

Q1 2018 Earnings Call

Company Participants

- Lorival Nogueira Luz, Global Chief Executive Officer, Chief Financial & Investor Relations Officer

Other Participants

- Alexander Robarts, Analyst
- Isabella Simonato, Analyst
- João Pedro Soares, Analyst
- Luciana Carvalho, Analyst
- Thiago Duarte, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, ladies and gentlemen. Welcome to BRF SA First Quarter of 2018 Earnings Conference Call. We would like to inform you that this call is being broadcast on the Internet at www.brf-br.com/ir where you will find the presentation for download. At this time, all participants are in listen-only mode. Afterwards we will have a question-and-answer session when further instructions for you to participate will be given. We request all participants to ask only one question.

Forward-looking statements that might be made during this call in relation to the company's business, perspectives, projections, results and to the company's growth potential are mere assumptions and were based on the management's expectations regarding the future of the company. Such assumptions are highly dependent on changes in the market in the general economic performance of the country and of the industry, changes in the international market, therefore they are subject to change.

We would like to remind you that this call is being recorded. This call will be presented by Mr. Lorival Luz, Global CEO, CFO and IRO.

Now we would like to turn the floor over to Mr. Luz. Mr. Luz, you may proceed.

Lorival Nogueira Luz {BIO 16180455 <GO>}

Good morning, and thank you very much. Thank you for participating in our call. We will be presenting the results of the first quarter of 2018. We have a presentation that is available for you for download on our new Investor Relations website that we have launched this

week. So, I would like to invite you all to go to the new website and see all the information that we have placed there.

On page 3 of this presentation, we described some highlights that I would like to mention in relation to our results. In the first quarter, we had a robust expansion of our net operating revenue, 5%, with expansion also in the margin by 1.1 percentage point year-on-year and reaching 18.7% of margin, one of the lowest levels of our SG&A, which is the austerity with which we manage our expenses in our company.

And one another point to be mentioned is the active number of point of sales in Brazil in this quarter, we reached 191,000 active clients also which is our strategy of expansion of our operations closer and closer to our end customers and our clients - via our clients. Also in this quarter, we saw an increase in our adjusted EBITDA that reached BRL 802 million with a margin of 9.8%.

Another highlight that I believe is important to mention is Europe. It is also important that - to tell you that up to now, although all the debate that we have had over the last few months from the diplomatic view point and also the Brazilian government and ours, so far no official publication was made by the European Commission. So this is still pending and the company continues to be free to make all the exports to Europe and we are waiting for any decision in this regard. And in the sense, it's also very important to make it clear the impact that for a reference (00:04:14) regarding the previous year, in which we had 3.4% of the total volume of the company being exported from Brazil to Europe and this means 4% to 5% of our net operating revenue. So, as far as Europe is concerned, this is the status that we have.

Also, it is important to mention the launching and the return of the company in the campaigns mainly the Qualy campaign. So, we launched a campaign called life, a more Qualy and Perdigão, another campaign called É Brasa, which means more or less it's hot, and it is related to the Russia World Cup. So, this is another focus of the company for 2018.

We have already had approved in our budget and aligned with our board a return of these investments. So, marketing investments above all to strengthen our brand or the three brands Sadia, Perdigão, and Qualy and we have started with the launch of these two campaigns. And besides expanding our client bases further reinforces our presence in the Brazilian market.

I think it's also important to mention the election in April of the new board of directors. And this has already been done and now we have 10 new members of our board of directors that were elected for a term of two years, and we have six new members and four members who have already experience from previous terms, they were already board members. So, it's extremely important for the company to have their commitment, their individual commitment. And I think this shows a very big change vis-à-vis the discussions that we had in the first quarter about the board composition and the management of the company. And now I believe the company is consolidated uniformly and looking ahead and designing its objectives.

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On page number 4, you have the information in a nutshell, the consolidated results. And I would like to mention the growth in the sales volume of the company. And the big highlight here is the growth of the in natura products. The company has a very clear focus on expanding sales. We need more and more to use this growth driver and the focus also in the reduction of our inventory levels, so as to avoid the peak that could happen in the future.

So we are doing this growing our sales and another very relevant objective and this has to do with our objective in terms of the company capital structure is very effective and austere, management of our free cash flow. So, comparing the same period of last year in 2017, we can see that we had an improvement of almost BRL 1.4 billion because in the previous year, we had our free cash flow of over BRL 1.5 billion and in this quarter negative free cash flow is still BRL 238 million, but on the other hand it has to do with seasonality and the effect of the last quarter of the year. So, we believe this is very positive as far as results are concerned and with CapEx discipline this led us to this result.

The company continues to have the net debt adjusted EBITDA ratio of 4.4 times and this is a level that we do not want to keep as far as the management of the company is concerned. And later on I will be talking about that, but this is one of our top priorities and this will be addressed still during this year.

In order to manage this, we maintain a very robust liquidity. We have about BRL 7 billion in cash, plus revolving credit facility that we have not withdrawn of BRL 3.1 billion (00:09:09). So this means that we have over BRL 11 billion liquidity and which allows us to address our priorities of the company for this year.

And another point here, as we have already mentioned, the BRL 800 million EBITDA and the net income of the company, in this case, still a negative result of BRL 114 million negative. Nevertheless, I would like to mention one point. In this BRL 114 million negative, there is the impact of BRL 176 million of the total return swap operation that was carried out in the third quarter of 2017. And given the impact on the share price, we had already posted a loss regarding this transaction of about BRL 100 million in the last quarter and now we have an additional BRL 126 million. And I say this because if it were not for this transaction, which is a totally financial transaction, the company would be posting a net income - a positive net income in the first quarter of this year, vis-à-vis its real operations, the core operations of the company.

Now going to page number 5, now we talk specifically about Brazil. In the case of Brazil, you can see EBITDA of BRL 350 million (00:10:51) lower than the first quarter of last year, but it is important to mention the performance from the viewpoint of volume - of growth in volume and expansion and I will be talking about that on the next slides, a very strong growth of almost 10%, 23% coming from in natura and this changes the mix for Brazil. So up to last year, we had around 25% of our volume in Brazil of in natura products and in this quarter we have already exceeded 30%. And of course, this has an impact on the average price, as you can see here a drop in the average price and this is explained not only by the change in mix, as I have just said, but also by the market conditions that you follow.

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As on the one hand, there is a deflation in the food sector and this is also reflected in our figures. And additionally, when we look at the gross margin, we see a drop year-on-year and this is due mostly to an increase in the freight cost and with a higher volume and the increase in the freight cost of over two-digit, over 10% increase.

And when you sell a larger volume, you feel this impact and this had a negative contribution on the margin. So, the margin was reduced and also an increase in the indirect cost, which is a focus being addressed by the company. We are working very hard in our industrial units and all our commercial structure looking for a better efficiency in the management of the production process of the company, so that we may achieve a better performance in indirect cost as well and overheads. And we are tracking this very closely and this will be addressed in the next few quarters and the results will start to be felt over the implementation of all these initiatives.

The impact is, on one hand, planned because of the expansion of sales in in natura and the growth in sales volumes and we are addressing the fundamental point as well in order to see a return of profitability to the levels that we understand are optimal for the company.

On page number 7, no page 6 - on page number 6, we talk about what happened in the market and also the expansion of in natura and Processed Foods. And here, I would like to apologize, because - no, this is not on this slide, that's on the other one. But anyway, this is a growth of 22.5% that you will see in natura growing from 45,000 tons per month going to 56,000 tons, so a very strong growth. And the proportion being adjusted to 31% in the first quarter of 2018. Once again, this shows the effect of the mix and price. And looking at Processed Foods, we see a growth of 4.7%. And I would like to remind you that in Processed Foods, we have some products and also we have Margarine included here.

So this is a point that I would like to clarify, because in the case of Margarine, we had a slightly negative effect due to the price adjustment that we did recently with a specific effect and impact on the first quarter. So you always have the timing of the adaptation of the price to the volume. So this impact is negative, volume-wise, however, the price got to the level that we wanted. If it were not for that, our growth in Processed Foods would have been 9%, given the negative impact that we had in relation to Margarine. And this shows the way that we're addressing correctly from the viewpoint of price changes and also volumes that we expect.

On the next slide, now on page 7, and here is where I would like to apologize because here on the bars, on the right, you see the figures that are at - here (00:16:19) we are talking about the first quarter of 2017 and second of 2017, third of 2017, fourth of 2017 and the first quarter of 2018. So, the presentation is already being corrected, updated on our website, but as you opened it before, I would like to apologize and I clarify this point here.

So in this case, we show on the left, the increase in our client base and this is a very clear strategy on the part of the company of going back to 200,000 clients and we expect to reach this figure in the second quarter of this year. We have a very well planned and realized and implemented commercial execution by our commercial team in Brazil, under

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the leadership of Alessandro Mathia and everybody in our team. So, we are on the right track and also now always looking for balance regarding growth and price and relative prices. I would like to draw your attention to Processed Foods and specifically Margarines and company has been maintaining Processed Foods and looking at the figures here.

Our premium price vis-à-vis our competitors and also adapting and here, you see that the measure that we put in place in terms of adapting our price and we manage this vis-à-vis, our share. So, we see a recovery of the price index and also a recovery of our premium price. And in this quarter, you had specifically the adaptation or adjustment in the share. And in this one year period that we are mentioning, an expansion of 1.1 percentage point in the share, which is our long-term strategy. So, once again, the company has a long-term objective and manages the company's actions in the short run aiming at this long-term strategy.

In the case of Margarines, the scenario is the same, maintaining the share around 60% and with the price adjustments that we have carried out in the fourth quarter to the first quarter. So the company has been putting these actions in place in an effective manner.

In relation to the international market, and let's go now to page number 8, the OneFoods volume has - as a highlight and we would like to get more transparency in terms of the Banvit acquisition that was made in the second half of last year. So we have to compare - where we have the EBITDA BRL 40 million (00:19:27), but OneFoods shows a robust recovery of its EBITDA margin reaching 8%, even excluding (00:19:43) 7.7%, BRL 103 million, growing from BRL 35 million to BRL 103 million.

And regarding the discussion about Saudi Arabia and what you have been following, we are free to continue our exports. There is no final decision still regarding that, but the company, in a very well-planned manner and with short-term actions, we already have products in that market that are sufficient and are adequate up to September this year for the whole Ramadan period in the right conditions and right cost conditions. We are also preparing our technical team in our industrial facilities, preparing them for this reality should it happen in order to adapt our production lines and our production system.

We are already prepared in some of our industrial units in order to cater to this market. Should we have a definition from now on? Of course, this has an impact on yield, on productivity, but also with impact on prices that already show a recovery and impact at the end. So, we are evaluating - while the market is being evaluated and the authorities in Saudi Arabia and this has an impact on the market. Patricia (00:21:33) has been tracking this very closely and making the decisions together with the production system - production team in Brazil in order to have this adaptation. And up to September, we will be adequately positioned in this regard and we also envisage an improvement in prices. This is regarding OneFoods.

Regarding the International market and the following on page number 9 and, of course, we have an impact of volume because of the restrictions that we had in the first quarter regarding pork exported to Russia and poultry to the European market as well. So, there is an impact and this causes a drop in volume. And likewise, we have an adaptation in

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terms of prices to these markets and other markets, mainly Africa and mainly some Asian markets, but a negative impact in Japan.

Anyway, as you can see, this market from the results viewpoint, there is a strong expansion in EBITDA to 13% BRL 239 million. Undoubtedly in the International market and namely, in Europe, as I mentioned at the beginning of this call, we are waiting for the definitions by the European community vis-à-vis our exports. And what I can tell you so far is that we are monitoring this very closely and we are doing our job, we are doing our drill whatever has to be done. And once we have the definitions, whatever they may be, the company will adapt itself to the market conditions and will adapt its footprint and will adapt its production in order to serve the market the way that they are defined which means that we are working in this direction. And there is nothing to inform you right now, because we have not received the final report about the subject. But as soon as we have them we already have our studies and we will be defining this with our board of directors and we will be communicating you about the actions to be taken aiming at our strategy for margin growth and the adaptation of our capital structure as well.

Regarding the Southern Cone on the next page, page number 10, there was an increase in volume, an increase in revenues as well and also our EBITDA, which was negative in 2017 becoming positive in this quarter. The results are still timid, but on the right direction for the second quarter and for the second quarter we will be analyzing the impact from the Argentinian team and George (00:25:07) is the leader of the team in Argentina and he will take the necessary measures understanding the market dynamics in Argentina.

And I would like to go now to page number 11. On page 11, I would like to give you a highlight about the market scenario for grains and the perspective for the market. When we look at the first quarter and - you know how this affects our result. End of the first quarter and the end of the second quarter, our costs benefited. They were positively impacted by the lower prices of soybean meal and the corn and the cost of our feed. And since the third quarter of last year, we saw an escalation of prices. There was an increase in these prices of about 20% and depending on the average price and the amount that is bought. So this is something that happened and that should be impacting undoubtedly not only the production costs of BRF, but also the whole market will feel this impact. And as of the second quarter from now on given the conditions that we see regarding the price of soy meal and corn and other ingredients and there are some points of attention here as well and that we are monitoring.

We have the impact of the crop shortfall in Argentina and there is a climate issue in Brazil as well and that should bring about an impact along the same lines and we have to monitor the U.S.-China relationship issues as well, because they're may be impacting from the second half - second quarter on. For the production cost, not only for BRF, but for the whole sector.

And now go into page number 12, you'll see that on page number 12, you can see that this also has a direct impact on Brazilian producers market margins. These are public data and they reflect the market dynamics with a price of feed at low levels and the higher prices for chicken. You have an expansion in the margin and you'll see what is happening already

from the last quarter of 2017 to the first quarter of 2018, which is the margin of the producers dropping significantly.

And this brings to a bigger pressure, so that producers have to adapt their prices. The costs are going up and there will be an impact. And of course, this is the market dynamics and this also impacts the housing of chicken in Brazil and production of chicken in Brazil as well. So, the market tends to or will have to adapt in the next few months vis-à-vis the price and supply dynamics. I would like to mention that this is a market situation not only for BRF, but also for the whole sector.

Now let's go to page 13, I would like to talk about the theme that is extremely important and relevant and indispensable and this has the total focus of the company and has always been, which is focused on quality. The company has been working on that and has been working on adapting its quality structure of reorganization of governance and the management of indicators and consolidation of the quality culture. This is totally relevant for the company and it has to be present in the training of our whole team. So, from the viewpoint of structure, we have a centralization of this area, a regulatory in quality, and the legislation of quality for all sectors, logistics and market with a very strong specialization, for each one of the items of protein, for activity, and we have - in all our industrial facilities, we have our experts, we have consultants, international experts regarding foodservice, and adjusting this more and more, and everybody is involved in the company in the improvement of quality and these are very effective indicators that we use about quality.

And in terms of quality, we have launched and we already have information of an in-company MBA in Quality. We already have 120 employees of BRF enrolled and this is a very strong program, an 18-month program. And at each cycle, we train professionals that are more and more dedicated to quality and there is another initiative that I would like to mention and that's called SAC VIVO, which is to place our people, our employees listening to our clients. This is being done in all our industrial facilities, and it is very important to connect our clients to our people, our staff at the plant level, so that our people who work in the industrial facilities can hear what our clients say about us.

And there are many items here, and now let's go to page 15, where we talk about free cash flow and working capital. As we mentioned before going from the free cash flow of BRL 1.7 billion (00:31:46) to BRL 238 million in this period, maintaining our cycle and our working capital, NOR ratio at 10%. Regardless of the changes and the extremes of the balance sheet, I think it is important to highlight our behavior during this period.

On the right, you have the average for the first quarter of 2018, 2017. In 2017, there was an efficiency in our financial cycle. And this - it's always impacted by (00:32:36) and other things in the financial cycle, but our objective is always to manage the financial cycles of the company in a consistent fashion and in a one-off situation.

On slide number 16, let's talk about our leverage and you are familiar with our figures because we have a very robust cash situation in the company. We are totally comfortable regarding the liquidity of the company. And I would like to clarify that there is no discussion regarding follow on or additional capitalization for the company. Nothing is being

discussed or assessed differently from what we see – said in the market. This is not happening, this is not on our radar screen. We are not doing anything like that.

The company has its objectives. It is the company's objective to rollout the every duration of the debt, so that we might have a better liability management. And the objective is also to bring about some initiatives to further reduce CapEx and reduce investments and the expansion of our cash generation and inventory reduction of raw materials and not of grains effectively in such a way as to allow us to reach the objective and be close to three times by the end of this year, net debt to EBITDA ratio. So, this is the direction that we want to take and this is where we are taking the company. And once again I would like to clarify that there is no discussion about follow on or additional capitalization of the company.

With that, I close the presentation. And I hope this has been clear. And now we would like to open for questions from you.

Q&A

Operator

Ladies and gentlemen, we will start the Q&A session now. We would like to remind you that each participant will be allowed two questions. Isabella Simonato, Bank of America.

Q - Isabella Simonato {BIO 16693071 <GO>}

Thank you. Good morning, Lorival. Good morning, everybody. Two questions, Lorival. I think this is great, the chart that you showed about the price index for Processed Foods, gives a much better visibility of what is happening regarding our pricing strategy. And I would like to say a few words about this premium vis-à-vis, your competition and what is the ideal level? Do you have one or the 18% is already considered by you as a normal level? And this is what you intend to keep? So, how do you look at this decoupling from now on?

And the second one has to do with leverage. I would like you to say a few words about potential actions on your part like the divestment of assets and I understand there are some non-core assets that you were already considering, but maybe more relevant assets. Would it make more sense to do anything about it? You mentioned Argentina. We see a complicated situation in Argentina. So, how are you looking at your portfolio as a whole vis-à-vis leveraging (00:36:37) above all? Thank you.

A - Lorival Nogueira Luz {BIO 16180455 <GO>}

Isabella, thank you for the questions. I would like to say a few words first about premium price. We do not have like an ideal figure. What we aim at is the adequate balance between expansion, maintenance of profitability and maintenance of share. So, there is no magic figure to say like 18 or 16. This is a very surgical so to say management that has been very well done and executed ever since Alexandre and his team came on board. So I wouldn't be able to quantify that, but the objective is to keep our solid position

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regarding leadership and share, making the right moves in terms of adapting our prices whenever necessary. So this is what we seek the balance and this is a science, the science of listening to our clients and adapting ourselves to the different segments where we operate and the different categories where we operate and always once again seeking balance.

So I believe we are on the right track vis-à-vis that and I would like to reinforce one point as well, reinforcing what I have just said. Our investments in marketing and in media that we are already making in order to drive and to show our competitive advantages vis-à-vis the market and also to reinforce our quality and the quality of our products. So it has to do with balance between investment – an market investment and media investment and the quality. And one thing leads to another so that they may sustain our leadership position and also the premium price.

Regarding our leverage, yes, there are non-operating assets and we are working on that and things are going on. They are happening gradually, but still in a very timid fashion. There are many transactions involved of small amounts. And right now, there is no decision or any definition or any discussion, a more effective discussion regarding divestment of assets, operating assets be them geographies, be them categories or whatever. So, the company is keeping its foothold, it's keeping its footprint such as it is right now, nevertheless looking at a very strong objective in the capital structure. And this undoubtedly our direction and this is what will be the basis of definitions that we might make from now on.

Q - Isabella Simonato {BIO 16693071 <GO>}

That's very clear. Thank you very much, Lorival.

Operator

Our next comes from João Pedro Soares from Bradesco.

Q - João Pedro Soares {BIO 20904793 <GO>}

Good morning, Lorival. Good morning, everyone. I have two questions. The first one is regarding the second quarter. We are already halfway down the second quarter. And I would like to understand some of the impacts of this volume to the European Union and how that has impacted the domestic market? And also if you can talk a little bit about the current margins cost wise and inventory levels and also considering the third and fourth quarters ahead? And my last question is regarding management. I saw today in (00:41:15), a possibility that Pedro will take over as a CEO. Can you comment anything on that that would help us very much? Thank you.

A - Lorival Nogueira Luz {BIO 16180455 <GO>}

Thank you very much for your questions. I will start addressing – these two questions of yours are very complex. About the second quarter as you may imagine, it's not objective to provide any type of guidance. That's what we can say in a very timid fashion. And we might say that the company is prepared and is taking the needed actions to adjust itself

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to any movement or to any adjustment in its costs or adaptations regarding demands from the market.

I may say that the team is working together. All company's areas are working towards the same goal, analyzing the market dynamics, whether in its cost structure coming from the grains that impact I mentioned or impact from expenses that the company has, as I said indirect costs and obviously we are paying attention to the market conditions, whether Brazilian market or the sanctions are not (00:42:55) from Europe and we are waiting for that to be defined.

So, I can't say anything else about future results or the impact in the second quarter results, but I should say that now we do have a team that is working together focused and it is very well aligned with the board of directors. We are working on results for the year and for the company in the long-term and the decisions will be made thinking about the long-term and adjustments that might need to be made - we will be made and we are managing that the best way possible, both regarding finished product inventory, raw material inventory, everything else. So there is a strong expansion in our client base, a growth of our sales of in natura products in Brazil and that is our direction.

And I will be very straightforward regarding the (00:44:12) CEO. I would like you to track our communication published today, this morning, and it talks about that process that will define the CEO, I'm not the best person to talk about that. I would like you to check the official communication published by the company regarding this subject.

Q - João Pedro Soares {BIO 20904793 <GO>}

Thank you, Lorival. Just a quick follow-up if you will allow me. In terms of capacity, you have the plans and I would imagine that some of the lines are not working to adjust to the sales levels. So can you tell us a little bit about how that has impacted your costs and your expenses?

A - Lorival Nogueira Luz {BIO 16180455 <GO>}

Pedro, as I said, yes, today we have five plants that will have - that will go into collective vacation. We usually have those planned and they're planned for June and that is regarding our adequation of the adjustment in order to meet the market demands. Once again, this will be done. It's not the way we work providing you guidance in terms of cost impact that we are going to have in the third, second or fourth quarters. What I can say is that depending on the market conditions and depending on what's better for the company and we always aim the cash generations of company, the profitability of the company and what is best for the company, which is if we need to have that mandatory vacation leave, we will have that naturally. The company will make the decisions that have to be made in a clear fashion. As we have been doing and as we have done in this first quarter, considering all movements and considering our employees and the market in general.

Q - João Pedro Soares {BIO 20904793 <GO>}

Thank you very much, Lorival.

Operator

Our next question is from Thiago Duarte, BTG Pactual.

Q - Thiago Duarte {BIO 16541921 <GO>}

Good morning, everyone. Good morning, Lorival. I have three topics please. The first one, when we analyze the adjusted EBITDA of the company of BRL 802 million, I don't know if we can work with this, Lorival, that would be interesting to know is how this level of profitability and the EBITDA generation happened on a monthly basis over the quarter, so that we can understand the trend, the performance we have seen several variables in cost and prices that you mentioned. And we would like – I would like to understand how that has resulted that monthly EBITDA margin or over the quarter?

My second question is on the top-line dynamics in Brazil that has been discussed somehow, but I would like to say that in the prior call, you mentioned your intention or your objective to recover 5 percentage points of market share. When we look at those market share charts with this new methodology including cash and carry, it was 44% last year. So, we would be talking about 49.6% now. So, can we think about the market share dynamics like this? And would it still make sense for you?

And finally, I would love to understand that now this top-line dynamics in the OneFoods, this is a reversion in the trend of several trends that we had in the prior quarters, but you started losing market share. So, I would like to understand if we should see now an interruption of this process of price recovery considering that market share is going down a little bit. So I want to understand that because, I want to know how we can think about prices in the future and profitability in the future especially at OneFoods? Thank you.

A - Lorival Nogueira Luz {BIO 16180455 <GO>}

Thank you. Thank you, Thiago for your questions. About the first quarter, BRL 802 million, to tell you the trend of what is our monthly EBITDA and I understand your question, but I rather not tell you our monthly figures because we will not disclose monthly results. And within a month, especially in the first quarter, we have longer months and months that are very short. So, it's very difficult to interpret that monthly trend and come out with a curve that might indicate a scenario for the second quarter, because we have different conditions there whether because of the cost and impact that we might have for grains, this is one of the factors, freight and other indirect costs that we might have and also regarding the market dynamics, the impact from Russia, Europe and also from Brazil. So, I apologize, but unfortunately I cannot disclose monthly figures.

Now about share of Brazil, what I should say is that and as I said to Isabella, what we want is to have the best balance between maintaining a relevant share to our liquidity condition, keeping the right premium price that will reflect our quality standard and also the strength of our brands and that will have also the support of our marketing, and also paying attention to the company's profitability. So the management will aim that balance. We will maintain profitability, the right margin, adequate money and the right cash generation so that we can have the right capital restructure for the company. So if these conditions are in a way that we reach 49, 50 (00:52:10) or that figures that will be much

better. But what is important to us is to look for that balance and our profitability and maintain our market condition, our premium price and our leadership.

About OneFoods, yes, we do have growth, but remember it's also in this quarter we might have an impact as you said of share. But we do have absolute leadership in that market. And we have here that adjustment, that adequation. Remember that we had that strategic action in the last few years of having our distributors in the region, and considering that well-led action by Patricia (00:53:08) that is there in the market.

We have also dedicated more products to maintain the inventory there. So we are able to have a balance there with our products, so that we can have that impact. So, might it have a reflect (00:53:28) here in the share reading that has to do with the balance and that management that we have been doing and that has been done. And I should say that this has been done in the right fashion. Therefore, we are very confident about the next quarters, okay?

Q - Thiago Duarte {BIO 16541921 <GO>}

Thank you very much. I just would like to ask you one more thing about Brazil. I didn't ask about Fedeli (00:54:02). Can you give us an idea how was its introduction and how it's related to the other figures related to market share and volumes?

A - Lorival Nogueira Luz {BIO 16180455 <GO>}

Well, about the Fedeli - the Fedeli's (00:54:14) launching was done officially in January, where in fact it started selling it in February. Once again, these are 13 SKU so far. And this share figure, I should say, it should not be considered because volumes are too low so far considering our last reading. So, figures here are not including Fedeli (00:54:52) and when that is relevant we'll disclose the information. What I can tell you is once again the launching happened in February. We do have a ramp up plan for this brand. It is very transparent and I can say that the volumes that we had planned for February and March and those volumes were higher than the effective sales, but that's not too relevant, that's a little bit lower only. But that shows the start of a new brand and it is focused on a specific segment of selling. And so in fact in the first quarter, we won't have anything relevant regarding to that.

Q - Thiago Duarte {BIO 16541921 <GO>}

Thank you, Lorival.

Operator

Next question from Alex Robarts, Citigroup.

Q - Alexander Robarts {BIO 1499637 <GO>}

Thank you. Good morning. Let me go back to the first question about the market share in Brazil and also regarding the fourth quarter, it looks like there was a drop in 100 basis points in the first quarter and it looks like it happened in the Filled category, Filled

products categories that you have lost 2 basis points. Can you comment why you had that strong competition, movement or maybe a change in the portfolio something that could explain that drop in this share?

And my second question is on how we should think about Europe considering this embargoed situation? Do you have an idea of the volume that is suspended in terms of Brazil's exports to Europe? But you do have Golden Foods in Argentina that - and they're still selling to Europe. Are you increasing capacity in Golden Argentina for poultry? Are you trying to offset that or is it still too early to do this? So, these are my two questions. Thank you.

A - Lorival Nogueira Luz {BIO 16180455 <GO>}

Thank you very much for your question. Now talking about the share, regarding the last quarter and comparing it to this quarter and you talked about a share loss. Yes, this is because of that balance that we aim to have between our profitability and our market position. So, in the last quarter of last year when we compare it to the first quarter of this year, when we have here the price index and our relative prices, there has been a movement of price increase, especially in Filled products. So this did happened that price movement and of course that when you change prices, you will have an impact on sales and therefore you will have a time for the market to follow that up fully or not follow that up. So, you have the competition dynamics that we have especially in Brazil and it all has to adjust itself, so that's what happened. There was a price movement, a price change, the price has increased. There was a share impact and there was an impact in the relative prices. So that's what happened.

And Brazilian team with Alexandre and everyone else, they are following that up in each one of our regions, in the regions, where we have a footprint, in each geography, in each of the segments and also in each one of the categories. This is a balanced and this is a fine management of each one of these categories, but that is what has happened.

Now regarding Europe, again, no decision has been published. No definition has been disclosed regarding Europe. So, I should say that it is too early to comment on the final impacts and consequences considering we don't have reports and details about it and what we have - as you mentioned, what has been exported from Brazil to Europe last year.

Regarding Argentina, the answer is no, we have not exported anything there because of competitiveness regarding that and also the agreements between these two countries have to be adjusted and established, so that we have that movement, but we don't have that right now. And what we are doing once again is waiting for the report in case it is published and then once a report is published, we will define how we are going to work, so that we can show our side. What we can say very clearly and a very technical manner is that the quality of our product is right, it's adequate. We have all technical proofs of all shipment sent to Europe and they are in compliance with the demands and requirements from the European Community. So there is no technical subsidy for any decision that might come out from the European Community. So, we are awaiting and as I said, once this is ready and depending how it's done, it will direct the next steps of our company.

Q - Alexander Robarts {BIO 1499637 <GO>}

Very clear. Thank you very much.

A - Lorival Nogueira Luz {BIO 16180455 <GO>}

Thank you.

Operator

Our next question is from Luciana Carvalho, Banco do Brasil.

Q - Luciana Carvalho {BIO 18724665 <GO>}

Good morning, everyone. Good morning, Lorival and thank you for this opportunity. I would like to know more about SG&A. You reported low levels since 2014 and we saw that in the release you have postponed some marketing initiatives. So I would like to understand what is your expectation? How can we see this SG&A line from now on since you're sponsoring the World Cup and you might have other expenses regarding Europe (01:03:15) from now on? Thank you.

A - Lorival Nogueira Luz {BIO 16180455 <GO>}

Thank you, Luciana, for your question. As I said, the investments and marketing, we understand that they are absolutely important and relevant for a company such as ours. As I said, the campaigns have been launched just recently, both for quality - Qualy, as well as for Perdigão É Brasa. And by the way, I would like to invite you all to check start the campaign especially at the time of the World Cup.

I would suggest that you follow the World Cup with our products, but for the next quarters and the next quarter for sure, considering the focus of the campaign, I'm sure that there will be an increase in those expenses and marketing investments for the next quarter considering, this campaign has just being launched. So about the first quarter this year and when we compare it to the next quarter, I'm sure that the marketing line for sure will have an increase. Thank you very much.

Q - Luciana Carvalho {BIO 18724665 <GO>}

Thank you.

Operator

Thank you. Next question that will be translated from English to Portuguese is from (01:05:04), HSBC.

Good morning and thank you for taking my questions. I have two of them. One on Saudi Arabia, just trying to understand if Saudi Arabia puts those measures in place, how that impacts not only Brazilian producer obviously, but your global peers, global competitors, Ukrainian, Thai, Turkish, poultry producers? Do you see the risk of Brazilian industry losing

market share in Saudi Arabia? And in that context, what are guys doing exactly to maybe prepare for that and how that possibly impacts your OneFoods margins?

And second question is on European situation. We understand that there hasn't been an (01:05:52) done but yet you guys are putting five plants on collective vacationing, is that in response to potential then or just the challenging domestic environment or both, so just trying to gauge the reasoning behind that? Thank you.

A - Lorival Nogueira Luz {BIO 16180455 <GO>}

Thank you for your question. About OneFoods, I have two things to mention. First, as I said, the company and our plants are already working to a possible adequation and test then evaluations are being held. Now, regarding the market supply, in case that happens, we understand that is going to be very difficult, let's say that the whole world would be able to adjust to meet those demands. We believe that is going to be very difficult for that to happen. That all exporters, Ukraine, France, and everyone else, will be able to adjust themselves. So in fact, there will be an impact for Saudi Arabia.

And in terms of cost increase for poultry (01:07:37), the markets will not adapt totally even in Brazil. Those adjustments that might be possible to be made where we have a reduction in the industry productivity, that is not only for BRF that is for everyone. And I believe this is the point of balance that the Saudi authorities are right now discussing. One, the capacity to meet that condition, and the effect that they will have in terms of final cost for consumers, so that is what I think that will address your question.

Now regarding Europe and your question regarding the collective vacation, the answer - the real answer is that this mandatory vacation have been defined and decided not only because of Europe, Europe is a relevant factor as we mentioned, because we had a period in the first quarter without that market. And also Russia is a matter that is impacting pork.

And also, we have to adjust our inventory for finished products, so this is the whole set of factors, so that we can have that adjustment between supply and demand and the level of inventories of the company. Therefore we have decided to have that mandatory vacation period in these five plants.

We did have an impact in the first quarter of vis-à-vis prices in Brazil. So what I should say is that we will be paying attention to the market conditions, whether the domestic market or our exports and the conditions that will be there. And I'm sure that collective vacation will be part of our tool, part of our management, if the conditions to adjustment are needed. So that's what we can tell you and clearly answering your question. This is the combination of Russia, Europe and Brazilian conditions that have taken us to decide and to plan these collective vacations.

Q - Operator

And just a quick follow-up if I may very quickly, are these plants operating currently and what about the other seven plants I think the news were that in total 12 plants could be

impacted by European (01:11:02), do they have any plans to adjust capacity there too?

A - Lorival Nogueira Luz {BIO 16180455 <GO>}

These plants, there is a technical agenda for these plants, but this mandatory vacation period is planned to happen in a phased manner up to July of this year. So we do have plants that are going to have the vacation in May or other plants in June and other plants in July and for each one of them depending on the product that is manufactured, this planning term will be around 30 to 90 days up to the moment when we really implement the collective vacation and the reduction in the shift, because once we already have chicken main produced we cannot interrupt that cycle. I have to go up to the end (01:12:19) has they cycle depending on the product.

Operator

Now we close the Q&A session. We would like to give the floor over to Mr. Luz Lorival. Luz.

A - Lorival Nogueira Luz {BIO 16180455 <GO>}

Thank you very much to all of you to be with us - for being with us during this earnings conference call and I would like to thank you for the support, for the questions. I know that there are more questions here, but unfortunately due to time constraints we have already 1 hour and 20 minutes of call, we apologize for not answering them, but we place ourselves at your disposal in order to answer your questions and a whole Investor Relations team will be available to you. So, I would like to thank the BRF team very warmly over 110,000 people, (01:13:18) partners and integrated partners and those who work with us to offer a top quality product to our consumers, to our clients. Thank you very much. Have a good afternoon.

Operator

BRF SA conference call is closed. Thank you for participating and we wish you a good day.

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