Q3 2013 Earnings Call

Company Participants

- Abilio Diniz, Chairman and Independent Member
- Claudio Galeazzi, CEO
- Leopoldo Saboya, CFO and IRO
- Luis Furtado, Chief Technology and Information Officer
- Ricardo Martins, President
- Unidentified Speaker

Other Participants

- Alex Robarts, Analyst
- Luca Cipiccia, Analyst
- Mario Mariante, Analyst
- Thiago Duarte, Analyst
- Unidentified Participant, Analyst

Presentation

Unidentified Speaker

Good morning. Welcome to BRF Day and earnings results for the Third Quarter of 2013.

I would like to let you know that this conference call and the presentation are simultaneously translated via webcast in our website www.brf.com/ir. This presentation is also available for downloading in its full version. (Operator Instructions)

Forward-looking statements related to the Company's business or prospects, projections, results and the Company's growth potential are provisions based on expectations of the management as to the future of the Company. These expectations are highly dependent on market changes, economic conditions of the country and the sector and international markets, thus are subject to changes.

As a reminder, this conference is being recorded. The conference are Mr. Abilio Diniz, President and Chairman of the Board of Directors, Mr. Claudio Galeazzi, CEO. And Mr. Leopoldo Saboya, Chief Financial and Investor Relations Officer.

I would like now to turn the floor to the Directors of the Company.

Ricardo Martins {BIO 18747825 <GO>}

Good morning. Delighted to be here with you running this event and have beside me Dr. Rafilio [ph], Claudio and Leopoldo as co-hosts of this meeting. And thank you all for coming. And thank the participants on the Internet and, once again, thank the BM&F for this partnership, now 31 years of partnership with the Apimec São Paulo. And we were responsible for publishing information, making sure that this information gets to analysts and professionals with transparency and visibility.

I would just like to make one recommendation. Please switch off your mobile. So put them on the silent mode so we don't have any interference.

You have your received your material and evaluation questionnaire, which will be the base for us to run for the award for best meeting of the year. And it is very important that at the end of this meeting you fill it out and give it in on your way out.

So I'd like to ask Leopoldo to take the floor. So he will start our presentation.

Leopoldo Saboya {BIO 16137418 <GO>}

Thank you, Ricardo. On behalf of BRF I'd like to welcome you all very much and thank you for coming. It's an honor and a pleasure to be here at this temple of the stock exchange of the capital markets with another Apimec BRF day.

To start our presentation we will have the words of Mr. Abilio Diniz, Chairman of the Board. And then I will make a presentation regarding the numbers and the highlights of this quarter. Then we will interrupt for the opening of the floor about 10. And we will have a small, simple ceremony. Then we will come back here for Claudio to make his presentation, before we go into our Q&A.

So I just wanted to make these announcements so that all of you are clear regarding our script or our routine before the ringing of the bell. So now I'd like to ask Abilio for his introductory remarks.

Abilio Diniz {BIO 1781457 <GO>}

Good morning. So this is the first time I have had contact with you here in the BRF as Chairman. And I feel so well identified and so very happy to be here this time presenting the results of the Third Quarter.

We are not so pleased regarding any good news to give you. We have had a bad Third Quarter. And we were expecting this. And I think all of you have felt frustrated and disappointed. The market has told us clearly that yesterday and punished us and, well, the market is the market. And generally it's right.

So what do I have to say to you? And being consistent with my first words in April when I made my first statement when I took over as Chairman of the Board of BRF, some things you can expect of me, others no.

First, most important, is that I represent the investors. And I shall always be concerned for the investors. I serve the investors and I am totally identified with the investors of this Company. I will do my utmost for this Company. But always respecting the interests of the investors.

All the money invested in new projects, we will focus on this to give the investors their full return. We will not do anything short-term. We will always strive to build a stronger company, both for the present and for the future.

So right, following this idea we get to work. I looked for Claudio Galeazzi. He was my friend. We have worked together before. Claudio Galeazzi, we've worked for the Fundo Suca [ph] to begin with. Claudio came in with a consultant, with his consultancy company. Then he took over as CEO.

We together elaborated a 100-day plan of total immersion in the Company. As we say, we dived into the Company. And to learn. And we come up, we'd surfaced doing something. And we have been doing it and rebuilding the processes and placing the right people in the right places, except we organized a great or meeting of strategic planning, which was held last weekend outside Sao Paulo, 200 kilometers from Sao Paulo, where we met as the Board and the main officers of the Company. And we made it very clear what the plans are that we have both for the present and for the future of BRF.

Our next step is we will draw up our 2014 budget by the December 10, maximum. The objective is to close by the end of November, in fact. And following these steps, we are being consistent in what we believe and the work that we have said that we would do.

The Third Quarter, there are two points, one about the Company, the other for you. Regarding the Company, I don't want to know about explanations. Neither I nor Claudio want explanations. We want results. And the results didn't come. Don't explain why.

We will see why they didn't come just to explain, to find out. So that we don't do this again. So we cannot make old mistakes, only new ones. So let's see what's happened. We know what's happened. So we can correct these errors and never commit them again.

Two, well, things are a little different. I have different words. Obviously, things happened. Second sentence. Many things in this Third Quarter occurred in a non-recurring way, natural things of this reorganization process. And even a flood in the south of the country, which just complicated things. Yes. All those explained it. The non-recurring part, we have already dealt with.

However, once again, we are not concerned with the short-term. We trust in what we are doing. Those who know me know very well that I don't play around with my audience. I don't post short-term results. I don't need to do that, neither myself nor Claudio. At this stage of our life, we know who we are, you know who we are. We have to build something very sound, solid, something which is sustainable and can bring a lot of return to people and to the investors who will put money in our Company.

We are still in the process of adjustment with people. We have just brought to the Company now the new CEO Brazil, Sergio Fonseca. Somebody who has a deep knowledge of our business. And I am quite sure that he will bring a significant contribution to our relationship with BRF and our clients, distributors and our end consumers.

So what happened in BRF to date? BRF is a fantastic company. It has an integration process, an industrial process that are truly admirable. And when I was in the GPA, I used to say, there is no more complex business than ours. I'm not going to say that BRF is more complex. But it is very complex.

And BRF is quite right. And this integration process, until the end product, is truly an admirable process. However, this Company was somewhat skewed. So what happened? The Company was pushed from production to the consumer. The Company produced admirable products, no doubt. And it placed them through its clients and to the end consumer that which it produced, that which it considered good and well placed for the consumer.

Well my friends, this Company has never been concerned. Although it already had an intelligent consumer department, a very good department, this Company never went out to the consumer and actually at the client. Our client is our distributors. They never went to the distributors to ask them, well, what do you expect of us? What can we do more for you? How can we make your life easier? Then after, besides that, the end consumer -- the consumer, what can we do more with our products which will please you more? The Company did not do that.

We produced fantastic products. And people liked what we produced. But these questions were never asked so the Company was skewed and pushed by production. This is the same thing as pushing string. You can't push string. You have to pull it.

So what does this Company have to do? It has to be pulled by the consumer, by the client, by the consumer market. This Company has to ask the client what we can do more for you, both client and consumers. Our Company, we are trying to straighten it out. We don't wanted to keep pushing string. We wanted to start pulling. So it will have to be pulled by the consumer and by the client. And this is what we are doing. So it's not all that difficult. But a little complicated to straighten things out.

You know, its few years of sucking a pipe which makes your mouth go crooked. So for years the Company has been doing that. So now we have to straighten it out. So what can this bring to the Company? It will bring a lot.

We have to be on the consumer. The focus of the Company has to be on the consumer. That's our bonus. The consumer buys our products. And they have to be entirely satisfied with us. This is what we are trying to do. But this, my friend, this doesn't appear. This does not appear in the short-term results.

Another very important thing that we are trying to do, we are capturing synergies because this Company has not captured this after the merger. We have 50% -- more than

50% market share, which is sensational. Of the two market shares of the two largest companies in the country. But no synergies. And my friend Claudio here does this much better than I. He is there and digging away trying to find all the synergies and coupling them together in benefit of all investors and for the people who work in the Company and basically, the end consumer. And to capture the synergy means more efficiency, productivity competitiveness and profitability. So this is what we are seeking to do.

Another very important thing that we are seeking that is right from the start. Investors have had expectations that I might bring more dynamism and ambition to this Company. I do not lack in ambition. Obviously, it has to be kept under control and you have to have clear objectives according to reality. But when you talk about the Company being global, this Company has never been a global company. It has always been a very large exporting company, the largest chicken exporter in the world. Export company. So what do we want?

We want to transform this Company into a global company. This is what we are looking for. A global company means a company capable of working in different markets and not only export to them. To do something important, not producing here. But producing there, that's what we have to do. We are working towards that.

The first step is to find out abo this Company abroad. We have carried out strategic planning using two consultancy companies. One already is confusing. Two of them, you can imagine. But we knew how to separate the working fields, or the work fields, especially the international side. And we weeks ago had form a Board and a workshop in Dubai. Take people from here, take them aboard. And at a certain moment, have to think internationally. So we've taken the main executives from the Board to Dubai in the Middle East very close to where we are building a huge factory for supplying slaughter center of the Middle East which is our main international market, the Arab countries. Saudi Arabia, Emirates, all those countries around there.

And we studied the subjection in-depth. Our group led by Bed Redier [ph], our Board member travelled for almost 30 days several places in the world observing our activities, getting to know it, analyzing things to bring to the officers, to us from the Board, a very clear image of what we have abroad and the opportunities which we have for improvement in the company. So this is the work that we are doing and we are seeking to do.

Well so what, Abilio? And the money and the results, it's coming. It's coming. Our base last year was very low. I'm not going to compare anything to last year. But we will deliver. With certain difficulty, sometimes (inaudible) slipping and sliding, we will deliver a result this year. Build a little here, a little there. But we will deliver and it will be welcome.

Now, the great upside, when will that come? I don't like to use the gerrand [ph] we are doing. But in our market that's what it is. We are building stone upon stone, little by little. But in a very conscious and organized way and you may be certain of this, that this kind of work is being done. Myself, Claudio, all of those with us we can do this. Especially Claudio and myself, because we have a lot of experience. And we have learnt how these things have to be done. We are the youngest in the company, right? So that's it.

What do we expect for the end of this year? It is not going to give us a scare. It won't be anything exceptional. But it's the result of the conscious and hard work and we will have a sound result. Nothing spectacular short-term. No great fireworks. We will do things slowly but surely, quietly and we will progress.

So that's it. Thank you very much for coming. Thank you very much for listening to us and paying attention to our Company and to us. Let's go forward. Thank you.

Unidentified Speaker

Thank you, Abilio, for your words, which has inspired us right at the start of our meeting to work for us, to organize ourselves and ring the bell at 10 o'clock. I will choose some pages from our presentation here to touch on some of the highlights. And then during the questions, we can go into further detail regarding some point that was missing.

So go right on now, on page 6. So for those of you who are on the Internet, it shows us that certainly our results, when we look back, we see a great recovery of the domestic and foreign market, Brazil. And they're quite similar to last year, our results, in our operating profit.

When we see the Second Quarter, it's the result on profitability and does not present, as has already said, Abilio, any improvement. And this is why the Company has conveyed this impression that it has been below our expectations. And well below our potential and the possibilities because we know how far we can go.

When we talk about the gross profit then, here we have a vision of this line where, short-term, there has been a slight improvement of 0.3percentage points vis-a-vis the Second Quarter. And rebuilding of the gross margin. At that moment last year, it was still affected by compression of costs on the margin.

And talking about operating profit, in this quarter, or this year, second half of the year, we have non-recurrent events because of the adjustment and the organizational changes of executives and other staff. And this appears on the line of other operating issues, which refer to indemnities and other points. That's why the EBIT line has a small drop regarding the Second Quarter, which is not followed by the adjusted EBITDA because here on slide 9, the adjusted EBITDA, we see this non-recurrent effect. And shows in line with what I have said. The result was practically the same EBITDA which we generated in the Second Quarter.

Net income above the Second Quarter and last year, as well. And financial expenses in line -- well, normalized. We don't have any exchange effects in the income generation to date compared to BRL200 million last year, BRL400m-odd this year.

When we see net sales evolution, the revenue, or sales, is above last year by 5.4%. And falling below the internal market. The domestic market has had a drop, which doesn't come from the main business lines because when we talk about processed foods, compared to one year ago, it dropped 1.1%. And last quarter it was not 100% clear of the effects of suspended brands. And Oberdonia [ph] what was sold.

But when I look at the year, we have grown the revenue at 9.5%. And of this 9.5% of last year, at least 7.5%, we have seen another company maintaining the assets of the performance agreement.

Looking at the EBITDA, the last four quarters we have been at 12% margin. The Fourth Quarter was bad last year. And then we had an operating -- a level of 2%. And although we didn't have the growth that we wanted, we do have a certain resilience of our numbers vis-a-vis the market, which shows that domestic consumption did not contribute. So the Company would accelerate its results in a very short-term.

The next slide and I will jump into slide 14. Just to give you an idea that the costs really comes back in this quarter. The data doesn't show it nicely here because here we are considering mix revenues. But if we isolated the mix effect and we would work with the slaughter chicken cost. And that is an important reference, that gives us a very good idea of how the cost has behaved on the quarter. We can see that we have costs that have a peak exactly when we turn the year and this year there was an impact on the export results in the First Quarter. The costs have then dropped in the Second Quarter. That also contributed to favorable results on exports. But then it jumped back on the Third Quarter. It is a small, or a slight increase. We expected that.

We thought that those costs would contribute to a better management of the gross margin. But that is a combined impact, a combined effect of exchange rate and the soybean meal that, in spite of being stable in Chicago, the premiums in Brazil really went high. And so the soybean meal became more expensive in Brazil, impacted then the price and we still have impact of that on the quarter. So the prices kept around the same now and the trend is that they will be at that level for the Fourth Quarter.

So on the one hand, we do not have a contribution coming from cost at this moment. But the cost trend for the mid-term is a favorable one because the crops are very good in Brazil. Brazil had a record crop. Therefore, Brazil's costs will have a good impact.

And especially in export, we don't transfer that immediately. So we will see a good result in the future.

Just to mention that also this peak in price did not come from the domestic market. When we isolate Brazil, or operating expense on the net sales was dropping 1%. But the operating expenses on that sales from that foreign market has gone up due to the problem also that we have with shipments at the end of the month. So that's why we have, on the consolidated at the end of the month, a different result in terms of net sales.

Our financial position is very good. So I'm going straight to slide 18.

That shows that the Company is still on the same beat. If there is good news in this quarter, is the strong cash generation and the deleveraging that we have in this half of the year. So we did pay dividends. That's something good, obviously. And an important thing. And we also were able to do some deleveraging, even paying dividends. And so we are below BRL2b. And the trend is to keep the deleveraging happening.

We have a CapEx of BRL1.5 billion in the year, below the BRL2 billion that we had in terms of guidance. So our down bias here is really happening.

On slide 21 we show that the cash flow generation is very strong. The Company really is working hard in terms of CapEx and returning invested capital to the operations. That is really happening. And the Company is really going in the other way of the trends that we see in Brazil, because everything is leveraging, whether by the foreign exchange rate or the cash flow generation really. We are able to take bigger leaps in the future.

So due to time constraints, I will now talk a little bit about domestic market. And then I will open the floor for Q&A, also about food services, if you have any questions. Because, really, we don't want to miss the ceremony at 10am.

So just a quick comment on the domestic market, slide 26. First, I would like to remind you that when we got a volume that in the year to date is dropping 12%, when we do the base adjustment, the volume is increasing 2.5%, because that is a comparable base and net sales increasing almost 21%.

Yes. We did have a hard time in the first half of the year. But that is better than before, as you can see on slide 27. On slide 27, our operating profit improves 1.3percentage points. Part of that is due to the good management of costs and prices. We were able to have -- to do some price transferring to improve profitability. And also companies are more compatible to the business.

And here I am showing you the chart of growth when I do the adjustment and take away the line of other sales because here I have relation [ph] sales that were used in the last quarter for our operations. And we did that for pork and the swine slaughters. So I have to take out those lines so that we have more analytical results.

And we realized that really, the Company has performance that is not as good as last year's in terms of volume but it is good in terms of revenue. And in the short-term, the Company is able to grow vis-a-vis the prior quarter, transferring some part of price. And with that we're able to contribute with the gross margin vis-a-vis the Second Quarter. And obviously, it's much better than last year. But yes, we agree, it's not -- we are not at our full potential yet.

Then to conclude the domestic market, we know that probably this was the point of major concern or most surprise, if I can say, in which we have a quarter that is dropping vis-a-vis the prior one, even with a favorable exchange rate.

And the explanation is, you know that that grey bar that is increasing is 6.8%. Only exchange rate with 10.6% in the average from the second to the Third Quarter, that really means that we have lost around 3% in terms of dollar and that is mainly concentrated in one market, the Arab market. That was the market with the largest contribution to our results.

So we did have a margin compression in the Arab market. And that is a little bit of the trend. We are working on that market not only -- but also you're leading a movement in Brazil and in the world. So that the supply for that market is compatible to its demand. Once we have now in the Arab market the lack of markets that were taking chicken products, such as Russia [ph] and Egyptian market, Jordanian market, European [ph] and all those markets are not purchasing products, not only from Brazil but from all over the world.

And that's why the supply and the size of the volumes have not increased for the Middle East. They increased for some selected countries. And that's where we're able to have better prices. And that's what we are doing so that we do not lose profitability. But the fact is that we did lose some profitability added by that price peak that I mentioned. And in the domestic market -- or I'm sorry, in the foreign market, we see a short-term impact. And also, there was a problem with a shipment. And this is also an impact as well. That happened. There was a problem on the port. But really, the results did not follow the improvement of the exchange rate and also some selected markets.

So I will pause now so that we can turn to the stock exchange ceremony. And we'll be back with final remarks from Mr. Claudio Galeazzi. So that we can go straight to our Q&A session. Thank you very much.

Ladies and gentlemen. good morning and welcome. On behalf of BM&F Bovespa, once again, we thank you all for being here. Today, we have with us. And we are very happy to have BRF here with us for the BRF Day, celebrating their acceleration plans.

The objective of this day is to broaden visibility and to value the fundamental role that each company has in the country's development.

Bovespa works in many fronts to strengthen the companies' performance. On the one hand, the Sustainability Indexes, IEC 02 dividends and corporate governance help to add value to shares. On the other hand, ETF options and incentives to market makers create a liquidity increase and also generate interest by the investors.

This way, BM&F Bovespa is ready to meet the needs of the companies from different sizes and areas, aiming to generate value and increase liquidity. So to officially start the ceremony, I will turn the floor to Mr. Luis Furtado, Executive Director of Technology and Information Safety Security from BM&F Bovespa that is going to talk about the importance of this day.

Luis Furtado

Good morning, everyone. It is really a pleasure to have you here with us for the BRF Day and also for the earnings results for the Third Quarter of 2013. On behalf of BM&F Bovespa, I thank Mr. Abilio Diniz, Claudio Galeazzi, Leopoldo Saboya for being here. And also all other members from the Board of Directors for being with us today.

This is the fourth time that BRF is here participating on the Companies' Day. This program has been created in 2009. And it tries to highlight all the companies that are listed on the stock exchange. One of the main global companies. And also one of the main private companies in the country, BRF, is a company that really doesn't require much introduction.

It is pioneering corporate governance practices and it is present in the Novo Mercado since 2006. Besides, BRF is bringing more relevance to the market. Right now, the Company is part of the indexes of companies' sustainability, as well as IC 02. Therefore, we from the stock exchange, thank BRF for choosing us to once again do with us and be here with us for their earning results presentation.

Bovespa is really privileged for having you with us. Companies like BRF really helps to build a market that is even more sound and robust. So once again, we would like to congratulate BRF for this initiative. And we hope that other companies will use the strength of the Brazilian capital markets so that they can do their businesses in our country.

Finally, we would like to wish BRF an even more brilliant future and a future where you can pull the string, not push it. So once again, thank you very much.

Unidentified Speaker

Thank you very much, Mr. Luis. So now we would like to invite Mr. Claudio Galeazzi, CEO of BRF, for his remarks.

Claudio Galeazzi {BIO 20826837 <GO>}

Good morning, everyone. Brief, because we do have a time constraint right now. We're really glad that we are here. And we would like to thank you all for being with us or being interested in everything we have to say and what we still have to tell you after.

Thank you very much for the invitation. Thank you for your participation. Thank you, BM&F, for having us once again in your home. I remember back 50 years ago, when I was working close by, this was really a great home. And I've seen several times the opening of the market from up there.

Thank you very much once again for having us. We'll be back shortly. And then we'll talk a little more and we'll go into more details about what we are doing in BRF right now. Thank you very much.

Unidentified Participant

Thank you very much, Mr. Claudio Galeazzi. So right now we would like to invite to ring the bell. And that is what represents the beginning of operations in our exchange market today. Mr. Luis Furtado, Information Technology and Security Director of BM&F Bovespa, along with all the Board members and VP of BRF that are present here with us today, please, we would like you all to join.

Unidentified Speaker

So on behalf of BM&F Bovespa and BRF, we thank you once again for being here. Please remain on your seat for the Q&A session that will be conducted by Mr. Ricardo Tadeu Martins, President of Apimec São Paulo. We would like to call him to the floor so that we can start our Q&A session.

Ricardo Martins {BIO 18747825 <GO>}

So we are here. We are the only ones here because everyone else is working.

The Third Quarter has gone through a strong implementation of a new structure. Mr. Abilio has mentioned that we believe in a model which DNA was an industrial one and was pushing the commercial area. This is undergoing a big change. We are now becoming a commercial company and the industrial area is there to meet the needs of this commercial company.

Right now, in a very short period of time, we have a back off redundancy of around 17%. We are redesigning processes, also relocating our employees and obviously this accounts for some of the difficulties that we have had recently.

On the other hand though, the valid explanations for our expectations not being met such as flood, problems that we had with shipments, we did not ship over 25,000 tons in a certain moment and that also has impacted our results bringing them down, plus, the exchange rate, that was bringing an expectation of good results. We had, on the other hand, a reduction of international prices.

Also something that was our fault. There was a supply above the demand and that has created a price drop due to large inventories, not only ours. But also from our competitors.

Despite all that and all our inefficiencies, we do not have really to blame ourselves. We did have results. And we have to consider all these explanations which I don't like very much. But really, this is not the end of the world. Very much on the contrary. That shows that in spite of our inefficiencies, we are still having some type of delivery, even though below then our expectations.

Implementation of this new structure that has strongly started in this new quarter will keep on happening until the first half of next year. We have started our zero-base budget. That started and it's going to start November 15 and it should happen up to mid-March of next year and we are going to implement our budget within that plan, the zero-base budget, that is going to implemented from April on.

That mindset change from being a company with an industrial DNA to being a company with a commercial DNA, that implies taking some actions in the market and those require a lot of courage. Some of them are already in process. That is, one of them is the reduction of supply of our chicken in exports of around 200,000 tons for around one month. Our competitors, if they have common sense. And I believe they do, should have some reductions as well.

What has been spoiling the foreign market is this really high supply above what the market is willing to consume. What happens is that in the industrial DNA we manufacture independently from the demand. And, of course, we end up making money when we reduce costs. But at the end of the productive cycle, inventory levels are too high and since those have a short shelf life, we have no alternative other than really lowering prices trying to sell those products.

As a result all of us end up acting against ourselves because we have to sell at lower prices in the best markets that we have which are the Middle East markets. Nowadays, this is one other factor of our inefficiencies.

Our Board of Directors and the main officers were there in the Middle East. We had a Board meeting and the Middle East market for us represents around $2.2b. We are finishing building a processing plant up to the mid of next year and our players here, our operating people and planning people here, also our HR people, none of them have ever been there in the last four or five years. That was an extremely important market for us. But it was totally isolated. Right now we are starting a full program for our teams here to visit that market.

So once again, it's not that we have to blame ourselves. But we have to realize that in spite of our inefficiencies, we still have reasonably good results in spite of all of these.

We right now are taking several actions. I will not list them all because there are so many. So for the domestic market actions, we are reviewing our pricing model taking into consideration different categories and channels. We are clustering our customers. We are generating value also by innovation.

And also, a very relevant consolidation that is ongoing and you can only imagine how much this impacts sales, we are consolidating sales areas. Just to give you an example, we have a sales area that was dedicated to Sadia, another one to Perdigao, another one to Batavo. That is the client would receive three of our sales reps, each one with a different target and sometimes they would be competitors among themselves.

Also, we are analyzing our branding. We, during these last few years have not been concerned with the branding. Consequently, we didn't do our pricing correctly. So I have seen in supermarkets, Sadia and Perdigao products being sold at exactly the same price.

Regarding the export market, we have to have a presence. The concept is already established. But we have to have a physical presence in some markets that we are pinpointing. We cannot be just a commodity exporter. We have to be there locally with a brand of processed foods. This is what is happening in the Middle East where we have a brand, top of mind Sadia, which they call Sadia and this is the brand.

We are surfing on top of that which was built in the past. We have built practically nothing through media or merchandising recently during these last few years. In other words, we have a huge field both in the domestic market and in the foreign or export market to act and obviously not be anything in spite of us but, with what we do we will achieve our results.

Also, a question which we often receive regards our 1.9 which was talked about. I'd like to say that we are following this very closely month-by-month of the expectations regarding this gain that were identified during the 100 days. And we can, sometimes we get better results or less. But whatever, we are ahead and we should say that these gains have contributed to our results. I'm not saying significantly. But effectively to our EBITDA.

The other point is the CapEx. We have already drawn up our zero-base budget specifically for CapEx, identified some investments that we should suspend, reduce. But this does not mean that we will not invest. It means that we will redirect these investments towards more urgent, more immediate things that will bring more immediate results.

A simple example is our exported chickens with a weight above one kilo. The value has been devalued in the market. Now, if we cut them in four or eight pieces, the added value is considerable. So investment in this kind of equipment and also in the automation with machinery reducing labor. So CapEx will not be addressed more to production since we have in the conduct of certain idleness. It doesn't make sense to continue investing in increasing production but in automation and reducing labor and in the improvement of quality of production.

And we are very concerned with people, having the right people in the right place. We have carried out relevant restructuring of our team and the top management. And we have added people to our team like Sylvia Leao who is part of our marketing and innovation team. And if you have had a look at our new structure, you will see that each brand has its own marketing completely isolated. We did not have a marketing as a whole and nor did we have one sole market planning in the Company as we have today. We have a Vice President for Planning at international level regarding production and demand.

Our management model today is focused on results and the development of the organization, as is the target, to be aligned with all the stakeholders. I could say that -- I'm not talking about numbers here. We could talk about numbers. But I still think that it's too early to talk about these advantages that we are already noticing as we delve deeper into the Company.

We wish to have efficiency gains and ROI, return on our investment. That's one of my targets. And significantly increase this ROI and a management model focused on results.

Abilio just mentioned strategic planning. We met for three days last weekend so that we could define all of this, the strategic points, the same principles and process. They are telling me that my time is up. But the same process that we implemented in CBD which led to the results that we had. Obviously, the definitions will be clear definitions and of a strategic nature and we will seek the results, considerably ambitious results, that the Board is transferring as a responsibility to the executive team.

I could also mention some other things. But I think I will stop at this by saying that things are happening and they are being very carefully considered and we are no longer pushing the piece of string. But pulling a great big rope that is being built.

That's what I have to say. Thank you.

Questions And Answers

Operator

(Operator Instructions)

A - Unidentified Speaker

Please raise your hand if you have a question and the microphone will be taken to you.

Q - Unidentified Participant

Good morning. My question is regarding the production adjustments that the Company has done, whether you have finished this adjustment or is there anything still to be done for the beginning of next year?

And regarding the foreign market, it's clear why the margins have dropped. So what about the expectation for the Fourth Quarter, is there an improvement, or is this going to be left to the beginning of next year?

A - Unidentified Speaker

The sound is not at all clear. Could you repeat please?

He was asking about the production adjustments and if there is anything -- if all has been done now or has anything been left for next year? And what about the foreign market and the Fourth Quarter.

The Fourth Quarter will have a slight reduction. You know that our production portfolio is large. Consequently, you cannot make a decision of reducing production and this occur immediately. It takes a while. So these reductions are in view of demand expectations. If the world demands grow and if there is a growth expectation, we will then once again step-up our production. Obviously, this will not happen overnight. But we are preferring to run after demand than production pull ahead because then we fill up our inventories too much. So we will regulate production according to our expectations of demand. Both -- well this is actually more for the export market rather than the domestic market.

And also to answer your question and the adjustment will be carried out more next year. Notwithstanding the qualification of our offer here in the domestic market with a more balanced production, the quality of the mix offered also for the domestic market improved also with added value when I compare this to the 2013 phase. This is what is guiding our medium-term 2014.

And just for the Fourth Quarter and 2014, looking with the binoculars from today, we have some circumstances of a less favorable exchange rate and there has been a small, slight peak but it will continue in the Fourth Quarter. Then we also have the question of the price in the Arab market which happened in the half -- in the middle of the Third Quarter but it hits the Fourth Quarter in full.

What are we doing? We are calibrating our supply in a very short-term, deciding some things whether we will build up a buffer stock so as to be able to hold the price. But in the very short-term term we are trying to up our price too. The best thing would be in the Fourth Quarter to have more visible results than we did in the Third Quarter but it's too early to say since we are now just coming in with these steps to revert the trend of the second half of the year. Well so, it has to do with the exports to the Middle East. And instead of putting the prices up, we are contributing for the prices to drop significantly for now. We will exercise our position as the leader of the market.

Q - Luca Cipiccia {BIO 6914452 <GO>}

Good morning. Luca speaking from Goldman Sachs. I wanted to know about the domestic market and the foreign market regarding the transformation of the Company into a global company.

You need good leadership and M&A. So the two things must work together and when we talk about M&A, are you talking about the possibility of complementing synergy? Are you looking for companies where you are active or where you are not yet active? Could you elaborate on that please?

A - Unidentified Speaker

Well regarding the Global CEO, we are in our final phase of a position with a Global CEO. Probably, this should occur in the next 30 days. Consequently, all this question of M&A that we are analyzing very, very carefully will follow together with the new CEO taking over this position.

We are considering the world in fact. We don't have any interest or any possibility of embracing all the regions of the world. They are being carefully selected so that we will have a similar presence to that which we have in the Middle East.

In other words, in the Middle East we have brands. We have distribution. We are relevant. 200 countries we are commodity exporters. We have a small presence in the

Netherlands, another one in the UK and the concept is the following. In these selected markets we will be present. Not all. But in those present, the idea is to acquire a local company which has processing facilities and also has a regional brand. We would like to come in with Sadia's Perdigao brand. But the cost of entering a market with a brand is very high and later there might be an acquisition.

And regarding physical participation, local physical participation, it is important that we will have access to the supply of local raw materials and continue to find an adequate equation for the export of raw material.

Q - Luca Cipiccia {BIO 6914452 <GO>}

Well so what you export to these markets is a crucial criterion?

A - Unidentified Speaker

Yes. It seems to me to be common sense. We'll suffer as a commodity export due to some barriers, sometimes economic, politics and psycho-sanitary. So sometimes, for example, Russia increases its taxes or raises or closes off some region and if we are in a region, we will have access to the local producers and thus, one can balance out the equation.

I have no idea what it would be at the moment. But there would be a balance between our exports to these countries where perhaps one day we might have a more local presence

Q - Luca Cipiccia {BIO 6914452 <GO>}

And the domestic market, well, looking on at this moment, does the Brazilian consumer -- would you talk about of the dynamics about the mix of Brazilian consumption?

A - Unidentified Speaker

We are considering the product mix obviously, the branding and pricing. We have Sadia which is recognized as top and Perdigao which also is well-recognized but does not have the added value that the Sadia brand has.

As I said, our position does not leave this, takes this into account because in our Company, it was Perdigao's DNA which prevailed. So it was difficult to accept Perdigao to be below Sadia. Today it's BRF. It's no longer Perdigao or Sadia. So the consumer -- you have to distinguish the different possibilities of purchasing power of different classes and you have to address these markets in an adequate way. I'm not sure whether I answered your question.

Q - Thiago Duarte {BIO 16541921 <GO>}

Thiago Duarte from BTG Pactual. At the beginning of the year, you said that your revenue growth would be 10% to 12% and if we look at the nine months, you are at 9.5%. I'd like to know if the 10% or 12% makes sense and obviously influences your performance in the Fourth Quarter.

A - Unidentified Speaker

Yes, because on the year-to-date we are closer to 7% than 12% because of the steps taken not only in the export market. But the consequences also the less slaughter have on the domestic markets. And we have always tried to keep price and profitability even with a lower volume. So I would say that we still think that it will be feasible to achieve this number but we recognize that it will be closer to 10% than to 12%.

Q - Thiago Duarte {BIO 16541921 <GO>}

And if I could ask another question about the impact of the operating other revenues and expenses. If there was an impact of the organizational structures. So, will there be an impact on the other quarters as much as there was on the third?

A - Unidentified Speaker

No. What had to happen happened now in the Third Quarter. There will be more happening, a little in the third -- the Fourth Quarter. But most of what was going to happen, happened now in the Third Quarter. I would also like to complement the bulk of what was going to happen has occurred and we think that there might still be a need to maximize certain units and detriments of others where we have idle capacity, sometimes duplicity.

There obviously should be a rethinking of the industrial footprint. Obviously, there it would be slower and more relevant when it happens. But it has to be slower because of the production chain all the way through -- all the way up to the slaughter. But the vision of making the Company more adjusted is not yet concluded. Quite the opposite. It is far from being concluded. I would say that this first step was taken. It was only possible to be taken so quickly because of the analysis and the in-depth dive that was taken in the 100 days since the new team took over. I am not sure whether I was clear.

Q - Unidentified Participant

My name is Franco. I am an investor. So in this clearly, focused or -- clear focus to give more emphasis to countries like Russia, is it correct that the Company already has some industrial facility in Russia and if yes, how long have you been operating and what is the focus?

A - Unidentified Speaker

Well the Russian market is a market which at least deserves a better analysis of the Company before we make any decision of entering this market more completely.

We recognize on one hand that the Sadia brand has an important recall in the Company in a few categories but where it still has, there is a consumer recall. So there is a latent possibility.

On the other hand, we know that it is a very difficult market to operate in and even more difficult to operate than Brazil -- from Brazil. So what we did was to export materials and more materials, especially pork and some processed meat for the brand. This is why the process of really under -- if we really understand that Russia is -- becomes a priority and makes sense, we will progress and this -- in this strategic view of the Company, we don't think that Russia is one of the top priorities of organic or inorganic growth of the Company. But certainly, we understand that yes, there is a latent possibility. So at least we will examine this with more attention to know what is the design of advancing more in the local distribution chain without having a considerable advance or building factories or M&A.

Q - Unidentified Participant

At the moment you have nothing.

A - Unidentified Speaker

No. And we are focusing on certain regions where we think there is a market where we must be present, obviously.

There's also a factor called opportunity which can crop up, where we can have an excellent opportunity which might deviate the focus from another area. So should this opportunity appear, it has to be an excellent opportunity, we will then consider this. But it's a question of adjustment as you go along. We have a strategic plan and we focus on certain regions. But it's not written in stone. It's nothing really fixed or concrete.

We now have a question from the Internet. So let's open up to the Internet. Our next question comes from Mr. Alex Robarts from Citi.

Q - Alex Robarts {BIO 1499637 <GO>}

Good morning. My question is about on page 44 (sic, see presentation "page 24") on specialty meats. The market was 53.7% in the industrial lines or specialty meats. I think that was July and looking at the year, I think this was the highest point. Could you talk a little bit about gain of your market share and if you would intend to have any level as an objective of the segment?

My second question is the acceleration plans that you mentioned of BRL9b, if you could talk more about the curve to obtain these gains during the next two years, if there is any novelty about this curve to obtain these gains? Thank you.

A - Unidentified Speaker

Thank you, Alex, for your questions. The first part I could hear properly but the second part I'll have to ask you to repeat. Let me talk about the market share and then I'll ask you to repeat because the sound was not all that good.

Regarding market share of value and Alex refers to slide 24, which I'll put up for everybody. When we look at this market share, it doesn't appear here. But when we compare this value of market share to what we had last year, we took what we had before, before the full execution of our agreement. And our performance agreement. The drops which we had were because we sold off some brands and product lines and also we suspended the production of some of the Perdigao brands. On average, the drop which we had which is below the one which we would have had if we just removed the effects of the performance agreement on this. But there are some differences between the lines. I'll give you two examples.

The specialty meats like ham and sausages, we are even better off than that would -- the position which we were potentially in, largely because we have the Qualy asset. It's a very powerful brand and the Company decided not to increase its production volume. So for each category there was a different strategy to reposition and recover values and profitability.

Now, it is a fact that this phase has come. The competition has been very strong after this space. So it was divided up among several regional players, smaller players, that managed to capture this market share which had been either sold or suspended so here we see looking on an important opportunity to regain this space. For example, like frozen processed meats and pizzas where the Company has a competitive advantage to be regained.

When you look at our launches that I went through very quickly, they focus on these categories, especially frozen processed meat, pastas and pizzas. With the focus of the Company not only of regaining its leadership and expanding its leadership here. But also create competitive advantage through innovation.

Now, I'll ask Alex again to repeat his second question which was not very clear. The sound was not very good. Alex.

Q - Alex Robarts {BIO 1499637 <GO>}

I was asking about the acceleration plans and the objective of capturing BRL1.9 billion in the next two years. So the question is, can you elaborate a little bit now about the curve -- capture curve that you are imagining if most will be coming in in 2014 or, anything that you could say would be great.

A - Unidentified Speaker

Fine, Alex. I understood the number that you were asking for. The acceleration plan, the gains in 2013 or the curve which was drawn for 2013 was very timid. It was the beginning of this. But we were absolutely on track on average.

Claudio has some -- mentioned some project which is a little bit below because just so because you plan some actions and projects which are inter-dependent and not only -- and not all are according to expectations. But we are on track as expected. I do not have in fact an important curve to show you just at the moment. But there are many things which are being shown or started for a more robust capture in 2014.

I would say that 2014. And answering your question, Alex is essential when we speed up capture and the implementation of important projects so that after 2015, we'll be able to start surfing on these gains, annualized gains, that will present a gain. So it depends on CapEx as well. It depends on investments and investments take time not only to mature. But also to give the expected results. And Claudio follows this closely and I see this every day.

There are 29 projects in all. So he follows them closely. Not only the number. But the accountability of every officer involved so these projects be totally developed. So not only the planning is detailed but they have the sponsorship of the top management so that they will occur in a given period and according to what we are expecting. So I think this was your question. Thank you very much.

Operator

Now we are going to turn to our last question.

Q - Mario Mariante {BIO 1542694 <GO>}

Good morning. Thank you for this opportunity. I am Mr. Mariante from Planner Corretora. Please Mr. Eduardo, can you talk about BRF's vision regarding other products of the Company for service, dairy. And I see that you have a market share that is low other products. So within this new moment of the Company, what are you foreseeing in terms of growth? I know each product has a different growth dynamic, a different competition. What do you foresee for these products and other markets?

A - Unidentified Speaker

We are right now focusing ourselves. There is a lot of attention being given to dairy and food service.

About dairy, I would say we are being very specific in a deeper market and opportunity analysis. We are not at a stretch. But we are doing a reassessment process in terms of our prior position.

Food service is another area in which we need to focus and we are also starting to work on it. But that is a very large market. We do have a relevant share. But it's still below our full potential. I would not be able right now to give you a smart answer to these two areas because they are undergoing assessment. But I am sure that in a short period of time, we'll be more prepared to bring to you better forecasts.

Just one comment please. We -- when we see dairy, what we have here in the market share is just a part of what we call dairy. Exactly because of that, this is not -- no longer going to be an affiliated or separate business division. But it's -- rather it's going to be part of a strategy to gain market. And also a strategy of profitability in the Brazilian market within the frozen and refrigerated products.

So within dairy we have deserts, yoghurts, cheeses that is very relevant and really BRF has an obligation in terms of its marketing and distribution to win that cheese gain. We are already in a very interesting trajectory. So dairy is a strategic area in the long-term. Of course, if we analyze it globally, it is also very strategic. So once everything is working out and this is on our hands, we can really think higher.

About food services, this has been mentioned. We are undergoing some challenges in the Brazilian market for food services. It has to do with a down-trading of the mix that is offered. You know that Brazil became an expensive country. It's now a slogan and everything complains about it. Restaurant and transformation change also does that because labor costs have increased a lot. Occupation and real estate costs have increased. And also food has increased in cost. That's why transformation industry is looking for more affordable raw materials so that they don't have to increase their prices for the end consumer. So we are having to deal with the domestic issues.

When we analyze the size of food service and we check the institutional possibilities, global key account, that is huge for a Company like ours and of course we are going to focus our efforts on a global and -- global efforts and we believe that BRF is going to be turn the table.

What service nowadays has a worldwide reach. We are not operating like that yet. But about dairy, we have just started the international process. But it's also possible to bring foreign partners that are relevant. That is, all opportunities are being considered.

Very well, we'll conclude our meeting. I would like to remind you to fill up the questionnaire that we have handed out which is an extension of the quality award. So it's very important to us.

Again, we thank all the Board members from BRF that are here with us, analysts, investors, professional investors. We know how difficult it is to gather such a selected group in the Company in the same day. So thank you, once again Mr. Abilio. On behalf of Mr. Claudio and Leopoldo I thank all participants. And we did have a great opportunity to talk. Once again, thank you Claudio. I will turn the floor to you for your final remarks.

A - Claudio Galeazzi {BIO 20826837 <GO>}

Please, I have already said everything I need -- I have to say. We brought to you everything we had. Once again, thank you for this opportunity of exchanging ideas.

For those of you that know me from other companies, you know that the opinion and the participation of others is very important to me. You will always be very welcome in all opportunities whenever you need more information and obviously, everything that we can tell you in a specific moment. Thank you, once again for being with us.

Operator

The conference call from BRF SA is concluded. Thank you, all for your participation and have a nice day.