

## Q2 2017 Earnings Call

### Company Participants

- André Nogueira de Souza, President & Chief Executive Officer-JBS USA
- Jeremiah Alphonsus O'Callaghan, Director-Investor Relations
- Tarek Mohamed Noshay Nasr Mohamed Farahat, Chairman
- Wesley Mendonça Batista, Chief Executive Officer & Director

### Other Participants

- Bryan C. Hunt, Analyst
- Carla Casella, Analyst
- Carlos Laboy, Analyst
- Farha Aslam, Analyst
- Lauren Torres, Analyst
- Pedro Leduc, Analyst

## MANAGEMENT DISCUSSION SECTION

### Operator

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

Taking part on this call, we have Mr. Tarek Farahat, Chairman of the Board of JBS SA; Mr. Wesley Batista, Global CEO of JBS; Mr. André Nogueira, CEO of JBS U.S.A.; Mr. Gilberto Tomazoni, President of Global Operations; and Mr. Jerry O'Callaghan, Investor Relations Officer.

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

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

Thank you. Thank you, ma'am. Welcome to you, one and all, for this call in English to discuss the results of the second quarter of 2017. Before we talk about the results, I'm going to hand you over to the Chairman of our Board, Tarek Farahat. He will have a word about recent events and corporate governance. And then, we will hear from the CEO, Wesley Batista, before we get into the results.

Tarek, please.

## Tarek Mohamed Noshy Nasr Mohamed Farahat {BIO 18837789 <GO>}

Good morning and good afternoon, everyone. Thank you for being with us today. I would like to spend few minutes just giving everyone an update on the administration's efforts in corporate governance, compliance and quality. I'm going to go through a list of things that have been accomplished over the last couple of months and there are bullet points in the presentation that was sent out.

The first one is basically my appointment as Chairman of the Board. Comes right after that is the appointment of Gilberto Xandó as a Member of the Board of Directors of JBS SA. We have also hired Marcelo Proença as a Global Head of Compliance and he's leading an effort to implement corporate global compliance program for the company worldwide. We have put a name to that program, Always Do It Right. And together with this, also, we have contracted White & Case LLP to support the implementation - the construction and the implementation of this compliance program. We're looking for a program that would be best-in-class.

Within the committees of the board, we have created a governance committee that looks at structure and other things related to governance. We have also created an executive committee in addition to changes in the composition of existing committees, such as the related parties, audit, finance, risk management and sustainability committee.

We have also discussed with management and have announced the divestiture plan that would generate a cash for the company of BRL 6 billion. The assets were - the 19.4% share that JBS has in Vigor, Moy Park, cattle feeding and farms in the North.

We have also looked over and worked with management on the stabilization agreement between the company and the commercial banks enabling the extension of short-term debt. That's a strong demonstration from the bank on the confidence they have in the company.

Moving to the area of quality, we have appointed Alfred Alamanza as the Head of Global Food Safety and Quality Assurance. Huge step for us. He has 40 years of experience in the USDA, and again, that's in line with our strategy to provide products of superior quality in the market and with safety being one of our top priorities.

We have also concluded the sale of Mercosul beef operation, and very recently, the announcement of the sale of the stake in Vigor and the cattle beef feed yard, which is part of the divestiture program that we have. So, all these have been some recent steps that were made in the last couple of months.

I just want to highlight here an important point and that is the board is acting with diligence and in a well important manner. Our focus as a board here is serving the interest of JBS and all, and I repeat, all of its shareholders. All decisions that have been made at the board have been made unanimously by all board members. So, we think we're exactly in the right things and we basically think we're on the right track.

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I'm going to hand this over now to Wesley Batista to talk about the business and other related topics.

## **Wesley Mendonça Batista** {BIO 15243148 <GO>}

Thank you, Tarek. Good morning to you all. Thank you for being in the call with us this morning. As you all know, this period was a challenging period for all of us and for our team members and for our company. Despite this challenging period, I'm very satisfied with the approach with all of our team members. All of our team members has been upfront with any one of these challenges.

We have been able to act really quick and we have been working very, very hard, like Tarek mentioned. We were able, in couple of months, to accomplish many different things and a lot of things. And we were able to agree with the Brazilian banks on our stabilization agreements that this addressed the short-term debt of the company. So, I'm pleased that we agree on this - we got this agreement with the Brazilian banks.

Also, our divestment plan is going very well, as we plan to divest the Mercosul business, the Moy Park business, the Five Rivers business and the minority interest that JBS has in Vigor. We already closed the Mercosul transaction. We already announced the agreement to divest this minority stake that JBS has in the Vigor. And the Five Rivers and the Moy Park divestment is going well and is well-advanced to get this done pretty quick.

Again, despite all the challenge, I'm very proud and I'm very satisfied to announce a very solid quarter, and for me, this definitely represents the capacity and the quality of our operation and our team members.

So, we end up the second quarter with a revenue of BRL 41.7 billion, is a slight decline comparing to the same quarter last year in 2016. But this slight decline in revenue is mainly because the exchange rate in Brazil this quarter, the real is much stronger than last year. So, the real appreciated almost 10% this quarter comparing to the same quarter last year.

So in terms of volume, almost all of our business unit increased volume during this period. So, our EBITDA came at BRL 3.8 billion, 9% margin comparing to 6.6% margin last year. So, pretty good improvement quarter-on-quarter and almost all of our business unit performed better this quarter comparing to the same quarter last year.

So, our net income was BRL 310 million. Important to mention that this net income was impacted by BRL 1.3 billion in forex variation. If we exclude the exchange rate variation, our net income was going to be BRL 1.6 billion. So, due the fact that the real got weak in the second quarter comparing to the end of the first quarter, so this had BRL 1.3 billion in impact. So without this, again, the net income was going to be BRL 1.6 billion.

So, our leverage declined slightly. We got a slightly decline in our leverage. Even though we closed the Plumrose acquisition in the second quarter, that was BRL 740 million. And on top of this BRL 740 million, our debt, our net debt, again, was impacted by the

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depreciation of the real that impacted our net debt in reais term in about BRL 2 billion. So, if we put together the BRL 2 billion, the impact on our debt in reais term plus the BRL 740 million, the Plumrose acquisition. So with all these two impact, these two items, we were able to reduce our leverage in the quarter, even though it was a slightly decline.

So, I'm going to move to our business unity. As you all saw, PPC reported a very solid, a very strong results for the second quarter, 18% margin. So, the business is performing well, did pretty well in the second quarter, and is going into that action to have a very, very second half - very, very strong second half of this year. So, we are confident that PPC is going to keep delivering very solid results.

So, our pork business in the U.S. as well, delivered a very solid result, almost 12% margin. And we are also very confident and very optimist that this business unit is going to deliver a very solid result for the second half of this year as well. And we are going to see a pretty strong third quarter in our pork business like I mentioned in PPC.

So, our beef business in the U.S., we also performed very good, the performance of our U.S. beef business unit that includes Canada and Australia. So, the margin was 5.9%. Pretty solid result. And the good news is that the beef business keep performing very, very well. And we are looking for even a stronger third quarter and even a stronger second half of this year comparing to the first half of this year. So, we are very bullish overall about how the results from our North American and Australia business units is going to come in the second half of this year.

So in Europe, Moy Park has been delivering very solid and very stable results and we had a solid and a stable second quarter and we believe Moy Park is going to keep delivering solid results.

So, here in Brazil - moving to Brazil, the Seara business that you all probably are going to remember, in 2016, this business unit was delivering mid double-digit margin. During 2016, corn price in Brazil almost doubled the price and this herded (14:59) margin a lot in Seara during 2016. And definitely, Seara hit the barrow in terms of margin in the first quarter of this year and is recovering. We post 8% margin in the second quarter and we are confident that the chicken, the pork and the packaged food business that is all part of the Seara business is back to a normalized margin level. When I say normalized margin level, I'm talking about double-digit margin. So, we are confident that Seara, we are going to post in this second half of this year double-digits margin back to, again, more normalized margin level.

So moving to our beef business in Brazil, we post 4% margin better comparing to the first quarter of this year but is still below the level that we want to see this business unit performing. This was the business unit inside of all of JBS business units around the world. This was the business unit that we got some impacted by the challenge that the company face in the less two, three months. And we run it less volume comparing to the amount of volume that we used to run in our beef business in Brazil. But the good news is that the business, in the last week - sorry, in the last month or more, is already back to

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running completely normal in terms of volume, in terms of all the plants is running full. And we are confident that also we are going to see a better second half of this year.

So, overall, in a consolidated base, again, we are proud and we are very satisfied about our second quarter earnings. And looking forward, I'm very, very confident looking how our North American, and Australia and Europe and the Seara business and the beef business, Brazil is performing.

I'm very, very confident and I'm very bullish that we are going to have a very strong second half of this year. And we are also very confident the amount of free cash flow that we are going to generate in the third quarter and in then the fourth quarter and the amount - solid results with a pretty strong amount of free cash flow. We've - the divestments that we are doing, I'm very confident that we are going to be able to deleverage our balance sheet actually faster than I think the market is expecting. I'm very confident that by the end of this year, we are going to be below 3.5 times that I think is more and faster than I think the market is expecting and predicting.

I want to finalize before I hand to Jerry. Like I mentioned, this was a challenging period for our company. All of our team members and I want to thank each one of our customers, each one of our suppliers, each one of our partners, each one of the banks that support JBS and each one of the creditors, JBS creditors and all of our shareholders for the support, for the confidence in our team, in our company, in our ability to keep delivering solid results and keep running this business and generating, creating value.

And I want to finalize with a special thank you for each one of our team members because without this great, without this special team that we have inside of JBS, definitely we are not going to be able to keep - to be here talking with each one of you about a very solid earnings and results.

So, I'm going to transfer to Jerry, and thank you all. Jerry?

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

Yeah. Thank you, Wesley. I'm going to briefly go through some more numbers consolidated and in each business unit before we open for Q&A. And as I do that, I will make reference to the presentation that we put on our website earlier this morning and page number, so that it will help, so that we can be aligned in all the page we run in.

Starting on page 5, just to talk a little bit more about the consolidated highlights for the quarter. We had BRL 41.7 billion in net sales, down from BRL 43.67 billion the corresponding quarter last year. There was a decline of 4.6% but as Wesley mentioned and which is important to remember, seeing as the vast majority of our revenues are in U.S. dollars, we had an appreciation of 9.2% of the Brazilian real at the time, which is basically responsible for this decline in revenues.

The gross profit came in at BRL 6.2 billion. That's a gross profit margin of 14.8%, up from 12.1% in the corresponding period last year, an increase of almost 17% in the gross margin.

The EBITDA, Wesley, mentioned also, came in at BRL 3.8 billion, that's a 9% EBITDA margin up from 6.6% in the corresponding period last year, practically a 30% increase in the EBITDA of the company year-over-year.

On net income, we had a net income come in at BRL 310 million, BRL 12 (sic) [BRL 0.12] per share. Again, we need to highlight the fact that net income was jeopardized because of the FX variation when we compare the FX at the end of the first quarter against the FX at the end of the second quarter in 2017. If we take into account the effects of the FX variation, we would have had net income in the region of BRL 1.5 billion, BRL 1.6 billion.

Operating cash flow came in at BRL 900 million, I'm on page 6 on our presentation, BRL 900 million from operating activities in the quarter. And cash at the end of the quarter was at BRL 11.3 billion, fully available cash.

Leverage, as Wesley mentioned, again, a slight decline in the period, which would have been greater where it not for the FX from 4.23 times to 4.16 times in the period.

Moving on to the debt profile on page 7. As I mentioned, the vast majority of our debt is in U.S. dollars, 93%. There's an average cost over the period of 5.66%. And the balance, 7% of our debt is in reais with an average cost declining to 10.82%, the 7%. The breakdown by source, commercial banks are responsible for almost two-thirds, 62% of our financing, and the balance 38% comes from the capital markets.

By company, 50% is at JBS U.S.A, almost 39% at JBS S.A. and the balance at Seara here in Brazil. The profile short-term, long-term, very similar to previous quarters; 70% in the long-term, 30% in the short-term. Always important to highlight that the majority of the short-term debt is the rolling trade finance we have in Brazil, which by nature, was short-term. And so, that's all - that always composes the vast majority of the company's short-term debt.

Moving to the business units. Briefly going through the results for the quarter in each one of the business units, starting with Seara which our prepared foods and fresh poultry and pork products in Brazil. About 50% domestic, 50% exports, just to give you an idea. I'm on page 9 of our presentation. We had a decline of 6.1% in revenues compared with the same quarter in 2016 from BRL 4.6 billion to BRL 4.32 billion. Very similar EBITDA margin, going from 8.3% to 8.2%, with an EBITDA decline from BRL 382 million to BRL 356 million.

We had an increase in volumes in all of the segments of the domestic market and basically we had a reduction in export volumes which was partially offset by an increase in sales prices. And again, we talked about the real appreciation affecting the comparison with the corresponding quarter the previous year. BRL 3.21 was the average exchange rate to the U.S. dollar in the second quarter 2017 against BRL 3.51 to the U.S. dollar in the corresponding period the previous year.

Moving on to JBS Mercosul and just to help you understand, we call it JBS Mercosul because it is Brazil, Argentina, Paraguay and Uruguay. The divestiture that we announced was the business in Argentina, Paraguay, and Uruguay. So, ongoing, we will continue to

have this business unit focused upon our beef business in Brazil which is about 90% of the composition of what we call up until now JBS Mercosul.

We had a decline of 14.2% in revenues from BRL 7.2 billion to BRL 6.2 billion in the corresponding quarters; again, remember FX. About 40% of this business is in the export market and about 60% in the domestic market.

EBITDA came in at BRL 261 million against BRL 457 million in the corresponding quarter last year. EBITDA margin declining from 6.3% to 4.2%. If we look at the first quarter in 2017, EBITDA came in at about 1%. So, we saw strong recovery when we look at the first half of 2017.

Our U.S.A. Beef business which includes Canada and Australia and from now on, we are speaking in U.S. dollars. We had a relevant increase in revenue going from \$5.21 billion to \$5.52 billion in revenues, almost 6% revenue increase in the corresponding quarters. EBITDA substantially increased from \$27 million in EBITDA in 2016 to \$324 million in this quarter in 2017. EBITDA margin going from a 0.5% to almost 60% (sic) [6%].

We had an increase in domestic sales, boosted by price growth as well. Net revenue from exports grew due to an increase in volumes and also prices were up in the export market in the period. Australia, although we had a decline in volume due to a lesser capital supply, this was partially offset by an increase in prices both in the domestic and in the export markets. This was the best EBITDA and EBITDA margin posted for the second quarter in the history of the company in this business unit.

Moving on to our Pork business in North America. Revenue increases by almost 12% from \$1.36 billion to \$1.525 billion in the corresponding periods. EBITDA margin was up also from 10% to 11.7%. EBITDA going from \$137 million to \$178 million, that's an increase of 30% when we compare the corresponding quarters.

We had an increase in net revenue in the domestic market due to increase in volumes and in prices and we saw strong growth in the export volumes of our North American Pork business. We integrated Plumrose, the acquisition we made on the 1st of May. So, when we look at, at this quarter, there are two months of the Plumrose revenue in the revenue for the second quarter of 2017. The improvement in EBITDA is attributed to a strong demand for pork, both domestically in the U.S. and also in the global market, particularly out of Asia.

Moving on to Pilgrim's Pride, our North American poultry business, which includes Mexico and Puerto Rico, Pilgrim just announced the results in early August; very solid performance. Revenues went from \$2 billion to \$2.25 billion, an increase of 11%. EBITDA margin climbed from \$283 million to \$421 million with the EBITDA margin going from 13.9% to 18.7%. There was almost a 49% increase in EBITDA year-on-year.

We saw an increase in net revenue due to the integration of GNP. Remember that GNP was integrated at the beginning of the year, just the first week of 2017, so when we compare these quarters, there was the incremental revenue coming from GNP.

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We saw growth in volumes and in prices in the Mexican market as well. EBITDA obviously was boosted by a reduction in production costs. The diversification of the PPC product portfolio allowed the company to capture opportunities in each one of its business units, positively contributing to the quarter new results.

Finally, JBS in Europe. Basically, our poultry business in the UK and prepared and convenience products in the UK and in Continental Europe, we had an increase in net revenues by 7.4% Remembering that these numbers are in pound sterling. We've went from £365 million to £392 million in revenue. EBITDA, very similar quarter-on-quarter, from £33.5 million to £33.9 million. EBITDA margin declined marginally from 9.2% margin in the second quarter 2016 to 8.7% in this quarter.

Increase in net revenue was driven by underlying volume growth combined with favorable exchange rate movements. The increase in EBITDA was due to a positive operating performance as well as the company's focus on cost controls and synergies that we captured. So, with that, that completes our prepared comments in our presentation and I would like to ask the operator now to open for Q&A. Thank you all very much.

## Q&A

### Operator

Our first question comes from Bryan Hunt, Wells Fargo.

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

Thank you for your time. First on the middle (32:49) question is when you look at Australia, can you talk about where you are on the cattle cycle there and when do you expect availability of cattle to be in the increase on a year-over-year basis?

#### A - Tarek Mohamed Noshay Nasr Mohamed Farahat {BIO 18837789 <GO>}

Bryan, sure. I'm going to ask André. Please, André can you answer Bryan's question?

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

Yes. So, I'll start with this producing 10% less than last year but you start to see now, it starts in the second quarter of the year. The production in the last few weeks has been around 6% above the same time of last year. So, I think that this year will be the lowest in the production in Australia. The second part of the year will be much better than the first part. So, it'll be higher than the second part of last year.

But in the total, I think the total will be less than last year. It will not be 10% less, but to be 1% or 2% less than last year, and I think that is the bottom of the production outside (33:45). The retention is going on right now and I think that they're going to start to see next year more cattle (33:51) available.

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



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Great. A couple of follow-ups. One, what was discussed earlier on the call about compliance and governance changes worldwide. Can you talk about the incremental cost of implementing your compliance and governance plans?

**A - Tarek Mohamed Noshy Nasr Mohamed Farahat** {BIO 18837789 <GO>}

Hi. This is Tarek. Obviously, this is a base of doing the business. So, any cent that is spent there is required as a necessity. The company, over the years, has been built on aggressive acquisitions and every unit has its own compliance program and internal audit program. What we're initiating here or what has been initiated is a corporate program that covers all business units. And we want to do it in a - or the program is going to be done in a standard way across every business unit worldwide.

I cannot give you a very specific answer on how much this is going to cost, but obviously we're going to - we have benchmarked and we're going to follow best practices in terms of best value in the market for these things. But important for us here is the quality. So the quality of the service providers, White & Case is an excellent name with great experience. The person that we have hired to report to the board, Marcelo Proença, a lawyer with extensive experience.

So, these are the things we're looking at and basically the investment is going to be comparative to whatever is - exist in the market. We don't think we're going to pay more than any other company that has those corporate programs.

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

Great. And just two last one, regarding credit questions. Can you tell us what the RP basket is at JBS S.A. under the notes outstanding? As well as given the asset sale plans and the plans for leverage reduction by the end of the year, have you had any discussions with the agency about - agencies about returning your credit ratings to the BB level? That's it for me. Thanks.

**A - Tarek Mohamed Noshy Nasr Mohamed Farahat** {BIO 18837789 <GO>}

Maybe André could take the RP basket question. With regard to the rating agencies, briefly we've ongoing conversations, very constructive conversations with all the rating agencies, Bryan. We've got - we were scheduling meetings for the coming days and weeks now that these earnings are out, in order to continue that dialogue and we believe that as we produce these results, we will return the company to the levels of rating where it was previously.

André, I don't have an answer to the RP basket question. I don't know if you have it. If not, we can send it to Bryan after the call.

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

Yeah. You can follow up with me, that'd be great. Thank you.

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The next question comes from Carlos Laboy, HSBC.

**Q - Carlos Laboy** {BIO 1506984 <GO>}

Good morning, everyone.

**A - Operator**

Good morning.

Good morning, Carlos.

**Q - Carlos Laboy** {BIO 1506984 <GO>}

I have a two-part question. Good morning. I have a two-part question. Can you update us on the board's commitment to an optimal NYSC listing and how timing is looking on that. On a related basis, can you also expand on your comment of professionalization of the management and whether it extends to all family members or the control group as well, especially if it would facilitate a successful listing.

**A - Tarek Mohamed Noshy Nasr Mohamed Farahat** {BIO 18837789 <GO>}

First of all, regarding the listing in the U.S., this is and as a feedback also we got it from the market. This is obvious and logical step. We have initiated that step before. We got delayed because of all those recent events. So, we continue to believe - I personally continue to believe, management continues to believe that this is the right mid- and long-term steps that the company can do in order to create value for the shareholders. So, it's not a matter of if, it's a matter of when.

And the management, with the support of the board, is taking all the right measures in order to prepare the structure for taking that move.

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

Just one comment, Carlos, on the stop. You know we - like Tarek mentioned is a logical and an obvious step for JBS and we believe that the first half of next year, we can be prepared for a possible second half of next year, doing the IPO like we were planning. So, this is a step and something that we did not change anything in our view and our objective.

Just to summarize on that, we got delayed but not derailed. So, we will - we plan to do it and management has the focus and the support to do it.

On the second question, family members or not, the company looks at the right person for the right job. We have an excellent leadership team in place leading the different business units. The committee that has been formed which is the Governance Committee is - under the Governance Committee is the People's Committee as well and that include succession planning for key roles. It includes structure of the company. And, again, I don't want to repeat what has been said.

Despite extremely challenging environment, the team in place has delivered very, very strong and solid results in the quarter that just – we just closed. If my memory doesn't fail me, I think the margin is second half margin that the company posted. So, the team in place was confident of the team in place and we believe that the steps we're taking in terms of improved governance and having the Governance Committee and Executive Committee; these are all steps that will build on the structure, will build on having the right succession planning in the key positions.

**Q - Carlos Laboy** {BIO 1506984 <GO>}

Thank you.

## Operator

The next question comes from Lauren Torres, UBS.

**Q - Lauren Torres** {BIO 7323680 <GO>}

Yes. Hi.

**A - Tarek Mohamed Noshy Nasr Mohamed Farahat** {BIO 18837789 <GO>}

Hi, Lauren.

**Q - Lauren Torres** {BIO 7323680 <GO>}

Good morning, everyone.

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

Good morning.

**Q - Lauren Torres** {BIO 7323680 <GO>}

Hello. I guess just to take advantage of Tarek and Wesley both on the line, just curious to get your perspective on longer-term strategic direction of the company. In my mind, I guess I'm just separating what's in front of you near-term that the market environment in Brazil is still volatile. You have a shareholders' meeting coming up in a couple of weeks. I guess you're still focusing on some asset divestitures. But then we do hear about paying down your debt and IPO-ing JBS Foods. So, once again, general question on how you think about just kind of managing the near-term volatility versus focusing on the long-term growth of the company, I think, for long-term shareholders to just kind of renew that confidence and feel good directionally, that's where the time is being spent. I'd be curious to get your perspective on that. Thank you.

**A - Tarek Mohamed Noshy Nasr Mohamed Farahat** {BIO 18837789 <GO>}

I will let Wesley lead first and then I will give you a couple of comments right after that.

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

Look, Lauren, basically, strategically, mid- and long-term, we definitely see JBS having a structure, a corporate structure in line with the company's operation today. If you look at JBS today, we are - 80% of our business are outside of Brazil and we are much more an international company and a very diversified protein player. And, we believe, moving to the direction that we plan to move, being listed in the U.S. under U.S. rules, how do you think accessing a broader investors base and overall is the right direction for the company to reflect who we are today and this is mid- and long-term, our strategy. So, I'm going to pass to Tarik to comment more on that.

## **A - Tarek Mohamed Noshy Nasr Mohamed Farahat** {BIO 18837789 <GO>}

Building on Wesley's point, I see basically, in the short-, mid-term which would lead to the long-term three key pillars. One, which is establishing the stewardship and governance structure that we talked about - we talked about earlier. And that would be also a key enabler for unlocking the value in the U.S. So, that for us is a very, very important step. Management and the board is taking this very, very seriously. And we're making some important advances there.

The second pillar is the business one and I'm going to divide this probably in two pieces. The first one, which was what needed to be done yesterday and it has been accomplished is the stabilization agreement. And management has done an excellent job doing that. And we now have this agreement done with the banks.

Now, as part of that - and I like to think that sometimes crisis is an opportunity you don't want to miss. So, not missing the crisis as an opportunity, we have taken the decision to streamline our business, focus on where we can win, play where we can win. We have a big business in the U.S., we want to focus on that or North America, we want to focus on that. We want to focus on the core categories where we can expand the margin on how to win, we don't want to get dragged into price competitions or anything, we want to operate at the higher tier whenever that is possible.

And then eventually, by having that business focus on play where we can win, where we have a scale, where we represent, where we are a meaningful player in the market, that would enable us to create shareholder value when we go hopefully public soon in the U.S.

The third pillar is we're not going to go and start advertising ourselves through interviews in the press and stuff like that. We just want to do the work, one management to do the work and as a consequence of that we can start rebuilding the image of the company. So, I think the combination of excellent governance, good business choices, savvy competitive actions in the market will automatically result in a stronger image.

So, I'm looking at the current situation. Again, I want to reinforce that. Really, it's a - the crisis represents for us an opportunity not to miss.

## **Q - Lauren Torres** {BIO 7323680 <GO>}

Okay. That's all good to hear. Thank you.

**A - Tarek Mohamed Noshy Nasr Mohamed Farahat** {BIO 18837789 <GO>}

Thank you.

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

Thank you, Lauren.

**Operator**

The next question comes from Pedro Leduc, JPMorgan.

**Q - Pedro Leduc** {BIO 16665775 <GO>}

Hello, everybody. Thank you for taking the questions call as well.

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

Hi, Pedro.

**Q - Pedro Leduc** {BIO 16665775 <GO>}

Hi, Wesley. And would be on Seara, specific. Had a more functional question here. You mentioned in the release that domestic volumes declined slightly year-over-year, but that you also raised prices sequentially. And from a local feeling, it seems like you scale down promotional activity a lot this quarter and again raising prices at the same time. Should we think of this as specific for this second quarter giving all that had happened or is it really a shift in pass (48:03) or the second half of the year. Should we expect you to raise prices and continue perhaps with lower marketing activity or should things go back to as they were? Thank you.

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

Pedro, now basically we are going to keep operating for the second half of this year like we did in the second quarter. So, we are not going to be fighting in promotion activities. We believe we have a very strong and established business, strong brands, and you know the results speak by itself. And we are going to keep focusing on margin and good execution, and earning customers' preference. And you know and trying to...

**Q - Pedro Leduc** {BIO 16665775 <GO>}

Elevate.

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

Elevate our products through innovation, through quality, and this is - that actually has been always our strategies (49:09) and we are going to keep operating with these strategies (49:14) for the rest of the year. And...

**A - Tarek Mohamed Noshy Nasr Mohamed Farahat** {BIO 18837789 <GO>}

Ongoing.

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

Ongoing.

**Q - Pedro Leduc** {BIO 16665775 <GO>}

And volumes behaved along the quarter, was it particularly bad towards the end or did recover towards the end or did you not feel any shocks given the events that happened?

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

We did not feel any impact or any meaningful impact regarding with what happened. Actually, we had a pretty strong month of June, the last month of the quarter. We had one of our best months in terms of volume in Seara. And, in our packaged food business, actually, volume went up this quarter comparing to the previous quarter. So, we are not seeing any impact in our volumes in our packaged food business here in Brazil.

**Q - Pedro Leduc** {BIO 16665775 <GO>}

Great. And if I may have a follow-up on management quickly, I saw Gilberto Xandó joins the Board's JBS as well. And of course, Vigor was just sold, right? Should we expect him to perhaps take over more management positions at JBS inside of the board or in your view for now, he stays at Vigor? If you may comment. Thank you.

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

Thank you, Pedro. Now, basically, Xandó is committed in Vigor. We agree on the sale of Vigor to Lala and he is CEO there in the last five years or so. And he's going to keep being focused on Vigor and we are not planning to change anything on the structure.

**Q - Pedro Leduc** {BIO 16665775 <GO>}

Thank you very much.

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

Thank you.

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

Thank you, Pedro.

**Operator**

The next question comes from Carla Casella, JPMorgan.

**Q - Carla Casella** {BIO 2215113 <GO>}

Hi.

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

Hi, Carla.

**Q - Carla Casella** {BIO 2215113 <GO>}

On the bank group - how are you?

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

Good.

**Q - Carla Casella** {BIO 2215113 <GO>}

On the bank group extending, did the bank group change at all or is it just similar to what it was before?

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

No, the same - I don't know if I understood your question but the same group there was before is the group of banks that is part of the stabilization agreement.

**Q - Carla Casella** {BIO 2215113 <GO>}

Okay. Great. I'm just wondering if there are any new banks that joined in place of any that wanted to get out of that agreement.

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

No. No one got out of the agreement and majority of the banks not over, if I'm not wrong, over 93%, 94% of the banks got in the agreement. And banks that is - represents small amount that is the ones that are out of the agreement, but over 93% joined the agreement.

**Q - Carla Casella** {BIO 2215113 <GO>}

That's great. Okay. Great. And then, can you - for Australia and I know there are some problems between Australia and China, is that relationship in the shipping back to China back to normal at this point?

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

André, can you answer Carla's question?

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

Yeah. The impact was not critical and is normal now. And even in that, there was not. They just (53:07) do not have any relevant impact for the Australia operation.

**Q - Carla Casella** {BIO 2215113 <GO>}

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Okay. Great. And then, I know that hedging in the U.S. business had a big negative impact last year in the second quarter. Was there any material impact from hedging in this second quarter this year?

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

André?

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

No, I'll...

**Q - Carla Casella** {BIO 2215113 <GO>}

What can you say if there was a benefit or a detriment this year?

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

No. It's not negative. It's not positive. As you can see in the balance sheet, that is relatively more for the side of the probation.

**Q - Carla Casella** {BIO 2215113 <GO>}

Okay. Great. Thanks. And then, just one update on JBS Five Rivers, how much of that of your U.S. beef business now comes from Five Rivers? Does that change materially?

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

André?

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

No. The thing that was before around 25% of the cattle that we buy, we buy from Five Rivers, and we will continue to buy from Five Rivers. If we sell the assets, we (54:16) agreement who is buying the assets to continue to supply the cattle. So, I don't expect that the ownership change or changing of the supply that we have today.

**Q - Carla Casella** {BIO 2215113 <GO>}

Okay. That's great. How much is your business of Five Rivers? Is that the majority of the Five Rivers business?

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

Yes. Yes. Over 90% of the Five Rivers business sell to JBS because of the location of the feedlots.

**Q - Carla Casella** {BIO 2215113 <GO>}

Right. Okay. Great. That's helpful. Thank you very much.



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

Thank you, Carla.

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

Thank you, Carla.

**Operator**

Our next question comes from Farha Aslam, Stephens Incorporation.

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

Hi, Farha.

**Q - Farha Aslam** {BIO 6151888 <GO>}

Hi. Good morning.

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

Good morning, Farha.

**Q - Farha Aslam** {BIO 6151888 <GO>}

A couple of questions. First one's on a strategic question about your divestitures. Now that you're pretty far into the Moy Park and Five Rivers have a good idea of valuation, do you anticipate the need to divest any incremental businesses from those that you've already announced or can we consider whatever now is in JBS core without the need for divestitures?

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

Exactly, Farha. This is the asset that we are going to divest. We don't see a need to divest anything beyond to what we announced. And this is - that's it. So, we are going to divest Moy Park, Five River (sic) [Rivers], the minority stake in Vigor and the Mercosul that we already closed. So, that's it. We are not looking and we don't see a need to anything beyond to that.

**Q - Farha Aslam** {BIO 6151888 <GO>}

That's very helpful. And then, some questions on U.S. Pork and U.S. Beef. You highlighted that your Pork results were very strong and you anticipate that to continue. Two questions on that front. We have a lot of pork plants coming on in the U.S. and also Chinese hog prices have fallen, so our exports to China have dropped off. Could you share with us your confidence in U.S. Pork given the increase in U.S. production and the drop-off in exports to China?

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

André?

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

Well, the costs there, if you look the growth of the hog production where in the last three or four years, you see that's - what's our view in terms of production and continue to build now for next year is more than enough to offset a new capacity that the industry is putting. So, that's the first part, the part of the supply side.

In the demand side, demand in U.S. have been very strong as (57:13) develop the cattle. Even this year, we are producing much more than last year. The cattle there is higher than last year cattle. U.S. has regained a lot of the market share in all the major markets for the U.S. Pork, and the U.S. is extremely competitive. So, I believe that as we produce more, we're going to continue to expand the U.S. market share. Again, if we go back 20 years ago, U.S. market share and the total export was close to zero. So, the U.S. market share is also 35% and probably continue to grow. Of course, U.S. is extremely competitive.

Our growth in China this year is not great. China is the five largest market for U.S. this year. We also have been growing a lot in Mexico, Japan, South Korea, Colombia and other new markets that we will actually continue to gain market share. So, I'm pretty confident that the margins are good and will continue to be good. And not only that, JBS would have been outperformed the industry, all the major players because of the quality of the asset, because of the quality of the team, the execution of the asset we put in place. So, I'm confident in the industry and then confident in our capacity to perform better than the industry.

**Q - Farha Aslam** {BIO 6151888 <GO>}

That's very helpful. And my last question is on U.S. Beef. With increased production in Australia, how much pressure do you anticipate on U.S. beef exports to the Asian market?

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

For that, I think the most important is that the growth in demand now in the Asian countries, we're not replacing Australian beef. In reality, you'll see their amount of (59:02) consumption in China of this 10 years ago or even 6 years ago in the consumption of beef now. That's above 1 million metric tons of imported beef. So, we need the production from U.S., we need the production from Australia, we need the production from Brazil to supply the Asia, the growth of the Asian market. And in reality, so looking to some of the Asian markets, more mature like Japan and Korea that our import much more of the U.S. beef again. Japan, being the growth this year is 26% and the import the same amount of Australian beef.

Australia did not drop any beef in Japan. It's well replaced the mass production as growth of consumption and replacing the mass production in Japan and the same thinking in South Korea that U.S. has export much more to South Korea and Australia is much reduced than South Korea. It's because of the replacement of mass production. So it's a combination of growth in the demand and replaced the mass production. I believe the same thing applied for China. It's not only globally demand. It's replaced of in the mass

production. So I think that we need all the U.S. beef, all the Australian beef and all the Brazilian beef to be able to supply the growth in the Asian market.

And on top of that. If you go back, the volume, that Australia can export more and compare to the U.S. growth in production, I think that you need both to supply the growth in the demand in the Asian market.

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**Q - Farha Aslam** {BIO 6151888 <GO>}

That's very helpful. Thank you.

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

Thank you, Farha.

## Operator

Our next question comes from (01:00:47), Mizuho.

Hi, good morning.

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

Hi, good morning.

**Q - Operator**

My question is related to the additional liabilities that the company potentially still faces due to the investigations still underway. Just wondering if you could help us, thinking in terms of timing and in terms of magnitude when you think about the potential liquidity needs of the company. Given these uncertainties, how do you think about some of these - I think the most pressing ones are probably the DOJ, CVM fines, and potentially, if you could also give us an update on the whole insider trading case and what could potentially become a liability out of that. Thank you.

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

Okay, (01:01:37). Thank you. Thank you for the question. Basically, these are internal processes that we are not privy to. We have provided all the information in Brazil that we could. We've explained all of the activities of the company is being investigated under, and none of them are, in any way, different from the manner in which the company conducted its business prior to these recent events. And so, we await the outcome from the CVM, from the investigations of the CVM having provided all that information.

With regard to North America, we have appointed a legal counsel there representing the company. And again, this is an internal matter which we are not privy to the timing nor the size of this investigation. It's being conducted professionally by the representatives of the company.

## Q - Operator

Okay. Thank you.

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

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

Thank you. I would like to thank you all again for being in the call with us this morning. And like I mentioned, we are confident and we are proud about everything that we were able to accomplish in this challenging period. But looking forward, we are very confident, the ability of our team to keep delivering or to deliver even stronger results in this coming quarters and in the second half of this year.

I'd like to, again, to thank each one of our customers, each one of our suppliers, each one of our partners, each one of our shareholders, creditors and banks for the support. And I want to especially thank for each one of our team members for everything that they have been doing and everything that they do for JBS.

So with that, thank you very much. I would like to transfer to Tarek. Tarek?

## A - Tarek Mohamed Noshay Nasr Mohamed Farahat {BIO 18837789 <GO>}

Thank you all for being part of the call. I just want to stress an important point here which we, at the board, we continue to see management being focused entirely on the operation, deleveraging the balance sheet, establishing best-in-class corporate governance and that's really what's going to pave the way to unleashing shareholder value and getting to the point that we talked about, which is being able to do the IPO in the U.S.

So with that, I want to thank everyone for being on the call. And again, I want to emphasize the thanks that also Wesley gave to all the partners and all the banks that supported the company at that point. Thank you very much.

## Operator

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

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