Q3 2017 Earnings Call

Company Participants

- André Nogueira de Souza, President & Chief Executive Officer-JBS USA
- Gilberto Tomazoni, Chief Operating Officer
- Jeremiah Alphonsus O'Callaghan, Director-Investor Relations
- [09PT62-E Jerry O'Callaghan]

Other Participants

- Alessandro Arlant, Analyst
- Bryan C. Hunt, Analyst
- Carla Casella, Analyst
- Farha Aslam, Analyst
- Isabella Simonato, Analyst
- Lauren Torres, Analyst
- Luca Cipiccia, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, everyone, and welcome to JBS Conference Call. During this call, we'll present and analyze the results for the third quarter of 2017. As requested by JBS, this event is being recorded. The recording will be available this afternoon and can be accessed by following the instructions posted on the company's website at www.jbs.com.br/ir.

Taking part on this call, we have Mr. Gilberto Tomazoni, Global Chief Operating Officer of JBS S.A.; Mr. André Nogueira, President and CEO of JBS U.S.A.; and Mr. Jerry O'Callaghan, Chairman and IR Officer.

Now, I'll turn the conference over to Mr. Jerry O'Callaghan. Please go ahead, sir.

[09PT62-E Jerry O'Callaghan]

Thank you. Thank you. Good morning, all. Thank you for being with us again today to discuss our third quarter earnings release. We posted our presentation on our website a little while ago and we will make reference to that presentation during this conference call and during our prepared remarks. And soon afterwards, we will open for Q&A. So, please make reference to the presentation and to the disclaimer in that presentation as well.

I will now hand you over to Mr. Tomazoni for his prepared remarks. Thank you.

Gilberto Tomazoni {BIO 2090061 <GO>}

Thank you, Jerry, and good morning, everyone. Please turn to slide 2. This quarter, we saw one of our best operational performance to-date. Revenue was up in every one of our business unit, except in our beef business in South America.

Excluding the contribution of the investment in Argentina, Paraguay, Uruguay beef business, we achieved a 1.8% increase in net revenue year-on-year. With Argentina, Paraguay and Uruguay transaction as well as our sales on Moy Park and Vigor after the end of the quarter, our divestment has generated nearly BRL 6 billion, which is in line with our stated target.

These proceeds has helped the company to reduce debt and to further straighten our balance sheet. Our leverage is now below 3.5 times. We now have the lowest leverage in our sector in Brazil, and at end of the quarter, our total liquidity was higher than our short-term debt.

Our operation performance is very strong during the third quarter. We reported an impressive improvement in free cash flow, the majority of which was generated by operation. Shortly, André will elaborate on the performance of our international operation. But before he does, I want to emphasize that beef business is performing much better than the market.

In Brazil, we clearly have work to do in our beef business where volume has fallen short of our optimal levels. However, the improvement in our Seara business is positive and reflects the strength of the business and the brand. Overall, we have achieved a record EBITDA result with an impressive improvement year-on-year. This was supported by continued focus on the effective management, innovation, and quality.

It is also important to highlight that this quarter results includes the impact in a special tax program also known as PERT. Excluding effect of PERT, net income for the quarter was BRL 1.5 billion.

[09PT62-E Jerry O'Callaghan]

BRL 1.9 billion.

Gilberto Tomazoni {BIO 2090061 <GO>}

BRL 1.9 billion, sorry. BRL 1.9 billion. Thank you, Jerry. Moving to slide 4, I will now briefly discuss the performance of Seara in Brazil. Net revenue from Seara was relatively stable. Solid domestic performance supported by increased volume, was offset by lower export and a reduction in average domestic sales price compared to last year.

I want to point out that in our processed products in Seara, we were able to keep the price increases achieved in the second quarter while also increasing our volumes by 5.5% this last quarter. This fact is very important as it clearly show that the power of Seara is very – in the very competitive market is impressive that the speed of which Seara has closed the price gap in most categories. Our strategy has always been to focus on the consumer and to improve their performance of our brand by opening innovative products in the best quality.

You can see in the next slide an example of this innovation. From an export perspective, all international markets are improving and we are starting to increase volume in this market where we had reduced our production because of profitability. Seara's EBITDA increased by 51.9% over BRL 500 million and the margins have expanded over 370 basis points to 11.1%, supported by higher demand and a reduction in raw material cost.

Now, turning to our business – beef business in Brazil on slide 6 (sic) [5] We reported a decline in net revenue through the Argentina, Paraguay and Uruguay by investment and operational challenge to led to a reduction in processed cattle. However, our business has the three top of main brands. It's very competitive, created locally and has an excellent management team.

Because of that, we have maintained our capacity and we are confident that we'll achieve turnaround results in this business. While this business unit is very important and relevant to Brazil, it only represent 12% of our global operation. This fact demonstrates the benefit of our diversification, both geographically and by protein (08:08)

Before I hand over to André, I want to say again that from an overall JBS perspective, we are very pleased with our third quarter results. We have an experienced, a stable operational management team and a strong track record of excellent quality innovation across our product and service. We are excited about the outlook of JBS in the future. Looking forward, we see significant opportunities to continue to strengthen (8:46) and to grow our business.

Now, over to André.

André Nogueira de Souza {BIO 20244486 <GO>}

Thank you, Tomazoni. Good morning everyone and thanks for your time this morning. Before getting in each business units, let me give you a brief overview of JBS U.S.A. It encompass all the company's operational site in Brazil, which is to say, United States, Canada, Mexico, the UK, Europe, Australia and New Zealand. Please note that all financial figures discussed from hereon are in U.S. dollars.

In terms of performance of our international operation in the third quarter, sales were up 9.1%. Volumes were up 4.8% and price increased by 3.6%. We achieved a record EBITDA, which is up 60% on the previous quarter. Now, I'd like to go through the business units.

Let's start with JBS U.S.A. Beef. Please turn to slide 6. I'm pleased to report that our outstanding results were primarily supported by strong performance in U.S.A. and Canada. JBS U.S.A. beef operation achieved record results with EBITDA margins expanding 229 basis points to 7.3%. This performance was underpinned by a 3.2% increase in net revenue to $5.5 billion as domestic market price increased by 4.1% and exports grew by 13.4%.

Operation in the U.S. and Canada maintained their solid performance as a result of strong demand in both domestic and export markets, as well as favorable supply dynamics. Our solid performance is still below our expectation and below historical levels, but at the same level last year as the region continues to rebuild the herd following the drought.

Regardless, this performance was positive for the Primo Smallgoods. But let me emphasize that we're really proud about the work that our Australia team is doing. The only circumstance that the performance is below the expectations because of the (11:04) is not related to the outstanding job that the team is doing there.

EBITDA for our JBS U.S. Beef business increased by 50% to $405 million and, again, reported record EBITDA margin of 7.3%. This positive trend across the various regions where JBS U.S. Beef operates has reinforced our confidence in the outlook for the business.

Move to the slide 7. Pork operation in the U.S. outperformed strongly, reaching a 15.1% EBITDA margin and a 116-basis-point uplift, highlight the consistency of the business. This was support by a net revenue increase of 25% to $1.7 billion, with a strong domestic and export demand. EBITDA was $255 million, 35% higher than the third quarter in 2016. This improvement was a result of great availability of supply and a 400-basis-point increase in the operational margin of the plants acquired in 2016.

When I acquired the plant at that time, we said that was an important gap between the legacy JBS operation and the new plants that we acquired. In those two years, we worked hard to close this gap and improved the margin 400 basis points. During the quarter, we complete the integration of Plumrose and we start to capture the synergies we'd anticipate.

Finally, let's move to slide 8 and discuss our poultry operation. Pilgrim's Pride Corporation, which now also includes Moy Park in United Kingdom and Europe, announced their third quarter results last week and reported very solid performance. Net revenue was $2.8 billion, a 12% increase compared to the same period last year. Please note that this will includes Moy Park results in both quarters.

Net revenue from U.S. operation increased by 12% compared to the same period last year, driven in part by the integration of GNP assets, which took place in May and increase in poultry sales price in U.S. In Mexico, net revenue increased by 11% due to increasing both volumes and price as we continue to ramp up our Veracruz operation.

Lastly, in the United Kingdom and Europe, net revenue also increased by 11%, driven by higher volumes. The EBITDA for the quarter was $463.6 million, an 84% increase compared to the third quarter in 2016. This was mainly the result of a strong results from PPC domestic and international operations, which experienced a strong market demand for poultry and stable production costs.

The diversification of PPC product portfolio continues to be a source of strength, allowing the company to benefit from opportunities in each of its business units. So, with that, I want to reiterate that JBS S.A. has performed very well. Year-to-date, we have outperformed the competition in each one of our business segments. I'm proud of our team's performance and I would thank the team members and leaders in JBS S.A. U.S.A. for their hard work which has made this such a successful quarter.

I'll now hand the call back to Jerry.

[09PT62-E Jerry O'Callaghan]

Thank you. Thank you, André. Thank you, Tomazoni. Now, to finalize, I'd like to talk a little bit about our financial highlights, making reference to page 10 in our presentation. On a consolidated basis, we had BRL 41.1 billion in net sales; very, very similar to the same number last year. Remembering that there was the divestment of the operations in Paraguay and Uruguay and Argentina, and there was a depreciation of the real when comparing the quarters of about BRL 0.09.

Gross profit came in at BRL 6.9 billion. That's up more than 28% from the corresponding quarter in 2016. Gross profit margin was 16.7%, up from 13% in the corresponding quarter. EBITDA came in at BRL 4.3 billion; again a substantial increase from the corresponding quarter last year, up 37%, with an EBITDA margin of 10.5%, up from 7.6% in 2016. And net income – net income was affected by the tax plan to which we adhered recently. Excluding the effect of the tax plan, net income would have come in at BRL 1.9 billion, up more than 100% from the corresponding last year. The net income we reported was BRL 3.23 million (sic) [323 million] adjusted for the tax regularization plan which we announced last week.

Moving on to page 11 in our presentation to talk about cash generation. Very strong cash generation in the quarter. We had BRL 2.8 billion of operational cash flow, up 91.5% from the corresponding quarter in 2016. And free cash came in at BRL 3.22 billion, up more than 300% from the corresponding period last year.

Moving on to debt and leverage. Our net debt reduced by BRL 4.8 billion compared with the previous quarter and leverage reduced from 4.16 times down to 3.42 times from the second quarter 2017 to the end of the third quarter in 2017. Cash at the end of the quarter was BRL 14.1 billion, and in addition to that cash position, we had available unencumbered lines in the U.S. of just north of $1 billion, BRL 3.28 million, so our total liquidity at the end of the period was BRL 17.4 billion, and that is above our short-term debt for the period.

The breakdown of our debt profile. Firstly, by currency 94% of our debt is in U.S. dollars with an average cost of 5.21%, 6% is in real with an average cost just on the 10%, 9.87%.

By source, 37.5% of our debt comes from the debt capital market and 62.5% from commercial banks.

By company, just over 50% – 54% at JBS U.S.A., 36.3% at JBS S.A. and 9.6% at Seara. And the profile of the debt is – the portion of the debt in the short-term has reduced from the previous quarter down to 27% of the total debt. And of that short-term debt, three quarters of that is in trade finance basically out of Brazil, where there are many lines available which were all in the short – in the near-term.

So with these comments about our financials, this concludes our prepared remarks. And now, we would like to open the call for Q&A, please. Thank you.

Q&A

Operator

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

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

Hi, Bryan.

Q - Bryan C. Hunt {BIO 1530288 <GO>}

Hi. Good morning. Thank you for your time. I was wondering, first of all, when we – I would like to ask one question about fundamentals. When you look at the U.S. hog market with all of the capacity that's comes online in the last couple of quarters, it looks like hog prices have run up, margins have tightened the business a little bit. How do you see the business playing out over the next 12 months? Do you expect hog prices to fall back to a lower level and to get a little bit more normalized profitability as we go into 2018?

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

Bryan, it's André. So, good morning. If you look at the historical growth of the hog in U.S., you'll see that what we grew in the last three or four years plus what to expect to grow for next year, should be enough to face the new capacity that's coming online. So, yeah, we expect normal margin – normal level of margin for 2018. Of course, the quarter was very, very strong, but we expect that 2018 will play very similar to 2017 for the full-year despite of the new capacity that's coming online just because of the growth in the supply side that has been growing at pretty strong pace in the last three years and is set up to grow again for next year around 3%.

Q - Bryan C. Hunt {BIO 1530288 <GO>}

Very, very good. My second question is if you look your debt structure, the company has got $1.7 billion maturities when you look at the long-term debt in the next three years. And there's another $1.2 billion right behind that in 2021. So, I was wondering, what's the thought process on addressing some of the longer-term debt that's in the windshield and about to become current within the next 18 months?

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

So, the first real mature debt to have in terms of bonds, Bryan, in 2020, correct?

Q - Bryan C. Hunt {BIO 1530288 <GO>}

Correct.

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

So, you have 2018 before, this really became a current in our balance sheet. And if you look at performance of this year, Bryan, for the perspective of the performance for 2018 with the amount of free cash flow generation, I think the process that I think right now is to generate cash and pay down debt to bring the total leverage of the company below the 3 times. That's the goal for the overall company.

So, we're not going to do anything for now. We have a lot of time before we think about this short-term maturity that would just be coming three years from now. And it's the perspective of the amount of cash that we are generating now and we will continue to generate next year. It's too early to think about refinanced assets. For now, the process is to pay down debt, not refinance the debt.

Q - Bryan C. Hunt {BIO 1530288 <GO>}

Okay. And then, a last question along those lines. I believe you all just completed the sale of Vigor. Can you talk about what the net proceeds were there and how those proceeds have been put to use? And that's it for me. I'll hand it off. Thank you for your time.

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

Yes, Bryan. With regards to Vigor, that sale was concluded in the fourth quarter, so we will report it at the end of the year. From a JBS perspective, JBS owns 19.4% of the Vigor. The net proceeds were just under BRL 800 million. So, that's about $250 million. The majority of those proceeds will be used to pay down short-term debt in Brazil. In fact, have been used already to pay down short-term debt in Brazil.

Q - Bryan C. Hunt {BIO 1530288 <GO>}

Thank you for your time. I'll hand it off.

Operator

The next question comes from Farha Aslam, Stephens Incorporation.

Q - Farha Aslam {BIO 6151888 <GO>}

Hi. Good morning.

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

Hi, Farha.

Q - Farha Aslam {BIO 6151888 <GO>}

Question for André. André, perhaps you have one of the best insights into the global demand for beef. Could you talk about 2018 demand for U.S. beef? And then, going into 2019, how do you see the Australian cattle supply recovering and demand for U.S. beef developing?

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

Well, Farha, the global demands have been very strong and very positive to a point to surprise us in some aspect. If you mind (24:58) that U.S. is growing export and it's not because of lower price but in reality, price of export is going higher. So, we're increasing the volume around 14% at the same time that we're increasing price. That show how strong is the global demand.

I believe that part of this is explained by Japan and Korea. We are replacing domestic production because in reality they're imported from Australia, pretty much the same with volume. It's not that Australia is declining in a relevant way for Japan and Korea, and they import much more from U.S. So, that's the best explanation that I have. And if you look at the data in each one of this conference, we are replacing domestic production and everything tells me that this dynamic will continue. So, strong demand. Chinese perspective for the U.S. beef that can continue to grow. I don't think that we're going to see big volumes for China in the short-term, but in the second part of 2018, 2019, I think that will grow over time. And in some point, it will become relevant for U.S. export.

Australia, we are this year, probably in the lowest point in the same level that we were last year in terms of production. We think that this will continue in the first part of 2018 and probably start to recover in the second part of 2018, but we're going to feel it started growing effectively probably in 2019.

I don't think that when it will start to (26:39) grow, I think, again, the global demand has been so dynamic and so strong that will not affect in any relevant way the U.S. export. I think that U.S. will continue to grow export. I saw the numbers that USDA project for next year in terms of U.S. export. I believe that this is way too conservative. I believe that we are going to see numbers bigger than what USDA report.

Q - Farha Aslam {BIO 6151888 <GO>}

That's helpful. And just as a follow-up on pork. Chinese hog production is recovering. How do you expect that to impact U.S. pork export pricing?

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

I think that the more important dynamic for China specifically is about how competitive will be U.S. pork compared with European pork because if you see the volume today, the most important export to China is not U.S; it's Europe. And I think that this balance with the level of price (27:42) that we're seeing now, will change in benefit of U.S. So, U.S. is more competitive and will gain market share. I think that is more important for the total volume for China over time than specific production in China.

I think that U.S. is growing market share and will grow market share and now they export that we compete directly with Europe. We're seeing that in Australia right now. We import a lot of pork and meat in Australia for our operation in Primo. If you go one year ago, it wasn't there. Looking (28:17), it was pretty much European pork. You go today and it probably is 50/50 U.S. and Europe. I believe that next year it will be 80% U.S. and 20% Europe. And that's the dynamic that we're going to see in most relevant markets.

Q - Farha Aslam {BIO 6151888 <GO>}

That's very helpful. Thank you.

Operator

The next question comes from Luca Cipiccia, Goldman Sachs.

Q - Luca Cipiccia {BIO 6914452 <GO>}

Hi. Good morning.

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

Hi, Luca.

Q - Luca Cipiccia {BIO 6914452 <GO>}

Hi. Good morning. Thanks for taking the question. Just a follow-up on the Australia discussion. Just to get a sense how big of a dilution was it to the profitability for the U.S. beef division this quarter compared to the previous quarter, and how much of a drag do you expect it to be going forward? I'm just trying to size the profitability of the U.S. and (29:09) just if you can give us an idea of where it would land if it were excluding the Australian dilution?

And then secondly, question more on the Brazilian beef operation profitability looking ahead. Arguably, I think you had some capacity reductions as well in this quarter, the one that we're in, in the fourth quarter. So, maybe if you could benchmark the type of impact to that you may see going to the end of the year in the last quarter of the year or maybe or to next year as compared to the profitability that we've seen in the third quarter, that will be helpful. Thank you.

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

Okay. I'm not sure that I captured your question about those product. If we answer which is not what you were asking, please do ask again. I understood that you asked about how was the impact of Australia in the total results of JBS U.S.A. Beef. Results – of our U.S. – JBS U.S.A. Beef is $20 billion revenue, Australia is $5 billion of that. Remember that Australia has a very diverse business. So, they have the beef business, that's the one that has been a drag; and you have Primo business that is the sort of the process; you have several other smaller business there.

What I can say to you is in U.S., we performed better than our competition when you put side by side. With that, you can do some math and try to figure out how was the impact in Australia; it was a drag, but that's the view of the diversification of JBS despite of Australia in the quarter being a drag in other forms, the year has been a drag, they had performed at very high level. And that's why we built the business with diversification that we have today.

The other question was regarding the beef business in Brazil, capacity and expectations. Tomazoni will take that question.

A - Gilberto Tomazoni {BIO 2090061 <GO>}

Our beef business in Brazil, if you look just the gross margin – the gross margin, we are in align with the market because we reduced the volume heavily. We focus on the best and the best channels we have. We put more volumes to export, more volumes to domestic market when we have competitive advantage. And we do not have a problem in terms of sales, our product lines in terms of its volume that we are processing. Now, because of that, we keep our capacity. We are not reduced in terms of close – shut down the factories. If anything, we keep the capacity. Now, we are recovering the volume. To turn around the business in Brazil is just a question of time.

Q - Luca Cipiccia {BIO 6914452 <GO>}

Right. But, in a sense, some of the volume reduction that you saw in the third quarter, should we expect some rebound or some catching up with those volumes in the fourth quarter or rather...

A - Gilberto Tomazoni {BIO 2090061 <GO>}

No. We can see in the next – sorry, sorry. We can see the next quarter in volume recovery. But to get the normal capacity, it will more than one quarter.

Q - Luca Cipiccia {BIO 6914452 <GO>}

Understood. Okay. Thank you.

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

Thank you, Luca.

Operator

The next question comes from Lauren Torres, UBS.

Q - Lauren Torres {BIO 7323680 <GO>}

Yes. Hi. Good morning, everyone.

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

Hi, Lauren.

Q - Lauren Torres {BIO 7323680 <GO>}

Hi. Just a follow-up on Brazil. I think you said that you're seeing volumes already recover. I just want to be clear about that because I guess there were some issues and discussion on supplier relationship, and things like that. I mean, are things more normalized now or you're still seeing a challenge there?

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

Tomazoni – I'll take that question, Lauren. Things are more normalized in Brazil. Tomazoni, in his previous reply, talked about volumes recovering in the fourth quarter, but he also said that it will take more than a quarter for volumes to be back to levels whereby our cost will be diluted and margins would come back to a normalized level. We do not have a relationship issue with suppliers in our beef business in Brazil. There were some issues in the middle of the year, but those are behind us now.

Q - Lauren Torres {BIO 7323680 <GO>}

Okay. That's good to hear and can I also ask about the Seara business. We saw this margin recovery a quarter. Just curious to get your perspective. I don't know maybe even looking into next year with respect to continuing recovery in margins, maybe how do you seen grain prices? What's the progression going into next year for Seara? Thank you.

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

We are very positive in terms of Seara results. First, we talk about the international market. The older market we are selling Brazil – the market in Brazil is important. We are recovering profitability mainly because the balance between supply and demand. Supply in Brazil is too much production but Brazil is more stable in terms of production. We are still recovering price in all of the markets.

In some of the markets, we have reduced our volume because of the profitability of this market. Now, we are increasing our volumes in a control model. And when you look for Brazil and Seara in processed products, we are seeing now the market recovering because the economy is much better than before and we are very well-positioned in the market. This month, we are back in the communication to the market. We released a new innovation product. We are so excited with the power of the Seara brand in this really new environment market. We are able to grow compared to last quarter 5.5% in terms of volume and we keep the price for the last quarter. It's really important in this really competitive environment.

Q - Lauren Torres {BIO 7323680 <GO>}

And how do you see grain prices going into next year?

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

We see in terms of grain price in Brazil – not the level we had in the, say, best time in May-June. But we're not seeing increase in terms of what do we have today.

Q - Lauren Torres {BIO 7323680 <GO>}

Okay. Thank you.

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

We see 3.3, 3.6 in terms of price production.

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

Dollars production.

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

Dollars production. Then we can sum the effects in Brazil in terms of the currency but not more than this.

Q - Lauren Torres {BIO 7323680 <GO>}

That's clear. Thank you.

Operator

The next question comes from Isabella Simonato, Bank of America Merrill Lynch.

Q - Isabella Simonato {BIO 16693071 <GO>}

Thank you. Good morning, everyone. My question is André Nogueira (36:16) to if you could give us a little bit more detail on how holiday season is evolving? I mean, the selling, how has been that performing? And how you're seeing competition in this environment in terms of prices? Understood that you have been able to close the price gap, but just wanted to understand if you were seeing any response from other competitors? And that will be my question. Thank you.

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

Before the end of the year, we are positive as we are forecasted to grow 5% in terms of volume. And if you look at...

Q - Isabella Simonato {BIO 16693071 <GO>}

That's processed food or that's everything entirely?

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

I talk more about the (37:01) on the products.

Q - Isabella Simonato {BIO 16693071 <GO>}

Okay.

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

Okay. And the other question was the competitive environment. We are focused on to upgrading the category. In reality, we are launching new products

in order to get premium price in the market. Because we are very well-positioned in terms of regional brands. We bought some company to have – we have, I can say, a strong regional brand. They are very competitive in each region and we keep our strategy to focus on the – to get the preference for the consumer, offer really high quality of products and innovated products.

Q - Isabella Simonato {BIO 16693071 <GO>}

Perfect. Thank you.

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

Thank you.

Operator

The next question comes from (37:59)

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

Hi, (38:03)

Q - Operator

Hi, Jerry. Hi, good morning and congratulations for the results.

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

Thank you.

Q - Operator

My question was focused on liquidity. Just wondering whether you could give a sense of when you plan to – the three times that you hope to get to, is that more of an end of the year or more like 2018 target?

And in terms of the liquidity situation, if you could give an update in terms of how much of the divestments are really falling in the fourth quarter. You mentioned Vigor earlier. Are there any other pieces of the BRL 6 billion stabilization kind of divestiture program that's also falling in the fourth quarter?

And then if you could talk a little bit about the next steps in terms of the near-term renewal of the lines that expire in July, looking into the first half. What is more or less the thinking and the planning to shore-up your liquidity? Thanks.

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

Thank you. Thank you for your questions. So, firstly, with regards to leverage, we had very robust deleveraging now in the third quarter under 3.5 times. The business continues to perform well and generate cash. And so, our expectations are that we will reach our leverage in the 3 times range in the near-term. I don't want to put a date to that, but we're definitely going in that direction. And I would say well ahead of schedule – well ahead of what we've indicated earlier on. Your second question was with regard to...

Q - Operator

What was the impact in the sales of (39:47)

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

In the fourth quarter?

Q - Operator

Vigor.

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

So, basically, for the moment, it's Vigor. We had almost BRL 800 million of cash coming into the company as a result of the divestment of Vigor in the fourth quarter. That is the only cash input from divestments that we can confirm to-date. And your last question?

Q - Operator

All the others were realized previously, in the second and third quarter, the only that is for the fourth quarter is Vigor?

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

Vigor, exactly. And your last question was with regard to the stabilization plan in Brazil. Our numbers indicate that we're generating a lot of cash that we're creating an environment where our liquidity is improving substantially. And that obviously puts us in a different environment to where we were when we sat down with the banks in the middle of the year. So we will continue to perform into the fourth quarter and this is something we will analyze as we produce these strong numbers and as we deleverage the company.

Q - Operator

Great. Just one follow-up. On the JBS Beef, if I wanted to get a sense of apples-to-apples comparison, because part of the decline you attribute to the sale of Mercosul to Minerva. But if we were to just try to have an apples-to-apples comparison, what would be the impact of the JBS Beef quarter-over-quarter?

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

The non-Brazilian portion of what we used to call JBS Mercosul was about just over 10% of the revenue.

Q - Operator

Okay. No, but I mean – because the decline that you show on the slide, it seems to be because you also sold Mercosul, the assets outside of Brazil or is the decline there already on a comparative basis, taking into account the sale? That's my – just a clarification question.

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

No. It's not on a comparative basis. So, we have not adjusted the third quarter 2016 numbers to reflect – it's not containing the Paraguay and Uruguay and Argentine revenue base. We haven't broken down the EBITDA by country or by region. What I can give you – just to help you – is that the revenue generated by the businesses outside of Brazil and the legacy JBS Mercosul business unit was just not the 10% of the revenue base.

Q - Operator

Okay. Thank you very much.

The next question comes from Carla Casella, JPMorgan.

Q - Carla Casella {BIO 2215113 <GO>}

Hi.

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

Hi, Carla.

Q - Carla Casella {BIO 2215113 <GO>}

You mentioned the – hi. So, you mentioned that the integration of Plumrose has started and you're starting to get the synergies. Can you give us a sense of the size of the synergies you realized in the quarter?

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

No, Carla. It's very small. We just acquired the Plumrose business. We completed the integration on our system. But during the quarter, we just had Plumrose for a month. So, we start some, but not material at all for the third quarter. We expect that this will grow in the fourth quarter but to really capture the whole synergy will be for next year. It's in the third quarter (43:30) just the full integration. Just had the company for two months in the quarter.

Q - Carla Casella {BIO 2215113 <GO>}

Okay. Great. And have you given us or what do you expect for next year synergies from that?

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

Well, we expect that we can generate with Plumrose at least $25 million.

Q - Carla Casella {BIO 2215113 <GO>}

Okay. Great. Thank you.

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

I'm not too (43:51) thinking next year, but that's the goal.

Q - Carla Casella {BIO 2215113 <GO>}

Okay. Great. And then just one clarification. So, I noticed the sales to this in your breakout of the export market, South Africa was a lot lower. Was that because of the businesses that you sold? Was that the primarily supplier to South Africa?

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

I'm sorry. Carla, can you repeat? I'm not sure if I understood your question.

Q - Carla Casella {BIO 2215113 <GO>}

In the pie chart, where you show where your exports are going, there was one big decrease in one market, I think South Africa, was that from the businesses that you sold?

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

That's (44:29)

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

Consolidated.

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

From the consolidate – the consolidated export that you're saying?

Q - Carla Casella {BIO 2215113 <GO>}

Yes.

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

I don't think South Africa – it's not broken out. Maybe South America?

Q - Carla Casella {BIO 2215113 <GO>}

South America, sorry about that.

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

Okay.

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

In South America, we've had some spot sales around South America. Those numbers come and go. It's not because of the divestments that we made that that number is changed. Basically, there are more attractive markets, particularly if you look at our sales to Asia, where we would be advocating markets that would be less attractive. So, it's a repositioning of our global exports to reflect the more attractive market. It's not because of divestments.

Q - Carla Casella {BIO 2215113 <GO>}

Okay. Great. Excellent. Thank you.

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

Thank you.

Operator

The next question comes from Juliana Oliveira, Bank of America.

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

Hi, Juliana.

Q - Alessandro Arlant {BIO 15732215 <GO>}

Good morning.

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

Hi, Juliana.

Q - Alessandro Arlant {BIO 15732215 <GO>}

No. Good morning, Jerry, André and Tomazoni. This is Alessandro Arlant.

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

Hello, Alessandro.

Q - Alessandro Arlant {BIO 15732215 <GO>}

Just a couple of questions from my end, if I may. I mean, clearly from a consolidated standpoint, I mean, you have had the strong operational results. Asset sales have been executed quite well and the bank debt refinancing gives you confidence until the middle of next week. My two questions would be, on the parent company in Brazil where we still see weak results. Looking here at the third quarter result, I think only a third of the Moy Park proceeds were downstream to Brazil to JBS S.A., the Brazilian beef packing entity. When can we expect the other two-thirds of the Moy Park transaction to come down? That would be the first question please.

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

You mentioned next week – next year, the stabilization plan.

Q - Alessandro Arlant {BIO 15732215 <GO>}

Next year. Sorry. Yes. Mid-next year.

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

So, in fact, with regard to your question on Moy Park, the proceeds were captured by Pilgrim's late in September. Those proceeds have been paid down to Brazil early in the fourth quarter.

Q - Alessandro Arlant {BIO 15732215 <GO>}

Okay. So, we can expect the complement of that hitting the balance sheet of the Brazilian entity in the fourth quarter?

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

Yes.

Q - Alessandro Arlant {BIO 15732215 <GO>}

And then Jerry, my second question would be – I mean, still when we have this proceed and even with additional asset sales, when you look at the liquidity position of the entity in Brazil, again looking at the unconsolidated balance sheet, you still have a cash below short-term debt. Just to provoke a discussion here, is there any limit for you to downstream more of the moneys of the international operations which are doing quite well abroad down to Brazil? Is there any constraint?

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

There are no constraints basically. We think about cash, liquidity, leverage on a consolidated basis, and we approach the market in Brazil and in the U.S. wherever we are on a consolidated basis because of a lack of restrictions.

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

Yeah. Let's just put a (48:07) on Jerry's comment during the call. The cash on hand plus availability is BRL 17 billion, that is above the short-term debt. The total leverage of the company is 3.4 times, that is the lower leverage compared to all the Brazilian (48:28) companies, et cetera.

Q - Alessandro Arlant {BIO 15732215 <GO>}

No. No. Absolutely. But looking at the nonconsolidated entity in Brazil. The liquidity situation, we still need to receive the Moy Park proceeds and you would be still short. So, I understand it from a consolidated perspective that you are above the short-term debt but, again, if there is no constraints, you can get the money down to the Brazilian entity when and if needed, correct?

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

That is correct.

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

Yes. Yes.

Q - Alessandro Arlant {BIO 15732215 <GO>}

Okay. Great. Thank you so much.

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

Thank you, Alessandro.

Operator

This concludes today's Q&A session. I'd like to invite Mr. Gilberto Tomazoni to proceed with his closing statement. Please go ahead, sir.

A - Gilberto Tomazoni {BIO 2090061 <GO>}

Thank you for participating in this call today. As demonstrated by our strong results this quarter, we remain focused in our operation performance and are excited about the significant opportunities we see to continue to express and to grow our business.

Importantly, we want to thank all our 235,000 team members who have demonstrated extraordinary resilience and a great ability to perform in a challenging environment. Thanks again and goodbye.

Operator

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