Q1 2018 Earnings Call

Company Participants

- Eduardo de Oliveira Miron, Chief Financial and Administrative Officer & Investor Relations Officer
- Martin Secco Arias, Chief Executive Officer
- Timothy M. Klein, President & Chief Executive Officer

Other Participants

- Alexander Robarts, Analyst
- Henrique Morato, Analyst
- Isabella Simonato, Analyst
- Teo Lasarte, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good morning and good afternoon, ladies and gentleman. At this time, we would like to welcome everyone to Marfrig Global Foods SA Conference Call to Present and Discuss its Results for the First Quarter of 2018. The audio for this conference is being broadcast simultaneously through the Internet in the website marfrig.com.br/ir. In that address, you can also find the slideshow presentation available for download.

We inform that all participants will only be able to listen to the conference call during the company's presentation. After the company's remarks are over, there will be a Q&A period. At that time, further instructions will be given.

Before proceeding, let me mention that forward-looking statements are being made under the safe harbor of the Securities Litigation Reform Act of 1996. Forward-looking statements are based on the beliefs and assumptions of Marfrig's management and on information currently available to the company. Forward-looking statements are not guarantees of performance. They involve risks, uncertainties, and assumptions because they relate to future events, and therefore, depend on circumstances that may or may not occur in the future.

Investors should understand that general economic conditions, industry conditions, and other operating factors could also affect the future results of Marfrig and could cause results to differ materially from those expressed in such forward-looking statements.

Now, I'll turn the conference over to Mr. Martin Secco, Marfrig's Global Foods' CEO. Please, Mr. Secco, you may begin the conference.

Martin Secco Arias {BIO 18098476 <GO>}

Thank you. Good morning everybody. I want to start by thanking everyone for participating in another earnings conference call of Marfrig Global Foods. Today we will be commenting on the results for the first quarter and also provide an update about the company's strategy.

With me today is Eduardo Miron, our Global IRO and CFO; And Tim Klein, the CEO of National Beef. Please go to the slide number 3. On the strategic front, the highlight was the decision followed by the announcement in early April of the acquisition of the controlling interest in National Beef, the fourth largest beef processor in U.S.

With this transaction, we are directing Marfrig's focus into the core beef business. With this strategic redirection, we understand that we should accelerate even more our deleveraging process. For this, we decide and announce with the acquisition, the commitment of selling Keystone Foods.

On our operational front, the highlight in the first quarter 2018 was Marfrig's net revenue up 24% on the same quarter last year. This performance is explained primarily by the 42% growth in the processing volume at Beef division which reached 887,000 heads in the quarter.

I also would like to highlight the increase in export volumes and indeed in the case of fresh beef export advanced 67% year-over-year. This strong expansion reflect the company effort to maximize its sales in the international market, given the complex environment in the Brazilian domestic market, which I will comment on in more detail later on. Finally, as a final remark, the Beef division posted adjusted EBITDA growth for 30% year-over-year.

Please go to the slide number 4. In this slide, I will comment briefly on where we are in the strategic front. In regards to Keystone sale despite being a public fact, it is their confidential process which prevented us from giving so many details at this stage. What I can share with you is that we have a strong interest from investors within our expectation for asset of such quality, and we continue to work on and remain confident that we can finalize the deal in the short term.

With regards to National Beef, once the transaction is concluded, the goal is to implement the integration plan which will focus on different fronts, including the operational, accounting, financial, planning, and communication area. We would like to emphasize the complementary nature of this acquisition, which means we are not expecting any change of National Beef structure. Integration for us is related to capture of opportunities on how we will (00:05:40) the company together with Marfrig as of the second quarter.

On the financial discipline front, I just want to reinforce once again our non-negotiable commitment on reducing company leverage. When these transactions are complete, we should start a new liability management process. Additionally, once these trades are concluded, we'll then focus on updating and restructuring the long-term strategic plan which we hope to share with you on the medium term.

On slide number 5, I will comment on the beef industry on the first quarter of the year. As you can see on the chart on the top left, beef processing volume in Brazil and Uruguay, the two countries where Marfrig (00:06:32) production reached BRL 6.4 million, growing by 12.5% year-over-year. This increase was supported by the positive cattle cycling in Brazil and by the (00:06:48) in Uruguay, which affected pasture condition (00:06:52) the supply of finished product.

The variation in the cattle price in both countries, which you can see on the chart on the bottom left, reflect this growth in supply. Meanwhile, export grew by 20% year-over-year and Brazil export volume grew 21% year-over-year, with average sales price were mainly, practically stable. The focus on the export markets (00:07:22) global scenario is also explained by the more intensive competition between proteins in Brazil at the domestic market, especially with the chicken, given the temporary suspension of export sales at the center plants.

As you can see on the chart, on the lower right, beef sales price which have been following a dynamic of the cattle price suffer higher downward pressure during the quarter, especially for the quarter cut – fourth quarter cut.

On this slide six, I will comment the result of Beef division. Processing volume was 887,000 heads, increased 40% on the same quarter last year. The main factors were the 50% growth in the processing volume for Brazil, reflecting the strategic adjust – to adjust production capacity, to capture the positive cattle cycle and to meet the growing demand in the global market. Second, the 12 growing processing volume in Uruguay taking advantage of the highest supply of finished cattle among the peers.

The division higher sales volume offset its lower average price, leaving a strong growth in the net revenue, which reached BRL 2.9 billion on the first quarter 2018, 44% up year-over-year. Both market versus the significant growth, with export revenues expanding 60%, while in the domestic market, we registered growth of about 30% in comparison of first quarter 2017.

The domestic average was affected by the higher supply and competition between products, and also by the contraction of byproduct price such as leather (00:09:29).

In first quarter 2018, gross profit was BRL 358 million, advancing 37% year-over-year. The higher sales volume in the Brazil export spread were partially offset by lower margin in the Brazilian domestic market. Adjusted EBITDA was BRL 191 million, advancing 30% year-over-year, influenced by the factors that I just mentioned.

Please go to slide number 7. On this slide, I will comment briefly on the division sales profile, especially regarding the fresh beef. Fresh beef present a strong role in both markets, especially in external market, 67% year-over-year. This performance was materially above the average record in (00:10:34) which was increased 20%. This performance followed the well success increase of the processing capacity of Brazilian operation.

Worth mention that indeed when Brazil has been challenged by the international market regarding sanitary condition, the maintenance and achievement of new certification for export is even more remarkable. And we continue working hard on this front in both Brazil and Uruguay.

Expectation remained positive. We are also already in the process of getting additional approval for reopening plant for Middle East, China, Europe, similarly Uruguay to Japan. No less relevant, the domestic market volume also grew 49%. And in this first quarter, we had an additional (00:11:32) on the top of recurring challenge such as slowdown in the consumption. Due to the seasonal factor and the household budget, there was a higher supply of protein especially poultry.

The price relation between beef and poultry was considerably different, and consequently, it generated more competition. In order to mitigate the effect of this challenging scenario, we focused to maximize the foodservice and retail channel through Montana and Bassi brands, which in the first quarter of 2018 represents 54% of the total domestic volume.

I will pass the call to Eduardo Miron.

Eduardo de Oliveira Miron {BIO 15427272 <GO>}

Thank you, Martin. As you know, Keystone Foods is now a discontinued business. And given that, we'll try to provide general comment on their results, but having this situation into consideration. Frank Ravndal is not in the call as you could notice. And everything is based on the current situation of this sale process.

I will start saying that Keystone started 2018 with a solid quarter from a sales volume and net revenue perspective, but faced some operational headwinds during the quarter, which affected profitability. These impacts are viewed as temporary and we have already seen a normalization trend during the back-half of the quarter.

Beginning on the left side of the page, we have our sales volume. For the first quarter 2018, sales was 276,000 metric tons representing a decrease of just under 1% on a consolidated basis when compared to the first quarter of 2017. In U.S., we continue to see volume growth in foodservice and retail and convenience channels. Keystone foodservice volume increased 1% and retail & convenience was increased 1%. The increase in foodservice was driven by the strength of our QSR Global customers as they outpace both the restaurant and foodservice peer groups.

As in reimagining technology innovation and promotional activities, and which drove both foot traffic and increasing check size. The increase in retail & convenience was due to new products launch, with an existing customer and the addition of new customers.

The decrease in the industrial channel was a result of our ongoing rotation from one large industrial customer to new industrial customers. We have mentioned this transition in previous earnings calls. Volumes with the new customer is still running and increased steadily between January and March. The volume from other channel, which represents the byproduct from Keystone primary processing activities decreased during the quarter as more of that volume was used internally, which is a positive move.

In Asia Pacific, overall volume increased 7% driven by strength in all channels. The increase in foodservice was driven by many of the same dynamics we see in our QSR customers in U.S. markets. Our Asia Pacific foodservice channel saw volume growth in China, Thailand, Malaysia, and Australia. The increase in the retail & convenience was primarily due to growth in our poultry business in Thailand, both from existing export-oriented customers as well as for new customer relationship in Thailand.

With respect to revenue, now looking at the chart in the middle of this slide, the consolidated net revenue was $678 million during the quarter, which is an increase of 2% over the first quarter of 2017. The strong revenue growth in Asia Pacific of 10% was offset by modest decrease of 2% in U.S.

On the right side of the page, adjusted EBITDA was $54 million and the adjusted EBITDA margin was 8%, representing a decrease of 17% and 178 basis points, respectively from first quarter 2017.

Specifically, there was some one-time (00:16:27) and startup costs associated with the production modifications in the U.S. and the ramping of the new production capacity in Malaysia and Thailand. In spite of the short-term impact, Keystone's operational flexibility will improve and we will see greater operating efficiency in the future.

To conclude, although we faced some operational headwinds during the quarter, we continue to deliver on the core objectives of our strategy, including first, volume growth with existing customers. Two, establishing Keystone as a partner of choice with customers across multiple channels. And, three, driving towards an overall higher value product mix.

As our new production capacity in Malaysia and Thailand achieve its full potential, we will be in a better position to meet the needs of our customer and to achieve a higher degree of operational efficiency in our business. We expect to see improvement in profitability in the U.S. as more volume from manufacturing partners is migrated to Keystone's internal processing facility.

Moving to the next slide, on slide 9

I will comment briefly on Marfrig's combined results, which includes the results from the continuing operation. In other words Beef Division and also Keystone's results. In the first quarter of the year, sales volume came to 615,000 tons, advancing 21% year-over-year, supported primarily by Beef Division.

At Keystone the highlight was the 6.9% growth in revenue from the Asia-Pacific region, led by China Thailand and Malaysia. Combined net revenue grew by 24% to BRL 5.1 billion, once again driven by Beef Division, which accounted for 57% (00:18:26) of total net revenue, up from 49% (00:18:29) in the first quarter last year.

Marfrig's combined adjusted EBITDA grew by 5% to BRL 351 million. The higher results from Beef Division offset the lower contribution from Keystone as explained earlier.

Let's turn to slide number 10. On slide 10, I will comment on the new issuance we did last January, which was part of our ongoing liability management process. And once again, we have succeeded in achieving our goal of reducing costs while extending terms of the company's debt.

Despite the uncertainties regarding Brazilian political and economic scenario, we were able to take advantage of the window of opportunity in the debt (00:19:25) market to conclude in January the issuance of $1 billion in bonds, due in 2025. With demand exceeding the initial offering by four-fold, the bonds were placed at an interest rate of 6.87% per year.

The proceeds from the new bond were issued – were used in a tender offer for the 2018 and 2019 bonds with our repurchase approximately $280 million (00:19:58) in principal. The remaining balance of the 2018 bonds of around $89 million was settled last week on May 9.

And with the coming reduction in price of the call option on the 2019 bond in June, we should announce its repurchase as well in line with the strategy mentioned doing (00:20:28) the new issuance. If you look at the chart, you can see the curve of the new maturity schedule for the bonds, which shows an increase in the average term to 5.1 years.

Moving to slide 11, it shows Marfrig's debt profile as well as some financial indicators. Before going to the chart, I should mention the assumptions we adopt in this calculation. With the announcement of the acquisition of 51% interest in National Beef, Marfrig becomes its controlling shareholder, which means that 100% of the results and debt (00:21:19) of National Beef will be consolidated into Marfrig's balance sheet.

As such, this analysis considers the pro forma figures with National Beef plus the bridge loan, which barely (00:21:31) reflects the company's current situation. Furthermore, although Keystone is already deconsolidated from the financial statements, due to the ongoing sale process, we have maintained its EBITDA and debt numbers for better analysis and for comparison purposes. This will obviously be changed once we have the Keystone sales receipts.

So, returning now to the presentation. If you turn to the chart at the upper left on the slide, I will comment on Marfrig's pro forma debt. Gross debt ended the quarter at $5.7 billion, increasing around $2 billion on the prior quarter, reflecting the $1 billion from the new bond issuance, and the $1 billion from funding for the National Beef acquisition, the bridge loan.

In Brazilian real, gross debt stood at BRL 19 billion. A highlight however is the long-term profile of our debt with only 25% coming due in short-term even when including the acquisition fund or the bridge loan. Important to mention that the terms and average cost metrics are temporary, since the liability measurement process proposed in January has not yet been completed and because the existing bridge loan for the acquisition will be repaid with Keystone sales proceeds.

Meanwhile, the cash position ended up the quarter higher at $1.9 billion, due to the new issuance remaining balance as previously mentioned. As a result, net debt stood at $3.8 billion. In Brazilian real, net debt was BRL 12.6 billion. As you can see the chart, at the bottom of the slide, pro forma financial leverage measured by the ratio of net debt to adjusted EBITDA in the last 12 months aimed at the first quarter at 3.62 times. This slight increase in relation to the figure given during the announcement of the acquisition of National Beef is explained by the negative cash flow in the first quarter as we will move through in the next slide.

For 2018, we expect to get the rewards from the company's strategic decisions, reaching a leverage ratio of 2.5 times. Marfrig's executive team is 100% committed to executing the strategic plan to achieve this (00:24:20).

Let's go to the next slide. This slide shows the cash flow for continuing operations in the quarter. In other words, the Beef Division. Marfrig registered a negative operating cash flow of BRL 45 million, which was influenced by the quarter seasonality.

Working capital consumption was BRL 69 million, reflecting the normalization of the suppliers' account in relation to the prior quarter, which was partially offset by the decline in inventories and the increase in the accounts receivable due to the lower activity in the period.

In terms of CapEx, investments amounted BRL 113 million, being (00:25:10) 57% related to maintenance, 21% for efficiency, and 22% is still related to the completion of the capacity reopening process. Meanwhile, interest expenses amounted to BRL 203 million with a one-off increase of BRL 23 million explained by the new issuance, whose proceeds were used to repurchase the 2018 and 2019 bonds as we already mentioned.

With that, I will turn the call back to Martin Secco.

Martin Secco Arias {BIO 18098476 <GO>}

Thank you, Eduardo. I will now comment on the sector outlook for South America. Slide 13 presents the (00:25:59) for Brazil according to the USDA statistics. The positive cattle cycle associated with the improved productivity such as greater integration between farming and livestock should lead to an increase in production compared to 2017.

And it is expected that this higher supply will be absorbed by the demand growth both, in the domestic and international markets, reflecting a recovering of the macroeconomic scenario compared to the previous year. The point of attention to this scenario is the one-off unbalance between projects and it's happened in the first quarter of the year.

On slide 14, I will comment on beef sector in Uruguay. The adverse weather condition in Uruguay has effectually (00:26:55) to a reduction in finished cattle available in 2018, when compared to 2017. However, margins are expected to remain healthy as export are still expected to remain high an increasingly target region with better profitability. Uruguay is in the process to approving the fresh beef export to Japan, one of the main beef importers Uruguay with attractive price. Approval is expected to the second half of 2018.

And regarding Marfrig, we believe we have a differentiation position, taking an advantage of the National Beef knowledge of this market.

Now, I would like to ask Tim, who will comment about U.S. beef sector.

Timothy M. Klein {BIO 16522695 <GO>}

Thank you, Martin. Good morning, everyone. I will comment on slide 15, showing the cattle scenario in the U.S. The first graph shows the evolution of the U.S. cattle inventory. After a negative cattle cycle reaching its bottom in 2014, the U.S. has been rebuilding its cattle herd and it is not expected to peak until at least 2020. This increase should also improve the availability of cattle available for slaughtering, as can be seen in the graph at the bottom of the slide. This cycle is different than previous cycles and the margins have been and are expected to be healthier.

The most recent down cycle led to the closure of several beef plants, which has allowed beef packers to operate more efficiently at higher utilization rates. Also, there is no new capacity being added. Given this scenario, a longer positive cycle is expected and this will result in continued strong margins for beef packers in the U.S.

Moving on to slide 16, on this slide, I will comment about the quality of U.S. beef. Quality grading in the U.S. is based on the amount of fat marbling in the beef as determined by USDA government graders. More marbling means better flavor and therefore a higher value product in the marketplace. USDA Prime is the most marbled beef grade in the U.S. and accounts for only 4% of the slaughter followed by the USDA Choice grade. As demand for higher quality products has grown globally over the years, U.S. ranchers and farmers have responded by investing in better genetics and improved feeding to produce a product with more marbling to meet this demand.

Today, as you can see, these two highest quality grades account for almost 80% of the U.S. slaughter. This commitment to quality improvement is what differentiates our beef and makes the U.S. the leading provider of high-quality beef in the global marketplace.

I end my presentation, and would like to pass it back to Martin.

Martin Secco Arias {BIO 18098476 <GO>}

Thank you, Tim. Despite the challenge beyond the company controls, 2017 was a year in which we took an important decision, one of which was to resume growth in beef operations (00:30:34). In early 2018, we identified an opportunity to accelerate this (00:30:39) expansion through National Beef acquisition, and to improve the company balance sheet with the decision to divest Keystone Foods. Until we have finalized this ongoing process, we expect to be undergoing a transition period, which prospect for a promising future.

The acquisition of National Beef will leave us well-positioned in the United States, which is one of the largest beef producing and consumer market. And with this combination, we'll expand Marfrig's product portfolio and we'll leave it better positioned to meet the world's growing demand for this product.

With the proceeds from the sale of Keystone, we will embark on a new liability management process through which we expect not only to reduce our gross debt, but also to restructure our debt profile, which are (00:31:38) more competitive costs.

Finally, we hope (00:31:42) to achieve our goal of becoming the company with a healthy financial position in the industry (00:31:51). We are concluding our presentation and we open the – time for the question and answers.

Q&A

Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. Our first question comes from Isabella Simonato, Bank of America Merrill Lynch.

Q - Isabella Simonato {BIO 16693071 <GO>}

Good morning, Martin. Good morning, Miron. I have two questions. First of all, on the working capital and cash flow generation, despite most of the capacity ramp-up happening, in the fourth quarter, we still saw some working capital pressure this quarter. So, I was wondering how should that evolve in the coming quarters. And also on the Keystone sale, you mentioned that there are many investors interested in the assets. Can you describe a little bit the profile of them, those more strategic or players from the sector, if you could give us a little bit more color on that. Thank you.

A - Timothy M. Klein {BIO 16522695 <GO>}

Hi, Isabella. Yeah. So, starting from the cash flow and then Martin will take your other question regarding Keystone. Yeah. I think we try to convey the (00:33:35) key message or the key drivers for the cash flow. Again, I think it's important. We are really not in what we call a transition period, because as you see this cash flow is only Beef. So, it's important to highlight.

And for Beef the first quarter normally we have a couple of specific factors, for example, in the working capital, we tend to have a pressure in the first quarter in order to pay some of the farmers that normally at the end of the year there is – they postpone some of the process. So, that's one of the main drivers for the operational cash flow.

I think we try to comment and to bring to life a couple of comments related to one-off (00:34:30) situations either in CapEx or in the interest line. As you see, in the CapEx, we still have some lingering effects from the reopening, but we've provided some additional information that would help you, guys, to project the cash flow, including how much is maintenance.

And lastly, I think interest is our big point. So, we have all these operations, all the strategy moving in a direction that would reduce this line materially. So, it's up to you guys to calculate how much would that be. Specifically this quarter, we mentioned that the impact of the issuance of this new bond that created an additional pressure on this interest line.

As we mentioned, we brought home about BRL 1 billion and we are paying the 2018 and 2019. So in the meantime, so we have to accrue interest for this, and that's one of the main drivers for the interest line. That's pretty much my key comment on the cash flow.

A - Martin Secco Arias {BIO 18098476 <GO>}

Could you repeat the second part of the question?

Q - Isabella Simonato {BIO 16693071 <GO>}

Sure. No. I was wondering, you mentioned there are many people or many investors interested on Keystone. If you could give us a little bit more color about the profile that's built (00:36:09) sector, participants or other strategic investors?

A - Martin Secco Arias {BIO 18098476 <GO>}

Okay. Thank you. As you understand, I cannot give you details about that. We have an extremely good quality regarding the investors and also a good number of investors that are presenting in the places that we already passed for our plan that we decide with the banks that are conducting the process. But we are very comfortable about the process, but we cannot give you these details.

A - Eduardo de Oliveira Miron {BIO 15427272 <GO>}

Isabella, I just would like to make a quick comment. I think no surprise is probably the way we would define this. And I'd like to make this comment, because Keystone is such an outstanding business. And it is such an outstanding combination of people, business. And the combination of these two, the business model, makes this a very attractive business for a number of potential buyers. I'd just like to make this point, because I think the no surprise factor of this is what we are leading right now.

Q - Isabella Simonato {BIO 16693071 <GO>}

Great. Thank you.

A - Eduardo de Oliveira Miron {BIO 15427272 <GO>}

You're welcome.

Operator

The next question comes from Henrique Morato, Aberdeen.

Q - Henrique Morato {BIO 18799542 <GO>}

Hi. Thanks for the call. Just one quick question on - you mentioned - I was expecting gross debt to go up this quarter compared to the fourth quarter, because of what you mentioned, obviously bringing back the $31 million (00:38:21) of debt and only repaying some (00:38:24) of the $10 million. And I know now in May and June, you're going to repay the rest. But on your earnings release, you do say that the gross debt was flat at $3.7 billion. So, I just wanted to clarify, what was the change in gross debt from quarter-on-quarter?

A - Eduardo de Oliveira Miron {BIO 15427272 <GO>}

Yeah. I think what I mentioned is that the variation was, because it is a pro forma calculation. We have two main factors. One was the new issuance. And the second one is that we added the bridge loan to be utilized for the acquisition of National Beef. So, those are the two main factors that increased the gross debt. So, it's a pro forma calculation.

Q - Henrique Morato {BIO 18799542 <GO>}

No, no. I know (00:39:14). I'm referring to the debt calculation that you do for the continuing operations on your earnings release and that debt figure is flat at BRL 3.7 billion. And now you're expecting that figure to go up, because of the new deal proceeds. So that's - but maybe we can take - we can clarify this. Maybe it's a title (00:39:35) you can clarify this offline. I just wanted to understand better the dynamics. All right if you exclude that pro forma calculation, the gross debt should have gone up temporarily. That's correct right?

A - Martin Secco Arias {BIO 18098476 <GO>}

Yeah.

A - Eduardo de Oliveira Miron {BIO 15427272 <GO>}

Yes. And we can absolutely...

Q - Henrique Morato {BIO 18799542 <GO>}

Okay...

A - Eduardo de Oliveira Miron {BIO 15427272 <GO>}

... address this offline with the team.

Q - Henrique Morato {BIO 18799542 <GO>}

Sure. Perfect. Thanks.

A - Eduardo de Oliveira Miron {BIO 15427272 <GO>}

Thank you.

Operator

The next question comes from Teo Lasarte, Insight Investment.

Q - Teo Lasarte {BIO 15017626 <GO>}

Hello. I was wondering if you could comment on the Brazilian beef margins going forward. Obviously, you said that there are some issues with capacity, with competition, but obviously exports and FX have moved into your favor. Can you give us some idea of where we should see margins for Brazilian beef over the next couple of quarters?

A - Eduardo de Oliveira Miron {BIO 15427272 <GO>}

Yes. Thanks for the question. We are very confident about our strategy. The new factories that we opened at the end of the last year was in a very, very good performance. Regarding the activity, they already obtained some approval for export. The approvals that the (00:41:00) Brazilian government can give them from its own decision, of course, in accordance with the external market, but we are trying to obtain some ones that we have – we need more time or to give more time to the Brazilian government, like Europe that we happen to have very important event next week in Paris that Brazil will be declared a free of foot and mouth disease with vaccination in a very important meeting that are present all the countries around the world regarding the sanitary (00:41:43) of all the countries around the world.

The competition are very hard because factories is coming to fight with us to have a place on the market. They are very well located in different region for our footprint. But of course, they are fighting with other competitor regarding the raw material. But we are expecting regarding the margin, the margin will increase for the next quarters. The first quarter is always more difficult in this business in Brazil. For us, regarding the new dollar, regarding the new (00:42:33) and regarding better performance of the factories, we are expecting much better margins for the next quarters.

Q - Alexander Robarts {BIO 1499637 <GO>}

Okay. And if I could just have a follow-up question, I mean, if I looking at – if I look at the margins for Brazilian beef and given where we are right now, and if I look at 2018 overall, should we expect an improvement in margins compared to 2017?

A - Martin Secco Arias {BIO 18098476 <GO>}

I am telling that we are going to improve regarding the margin that we inform in the first quarter.

Q - Alexander Robarts {BIO 1499637 <GO>}

Okay. Thank you.

Operator

The next question comes from Alex Robarts, Citigroup.

Q - Alexander Robarts {BIO 1499637 <GO>}

Yes. Hi, everybody. Thanks for taking the question. I had two actually, first on the Brazilian beef exports, and secondly on National's integration. So, interested to hear if you could give us some color around the current operating environment for Brazilian fresh beef exports? It seems like you have gained market share up to that 23% level. Could you help us understand perhaps the dynamics behind that? Who do you think you're gaining share from? Where did you see the most robust growth in the export market? And what was the magnitude of the of the market share gain?

And finally, on this one, the timing on maybe is it short-term or medium-term that you think we could see a reopening of the U.S. market for Brazilian and Uruguayan beef? That's the first question, and I wanted to come back on National integration. Thanks.

A - Martin Secco Arias {BIO 18098476 <GO>}

First of all, let's go to - to start with the last part of the question. Uruguay is already approved for U.S. We are having a good performance during 2017, and of course, during 2018. Uruguay has a new challenge now to be approved for Japan that we are expecting to achieve at the middle of the year.

Secondly, Brazil, we expect to have the reopening of the market in the second part of the year. We know that the last week was a very important meeting regarding the sanitary authorities of the both countries. We don't have too much information, but they are working very, very hard to open Brazil again. For that, this is one of the challenges.

And regarding the first part of the question, it's very difficult but at the end, but it's very simple. When you have a factory like a slaughterhouse, you buy one product, but at the end you are selling a menu of products. And the best combination on that is the key of our business, because the price of the market regarding the raw material is one price and you need to have the better combination. And the better combination is between local and export market. For that, we are continually working in approve our factories, the old ones and the new ones, to have the much number of countries approved in order to have the better alternative for our products and to obtain the better combination for that, a better margin. I don't know if I answered your question or not.

Q - Alexander Robarts {BIO 1499637 <GO>}

No. That's helpful. I mean, just what was – you talked about market share gain, what was the magnitude of the market share gain? And is that possible to share with us?

A - Martin Secco Arias {BIO 18098476 <GO>}

Really I don't know which is the part of the market shares that we have from other competitors or for the market that's grown in the last month. As you know, we would expect a much better offer of the animals, and Marfrig decide to open this factory regarding this feeling of the market and the (00:47:46) cycle of the beef here in Brazil. But we don't have the information how much we increase for our competitors or for the market.

Q - Alexander Robarts {BIO 1499637 <GO>}

Okay. No, that's fair enough. And just secondly on the integration in this 2Q with National Beef, I mean, you've made the case in the prior call that this was an ongoing business with, as you say, no need for structural changes. Could you comment a little bit about what might be the requirements that you see in the second quarter in terms of incremental working capital? Is it fair to think about the National Beef business as needing more or less working capital compared to the Brazilian business? And then, any indication of what might be the annual CapEx needs for that National Beef business? Thanks very much.

A - Martin Secco Arias {BIO 18098476 <GO>}

Okay. Thanks for the question. But I need to answer it in another moment, because we don't have already the final approval of this transition for that. We cannot share this information with you.

Q - Alexander Robarts {BIO 1499637 <GO>}

All right. Thanks.

Operator

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

A - Martin Secco Arias {BIO 18098476 <GO>}

Thank you all to join us. Thanks, Tim, to join this call with us here in Brazil. And if you have more question or more comment, Roberto and his team will be available for you. Thank you.

Operator

Thank you. That does conclude our Marfrig conference call. Thank you very much for your participation and have a nice day.