

Q3 2021 Earnings Call

Company Participants

- Andre Nogueira, Chief Executive Officer
- Gilberto Tomazoni, Chief Executive Officer
- Guilherme Perboyre Cavalcanti, Chief Financial Officer and Investor Relations Officer

Other Participants

- Benjamin Theurer
- Carla Casella
- Carlos Laboy
- Guilherme Palhares
- Priya Rangarajan
- Ricardo Alves
- Rodrigo Almeida

Presentation

Operator

Good morning, everyone, and thank you for waiting. Welcome to JBS Third Quarter of 2021 Results Conference Call. With us here today, we have Gilberto Tomazoni, Global CEO of JBS; Guilherme Cavalcanti, Global CFO of JBS; Andre Nogueira, CEO of JBS USA; Wesley Batista Filho, CEO of JBS South America; and Christiane Assis, Investor Relations Director.

This event is being recorded and all participants will be in a listen-only mode during the company's presentation. After JBS remarks, there will be a question-and-answer session. (Operator Instructions) Before proceeding, let me mention that forward-looking statements are based on the beliefs and assumptions of JBS management. They involve risks and uncertainties because they relate to future events, and therefore, depend on circumstances that may or may not occur.

Now I will turn the conference over to Gilberto Tomazoni, Global CEO of JBS. Mr.Tomazoni, you may begin your presentation.

Gilberto Tomazoni {BIO 2090061 <GO>}

Good morning. everyone. We have ended the third quarter of 2021 with the certainty that we are on the right path. Once again, the results we are presenting are proof, not only of the operational excellence of JBS, and our diversified platform but also the strength of

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our team of 250,000 team members around the world. Prosperous and virtuous is the company that can weather challenging periods in such a sound manner, meeting its responsibility to the planet and its communities while, at the same time, creating value for all its stakeholders.

We recently achieved a recognition that fills us with pride: we are full investment grade, which puts JBS in a group of the world's most respected and solid companies. This is the direct result of our team's focus on operational excellence, environmental and financial sustainability, and corporate governance. We have elected two new independent Board members, we have strengthened our governance and compliance policies, processes, and structure and we have established an aggressive sustainability target that will help us reach Net Zero by 2040.

As Guilherme Cavalcanti will detail further, we have ended this quarter at the best and the strongest moment in our history. Since 2020, we have invested \$1.4 billion in ESG, \$3.7 billion in new acquisitions, and \$1.3 billion in expanding and modernizing our operation units and we have returned \$3.3 billion to our shareholders. In the third quarter in '21, our net revenue was \$17.7 billion. In the last 12 months ended September 30, net revenue was \$61.7 billion. Net income for the quarter amounted to \$1.5 billion. And in the last 12 months, ended September 30, our net income was \$3.5 billion, considered the cancellation of shares approved by the Board. Net income per share in the quarter was BRL3.2, in the last 12 months, BRL7.5 per share.

In this quarter, we completed the acquisition of meats and meals business of Kerry Consumer Foods, leader in the production of frozen and chilled ready meals in United Kingdom and Ireland. We also obtained the final approval for the acquisition of Huon, the second largest salmon aquaculture business in Australia. Finally, our entry in this segment, we want to replicate in aquaculture, what we have done with the other types of protein. Further, we announced the agreement to acquire Sunnyvalley, a company that produce bacon, ham, turkey breast, and other prepared foods in the United States.

Bearing in mind that the acquisitions announced in the last 12 months have not yet fully factored in our results, and included not yet concluded acquisitions of Huon, Rivalea and Sunnyvalley, we still have to add around \$2 billion to the consolidated net revenue, and around \$250 million to the consolidated annual EBITDA.

In addition by the end of 2022 we will have invested BRL3 billion, around \$500 million in Seara that will generate in addition, BRL6 billion, around \$1.2 billion in revenue. We are on the verge to becoming the house of brands, launching innovative products, and strong brands in each region where we operate. Our target is to have 10 brands with over 1 billion in revenue by 2025. With this superior discussion today, we have also devoted ourselves to safeguarding our futures stress and success. We have made the sustainability our strategy. Foster the transition to low-carbon economy across our entire value chain. We are the first major company in our sector to take to the Net Zero, committed by 2040. We are now leaders in net zero balance of greenhouse gas emission across our entire value chain.

That is why we are also present at COP26, in Glasgow to learn and share progress with the global leaders who have also embraced the same shares of more sustainable future. At the COP26 around with nine of the world's largest global food companies, we committed to develop by COP27 a sectorial roadmap to contain global warming to 1.5 degree Centigrade about pre-industrial. This commitment was articulated by the governments of the United States and United Kingdom, with the support of the Tropical Forest Alliance, a multi-stakeholder partnership platform hasten by this World Economic Forum, and the World Business Council for Sustainable Development

Also, at the COP26, we entered in the strategic partnership to reduce bovine enteric methane emissions by up to 90% through the use of a new feed supplement in the beef production value chain, but we are not stopping there. We are also working in a partnership with the research institutions to apply other solutions that will reduce the methane emissions. We have also two urgent issues to tackle, slowing global warming and ensuring food security for the growing world population. In this respect, we have two convictions. One, there is a challenge cannot be challenged, -- cannot be tackled in an isolated manner, but it's to happen. All of us need to unite under a common objective and that produced food is a crucial part of the solution. Only the transition to more sustainable products will allow us our business to drive while guarantee food security and the preservation of the planet. We're prepared to face the challenge, we must tailored than others.

Given the magnitude of the current environment challenge, yesterday, we announced a new instruction, and the creation of the global operational president, which will be led by Andre Nogueira and Wesley Batista Filho. This new instruction aim to ensure that our focus in operational excellence, our people and with culture, while at the same time, ensuring the company is agile and defended in its decision-making and prepared to pursue its sustainability and growing strategy. Andre Nogueira will oversee the operation in North America and Wesley Batista Filho will be in charge of operation in JBS Latin America and the Oceania in the plant-based business. As a result, the position of CEO of JBS Brazil will be held by Gilberto Xando. Joao Campos will be the CEO of Seara. While in JBS USA will be led by Tim Schellpeper with the Steven Burns taking over JBS (inaudible).

You can find further details about the experience and career path of each one of them in the notice to the market that we have disclosed yesterday. Our entire team embraced the responsibility that reflects our role as a global leader. We will remain focused on feeding the people in the world with the best and in an increasingly sustainable manner.

Thank you. Now. I'll pass to Guilherme Cavalcanti who will detail our results.

Guilherme Perboyre Cavalcanti {BIO 2181205 <GO>}

Thank you, Tomazoni. Let's please move to Slide 21, with our financial management achievements and where I would like to start highlighting that we received an upgrade of JBS credit rating by Moody's and considering the credit rating we received it by Fitch in June of this year. We are now rated as full investment grade. This is an important achievement for our investors and stakeholders and it's the result of our growth

strategies, combine it with financial discipline and advancements in our ESG strategy. On Slide 22, we are demonstrating that what I mentioned, considering the period from the beginning of 2020 until now, we have invested \$9.6 billion with the following breakdown. We returned \$3.3 billion to shareholders through share buybacks and dividends distribution, including the anticipation of dividends announced yesterday.

We invested \$3.7 billion in acquisitions, these includes the announced acquisitions that were not concluded yet as Huon, Rivalea Sunnyvalley and PPC. We also invested \$1.3 billion in the modernization and expansion of our production units. And finally, we have invested globally more than \$1.4 billion in ESG initiatives. Half of this investment was done with the company's generated free cash flow, one-third is not concluded and one-fourth it's already included in our net debt. However, we were able to reduce our leverage from 2.1 times in 2019 to 1.49 times and we increased our interest coverage from 6.2 times to 10.8 times in the same period. So despite of the increase in net debt our capacity to repay debt increased significantly.

With EBITDA and free cash flow perspectives for the fourth quarter. And despite the addition of payments of announced acquisitions of Huon, Rivalea , PPC, Sunnyvalley and our anticipated dividends, our leverage should remain below 1.6 times by year-end.

Now, move to Slide 24 where we present the financial and operational highlights for the quarter. In the third quarter of 2021, we achieved revenues of \$18 billion , which represents an increase of 32% and we have to BRL293 billion. In the last 12 months net revenues totaled \$62 billion. Considering the acquisitions announced in the last 12 months, which are not fully reflected in these results and including the not settled acquisitions of Huon, Rivalea and Sunnyvalley, we would add around \$2 billion in annual consolidated revenue -- net revenue and around \$250 million in consolidated EBITDA. The adjusted EBITDA for the quarter was \$2.7 billion, which represent an EBITDA margin of 15%. In the last 12 months EBITDA totaled \$7.4 billion or equivalent to BRL40 billion, a record. Net income was a total of BRL7.6 billion in the quarter, which represents an earnings per share of BRL3 per share -- BRL3.2 per share.

And the year-to-date, net income was BRL14 billion. This value indicates a significant profit for the year of 2021 and consequently high minimum dividend as per the Brazilian corporate laws. It is important to highlight that the balance sheet exposure to US dollars in the end of the quarter was only BRL94 million. This improves our predictability of our net profit. Thus, in addition to the anticipation analysis in August, we are announcing another interim dividends totaling BRL2.4 billion which represents BRL1 per share to be paid in November 24, 2021. Considering these interim dividends, dividend yield reaches at 8% in 2021. If we add the repurchase of shares of BRL7 billion carry out this year until October, the total yield reaches 15% for the year so far. The company's Board also approved yesterday the cancellation.

(Technical Difficulty)

Operator

You may proceed now.

Guilherme Perboyre Cavalcanti {BIO 2181205 <GO>}

Okay. So move on to Slide 25, we highlight the 32% growth in consolidated net revenues in comparison as a result of revenue growth in all of our business units. The adjusted EBITDA also posted an important growth of 74% in the quarter, and EBITDA margin expanded 3.6 Percentage points in the same period from 11.4% to 15% in the third quarter of 2021.

Now, moving on to Slide 26, the operating cash flow was \$2.1 billion or BRL11 billion in the quarter and free cash flow amounted to \$1.4 billion or BRL7.3 billion, which represents a conversion of 52% of EBITDA to free cash flow. Excluding the non-recurring payment, the conversion would have been 60%. We have also increased investments in the company's organic growth. In the graph, on the bottom of the slides, we have our CapEx in the quarter totaling BRL2.6 billion of which 54% is related to investments in modernization and expansion.

Now, please let's move to Slide 27 where we have the evolution of our debt profile. Net debt for the third quarter was \$11.2 billion which represents an increase of \$386 million in relation to the net debt of the second quarter 2021. This increases mainly due to the payment of Kerry acquisition, the distribution of dividends and net repurchase of share which together totaling \$1.7 billion. Despite all these initiatives net leverage was 1.5 times in dollars and 1.54 times in reals. It's important to mention that the net debt is already impacted by acquisition of Kerry which was concluded in the end of September. Including Kerry, last 12 months EBITDA net leverage would be 1.49 times in dollars and 1.52 times in reals. The lowest level achieved by the company historically.

And it's important to highlight our comfortable liquidity position. We have at the end of the third quarter, cash position of \$4.3 billion together with the revolving line of \$2.2 billion at the end of the third quarter, totaling \$6.5 billion in total liquidity, which is more than 3 times, the short term debt and enough to pay the debt until mid-2026.

Moving to the bottom of the slide I highlight that our average cost of debt in dollars was 4.47% per year, the lowest ever recorded by the company. However, it is still 1.4% above the Above the interest of our bonds on the secondary market for the same average period of six years. And therefore, it means that we still have a potential opportunity to reduce financial expenses \$220 million per year. For the next few year, for example, three bonds together totaled \$2.6 billion with coupons of 7%, 5.75% in 5.87% become callable. The refinance of these three bonds will extend the average term of the debt and will capture around \$100 million in net financial expenses savings per year.

Now, let's move to the business unit performance. Starting with Seara on July 28, we have the third quarter 2021, our net revenue growing 38% in the annual comparison and reaching BRL9.6 billion. In the domestic market, which represents 51% of the total business revenue, the category of prepared products has been mainly the highlight, posting a growth of 4% in sales volume and 20% in average sales price. Seara continues

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to focus on innovation and among the many introductions of this quarter, I highlighted that we launched to improve Seara brand, the first complete line of a 100% vegetable protein-based cuts in Brazil. In the export market Seara posted the growth of 20% in volume sold and 11% in average sales price. The scenario for our production costs remained challenging with the average cost of soybean meal and corn rising by 23% and 74% year-over-year respectively, according to ESALQ data. As a result, adjusted EBITDA reached BRL984 million, with a margin of 10.2%.

Now moving to JBS Brazil on July 29. We see the revenue for the quarter growing by 35% year-over-year, reaching BRL15.5 billion in the quarter. The export market was the highlight of the quarter with net revenue posting significant increase of 50%, in the annual comparison, as a result of the 25% growth in volume and 27% in average sale price of fresh beef category. In Brazil, Friboi brand achieved an important achievement by being elected the most remembered meat brand in Brazil, according to a Top of Mind 2021 survey. Despite this sequential improvement, the performance for this business unit continues to be impacted by the increase in the average price of cattle, which according to the data published by ESALQ, increases around 35% in the annual comparison. As a result EBITDA for JBS Brazil totaled BRL946 million in the quarter with a margin of 6.1%.

Moving to Slide 30 at JBS USA beef and now is speaking in dollar terms and in US GAAP. JBS USA Beef's revenue reached at \$7.4 billion in the third quarter, an increase of 38% year-over-year with EBITDA of \$1.6 billion and the margin of 22%. In North America beef demand continued growing as the progress in the COVID vaccination accelerated the reopening of the food servicing channel at the same time that retail sale remained strong. Global demand for beef also remains very strong particularly in Asia, which now is responsible for more than 75% of the total US beef exports with China becoming the third largest destination for American beef. The performance of Australia beef continues to improve sequentially mainly due to the strong domestic and international demand that are sustaining different prices.

Now, moving to JBS USA pork, net revenue total net revenue was \$2.1 billion, an increase of 46% year-over-year and EBITDA reached at \$249 million with a 12% EBITDA margin. Margins increased in the quarterly comparison, supported by the strong domestic demand as well as the fact that labor shortage continued to hold back production.

In the export markets Mexico, Japan, South Korea grew volumes year-to-date 30% 6.5% and 5%, respectively, compensating the decline in the exports to China since the beginning of 2021.

Pilgrim's Pride on July 30, represented a net revenue of \$3.8 billion in the quarter, an increase of 25% year-over-year. EBITDA totaled \$347 million with an EBITDA margin of 9.1%. In United States, demand and pricing have been robust given the improvement in the foodservice channel while retail volumes remained strong. In Mexico, business continued to perform well, while in Europe shortage of labor and grain inflation among other costs put pressure on markets.

To finish, I would like to move to Slide 33 that show that our exports totaling \$5 billion in the quarter with greater China representing 28% and Asia as a whole representing, 50% of this growth.

With that, I would like to open to our question-and-answer session.

Questions And Answers

Operator

(Question And Answer)

Ladies and gentlemen, we will now begin the question-and-answer session. (Operator Instructions) Our first question comes from Ben Theurer, Barclays.

Q - Benjamin Theurer

Perfect. Thank you very much, and good morning. Congrats on those outstanding results. Couple of questions, so first of all, you've talked a little bit about it, but within your sustainability approach and I know there was a release, a few days ago that you're partnering with DSM and the feed additive in order to reduce methane within your supply chain. So my understanding is this is primarily focused on Brazil because of the approvals that are out there in Brazil? But could you give us maybe a little bit of a roadmap on how you think to potentially roll this out if approvals come in into other markets? And what are the biggest challenges to overcome given the fact that it needs to be administered on a daily basis, but in Brazil or in Australia you still have a lot of cattle grown on grass. So that would be my first question.

A - Gilberto Tomazoni {BIO 2090061 <GO>}

Hi, Ben, this is Tomazoni. Thank you for the question. It is, we start -- the agreement is a global agreement with DSM. You know that DSM spent more than 10 years in this supplement. And in the Brazilian, we start in Brazil because the approval, and because the restriction of production of DSN. We start in Brazil, we are developing this project they need to bring the supplement to Brazil. We are -- we starting development Brazil. We're planning with DSN to work. And the next step will be in Australia. And the other roadmap will not have defined it yet. But, what I can say to you is that a global agreement, we start Brazil, the second will be Australia and -- I think is the next will be U.S. after Australia.

And this for sure you have the question how you supplement them. We are not just because, when you have see the lot it's easy where we have in the grass will be more is a challenge to do that. We need to learn on that. We have just start to work with this, but it's not the only project that we have in this target to reduce methane. We have already some experience with lemongrass, then we'll be much easier to feed -- that have the potential to reduce at 30% of the methane emissions and we start that other project in Brazil with Italian company -- the Brazilian Institute, Research Institute that can detect all the supplements and we are not stopping that. We believe that we have a -- it's a good enough way to reduce the methane emission. Of course, we have a lot of opportunity and

to net based solutions -- naturally based solution. For example, the integration of carols, and the grain, and florist, has the potential to reduce -- I talk now for all the balance in terms of the carbon emission -- the green gas carbon emission.

At end to just to summarize, we believe that all of the initiatives, the additives in the diet to reduce the enteric fermentation and to reduce the emission by the land, we can they show to do you heard that the - it's a part of the solution of the challenge in terms of the environment and the other challenge that we have to feed the word with the group population.

Q - Benjamin Theurer

Okay, perfect. Thank you very much, Tomazoni. And then my next question, I guess that one's more for Gui, given the most recent upgrade from Moody's on your bonds and you said you're looking into some opportunities to get some refinancing them to further save money, how fast can you implement that? And is there anything else needed in order to potentially get included in some of the IG benchmarks et cetera. I think there's a change required. So, how do you think about this, because that obviously could sort of improve excess to capital market and even further reduce the cost of capital? Is that something you've already planning around? Or how do you feel about the needs to move here on the bonds?

A - Guilherme Perboyre Cavalcanti {BIO 2181205 <GO>}

Yeah. Ben, that's a good question. The speed of implementation, we could wait for the call dates, which will happen in January, in July, in September of the three-month bonds that I mentioned or we can do tender offers before. If they have good marketing by market conditions, we will probably anticipating those refinances through tender offers, so that's the idea.

And in terms of the benchmark index, we sure given out that we have the investment rate. We will be looking -- we'll be starting to see if we can make part of bonding like the Bank of America one which you given that we are 144A we can participate and others like markets that we are not -- that has to be registered. We will also see the pros and cons of maybe read shipping the bonds, I see you're making shelf registrations to speed up the process. And it speed up this refinancing, because we have this tremendous opportunity. We still have a lot of expenses that in our balance sheet and our bonds are trading at 3.10%, 3.15% at the 10-year bond yield. So we have again as I mentioned that tremendous opportunity to cut those expenses that's by more than a half in the interest expense.

Q - Benjamin Theurer

Okay. And how much -- well, is there any connectivity to what you said on the call earlier this morning around the plans to list the shares in the U.S. in 2022? Still something that is somewhat, well, needs to be done first on the bond side to then move forward on the U.S. listing, or what's next in order to get this finally done?

A - Guilherme Perboyre Cavalcanti {BIO 2181205 <GO>}

No. The listing is totally separated process from the bond side. So, the listing is just a matter of restart re-begin again the process, because all those process wants you stay without, for example, making confidential filings, you have to start all over again from the beginning. So it just a matter of restarting again.

But in the meantime, of course, we taking steps that maybe would be done only after the listing, examples was (inaudible) that we see a more efficient data location that we continue to do in the meantime, all the ESG investments. And I think it's important for us prior to the distance have better recognition of our ESG and maybe improvement our ESG ratings and the M&As that we have been doing is increasing the mix of value-added and branded products and portfolio which you also potentialize the re-rating once we list the company and also the steps that we announced it, the proposal for the minorities of PPC. So that's a staff that is after the -- if we conclude this, we won't have two listed companies in U.S., we'll be there for shareholders and you won't have to dilute shareholders in the future because we are using cash for that. So those steps we will be continue to be doing and all of them will potentialize I think the re-rating that we could get once we listed the company in U.S.

Q - Benjamin Theurer

Okay. Perfect. And then one operational question, and I'm very sorry for basically taking over the call here. But was in JBS USA Beef obviously the Australian unit, remember you've talked about this in the past it represents about a fifth of the contribution here. If I know you don't give the exact details, but could you give us some quality comments around the level of profitability you're seeing within the Australian operations between the fresh business and the prepared business, and how you think this is going to trend into 2022?

A - Gilberto Tomazoni {BIO 2090061 <GO>}

Andre ,can you take this question?

A - Andre Nogueira {BIO 19941317 <GO>}

Hi. Thanks for the question. So the food business rather run on our pre-good level GG margin, the fresh business, as we said, have been recovering sequential in the quarters, but still way below what we consider normal for Australia, especially the mark that we're seeing a strong sales , the way that we're seeing right now and way below U.S. then. I think that as Australia move next year especially in the second part of next year where we should see, start to see that availability of care and I strongly believe that international price of beef and lamb will continue to be very strong. We should see a solid improving margin. And we'll be at that point way above what would be the normal margin for Australia just because price of these international being so strong and there's I think that have everything in place to continue to be very strong with demand in Asia the way that it is and there are no demands in each market the way that it is.

So, but today Australia it's a drag in our overall results, of course, U.S. margin is way above the Australian margin. Canada is in line with U.S. in terms of margin even in U.S., remember that we have different type of care, we process native care, we process horses

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and processed cows. Horses are very similar with the nature of cattle, cows are not in the same level of profitability, they're in the good level, but not even close to what you have in terms of margin natives in horses and we have the capacity in our plants to balance this mix. So in the plants that to process cows and horses we are processing much more horses now and reduce that amount of cows. We have this capability to adjust that's a unique opportunity that we have in JDS. I strongly believe that Australia will continue to improve respecting the normal size analysis of the business. We'll continue to improve the huge, very strong rotation of care we're doing now, we have patent right now in Australia in the last several months and several quarters, the cows that have been processed are historical low that means retention that we should see the second part of next year start to have a much better availability with the price that we have today. Again, margin has been strong considering historic levels just because of global sales price of (inaudible).

Q - Benjamin Theurer

Perfect. Thank you very much Andre.

A - Gilberto Tomazoni {BIO 2090061 <GO>}

And Ben just to add to that what Andre explained about Australian, this just show that how it is important how strong is our global platform, because we have cycles in different regions and different kind of proteins, but our global platform it's a really that competitive advantage of the company.

Q - Benjamin Theurer

Perfect. Thank you very much Tomazoni. Congrats again on those outstanding results.

Operator

Excuse me, our next question comes from Guilherme Palhares, Bank of America. America. Mr.Palhares, your line is open. Please go ahead.

Q - Guilherme Palhares {BIO 21271598 <GO>}

Good morning, everyone. Thank you for taking my question. Two questions here on share. It seems that the company continues to be share over time, right, so every quarter we're seeing share outgrowing the competition. And in that sense, if you could give us some color in terms of what are the categories that the company is outperforming in terms of the value added in in processed food and also regarding the spend between beef prices and chicken prices there are diminishing in Brazil. What are your thoughts in terms of how this would change the demand for the protein here in Brazil? Thank you.

A - Guilherme Perboyre Cavalcanti {BIO 2181205 <GO>}

Good morning, Guilherme. So, regarding the first part of your question, we had -- we have been seen an increase in market share and the strength of the brand in Brazil for sure. We've been for the last couple of years, we have led the frozen category in Brazil Seara brand, has been the leader in the market for 28 consecutive months. So, this is a very consolidated leadership that we were able to achieve.

Other than that, we have made very, very good improvements in our market share. In the pizza category and recently a very strong market share gain in cold cuts and in the other and mostly cold cuts mortadellas which have been really good achievements that we had in the previous, in the last couple of months or actually in the last half year. The second part of the question, I didn't really understand, if you could repeat that?

Q - Guilherme Palhares {BIO 21271598 <GO>}

Sure. When we are taking a look on the spread between the beef prices in Brazil since we had a ban from China and the price of chicken that continues to go up with the pass-throughs, how these changes demand going forward? Do you think that there is a structural shift there or we're continuing to see in great demand for poultry in Brazil?

A - Guilherme Perboyre Cavalcanti {BIO 2181205 <GO>}

Yeah. We see a structural change in demand for poultry in Brazil. We think that per capita consumption will continue to increase. We see that more and more this will be a, it is a trend. Obviously there's a short-term change in these prices in Brazil that's because of all the reshuffling that the industry had to do to adjust to this temporary suspension, but we don't see that any of these short-term movement would change the trend that residual overall consume or poultry on a per capita basis.

Q - Guilherme Palhares {BIO 21271598 <GO>}

Thank you. That's very clear. And just want to follow-up there. In terms of the pork consumption in Brazil we see that there are some investments being made in that front of store. Brazil could actually expand the feedstock and more consumers come into this market. Do you see this trend going up, going for here in Brazil as well?

A - Guilherme Perboyre Cavalcanti {BIO 2181205 <GO>}

Yeah. Absolutely. So, Brazil consumes very little pork on a per capita basis, mostly on -- most of the pork consumption in Brazil a lot of it is in process in prepared foods, right. We see that there is a huge opportunity to increase per capita consumption in Brazil. We are working with a lot of our other customers (Technical Difficulty) that consumption and find new ways of having that consumption growing in Brazil. We've been doing a lot of programs that are pretty similar to what we do on the beef side with (Technical Difficulty) similar approach with the pork (Technical Difficulty).

Operator

Ladies and Gentlemen, please hold.

A - Guilherme Perboyre Cavalcanti {BIO 2181205 <GO>}

Hello. Okay, sorry I don't know until what part you guys could listen. So but I'm just saying that overall we have been developing the Brazilian pork market through similar approaches to what we do in the beef side, we were talking about it today. I hope that you could understand Guilherme my answer and well enough.

Q - Guilherme Palhares {BIO 21271598 <GO>}

Certainly.

Operator

Our next question comes from Rodrigo Almeida with Santander.

Q - Rodrigo Almeida {BIO 20698362 <GO>}

Hello, can you hear me?

A - Gilberto Tomazoni {BIO 2090061 <GO>}

Yes, Rodrigo, we can hear you. Go ahead.

Q - Rodrigo Almeida {BIO 20698362 <GO>}

Perfect. Good morning, Tomazoni, Guilherme and everyone. First of all, congratulations, the results are impressive. So I just wanted to touch on a couple points here. I thought we wanted to explore a little bit on the U.S. listing potential. You were very vocal about 2022. And then I just wanted to explore a little bit on the format of this listing in terms of whether there would be a corporate restructuring. If you have an idea of listing the whole of JBS' business in the U.S. or just limiting to a carve-out of the U.S. businesses in listing those in the U.S. I think it would be very helpful if we could get some color on this front if possible of course.

The second question that I have is related to Brazilian investments. You mentioned the BRL3 billion investments that is a planned and underway. I just wanted to understand a little bit if there is a potential way to break down this investment and what's an increase in capacity for fresh products and what an increase in capacity for new production lines for product -- processed product. I just want to get a little bit of an understanding and a tangible understanding of the growth of processed foods in Brazil. And then I have a third point, sorry if you touched upon this earlier this morning already. But I wanted to understand a little bit of the outlook for the fourth quarter in Brazil, more specifically taking into account the export restrictions to China and the significant decline of cattle prices in Brazil? If I can just wanted to understand a little bit more of the outlook for margins in Brazil, we saw good improvement quarter-over-quarter in the third quarter, but then I wanted to understand if that could continue into the fourth quarter. I have these three questions. Thank you.

A - Guilherme Perboyre Cavalcanti {BIO 2181205 <GO>}

Okay. Thank you, Rodrigo. I will begin with the U.S. listing. As you know when we were working on these before the pandemic, we -- and then the pandemic came and then we stopped the process. Since then, you see the evolution of our financials, we generated a lot of cash. We also have changes in tax legislation around the world. So I think this is now with our current state of our balance sheet perspective, we did a lot of M&As in the meantime. We can see it again and we start to see what will be the best associate of the new organization that will create more value for the shareholders. So when I say that we

will begin the process again, we will begin exactly specifically redesigning the associate structure for the listed, in light of again the current balance sheet situation in light of all the M&As that we are doing our own work and in light of the possible tax legislation around the world, in Brazil, in U.S., in other countries.

A - Gilberto Tomazoni {BIO 2090061 <GO>}

Morning, Rodrigo. Regarding Seara, investments in Seara. So, roughly about two thirds of what we're investing is focused on unprepared and value-added and about one-third is natura production. Remember in that a lot of natura production will support our growth in prepared. So that's a crucial for to make that happen. So, the investment is well underway and we're making good progress and we'll have most of all of our investments being finished and in operation in the next year.

Regarding beef margins in the beef scenarios, so for sure, we -- there is a disruption that comes from this temporary suspension from China. We saw a lower cattle cost due to this important market are not being available. We think that, again, we think that this is a temporary suspension, we don't think this is something that should hold for a long period of time. So we think in the near -- in somewhere, in the future here we should regain that market access. Having said that, we do think that we can, we-re able to maintain similar margins in the beef market somewhere similar to this third quarter and the fourth quarter.

Q - Rodrigo Almeida {BIO 20698362 <GO>}

Thank you very much. And congratulations again on this strong corporate strategy there.

Operator

The next question comes from Carlos Laboy HSBC.

Q - Carlos Laboy {BIO 1506984 <GO>}

Yes. Good morning. Everyone. My congratulations on this bound sheet optimization process. You've been waging since you arrived. Along those lines, what pieces of your ESG plan? Do you think you want to have in place ahead of a New York Stock Exchange listing? And are some of these may be also important for what you want to do with your bonds next year?

A - Guilherme Perboyre Cavalcanti {BIO 2181205 <GO>}

Yeah. That's a good question, Carlos. In fact, I think the company is doing a lot of things in ESG. I think the problem is not what do we are going to do because I think we are investing a lot in the social as we do in our program here in COVID situation, (inaudible) which invested more than BRL400 million just in Brazil, the Hometown Strong project in the U.S. which we support the communities, the better future in U.S. which provides college tuition for employees and relatives. On the environmental side, we put the Amazon front together. Now, we signed a lease agreement to decreasing methane emissions of Cairo. So, I think we are, on the governance side, we are increasing the level of independence of our board.

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So we are acting in all of the fronts. I think it's more a matter of we being recognized by the ESG ratings of what we've been doing. We think we do not deserve to have some grades that we have in some of the indexes that is with artificial intelligence collecting headlines around the world, because we are the largest meat company in the world. So, all the headlines against the sector will fall on us. So -- and this jeopardizes our ratings on ESG.

So, I think we should -- I think what we have is to make the agencies recognize everything we've been doing and improve this. And of course, this is -- this will have a potential impact on the listing we have, because a lot of ESG funds sometimes follow these indexes, these artificial intelligence indexes, and they are -- they cannot increase the stakes in JBS, for example. So this is a work that we've been focusing, Tomazoni is being very vocal on that. And especially, that -- and we believe that -- and we hope that we'll be recognized for everything we'll be doing in this font.

And on the bond side, probably the -- our next bonds as most as we can we will make them sustainability linked. But of course, we want to do KPIs that are challenging that we think we can achieve them. And so, for example, we -- the last two bonds sustainability linked that we did was related to greenhouse gas emissions, I think it's the first thing that we should focus on. We launched a local debenture in Brazil, which has a KPI, which is two trenches one at 10 and another 15 year trench which the KPIs is our blockchain platform of transparency in Cairo procurements. If we don't see these by January 2006, all of our capital purchases is not on this blockchain will guarantee that our -- the purchase of our direct suppliers and of the suppliers of our suppliers are all in compliance with the zero deforestation policy that we have no tolerance for something different. The interest rates of this local debentures will increase in 25 basis points. So we'll be the first sustainability linked local debenture in Brazil. So as most as we can, we will be focusing both on the bond side and also from our corporate ESG ratings that we expect to be to improve.

Q - Carlos Laboy {BIO 1506984 <GO>}

Thank you. And one last question. Can you give us some color on whether there is any industry specific efforts in the United States being made with the federal government to help you deal with the labor shortage that you have perhaps with some relief on visas or something? Or do you think this is kind of a medium to long-term constrain that the whole industry is going to have to deal with?

A - Gilberto Tomazoni {BIO 2090061 <GO>}

Hey, Carlos. It's not an issue for the industry, Carlos. It's an issue for U.S. overall, not only issue for U.S., the issue for today all the developed countries, look all our labor is hard to find and it is impacting several different industries. If you see in the TV, the advertise of Amazon trying to convince people to go to work there. So yes, there's a movement, but this is not an industry issue, this is a U.S. issue for labor. And I believe that this will stay first for quite a period of time, Carlos. I think that will change in the labor force that happened, that's happened fast, this related demographics, is related to participation rate of the labor force, and this will be our constrain to grow production, this will be impact the cost of labor, but in the other side of this equation, we generate more demand, because I think

that the fresh (inaudible) in U.S., the price of this labor, the cost of this labor will continue to increase. So there is movement, but I don't think that's -- there's nothing specific about the industry, which is a shortage of labor in U.S. overall.

Operator

Our next question comes from Carla Casella, JP Morgan.

Q - Carla Casella {BIO 2215113 <GO>}

Hi. Most of my questions have been answered. But I guess just one further one. Some of the management changes you recently announced and the board changes. Are these all required or moving you forward towards that U.S. listing? And do you have any timeframe of potential U.S. listing? And in the event of one, will there be a change in cash between the U.S. and the SA business to return any of the intercompany loans?

A - Gilberto Tomazoni {BIO 2090061 <GO>}

Hi, Carla. This -- all of these changes in terms of the management structure we announced yesterday and the board changes, it's nothing related direct to the listing in U.S. Our listing in U.S. it's key a priority and we have done so far a lot of initiatives that facilitate and speed up the process and we believe that we will be listed next year in U.S.

A - Guilherme Perboyre Cavalcanti {BIO 2181205 <GO>}

And about the intercompany, Carla as you have seen, we are already capitalizing the intercompany, still we have to do this throughout time for several reasons. But the auditors already are considering those intercompany loans through SA as a investment profile, not a debt profile anymore and that's why it's not -- we are not having FX impact on those intercompany loans. So we will continue to process of capitalizing those intercompanies and at same time always distributing that that in a more efficient way. So I think that's -- I don't know, if it did that answer your question?

Q - Carla Casella {BIO 2215113 <GO>}

Yeah.

A - Gilberto Tomazoni {BIO 2090061 <GO>}

I think it's worth mentioning, Carla. Yeah. I think it's worth mentioning that once we got investment grade, all the covenants of our bonds fell and we now we don't have any limits in terms of money transfer through entities.

Q - Carla Casella {BIO 2215113 <GO>}

Okay. Great. I guess, that's what I was checking on. So thank you so much.

Operator

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Next question comes from Priya Rangarajan, MidOcean. Sorry, next question comes from Ricardo Alves, Morgan Stanley.

Q - Ricardo Alves {BIO 16840901 <GO>}

Good morning again everyone. I got cut off, so apologies if this was asked. A quick question to Andre on exports in the U.S. Beef division. I remember you had been gaining market share overall in the U.S. Did those gains of market share continued in the third quarter? If you have any comments, Andre, specifically on China, since September with a suspension in Brazil, I know that the channels and clients are different between what you're dealing with out of the U.S. versus Brazil, but given the relevance of Brazil as a beef supplier to China, just wondering if at least some impact could have affected you in the U.S.

And then a couple of questions to Guilherme. Just if you could comment quickly, Guilherme, on the capital dynamics from the second quarter into the third quarter and then what you expect for the fourth quarter? Just trying to get a sense, if your cash conversion in the fourth quarter is going to be higher than the third quarter. Of course, EBITDA generation is lower, but in terms of cash conversion, should we be more optimistic on that front?

And then just a final question, perhaps to Guilherme or Tomazoni as well, on the Pilgrim's standard offer, just a quick update with regards to timing and prices, basically your recent thoughts on that? So those three quick questions. Thank you.

A - Andre Nogueira {BIO 19941317 <GO>}

Hi, Ricardo. Exports continue to be extremely strong, Ricardo. U.S. is growing at 21%, so are growing above that, we continue to gain and it is normal. We have a strong, strong presence in terms of sales and relationship with key customers in all the markets, if you see what we have in Japan, if you see what we have in Korea. Last week, our main customer in the international market spend a week with us here, visiting us, visits our plants, the relationship is extremely strong and our talk about products, our talk about products with more value, different types of products, so brands. So it is a strong. We continue to gain market share and it's normal considering our global footprints, considering our capacity, considering the folks that were put on that.

China, specific -- I don't think that's the Brazil impact U.S. beef in anyway, it's very different channels, they have very different types of products. The reality is China, as I said probably a year ago that I expect that China will be one of the top three exports to U.S., now China, it is one of the top three exports for U.S. It happened exactly what I said. U.S. in the most recent months represent 80% of the China import and I think that's have all the capacity to go to 15% of all the China import in beef. And if you see that how much is represent for the U.S. production, and if you see that Japan, it's kind of quiet right now and expect that Japan will come back pretty strong. So export will continue to grow. And that's one of the key points why I believe that beef price will continue to very, very sustainable high level.

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A - Guilherme Perboyre Cavalcanti {BIO 2181205 <GO>}

Okay. On the working capital side, as I mentioned in the second quarter call, in the second quarter 2021, we had logistics problems around the world with port delays. And because of that, we had some working capital that would come back in the third and fourth quarter of this year. And that's what happened. We see that the cash conversion of the third quarter was very good. And it will be even higher if it was not from non-recurrent payments.

For the fourth quarter, the trend is the same. In Brazil specifically, because of the China situation, the release of working capital would be higher, if it was not for that. But we hope that this situation being resolved, fourth quarter working capital release from Brazil will be significant. And then this -- and again the perspectives from U.S. of free cash flow it's also very good. So we expect that the fourth quarter cash conversion will be in line of the third quarter.

Q - Ricardo Alves {BIO 16840901 <GO>}

Perfect. Thanks, Guilherme and thanks Andre as well. I just had that that final one on Pilgrim's.

A - Gilberto Tomazoni {BIO 2090061 <GO>}

The Pilgrim's, we made the offer, as you know the public tender offer. And we have no news on this front. This is the process. This is the negotiation process like other similar of this one.

Q - Ricardo Alves {BIO 16840901 <GO>}

Fair enough. Thanks again everyone. Super helpful.

Operator

Our next question is from Priya Rangarajan, MidOcean.

Q - Priya Rangarajan {BIO 17275567 <GO>}

Hi. Thank you for the call. I had a couple of questions. In the past you guys have been moving debt from SA to U.S. and now with the listing -- but you also did an issuance of the 32s, which was ESG linked. When you're talking about tendering the bonds and also listing in the U.S., how should we be thinking about future bonds will be base food out of the U.S.? Or will it be -- and you mentioned that it will be ESG linked as well. So would it be issued of the -- out of the U.S. or would it be more SA issued? Thanks.

A - Gilberto Tomazoni {BIO 2090061 <GO>}

Okay. Going forward, we'll continue to issue bonds both from USA and from SA as well. For one of the reasons is that this way we capture a higher public given that we can reach emerging markets funds and also US funds. So, that we will continue to do. But bear in mind that we have provisions on our SA bonds that we can always change the issuer to

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U.S. or to another entity on top in the case of a listing that we have this provision. So regardless of wherever we issue, we can always move these bonds to one entity above. So this -- and that's how we will proceed. As I mentioned as most as we can, we will try to do sustainability linked bonds, although for timing or other reasons we may do also regular bonds going forward.

Q - Priya Rangarajan {BIO 17275567 <GO>}

Got it. And one follow-up. You had mentioned that some of the new bonds that you will be like issuing after the tender could be registered in order to get index eligibility. Some of your bonds, existing bonds have 144A for life, would you considered listing them as well or would that not be a consideration? Thanks.

A - Gilberto Tomazoni {BIO 2090061 <GO>}

We will see what are the costs on doing that? And what are the advantages? What are the commitments that we have to do? So we will, again, as I mentioned, we will start to make this study. So far we'll continue to issue on 144A. And once we have these, we make bigger decision to we should do this or not, we can list the new ones, and depending on the cost, we can list the old ones. But 144A is eligible for Bank of America index, but it's not eligible for the Barclays index.

Q - Priya Rangarajan {BIO 17275567 <GO>}

Got it. Thank you so much.

Operator

This concludes today's question-and-answer session. I would like to invite Mr. Tomazoni to proceed with his closing statement. Please go ahead, sir.

A - Gilberto Tomazoni {BIO 2090061 <GO>}

I want to finalize this to thank you our -- all our team members around the world for the outstanding work and commitment. They are responsible for these excellent results that we delivered today. Thank you.

Operator

That does conclude the JBS audio conference for today. Thank you very much for your participation. And have a good day. Thank you.

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