Also, cold cuts saw some recovery, which was important and relevant in terms of market share.

So there was a growth there. And again, that was an impact from the consumption changes that people have had overall.

So Thiago, it is important to highlight that we're on the right path. We're launching new products in terms of processed foods. But now to answer your question about how things are doing in April. Well, Thiago, how people behave and how they consume is a variable that we are trying to service, and they've been different now.

So really, in fact, we had a relevant reduction in the food service channels. And on the other hand, you had an improvement in a relevant side of the business, which is retail, especially local retail, cash and carry, which ended up bringing some stability to offset the losses that we had and the lower demand that we had on the foodservice side.

So what we've been doing is this. We're also directing and trying to adjust our production and our production capacity to service this demand, which has shown to be more stable for now, where we should see more variability and volatility, especially in the In Natura market. In Brazil, 25% to 30% of what is sold is in the domestic market. And that means that we have a lower margin.

So as I said, we need to have a good understanding of the market because it also will generate uncertainties in terms of supply and in terms of our production capacity for the entire industry, not only for BRF.

So that's what we need to keep in mind, and we've seen that these categories are growing. Just to comment on the Halal market. It really is the market, as you said, had challenging results in the fourth quarter of 2019.

We saw there was a slight improvement. But I think we still have many opportunities to develop further. And that improvement also will come in part from the recovery in Iraq as well as the results we expect from Turkey.

This is a situation that hasn't been resolved yet. But we need to look at the exports to Saudi Arabia. This is something we have it solved. Obviously, with the current conditions, it will be difficult on Friday. We're going to start producing processed foods in Saudi Arabia.

So that will be the first Brazilian company to produce foods in Saudi Arabia. So that might also show an improvement towards our results.

So these are the main things that we are seeing right now that are showing some improvements. So we see that the Halal results in the Saudi market are still challenging in terms of volume growth, especially now with the covenant.

Operator

Our next question comes from Victor Saragiotto from Credit Suisse.

Q - Victor Saragiotto {BIO 19504427 <GO>}

Congratulations on your results. I'd just like to refer back to your introduction, just to see if I understood it well. I see there's an important discussion in the U.S. about absenteeism.

So if you could talk a bit about your position with egg laying, are you reaching the same level that the industry has? Or is RF getting prepared to have a lower egg laying considering the current scenario?

My second question is about your working capital dynamic. We saw in the first quarter, a peculiar dynamic with inventory levels and suppliers. So if you could tell us a bit about that, how should -- what should we expect from your working capital dynamic?

Because your cash conversion is reduced. Also, just I'd like to ask about Iraq again. You mentioned that some discussions have been raised. But I just want to ask if this is already going back to the precrisis levels and if you see it normalizing from now on?

A - Lorival Luz {BIO 16180455 <GO>}

Thank you, Victor. All right. So let me answer your first question about absenteeism. I would say that it's not just a matter of absenteeism. There are two things there that are important to highlight and clearly so from one side, let's call it the supply itself and absenteeism, as you said.

What tends to happen here first, as cities and states and other countries open up as they have a higher contamination level, what will happen is from the moment you have someone who has been contaminated, we have to actively seek their family members or people around them, and you end up having people being away from work.

But this is something that happens naturally, and that can lead to a reduction in the number of staff and in production capacity. And that's why in the past, we have made additional hiring to, in a way, offset this reduction in our production capacity.

So I, again, have to say that it does tend to happen. It would be impossible not to -- not for it to happen because of course, the contamination is still spreading. But on the other hand, you can have some measures taken by some local authorities that might start a lockdown or might suspend your activities at a plant. So you also have that effect.

So I've seen overall in other markets that we have to be careful and look at what's being done. And this is what we have been doing. We've been very careful about these factors. The idea is to adapt our housing and adapt our future slaughter capacity.

You know how our chain works it's a living chain, which cannot be contained immediately. So you have to anticipate what will happen. So that's what's ideal. The idea is to avoid stress points where the alternative would be culling.

So that needs to be done very carefully with a lot of responsibility, and you can be sure that BRF has been doing this very effectively. Regarding your question on working capital, we've been very efficient in managing our working capital.

But I have to say that I want to reinforce that right now, our management is to -- is being done in order to supply our clients, supply their needs and to hold back some effective inventory so that we can service our consumers.

So what you can expect for the second quarter, Victor, is that BRF will do everything it can, everything that's necessary to supply the population and our consumers with what they need. Even if at a certain point, we might have to hold back more inventory than we usually do because in the future, we might have challenges, the market have some challenges in operating that supply.

So that's what we're going to do. Managing working capital is important. We do it with a lot of discipline. But it's not what's going to dictate are the decisions we make. We have to make sure that we have the capacity to have the inputs we need, such as grain, have the appropriate level inputs to avoid any kind of difficulties or stress that we might have.

Regarding exports to Turkey, I'm going to ask Patricio to answer. He is here and he can give you some more detail because he's working on that every day. Patricio might be able to give you some more information on how that curve is going and how that response has been. Patricio?

A - Patricio Rohner {BIO 19686996 <GO>}

Perfect, Victor. Thank you. To answer your question on Iraq, Iraq started recovering earlier this quarter. But we're working on a strategy of diversifying our exports.

So we are developing products for -- welcome. And then we see that we are able to export it to other countries like Libya, which were unexpected. So exports are higher than our historical level. I don't know if that answers your question.

Q - Victor Saragiotto {BIO 19504427 <GO>}

What did you say at the end? You said that you have historical highs?

A - Patricio Rohner {BIO 19686996 <GO>}

Right. So our exports are at a -- higher than the historical level because we had some opportunities and we had already worked months before to try to diversify our exports to offer some specific products for the Gulf countries.

So that was a pleasant surprise. We didn't expect that these exports would come so quickly. So right now, we're at a very healthy position in terms of exports.

Operator

Our next question comes from Mr. Lucas Ferreira from JPMorgan.

Q - Lucas Ferreira {BIO 16552031 <GO>}

So Lorival, my first question is about China. If you could tell us a bit more about how the Chinese recovery is doing in the last few weeks, so to say. So what should we expect for the second quarter? If you're -- I know that there are some logistic issues. But how is the flow right now towards China growing?

And if you could tell us about results specifically, not necessarily only about China. But how much did it contribute to your strong results? And should we see any changes in the trends we saw so far?

A - Lorival Luz {BIO 16180455 <GO>}

Okay. I'll answer your question, and then I'll ask Patricio to add some information. But Lucas, as we said, from early January, when we got several news that China was asking for contract renegotiation, we said that in our case, we were not open to that, and we can see that what we had believed was true.

It really did end up happening. So we work in China in a very structured way. We have consistent partnerships with clients.

So in terms of logistics, definitely, there will be challenges. There were many challenges in the first quarter. There are new challenges now in the second quarter. But we've been working ahead of the problem to try to avoid any impact on logistics.

So it is a challenge. But our teams based on the relationships that we have and our way of working have been doing very well.

So we've been able to minimize the impacts we've had. And another important point that I have to mention before I pass the floor to Patricio is -- remember, what we showed in terms of protein production in China, African swine are still there. Their herd has gone down significantly. It hasn't recovered.

So 2020 will, no doubt, be a very relevant year for exports to China. They're going to have a strong demand and high prices given the scenario on the context. So I'll let Patricio answer anything that I didn't.

A - Patricio Rohner {BIO 19686996 <GO>}

So Lucas, just to make a quick comment. China started some sorted pressured this year. They had excess to fly, many containers being renegotiated. And China was improving its stocks despite all the problems that Lorival explained. Our estimate was that the demand would go up for exports.

What -- the results we saw were higher than the expectation. After the Chinese New Year, people tend to have a higher demand so the local stock was pressured significantly, and the logistics right now are a bit difficult. So releasing the container so that we could go back to exporting countries.

So in February and March, we had some issues with that. But then March begin to normalize that, and the situation has improved. There was also a volume that we were expecting from the U.S.

But you might know that the situation for production in the U.S. has led to a different result. The provision of the consumption of animals from what markets was imposed, and that ended up resulting in a better situation than we expected. Thank you.

Q - Lucas Ferreira {BIO 16552031 <GO>}

Lorival, if I may. I have a second question. This has been thoroughly discussed. But maybe Sidney could have something to the discussion. What can we expect for different channels vis-à-vis this new COVID-19 reality?

Where do you see consumers going? Are they going to consume (inaudible) by the second they reach out closer to home? So what kind of change in the channel dynamics that you expecting?

And an overall comment on the product mix, if you could. Have consumers gotten used to the new supply dynamic? Would they not be looking for products with higher added value or not? What can you tell us about what you witnessed for the past few weeks in terms of consumer habit?

A - Lorival Luz {BIO 16180455 <GO>}

Thank you, Lucas. I'll turn the floor over to Sidney, and he'll comment on the change of behavior for the different consumption channel. Sidney, can you hear?

A - Sidney Manzaro {BIO 17678250 <GO>}

Yes. And Lucas, thank you for your question. What we have seen in terms of changing behaviors is the following. People used to consume outdoors and how they consume indoors.

That's a very concrete change we have witnessed because, of course, restaurants are closed. And of course, that leads to a change in the channels, especially in what relates to transformation in the foodservice area. As consumption migrate to homes, consumers will buy more in retail, and that's a concrete change.

So the mix for retail is different from the retail, from the mix and food service. And that mix for retail, of course, grows. We are well-structured to meet the high demand and coming from retail.

And of course, as you said, people are buying some places close to home, mom-and-pop stores, larger chains. In any event, we have strong brands, and we are -- and we do have a very large footprint across all those channels. We do have, of course, supply plans in place which are monitored closely so that we can follow-up on the growth of that close-to-home retail, if I may.

That's where we see the main impact in terms of behavior change. Once again, we are well positioned. We have good market share, strong brands. And all of that combined allows us to keep up with this change. Okay, Lucas.

Operator

Our next question comes from Mrs. Luciana Carvalho from Banco do Brasil.

Q - Luciana de Carvalho {BIO 18724665 <GO>}

Lorival, quick question about CapEx. Just to see if I got it right, given this higher concern with liquidity, how can we look at CapEx spending going forward?

Are you thinking about reaping opportunities that might emerge? Or would you think about new acquisitions? Just to clarify to make sure I understood what you said in the presentation.

A - Lorival Luz {BIO 16180455 <GO>}

Thank you, Luciana, for your question. Yes. You're right at that. [ph] In this scenario, we are more cautious stance in terms of CapEx.

Those initiatives towards improving production, improving efficiency we're taking gradual, cautious steps. Of course, we have continued to build our plan to serve the soft ag market that will continue. But of course, with all caution in terms of CapEx management.

As to acquisitions and other investments, which are not organic, we are being much more selective, and this will continue to be the case until we have a clear scenario ahead. We won't be making any significant move in that front until then.

Q - Luciana de Carvalho {BIO 18724665 <GO>}

If I may, just one more question about the last acquisition you mentioned. You mentioned -- you announced it last Friday. Can you give us more detail in terms of expectations, EBITDA figures?

A - Lorival Luz {BIO 16180455 <GO>}

Yes, the acquisition is quite relevant, quite strategic for the company because we now are able to produce higher added-value products in Saudi Arabia territory, and that brings to immediate effect.

We can bridge the gap, which was created because we closed our plant in the region in Ethiopia. We're now producing locally to serve the local market. We have a very strong footprint in that market with our brands idea.

So initially, you have a capacity to do 6,000 tons [ph] with seared products and branded products, and we are positioned to invest another USD 7 million that will allow us to grow our capacity fivefold and keep up with demand as it grows. So as I said, that acquisition was quite strategic and quite relevant for the company.

Operator

Our next question comes from Mr. Marcelo Marais from Santander.

Q - Unidentified Participant

One my first question is about something you have already mentioned market share and the recent moves, I can see we are quite disciplined in terms of fashion on prices. And you are closely monitoring brand preference.

So can you give us an idea of how that has been evolving for the past quarters? I'd appreciate it.

A - Lorival Luz {BIO 16180455 <GO>}

Okay, Marcelo. I'll then call Sidney to help me out here. But you are correct. This is a very relevant topic. We have working to position our brands based on campaigns, marketing campaigns.

We do that both for Sadia and Perdigão and Qualy and other brands in Turkey, and that has increased the preference for the brand, no doubt. And then for more details, other indicators, I'll give the floor over to Sidney, who can help me out here. Please, Sidney?

A - Sidney Manzaro {BIO 17678250 <GO>}

Yes. So thank you for the question. We need to be in line with our strategic planning. That's very important. That's right off the back. What's important for us to have been able to reposition the brand under a sustainable approach, that allows us to move ahead with our plans, both in terms of brand positioning and in terms of sales growth. So what can we see already?

Well, we can see results from that combination. If we analyze market share, we have -- with the past measures, we have exceeded the level of 55 of market share in monitoring. We have also evolved in cold cuts, getting close to our ideal level, which is around 50% in cold cuts. And after three consecutive periods, we are now -- we have not exceeded the 45% level for frozen items.

So that combination, as I said, good positioning of the brand and disciplined and executing. As Lorival mentioned, our excellence program, our models and plans to better structure our services, better logistics in our go-to-market approach in sales. All of that combined allows us to show a consistent manner strong results. In other words, better process, better difficulty in executing our processes.

Q - Unidentified Participant

Okay. Can you share with us a number or an indicator for brand preference if you have an updated number?

So that we can understand if that's going forward at the same pace of market share. Was there any loss, in other words, in terms of brand preference?

A - Sidney Manzaro {BIO 17678250 <GO>}

If we compare this quarter to [ph] last quarter, we see a more mid run or midterm change. We haven't brought the numbers today. But we can share those numbers with you later.

And you have a better idea of how Sadia, Perdigão and Qualy have moved forward. If you remember from our last earnings call, we had exceeded the level of 30% in preference for Sadia. We exceeded the 15% [ph] level for Perdigão and we maintained the 50% level with Qualy.

So for the three brands, when we look at the three -- the first three [ph] months of 2019 -- of the first quarter of this year. And even on an annual basis, when we compare growth, we see numbers going up. Even though we have recovered gross margins, we still invested in our brands, which are, of course, our main asset. And those campaigns go on. These companies are well adjusted to the three brands as they continue to grow.

Q - Unidentified Participant

Just one more question as to hiring those new employees to cover a potential absent as an issue at the plan. How do you expect that to impact cost? How can we see that going forward for the next two or four quarters?

A - Lorival Luz {BIO 16180455 <GO>}

All right. Marcelo. Thank you for your question. It's not only the cost of the new. Hires and as I said, the priority is to be able to maintain our production capacity. But overall, the risk of operating in this condition has been higher, and that will have an impact in the second quarter.

And that, of course, affects transportation, equipment impact inputs, PPEs offering. All of that will impact cost expenses. And they will emerge in the second quarter in the second half. But they are, of course, adjusted to the overall expenses of the company.

Operator

Our next question comes from Leandro Fontanelli from Bradesco BBI.

Q - Leandro Fontanesi {BIO 20270610 <GO>}

One question is follow-up. You did mention throughout the presentation a few of (inaudible) Just to be sure, when I look at the demand for process items or overall demand in Brazil, we see a life in retail where we can tell consumers building up stocks because of the COVID. That happened early on, right, in February and March. Now how has that affected the company's performance?

What kind of effect when we have now, May and June, as those inventories as first or early on inventory building strategies sort of ease up? And also about China, if I may. Do you already see a higher demand in that area?

When you compare consumption preference for protein, both in house and outside of the home, what kind of dynamics do you see there? What kind of impact on demand for chicken that might have?

A - Lorival Luz {BIO 16180455 <GO>}

Okay. Leandro? And then I'll ask Patricio to help me out of China since (inaudible) as Sidney has said and Lorival has said. Actually in the first quarter in an aggregate basis, the impact of, as you said, people going out and building up home inventories that happen early on.

And that impact is not that relevant, actually. Of course, you can stock some products but not all products. Our product, because it a frozen product, you are limited to the size of your fridge.

So the impact is not as relevant as it is on other products, which can be stocked in the garage or under the bed, for example. In our specific case, we see an impact. But it is less relevant than in other industries.

And then, of course, it's a similar scenario as to what we saw in China and Europe. On weekends, we see a slightly higher demand those products are consumed throughout the week. And then the weekend of -- the following week, we see a peak in demand once again.

So it is a more random or erratic type of dynamic. But in summary, no major impact because, as I said, in aggregate terms, it was -- it remains stable because in a way, it offset the drop we saw in the foodservice industry. I'd like to call Patricio to help me out in terms of China. All things have been playing out in China.

A - Patricio Rohner {BIO 19686996 <GO>}

Thank you, Lorival. Leandro, just as a complement to what Lorival has said. I am in line with what he said. Bistro (inaudible) is more consumed in China. China also set up their chicken production, and we're talking about 13 million tons in China.

And then when you set up that production, you lose control of sanitary measures of force. And so it's difficult for them to reach the levels they want. And then, of course, it's a very complex market. And of course, they do have this issue of having to distribute items nationally in a very vast country in a situation of the impact of COVID. It's a very complex situation.

So to be able to build inventory and distribute is always a mixture. And then you have also to allow consumers to year ready for that. So what we saw was an increase in demand earlier in the year. (inaudible) price went up last year. Also because of supply demand mission, it's such a huge market, right?

To feed 1 billion people, the same type of (inaudible) it is a complex issue. There is a gap, which is difficult to bridge because to be able to do that with one single protein, it's not an easy task.

Operator

We now close the Q&A session. I'd like to give the floor back over to Mr. Lorival for his final remarks.

A - Lorival Luz {BIO 16180455 <GO>}

Thank you. Thank you everyone for participating. Once again, I'd like to reward -- to thanks for the commitment, the support from all our employees, our Board and all our executive team. Thank you all for participating in our call. Have a nice day, nice week. Thank you.

Operator

BRF SA's audio conference is now over. Thank you for participating. Have a nice day everyone.