Q1 2015 Earnings Call

Company Participants

- André Nogueira de Souza
- Jeremiah Alphonsus O'Callaghan
- Wesley Mendonça Batista

Other Participants

- Bryan C. Hunt
- Farha Aslam
- Jose J. Yordan
- Lauren Torres

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, everyone, and welcome to JBS Conference Call. During this call, we will present and analyze the results for the first quarter of 2015. 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.

Taking part on this call we have Mr. Wesley Batista, Global CEO of JBS; Mr. Andre Nogueira, CEO of JBS USA; Mr. Gilberto Tomazoni, CEO of JBS Foods; and Mr. Jerry O'Callaghan, Investor Relations Officer. Now, I'll turn the conference over to Mr. Wesley Batista. Please go ahead, sir.

Wesley Mendonça Batista {BIO 15243148 <GO>}

Thank you. Good morning all of you and thank you for being with us this morning. I will pass you over to Jerry to go through our presentation, and I will get back to you for my comments before we open to Q&A. Jerry, please.

Jeremiah Alphonsus O'Callaghan

Thank you. Thank you, Wesley. Thank you and good morning, everybody. We make reference to our presentation, which we posted on our webpage this morning. And I will mention page numbers as we go through the presentation before I'll hand you back to Wesley Batista.

So, starting on page two, just to mention of the disclaimer on page two, I recommend that you read that as you go through the presentation. On consolidated results for 1Q 2015, and on page four of our presentation, we have our consolidated net sales and our consolidated EBITDA. And firstly, on sales. We had a 28% increase when compared with the first quarter of 2014, growing from BRL 26.4 billion in sales last year to BRL 33.8 billion in sales in the first quarter of this year.

EBITDA went from BRL 1.75 billion to BRL 2.75 billion. That's an increase of almost 58% year-on-year EBITDA. And the EBITDA margin went from 6.6%, consolidated, to 8.2% in the first quarter of 2015. This is the highest revenue and the highest EBITDA for the company in a first quarter ever. And as we note that the EBITDA increased substantially more than the revenue increase from the 28% compared to 58% EBITDA increase. That represented 160 basis points expansion in the EBITDA margin when compared with the first quarter of 2014.

Moving on to our cash generation and our consolidated net income on page five of our presentation. Our cash generation went from BRL 505 million in the first quarter of last year to BRL 4.5 billion in the first quarter of this year, almost 800% increase year-on-year.

And net income went from BRL 70 million in the first quarter of 2014 to BRL 1.394 billion in the first quarter of 2015, again, a substantial increase in net income, representing an increase of BRL 0.02 per share to BRL 0.48 per share.

Again, cash generation reached historical high for this first quarter. And our free cash flow prior to acquisitions – and we are going to talk more about these acquisitions in a couple of minutes – our free cash flow prior to those acquisitions was BRL 3.8 billion and essentially, our effective hedging strategy for the period protected the results of the company.

Moving on to page six in our presentation, net debt and leverage. Firstly – and our net debt here we are showing it in U.S. dollars, as the majority of our revenues and income and of our debt is in U.S. dollars. So, if we look at our debt in U.S. dollars in the first quarter of 2014, it was $10.46 billion. If we exclude those acquisitions and those extraordinary dividends which were paid at the beginning of 2015, our net debt in U.S. dollars would have reduced to $8.64 billion.

We did have expenditures, non-recurring, of $1.7 billion in the first quarter of 2015 and we will talk about that in a minute. Leverage which was at 3.3 times at the end of the first quarter in 2104 reduced to 2.3 times after acquisitions, and prior to the acquisitions it would have been 1.9 times.

Net debt went from BRL 23.6 billion to BRL 27.7 billion prior to the acquisitions, and there was another BRL 5.5 billion associated with the acquisitions and the dividends. There was a $1.8 billion reduction in net debt compared with the first quarter of 2014 and, as I mentioned, leverage would have been under 2 times at 1.9 times if we exclude the acquisitions.

Also, it's important for us to remember here that although we are accounting for the payment of the Primo acquisition, nowhere here are we using any pro forma numbers of revenue or EBITDA to calculate any of these metrics that we are talking about.

Moving on to page seven in our presentation. And looking back over a long period of time from 2007 up until this quarter, we can see that there has been a very consistent and constant improvement in revenue, in EBITDA and in EBITDA margin. But before we get to that, just if we look at our last 12 months of revenues and EBITDA, our last 12 months revenue was BRL 128 billion, and EBITDA for the period, BRL 12.1 billion. And this is equivalent to 9.5% EBITDA margin with a net income of BRL 3.36 billion for the last 12 months.

And if we take our LTM numbers and if we translate them at the FX at the end of the first quarter of 2015, we would have had BRL 154 billion in sales and an EBITDA LTM at the FX at the end of period of BRL 14.5 billion.

Moving on now and looking at our business units one by one and starting with JBS Foods in Brazil. We had substantial revenue and EBITDA improvement in this business, from BRL 2.78 billion in the first quarter of last year to BRL 3.87 billion in the first quarter of this year, practically a 40% increase year-on-year in revenues.

EBITDA also improved quite substantially from BRL 380 million to BRL 616 million, 62-plus percent increase. And EBITDA margin, again, 13.7% last year to 15.9% this year. So, we saw strong revenue growth both organically and inorganically. We've been integrating successfully and capturing synergies in the acquisitions that we've made prior to this period and during the last 12 months.

We've seen a continuous improvement in our quality indicators, level of service and execution. An indicator would be the number of new customers that we've reached over the last 12 months, more than 10,000 new customers over the last 12 months. We've seen market share gains in several product categories, and we've seen a strong appreciation and a recognition of our strongest brand, the Seara brand in this business unit.

Moving on to our business in North America, JBS USA Beef, which includes our Canadian and our Australian business. We saw revenues in this business grow from $4.52 billion in the first quarter of last year to $5.2 billion at the – in the first quarter of 2015, almost 15% increase in dollar revenues year-on-year. EBITDA went from negative $22.5 million to positive $186.6 million also when comparing the periods, from a negative EBITDA margin of 0.5% to a positive of 3.6%.

Important regarding this business, we've seen a strong recovery in the U.S. cattle herd. We saw some of that last year. We've had news flow recently about heifer and cow retention again this year and expectations for a strong herd growth through this year. In the short term, that restricts availability of adult cattle. But in the medium and the long term, it's very positive for our business.

Our diversification in Australia, in Canada and in the U.S., separating our fed cattle our feedlot cattle business and our regional business units provides us a greater flexibility and agility to adapt the various market conditions.

The acquisition of the Primo Group, which will make – which will be part of this business unit, is a leader in the production of prepared and processed products in Australia and New Zealand, and it will help expand this business unit into the value-added and branded categories.

Moving on to our Pork business. JBS USA Pork, page 11 of our presentation. We saw a decline in revenues, about 15% year-on-year, but we saw an improvement in the performance of the business. We went from $83 million in EBITDA first quarter of last year, to above $93 billion (sic) [million] (10:42) in EBITDA first quarter of this year. EBITDA margin going from 9.2% to 12.2%. Basically, we've seen an increase in the availability of hogs in the U.S. So our volumes have actually increased and average price have reduced back the levels similar to prior to 2014, which was a mad year in the business because of a lack of availability in – of finished hogs in the U.S.

We've seen substantial organic growth in the ready-to-cook and convenience product segment in this category, and we have some examples in the photographs which we present in our presentation on page 11.

Moving on to JBS USA Chicken business, which is Pilgrim's Pride Corporation, which we control, and whose numbers are already public. But just as a reminder, revenues went from $2 billion to $2.05 billion when comparing first quarter 2014 with first quarter 2015, almost 2% increase in revenues. EBITDA increased quite substantially from $205 million to $363.5 million, 77% increase in EBITDA. And EBITDA margin went from 10.2% to 17.7% in the first quarter of this year. As many of you would know, Pilgrim's continues to have a relentless focus on operational excellence. It has an effective strategy in its product portfolio and management of sales channels. And also it has demonstrated growth in sales in its value-added products category.

Moving on to JBS Mercosul which is our beef business in South America, primarily in Brazil. It also includes our hides and leathers business and other associated business associated with the beef industry. We had revenues going from BRL 5.7 billion the first quarter of last year to BRL 6.78 billion in the first quarter of this year.

EBITDA decreased from BRL 596 million to BRL 376 million comparing the same period, a decrease of almost 37%. EBITDA margin reduced to half approximately, from 10.4% to 5.6%. Profitability has been affected in this business unit because of a decrease in availability of finished cattle in Brazil. There was cow retention in Brazil and again prospective to see the herd growth in Brazil in the coming years. And we also saw a substantial decline in exports out of Brazil in the first quarter of 2015, basically because of a degree of concentration into markets that had their economies reduced because of the reduction in oil prices.

We've been focusing our sales expansion into higher value-added products in this category as well. And we've been investing quite substantially – for those of you in Brazil, you would be very much aware of this – in our Friboi brand and we've created a substantial differentiation of our products as a result of the recognition of this brand in the Brazilian domestic market.

Moving on to exports, page 15 of our presentation. Although we had a decline in exports of our beef business out of Brazil, as I mentioned just now, overall, when we look at our global exports out of Australia, out of North America, out of South America, including our poultry business out of South America, we had an increase of 13% year-on-year in exports, going from $3.1 billion in the first quarter of last year of exports to more than $3.5 billion in exports in the first quarter of 2015.

Basically, the same destinations, but with some repositioning. South America being our number one destination, many countries around South America. Africa and Middle East, always a very strong region for our poultry and our beef business. Greater China, particularly out of Australia. Mexico, that we service particularly out of our North American business. The U.S. itself is a relevant destination because we export quite a lot of product out of Australia; and then, Japan, the European Union. Perhaps mention of Russia, we can see that the Russian participation declined from 6.4% first quarter of last year down to 3.7% in the first quarter of this year. We've seen some improvement in that in the second quarter of 2015, but there was quite a substantial decline at the beginning of the year.

Moving on now to speak about CapEx, cash generation and our debt profile, making reference to slide 17 in our presentation. We had a total CapEx of $4.6 billion in the first quarter of which...

Wesley Mendonça Batista {BIO 15243148 <GO>}

Reais.

Jeremiah Alphonsus O'Callaghan

BRL 4.6 billion, excuse me – of which BRL 3.9 billion was associated with the acquisitions of the Primo Smallgoods Group in Australia and of the Big Frango acquisition, both of which were concluded in the first quarter of 2015. In terms of ongoing CapEx, we had ongoing CapEx of BRL 705 million, of which approximately 42% was associated with expansion and modernization of facilities, and 58% focused upon maintenance.

Cash generation. In the first quarter of 2015, the company generated net cash flow from operations of BRL 4.5 billion. And free cash flow generation, after CapEx and prior to the acquisitions we mentioned, was BRL 3.8 billion.

Looking at our debt profile on page 18 of our presentation, as we mentioned, net debt declined from 3.3 times to 2.3 times. When including all the acquisitions, it would have been 1.9 times were it not for the acquisitions. Net debt in U.S. dollars again declined from

$10.46 billion in the first quarter of last year to $8.64 billion when excluding the acquisitions and the dividends, which summed $1.71 billion.

The breakdown of our debt by currency, 88% in U.S. dollars, and that is the reason why we present our debt in that currency; 12% in reais. Breakdown by origin, basically 55% in the debt capital market and 45% in commercial banks. And the breakdown by companies, 50% at parent company in Brazil, JBS S.A., 36% at our USA. operations and 14% at our JBS Foods business.

Cash at the end of the first quarter was BRL 14.1 billion. That's more than 100% of our short-term debt. If we add on the $1.5 billion in fully available committed lines that we have in the U.S., our cash plus committed lines would represent about 140% of the totality of our short-term debt, which declined from 34% of our total debt at the end of 2014, 29% at the end of the first quarter.

And in terms of maturity of our debt, one can see at the bottom of page 19 that during this period of low interest rates, we've extended the maturity of our debt quite substantially, having relevant amount of our debt maturing 2020 onwards.

And so with that, I would like to pass you back – making reference to slide 20 in our presentation – I would like to pass you back to our global CEO, Mr. Wesley Batista, for his comments before we open for Q&A.

Wesley Mendonça Batista {BIO 15243148 <GO>}

Thank you, Jerry. So, I'd like to summarize our performance and our business and talking about what we did in this past year then who we are today and where we are going and our future. So, looking JBS today, we are a global food company. We did in this past many, many years a lot of things, including we internationalized our company substantially in this past many years.

We made several transformational acquisitions that was not a consensus in the market at the time we did. But we are proud to say that all these acquisitions that we did in these past several years that was not consensus has been working very well for our company and our shareholders. And we are very proud, too, that we were able to integrate these acquisitions and we were able to deliver better results to the market and to our shareholders than we initially indicate to the market when we did.

So, we create a global protein player, operating our business in the most competitive regions to produce protein around the world. So, this is a quite unique position for JBS, being able to operate in the most competitive markets to produce protein around the globe. So, we built and we professionalized our company, and we built a very, very strong team that we are very proud about them. And this – our whole management team is completely focused on delivering and executing our strategic plans, and in our search for excellence. So this is what we did in this past several years that we are very proud about.

So, today, JBS is the largest private company in Brazil in terms of revenue. We are the second largest food company globally. A global leader animal protein player.

We've diversified – in terms of geography, we are very well diversified. And with a product mix and operating several different proteins that this combination of geographic diversification plus product portfolio, plus the diversification in several proteins, create a very well-balanced business and operation today, and bringing to our company a stable and consistence in our earnings having these diversifications. So, we feel very good about that. So, today, our revenues is more than 80% in dollars. That is also as the dollar is getting stronger. This is very positive. And we have a very solid culture, and we have a very well integrated business across all of our operations.

So, a lot of people have been asking me where we are going and about our future. So, we feel very focused in our priorities, including improve our debt portfolio, reduce the cost of our debt, improving our ratings – our corporate ratings, and delivering a higher return to our shareholders. So, we are very focused on that. We are very focused on expanding our customer base. We are investing in our brands and expanding our business in more value-added type of products. So, we are very focused on that, consolidating our position as a global food company even more. So, this is where we are going.

So, again, thank you, all, for being in this call with us. And now, I'd like to ask the operator to open for Q&A, please.

Q&A

Operator

Ladies and gentlemen, we will now begin the question-and-answer session. Our first question comes from Farha Aslam with Stephens Inc.

Q - Farha Aslam {BIO 6151888 <GO>}

Hi. Good morning.

A - Jeremiah Alphonsus O'Callaghan

Hi, Farha.

A - Wesley Mendonça Batista {BIO 15243148 <GO>}

Good morning.

Q - Farha Aslam {BIO 6151888 <GO>}

Congratulations on a great quarter.

A - Jeremiah Alphonsus O'Callaghan

Thank you.

Q - Farha Aslam {BIO 6151888 <GO>}

When you look at fresh beef from Brazil, it's recently been approved to enter the U.S., how long do you think it will take for the plants themselves to be approved? And what quantities do you think will flow to the U.S.?

A - Wesley Mendonça Batista {BIO 15243148 <GO>}

Farha, realistically I think it's possible. I've seen (25:13) the agreement between U.S. and Brazil this year, but realistic, I think product flow into U.S. will start and will be more in 2016. So, I don't see this year any big or any meaningful volume going to U.S. So I think if the agreement happened, and I believe it will happen, I think in 2016 is that is the year that we are going to see Brazil shipping product to U.S.

In terms of quantity, Farha, I don't know, I don't see huge amount of volume. I see a moderate amount of volume, perhaps, I don't know, 50,000 tons or in this range. I think it's a good and positive thing for the Brazilian beef sector, but also is not anything that is going to change the structure of the Brazilian beef sector. It's positive, but today the market is...

A - Jeremiah Alphonsus O'Callaghan

Globalized.

A - Wesley Mendonça Batista {BIO 15243148 <GO>}

Globalized, and this is going to change hands. So, Brazil is going to ship product to U.S. and Australia is going to ship more product to Asia. So, this is going to be a...

A - Jeremiah Alphonsus O'Callaghan

Accommodated to us.

A - Wesley Mendonça Batista {BIO 15243148 <GO>}

Accommodated – yeah. So, this is how I see.

Q - Farha Aslam {BIO 6151888 <GO>}

That's helpful. Thank you. And then as a follow up, you did not mention acquisitions in terms of your current focuses. Could you give us your thoughts on M&A and if you're seeing any opportunities that are compelling?

A - Wesley Mendonça Batista {BIO 15243148 <GO>}

Oh, Farha, look, we have been looking opportunities, and, of course, we're still looking where are and what is the opportunities. But like I mentioned in the – in our last quarter in the end of the year, we are very focused on our current business. This doesn't mean that we are not going to do anything. But you never know. There's still opportunities, for sure, to do M&A and I think this will never end. But you never know when these things happen and can be doable. But currently, we are focused on our current business and still looking what's going on in our sector. And if we see opportunities that is accretive, we are going to be analyzing, but this doesn't mean that we are engaged in anything, as we speak.

Q - Farha Aslam {BIO 6151888 <GO>}

Great. Thank you so much.

A - Wesley Mendonça Batista {BIO 15243148 <GO>}

Thank you.

A - Jeremiah Alphonsus O'Callaghan

Thank you, Farha.

Operator

Our next question comes from Bryan Hunt with Wells Fargo.

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

Thank you for taking the question. Wesley, I mean, you mentioned you're very focused on your credit and your ratings. I was wondering, one, have you talked to the agencies recently? And two, can you give us an idea of what your ratings target is and the time to get there? Do you want to achieve an investment grade rating across your debt structure? Thank you.

A - Wesley Mendonça Batista {BIO 15243148 <GO>}

Yeah, Bryan. We have been talking with all the rating agencies and our targets is clear, being an investment grade company. And we if we look our metrics today, we think that we are going clear to this direction. And for sure, we have been talking with them and we believe we are going to see improvements in our rating. It's hard to predict time, but a couple of months or a month ago, we got an upgrade from one of the agencies. And we are working to keep going in this direction. Perhaps I think it's doable – not doable, but I think it's realistic in the next 12 months or inside of this year, see more upgrades in our rating.

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

Great. I appreciate that. Second, I was wondering if you could talk a little bit about the – you talked about the cattle supply in the U.S. building due to heifer retention that has occurred in the last 12 months. Can you give us an idea what the supply-demand balance is in the Australian market?

A - Wesley Mendonça Batista {BIO 15243148 <GO>}

André, if you can handle this question, I appreciate.

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

Bryan, Australia continue with a (30:27) very good supply moment. We are running our plants in Australia in a very good level. Australia has a very unique position in terms of export, of access of different markets. Of course, U.S. price of beef and the shortage of lean trim in U.S. was a big jump for the Australia price and plus the currency in Australia. So, it's a good moment in Australia business, and it's a good moment in terms of Australia in supply.

The herd in Australia was rebuilt in the last few years. And it seems that it's in a much higher level than everyone thought before. So, supply is still in very good shape in Australia. And I don't see any sign that this will change anytime soon.

I don't think that in the second part of the year that we are going to see a big growth in

Australia production the way that we saw in the last year. I think that in the second part of the year, we'll probably see in the same level or a little bit less in terms of production. But we'll probably still finish this year ahead of last year in terms of production.

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

That's great color. Thank you. And then my last question is, if you were to look at China, we've heard that on-farm pig population is down a double-digit percentage, I think, it's 13% or 14% depending on which reports you look at. That, in our opinion, should dictate very strong export demand both from the United States and maybe on finished products out of Australia from the new acquisition of Primo. Can you talk about what your expectations are for export demand for both U.S. pork and products out of Australia into Asia in 2015? I appreciate your time. Thanks.

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

We are seeing the same data that were seeing in terms of the liquidation of sows in China, seems that it is strong. We have a issue that the data in China, you never know how reliable is the data but it looks like that there's a strong sow liquidation. The pig numbers is much less.

Consumption in China is a question mark. That's not clear for us. I think that long term, the trend continue in the same direction. In the short term, we need to see. I need to say that demand on this first part of the year is much weaker than we expect. We have the same expectation that with this liquidation that's going on now there, maybe that's the reason why demand for import from U.S. has been relatively weak. We think that the second part will be much stronger. Next year will be much stronger for pork and meat from U.S. That's the expectation that we have. That's the expectation that the industry is now. I think that, again, when you see that China liquidates the number of sows, the total numbers of sows in U.S. in the last 12 months, it's a pretty impressive number.

From Australia, beef export to China, I think that they'll still have again a very good position. I think that China is – consumption will continue to go up, and Australia will continue to export in the beef side. In the pork side and for the processed, I think that is more a medium to long term possibility. I don't think that Australia will export any relevant volume in the short term in the – for the processed part (34:18).

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

I appreciate your time this morning. Thank you so much.

A - Wesley Mendonça Batista {BIO 15243148 <GO>}

Thank you.

Operator

Our next question comes from Lauren Torres with UBS.

Q - Lauren Torres {BIO 7323680 <GO>}

Yes. Hi. Good morning, everyone. Yeah. I appreciate...

A - Wesley Mendonça Batista {BIO 15243148 <GO>}

Good morning, Lauren.

Q - Lauren Torres {BIO 7323680 <GO>}

Good morning. I appreciate the fact that we're talking a lot about being a global company and focusing on value-added brands, but I was hoping you could put that in perspective of what you're seeing in your home market. With respect to how consumers are behaving, JBS Foods had another great quarter. I don't know if we could break down a bit what percentage of that growth was organic versus acquisitions.

And also, we have seen you take pricing in the prepared and processed food side of the business, and I was curious if in light of the consumer environment potentially getting weaker, is there ability to take pricing, or if we see trading down at the consumer level, and curious to see if you're already seeing that, how do you react or will you react based on that change in behavior?

A - Wesley Mendonça Batista {BIO 15243148 <GO>}

So, Lauren, this is Wesley. Look, first part of your question. Our growth in JBS Food, 60% is coming from acquisition and 40% is organic. And inside of this 40%, a vast majority of this growth is coming from our packaged food business. So, that is accounting inside of this 40% to around 85% in this growth is coming from prepared foods and the branded products.

We – as we all know, the Brazilian economy is not strong and is actually is weak but we have been not seeing a big impact in our business as we are in the food sector. We have been not seeing an impact in terms of consumption and as well in terms of consumers trading down buying cheaper products. Actually, we are growing more in our more value-added categories. And for sure, some sectors is suffering more in Brazil like the automobile industry, like the durable goods industry. This is the sectors that is suffering more and we are not seeing consumers trending down or changing a lot.

So, we keep growing and we keep gaining market share, and we keep seeing a relative positive demand growth or a moderate demand growth for food products in Brazil. We have a separate division that is our dairy business, that is the same. We are seeing actually is the other way around, we are seeing a trading up. For example, we launched and we are the leaders player in the Greek yogurts in Brazil, and actually is growing, the Greek yogurt more than the more...

A - Jeremiah Alphonsus O'Callaghan

Regular.

A - Wesley Mendonça Batista {BIO 15243148 <GO>}

Regular products that is cheaper. So, we are not seeing a big impact on what's going on in the economy in Brazil in terms of food consumption.

Q - Lauren Torres {BIO 7323680 <GO>}

Great. I mean, that's very encouraging to hear. And if I can ask just one other question on your Mercosul division. You mentioned lower demand in some main importing countries, you touched upon that, but can you just talk about what you're seeing in those countries, if we should expect any changes for this year?

A - Wesley Mendonça Batista {BIO 15243148 <GO>}

Look, we saw a big decline in beef export overall in Brazil for you have idea, January and February, the Brazilian beef export declined over – more than 30%, and this is recovering. March, the decline was below 10%. And in April, it is around 7%. So, this is getting better. But the main markets – with the markets that is more dependent on oil price and also Russia, we saw a big decline in Russia imports due to the fact that the ruble devaluate a lot. So, our products became much more expensive in local currency. And so the volume that was going to Russia declined quite a lot, and some other markets as well in the Middle East declined. But we have seen some – we have seen improvements and getting back to a more normalized volume. But in the first quarter, as the export declined in a meaningful way, we saw a big pressure in terms of meat price in both sides, in export and as well...

A - Jeremiah Alphonsus O'Callaghan

On the domestic.

A - Wesley Mendonça Batista {BIO 15243148 <GO>}

On the domestic part of our business.

Q - Lauren Torres {BIO 7323680 <GO>}

Okay. Very good. Thank you.

A - Wesley Mendonça Batista {BIO 15243148 <GO>}

Thank you.

A - Jeremiah Alphonsus O'Callaghan

Thank you, Lauren.

Operator

Our next question comes from Jose Yordan with Deutsche Bank.

Q - Jose J. Yordan {BIO 1496398 <GO>}

Hi. Good morning, everyone.

A - Wesley Mendonça Batista {BIO 15243148 <GO>}

Hi, Jose.

Q - Jose J. Yordan {BIO 1496398 <GO>}

I guess my question is...

A - Jeremiah Alphonsus O'Callaghan

Good morning, Jose.

Q - Jose J. Yordan {BIO 1496398 <GO>}

Was about your export business at Mercosul. I mean all of your two other main competitors in this business saw a margin decline during the quarter, but it wasn't quite as large. And I was wondering if you could give us any color as to what is different about your business, your geographic or product mix that made the margin decline a little more pronounced than for what's obviously a problem for the whole – temporary problem for the whole industry.

And then my second question was for André, given that the first quarter margin in USA Beef now is pretty close to the bottom end of your previously stated guidance for the year, and given that the first quarter's always a seasonally weak quarter, should we still be looking at a 4% to 5% margin for the year, or is there any reason to think that you could break the top end of that range?

A - Wesley Mendonça Batista {BIO 15243148 <GO>}

Jose, (41:31) the first part of your question. So, look, I will not talk about our competitors. So, I don't know what they are doing exactly in their business. So, I can speak about ourselves. So we saw a pressure in cattle price in the first quarter, as we are seeing cattle retention in Brazil. And as well, the big decline in export put pressure in prices for our export and as well in the domestic market, much more volume was in Brazil, we were selling more volume in Brazil.

So, we – all I can say, we have a very, very competitive beef operation actually. I strong believe that we have the best – in terms of location, we have the best structure in the sector in Brazil, we are located in the main and the most competitive states to produce and to process beef in Brazil. And we have a very well diversified product mix, and as well markets that we sell our products. So, this is what I can say.

André, if you can handle the other part.

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

Okay. Jose, for this year, I think that that margin's still the right margin. We can be surprised in the second part of the year if the condition in U.S. beef improve faster than we expect. But I think that's for this year it stood at (43:32).

For next year, we need to reassess as we come close. Conditions in U.S. is still challenged now, and I think that we will continue to be challenged. I think that the worst is behind us now. I think that the conditions will improve going forward, but I think that the big improvement for the U.S. Beef will be for next year. I think that for this time, it's reasonable to think about the normal range for the margin for the year.

Q - Jose J. Yordan {BIO 1496398 <GO>}

Okay. Great. And if I can just follow up real quick on the cattle cost in Brazil. We've heard that spot prices have been actually coming back a bit – coming down a bit recently. What's your read on the cattle cost in the short term as we head into the winter in Brazil?

A - Wesley Mendonça Batista {BIO 15243148 <GO>}

Look, we are seeing a moderate reduction in cattle price. Not a lot, but we are seeing more supply coming through. And we are seeing a softening, the price – the cattle price, and this is helpful, and as well, export is getting back. So, I think that the business is going to be normalizing as we go through the – during this year.

A - Jeremiah Alphonsus O'Callaghan

I think just to add to that, we're close to the end of the rainy season. So, there's plenty of pasture. So there would be a tendency towards having a little bit more pasture-fed cattle coming to the market in April, May, and into June. And then for the second half of the year, the dynamic will be, to some extent, influenced by cattle-on-feed in Brazil.

Feed is relatively cheap again this year in Brazil. So we should see an increase in cattle coming off feed the second half of the year. We had about 4 million head of cattle last year. Some of the forecasts for this year are that we could have as many as 5 million head of cattle coming off feed basically between August and November. So, that should help balance supply and demand during the second half of the year.

Q - Jose J. Yordan {BIO 1496398 <GO>}

Sounds great. Thanks.

Operator

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

A - Wesley Mendonça Batista {BIO 15243148 <GO>}

So, again, thank you all for being in the call this morning with us. And like I mentioned in the beginning, we feel that we have a well-positioned structure today, a well-diversified business in terms of location, in terms of product mix, portfolio. And in the different proteins that we operate, that we can deliver sustainable and stable earnings in our business.

Again, thank you, all, and have a good morning.

Operator

This concludes JBS audio conference for today. Thank you very much for your participation. Have a good day and thank you for using Chorus Call.