Q4 2015 Earnings Call

Company Participants

- André Nogueira de Souza
- Jeremiah Alphonsus O'Callaghan
- Unverified Participant
- Wesley Mendonça Batista

Other Participants

- Andrew Muench
- Farha Aslam
- Jeronimo De Guzman
- Jose J. Yordan
- Ronan B. Clarke

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, everyone, and welcome to JBS Conference Call. During this call, we will present and analyze the results for the year of 2015 and for the first quarter. 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 at www.jbs.com.br/ir.

Taking part on this call, we have Mr. Wesley Batista, Global CEO of JBS; Mr. Tarek Farahat, Global Marketing & Innovation Officer; Mr. André Nogueira, CEO of JBS USA.; and Mr. Jerry O'Callaghan, Investor Relations Officer.

Now, I'll turn the conference over to Mr. Wesley Batista. Please go ahead, sir.

Wesley Mendonça Batista {BIO 15243148 <GO>}

Thank you. I would like to thank all of you for being with us this morning in our 2015 earnings call. Before I start discussing our results, I would like to take this opportunity to thank all of our partners, customers, suppliers, investors, and stakeholders for their support and interest in JBS. I would like to express my gratitude to each one of our more than 230,000 key members, those ambassadors of our culture and our values, who make a daily contribution towards the development and sustainable growth of JBS.

So, now starting discussing our 2015 numbers, I would like to start with our net sales. We ended up with R$162.9 billion in revenue, which represents 35% growth year-on-year and represents R$42.4 billion in incremental revenue year-on-year. I'm going to refer to the page on our presentation. I'm talking about the page three. So, our gross profit, we ended up 2015 with R$22.9 billion in gross profit, which means 20% growth year-on-year. Comparing to 2014, the gross profit was R$18.6 billion.

So, moving to page four, our consolidated EBITDA, we again ended up with R$13.3 billion in the consolidated EBITDA, which represents 20% growth year-on-year. Important to mention that in our R$13.3 billion EBITDA is not included around R$1.5 billion in a pro forma base that was generated or was part of the earnings in the companies that we acquired during 2015. So, again, R$13.3 billion not included R$1.5 billion. If we do in – if we annualize in a run rate base, our annual 2015 EBITDA is close to R$15 billion.

Our net income, we post R$4.6 billion in net income, which represents R$1.6 per share, comparing to R$2 billion in net income in 2014 and comparing to R$0.71 per share in net income in 2014. So, we more than doubled our net income year-on-year.

So moving to page five to discuss our operating cash flow and our free cash flow. So, we generate R$21.2 billion in operating cash flow, a very strong growth year-on-year. When we compare 2014, we post R$8.9 billion on operating cash flow.

So, free cash flow, pre-acquisition, we did four relevant acquisitions in 2015, that was the Primo acquisition in Australia, the Moy Park acquisition in Europe, the chicken acquisition in Mexico that we acquired from Tyson, and the pork acquisition in the end of last year that we acquired from Cargill.

And on top of these four major acquisitions, we did some other smaller acquisitions in our Seara business in Brazil. So before these acquisitions, we generate R$17 billion in free cash flow. This R$17 billion, again, to make clear, is before acquisition but after CapEx.

So moving to page six to talk about leverage. We end up 2015 with 2.9 times leverage when we look our numbers in a pro forma base, annualizing the R$1.5 billion that I mentioned before, that was generated in these acquisitions that we did during 2015. We believe this is the right way to analyze our leverage. But if you exclude this, our leverage – if we exclude R$1.5 billion, our leverage closed 2015 in 3.1 times leverage.

So I already mentioned the major acquisitions we did in 2015 that was the acquisition of México, Primo and Moy Park, the pork business in U.S. and some others in Brazil, Big Frango, Anhambi. And again, we spent around $5 billion in these acquisitions, and we were able to generate and to acquire all this business with cash that we generated inside of our operation. So what exactly the same amount that we spent was the amount that we generate in our operation.

So moving to page seven to discuss our share buyback program. So during 2015, we repurchased 96.7 million shares, which represent a total amount of R$1.4 billion that we spent buying back these 96.7 million shares. Inside of this number that was during 2015; during the fourth quarter, we acquired 60 – almost 64 million shares and we spent R$900 million in the fourth quarter. But, of course, this R$900 million is included in the R$1.4 billion in the total annual repurchase, share buyback.

So, our cash position and our debt profile, we ended up 2015 with R$18.8 billion in cash. On top of that, we have a credit of lines available in our ABL facility in U.S., so very strong cash position. Our debt profile, one-third of our debt today is in short-term debt and two-thirds of our debt is long-term debt.

Here below in the page seven, we can see the breakdown of our debt in terms of which currency each – the debt is seated, 91% of our debt is U.S. dollar-denominated debt and 9% is reais-denominated debt. So, almost half of the debt is in the capital market and half of the debt is in – with commercial banks, and almost half of the debt is in JBS S.A. and almost half is in JBS USA.

So moving to page eight, here, we would like to show our track record since we did the IPO in 2007 in JBS. So, we are pleased that we have been able to expand our business in a strong way, top-line growth. But more than our expansion, in terms of our revenue, we were able to improve more and to expand more our margin than our sales. So, I have mentioned this before, JBS is very focused in growing our prepared business, our packaged food business, our branded business.

We feel that this is the right approach for us to be able to create value and to improve our profitability.

So to finalize my remarks here, I'm going to comment in the page nine, what is going to be our priorities for 2015?

Unverified Participant

2016.

Wesley Mendonça Batista {BIO 15243148 <GO>}

2016, I apologize? So before I hand over to Jerry O'Callaghan to discuss the fourth quarter numbers and as well the business units numbers. So, our priorities for 2015 is going to be - 2016 is going to be very clear, it's going to be organic growth, and why organic growth? Very simple. We don't see where we can invest the money that we are generating in JBS, that is going to deliver a better return to our shareholders than investing in JBS.

So, we see that clear the best return for our shareholders is investing inside of our company through equity and through debt. We see opportunity to use our share buyback program and as well to buy back debt.

So, this is where we see the best return for JBS before any M&A. I'm elaborating more on this part because, you know, you all know we have a long track record in M&A. But today, I cannot see any M&A that can be done, that is not more than almost two times more expensive than the opportunity that we see inside of our company.

So, moving here in our priorities, operational excellence, despite of our culture, is in the heart of JBS. We are going to keep being focused on operational excellence, focused on prepared and branded products. I mentioned this before. Tarek Farahat is here with us. He is fully focused on this and fully dedicated to this. We have many, many opportunities in South America, Brazil, Argentina. We have strong brands. We have a strong portfolio. Now, we have a strong opportunity in Australia, in Asia. The Primo acquisition was clear. The acquisition in this direction should expand our prepared and branded product in Asia and also in Australia.

In Europe, the same. We see a big opportunity to expand our prepared business in Europe. We acquired Moy Park, great opportunity for us here today. In Mexico, we acquired the - we increased our business there again. And the same thing in U.S. We are looking all the opportunities to expand our value-added portfolio and as well invest in our core brands.

So, keep going on our priorities, reducing - reduction in working capital. We see opportunity to improve our cash cycle, to reduce the amount of working capital that we are used in (15:03) our business and, for sure doing that, we are going to generate a better return on equity.

Automatically, we are very focused on free cash flow generation, consequence of working capital reduction. Free cash flow; we see our leverage - opportunity to reduce our leverage. Also, our priority is going to be more efficient in terms of our tax structure and we are very focused on our return on equity.

So, again, thank you. I'm going to pass to Jerry here to discuss the fourth quarter numbers and the business units and after that we are going to open to Q&A. Jerry, please.

Jeremiah Alphonsus O’Callaghan {BIO 19817115 <GO>}

Thank you, Wesley. Thank you. Good morning, everybody, and thank you for being with us today. So I'm going to refer to our presentation and go through the numbers for the fourth quarter and talk a little bit about each one of the business units before we open up for the Q&A.

Starting on page 11. Just looking at the consolidated net sales for the fourth quarter, we had just north of R$47 billion and sales up 37.5% from the same period in 2014. We had a gross profit of almost R$6 billion with a gross profit margin of 12.1%, which was down from 15.8% in the latter part of 2014.

Regarding our EBITDA for the quarter, we had an EBITDA of R$3.132 billion with an EBITDA margin – consolidated EBITDA margin of 6.6% and we will look at this by business unit here through the presentation. It was down from an EBITDA margin of 9.6% in the corresponding quarter in 2014.

And consolidated net income in the period, we had a loss of R$275 million in the fourth quarter of 2015 against a net income of R$619 million in the fourth quarter of 2014. That loss was associated with non-recurring expenses which we had in the fourth quarter, a total of just over R$460 million. So that's non-recurring and should be excluded when we look at the numbers on an ongoing run rate basis.

Moving on to our operational cash flow and our free cash flow in the quarter. We had R$3.57 billion in operating cash flow in the period. It was down 32.7% from the corresponding quarter in 2014.

Free cash flow ex-acquisitions, we made a payment for an acquisition in the fourth quarter, ex-acquisitions was R$2.55 billion in the fourth quarter. So we continue to generate quite a lot of free cash in the period and that's free cash after ongoing CapEx.

Looking at the business units one by one and just having a quick a look at these business units. On a yearly basis and then on a quarterly basis, and moving on to page 15 in our presentation, and starting with JBS Foods in Brazil. And just a reminder, JBS Foods in Brazil is our poultry and pork and all our prepared foods business in Brazil based upon poultry and pork products. So a lot of branded products here and a lot of value-added products.

In 2015 – in the year 2015, we had R$18.7 billion in sales, up from R$12.9 billion in sales the previous year, 45%-plus increase in sales. EBITDA was up from R$2 billion to R$3.37 billion with an EBITDA margin increasing from 15.9% to 18%. So, a very strong revenue growth, performance improvement and very strong EBITDA growth and EBITDA margin growth.

We launched during the year more than 100 new products in Brazil focusing obviously on innovation and in convenience. And when we look at all the metrics around the quality of our service, we've had substantial improvement in all those metrics also in 2015.

Looking specifically at the fourth quarter of 2015 for the JBS Foods business, net revenue was R$5.36 billion, up from R$3.65 billion in the corresponding period in 2014; 47% increase year-on-year. EBITDA went from R$656 million to R$926 million, 41%-plus increase in EBITDA. EBITDA margin in the quarter was 17.3%. It was 18% in the fourth quarter of 2014.

Moving on to our next business unit, which is what we call JBS Mercosul, which is our beef business in South America, Brazil, Paraguay, Uruguay and Argentina and all the related businesses related to the beef industry, one of which is our hide processing capacity in South America which is quite substantial. And then, there are other by-products which we further process as well.

So, within JBS Mercosul, we have all those businesses. We had R$28.6 billion in revenues in the fourth quarter, up almost 10% from R$26.1 billion in the fourth quarter of 2014 – sorry in the year

2014. This is a 2014 against 2015 annual comparison. EBITDA for the year was R$2.3 billion, practically stable in relation to the EBITDA in 2014. EBITDA margin, 8.1% against 8.9% in 2014.

If we look at the year, we see that there was a decline in profitability. But if we look at the fourth quarter on the next page, page 18, we see – when we compare the fourth quarter of 2014 with the fourth quarter of 2015, we see a substantial increase, meaning that the profitability of this business increased through 2015 much stronger towards the end of the year.

So we had R$7.5 billion in sales, again flat against the fourth quarter of 2014, but much improved EBITDA, R$921 million in the fourth quarter of 2015 against R$534 million in the corresponding quarter in 2014. An EBITDA margin of 12.3%, that's a 72%-plus increase in EBITDA year-on-year, obviously a strong finish to the year.

Moving on to our businesses outside of South America, starting with our – what we call our JBS USA Beef business unit, and here was included all our beef business in the U.S., in Canada, and all our businesses in Australia as well. For the year 2015, we had sales of just north of $22 billion, and this business up 2.25% to 2.5% basically from net sales the previous year.

EBITDA was $586 million against $916 million in the previous year. So we had a decline in EBITDA and a decline in EBITDA margin from 4.2% to 2.7% in this business unit, which is basically as a result of the continuing retention of cows and heifers in the U.S. which is rebuilding the herd, which is a very positive signal for the business on a medium-term and long-term basis, but which represents sacrifice in the short term in order to build up that pipeline of cattle supply.

We also should take into consideration the devaluation of the Australian dollar against the U.S. dollar. When we look at revenue year-on-year, there was quite a lot of decline in the value of the Australian dollar against the U.S. dollar and we're consolidating numbers in U.S. dollars here.

In the fourth quarter of 2015, sales in this business unit were $5.25 billion, down from $5.92 billion in the corresponding quarter in 2014. We had a negative EBITDA of $25 million with a negative EBITDA margin of 0.5%. That's down from an EBITDA margin of 5.5% in the fourth quarter for the reasons I just mentioned, basically the continuity of the retention of cows and heifers, the issue of the Aussie dollar and the fact that we are sacrificing cattle supply today in order to build up the herd. We have substantial herd increase last year and our expectations are that the herd will continue to grow in the U.S. in 2016 and in the coming years; thus the availability of cattle would be – would come on stream two years to three years later.

Our pork business, page 21 in our presentation, in 2015, we had $3.43 billion in sales in our pork business in North America, down $3.82 billion in sales the previous year. Basically, we had a decline in feed costs and thus we had a decline in hog prices. This applies also to the poultry business in North America year-on-year and it doesn't necessarily translate into a decline in profitability. We had $347 million in EBITDA in the year, down from $405 million in 2014; an EBITDA margin above 10% in 2015, 10.6% in 2014, 10.1% in 2015.

And moving on to the fourth quarter in the pork business in North America. What is relevant here is we incorporated a relevant acquisition on the 1st of November. So we have two months of the performance of the acquisition within this business unit when we compare quarter-on-quarter. Sales went from $964 million in the fourth quarter 2014 to almost $1.1 billion in sales in the fourth quarter of 2015 largely due to the incorporation of the acquisition.

EBITDA, a strong increase in EBITDA from $96 million up to $141 million with an EBITDA margin of 13% against an EBITDA margin of just under 10% in the fourth quarter of 2014. So, basically, two items to keep our eye on is the capturing of synergies associated with this business which initiated with the acquisition and will be ongoing in 2016 and also the recovery of exports in the pork out of North America quite relevant. A lot of demand coming out of Asia, but also out of a very traditional market that we have, which is Mexican market, so we have a strong distribution network of ourselves within the Mexican market, as a result of our poultry business.

And speaking of our poultry business, Pilgrim's Pride Corporation, which we call JBS USA Chicken, 2015, these numbers are already public, we had almost $8.2 billion in sales, down from $8.58 billion in sales the previous year. And again as a result of the decline in feed, there was a decline in the average price of products sold.

We had an EBITDA of $1.2 billion in 2015 against an EBITDA of $1.35 billion, the previous year, still an EBITDA margin of just under 15% last year and 15.8% the previous year. We've identified, in this business for 2016, $185 million in operational improvements and we will be reporting these as we go through the quarters in 2016.

For the fourth quarter of 2015, speaking of Pilgrim's Pride or JBS USA, we had sales of just under $2 billion, $1.96 billion, down 7% from the corresponding quarter in 2014; EBITDA of $150 million with an EBITDA margin of 7.6% against EBITDA of $368 million in the corresponding quarter in 2014 with an EBITDA margin of 17.4%.

Moving on to JBS Europe which is Moy Park, this business we acquired at the end of the third quarter. So we are reporting the first quarter under our management of this business. Basically, 80% of revenue is coming from business in the United Kingdom and 20% coming from Continental Europe. So we have some euro to sterling conversion in the results. And as the decline – as a result of a decline in the euro to the sterling, we've had – this has affected revenues in this business.

Revenues in the fourth quarter 2015 were £378 million against £372 million in the previous – in the corresponding quarter in 2014; EBITDA margin of 7.9%, £30 million in EBITDA against £31 million in EBITDA in the fourth quarter of 2014 with an EBITDA margin of 8.3%. And as Wesley mentioned, a lot of investment in innovation and expansion of this business. This is a business that is very focused on innovation and research and development in partnership with our customers across the United Kingdom and Europe itself.

And so, with that, we will close our comments here and we will open for questions and answers. Operator?

Q&A

Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. Our first question comes from Farha Aslam, Stephens, Incorporation.

Q - Farha Aslam {BIO 6151888 <GO>}

Hi. Good morning.

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

Farha. Hi, Farha. Good morning.

Q - Farha Aslam {BIO 6151888 <GO>}

Good morning. Two questions. First, focused on the beef business. Was the issues in the quarter more related to FX coming out of Australia or was it more the U.S. business and the lack of cattle supply or was it in Canada? Could you just give us a little more color on the issues in the quarter and then your outlook going forward for that business?

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

I will make a comment, Farha, and I will ask André to add more on my comment. So a combination. For sure, the Australian business was performing better in the first quarter, second quarter, and third quarter last year compared to the fourth quarter. But also, our U.S. beef business did not perform well in the fourth quarter, so a combination in Australia and also in the U.S.

I mentioned in our previous call, the beef business in U.S. is still a challenged business. For sure, the cattle herd rebuild is very positive, 3 million herd more that the industry had (31:36) or the growth in 2015 is very positive for the industry, going forward. The question is about timing, when we are going to start seeing this translating in a better margin, in a better spread. Our view is that we are going to start seeing this in the second half of this year, this increase in the herd in U.S. translate in a better margin.

So, André, maybe you can add some more comments on that.

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

Your comment was (32:16). Just to add that, Farha, the quarter was weak for us and was weak for the industry. But when we finished the year and compare ourselves with our competitors, we are not happy for results, but we still outperformed our other competitors for the full year. So for us and for the industry, the fourth quarter and the first quarter is always more challenged. But for us, as was the fourth (32:44) quarters are challenging and was related cattle herd rebuild and volatile.

So when we ask about U.S., U.S. and Canada go in the same direction. The markets are very similar in both countries, so it was challenging in both. And Australia was better but was weaker than the previous quarter, Wesley already highlight.

Q - Farha Aslam {BIO 6151888 <GO>}

Okay. That's very helpful. And just as my follow-up, it's on Pilgrim's Pride. Wesley you mentioned that you're focused (33:12) at JBS on internal organic growth and did not see much value right now in terms of M&A. Is that the case at Pilgrim's as well? And how are you thinking about a potential special dividend at Pilgrim's?

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

Farha, it's not secret. We have been discussing inside of Pilgrim's and as well, the market knows. The last two years, we have been looking and trying some M&A opportunities in Pilgrim's. But even in Pilgrim's today, it's hard to make a case that you are going to buy a business when an opportunity that can appear in the market seems that much more expensive than our current business.

So, again, we did a share buyback in Pilgrim's in the fourth quarter. Pilgrim's already mentioned about the share buyback. We're still having more shares approved in our share buyback program. And also dividend, a special dividend is a option and is a clear option. We are seated in around $500 million in cash and it's a clear option.

So we are discussing. We are not seeing real, real opportunities in terms of M&A, comparing – again, comparing to how much the market is pricing ourselves in Pilgrim's. And if we cannot find anything that is more – that is going to deliver a better return for our shareholders, a special dividend is going to be our option.

Q - Farha Aslam {BIO 6151888 <GO>}

Great. Thank you for that added color. Appreciate it.

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

Thank you.

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

Thank you, Farha.

Operator

The next question comes from Andrew Muench, HSBC.

Q - Andrew Muench {BIO 17481422 <GO>}

Hi, guys. Hey. Thanks. I guess this is kind of a high-level question about management here. Maybe you could help us understand the newly created strategy and corporate development role that was announced in February. And I guess specifically, what is your key objective for Russ? And then, I guess, in which ways does adding this role sort of advance JBS' strategic vision? Thanks.

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

Thank you for the question, Andrew. We announced the hiring of Russ and Russ is going to be dedicated to (35:56). If you look JBS, Andrew, our history and our background, so 2007 when we did an IPO in JBS, we were one company, and you know we have been able to transform this company in a clear international and a multi-national player in our sectors and have many opportunities.

We just finished corporate restructure in the end of 2015, December and we are looking and Russ is 100% dedicated and his focus is where and how we can improve and create value in our operation, in our business, in our corporate structure. So this is where Russ is looking and focusing inside of JBS.

Q - Andrew Muench {BIO 17481422 <GO>}

Cool. Sounds good. Thank you.

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

Okay, Andrew.

Operator

The next question comes from Jose Yordan, Deutsche Bank.

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

Jose?

Q - Jose J. Yordan {BIO 1496398 <GO>}

(37:20). I have a follow-up on the beef business in the U.S. and in Australia. It's not clear to me why Australia is doing badly just because of a devaluation. If anything, the exports to the U.S. should be more profitable under a devalued Aussie dollar, but maybe it's the same reason the heifer retention in Australia just like in the U.S. So just to confirm whether that's the main reason why you're citing Australia as a result of – as a cause of the negative EBITDA in the quarter?

And I guess I also was under the impression that the cattle cost had already begun to reverse in the U.S. So just to get a – I mean, I understand that the first half will still be difficult, but I just wanted to get some sense from you whether you thought it was going to be also negative EBITDA throughout the first half of the year or just somewhere between the result you had in the fourth quarter and the normalized 3%, 4% margin that you had indicated in prior quarters. And then, I just have a follow-up about the pork business later.

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

Yeah. I'll, again, make some comments and I'll ask André to comment more. It's a combination. Australia is not doing bad and did not badly in the fourth quarter but usually the fourth quarter, in Australia, the weakest quarter. Usually, Australia shut down plants in the end of the year and cattle price went up in Australia and offset portion of the devaluation of the Australian dollar.

So, on U.S., like I mentioned, the herd rebuild is very positive and no doubt that the industry is going to see better margin and better days and this is in front of us. The discussion for sure is about when. I and JBS believe that the second half of 2016, we are going to start seeing the margin improve, recover. And 2017, everything is set to be a very good year. And so, when I see in an annual base, I see us delivering around the normal – not the normalized, but the normal margin on the beef business for 2016. When I say normal, in the low part of the range, that I see 3%, 3% to 4%. I see this annualized in the year, very doable.

And I think if we look only the second part of this year, we are going to see, my opinion and JBS' opinion, higher margin than the average. So this translating that we are going to see a weak first quarter, more weaker than the third and the fourth quarter. So first quarter and second quarter, in our opinion, is going to be weaker than the second and the third – and sorry, the third quarter and the fourth quarter. André?

Q - Jose J. Yordan {BIO 1496398 <GO>}

Okay. Okay. Great. And I guess, on the pork business...

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

Go ahead. Jose?

Q - Jose J. Yordan {BIO 1496398 <GO>}

Yeah, go ahead.

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

Yeah. Just a second, André had an additional comment to make.

Q - Jose J. Yordan {BIO 1496398 <GO>}

Oh, sorry. Sorry.

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

No. No. I agree (41:09) that I think we can see the year around 3% and 4% will be more in the second part of the year, for sure. Cattle price, again as they moved, but we saw a lot of volatility. I think that the market is trying to anticipate the new volume that we are going to see in the second part of the year and this price moved very dramatically that makes it much more challenged for the quarter to deliver performance.

But again, the perspectives are positive for the second part of the year. Australia, Wesley commented (41:43), have a normal season. The performance is weak in the fourth quarter, but Australia continued to perform in good (41:53). But the question is just that the size of Australia compared to the size of our beef business in U.S., they're relatively small. So, they're not able to offset our weaker performance in U.S.

Q - Jose J. Yordan {BIO 1496398 <GO>}

Okay. Sounds good. And then my follow-up is just on the pork business. Obviously, we just saw the first consolidation of the Cargill business, and there's a huge, sequential increase in margins and even year-on-year. So, I'm just wondering how much of that 13% margin in the fourth quarter is really sustainable going forward, in spite of the synergies from the Cargill deal. So, if you had to give us some color about where you would see the full-year margin going, that would be appreciated.

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

André?

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

For the quarter, there is more impact in any of the synergy we just acquired and started to run the business, in fact, in the last two months of the year. Fourth quarter is a strong quarter for pork, and it was a strong for us and was a strong for the industry. But close to the normal level that the industry had been running, the close to the level that we had been running, we expect that we would capture the full synergy for the year. We'll be completely integrated in the next two months, and expect that pork will deliver another strong year for us. It has been this way for several years now. So, I think that fourth quarter is very stable and we'll continue to do this. We don't see any change on that for us with the benefit of the integration, the synergy of the integration. That we're going to correct during the year. (43:41-43:45)

Q - Jose J. Yordan {BIO 1496398 <GO>}

(43:46) you be comfortable with low-teens margins, if not exactly 13%, somewhere in the low-teens, in the low-double digits?

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

Yeah, that's the performance that we have in the last two years and that's the performance that we expect for this year.

Q - Jose J. Yordan {BIO 1496398 <GO>}

Okay, great. Thanks a lot.

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

Thank you.

Operator

The next question comes from Jeronimo De Guzman, Morgan Stanley.

Q - Jeronimo De Guzman {BIO 15888043 <GO>}

Hi, good morning.

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

Hi, Jeronimo.

Q - Jeronimo De Guzman {BIO 15888043 <GO>}

I had a question on the free cash flow. You mentioned you see opportunities in working capital improvement. Just wanted to see if you could give more details on where you still see those opportunities. And then, more, in general, just wanted to get a sense of where you think you can take the leverage to by year-end, and get a better sense of how much you think you need to re-invest on CapEx, and any guidance on kind of how you balance the repurchases of shares versus the buyback – repurchases of debt as well or deleveraging.

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

Well, Jeronimo, we are going to be, of course, looking opportunities in terms of buyback and debt, buying back some of our debt with our cash generation and with our leverage. So we are going to – we are not going to decouple one to the other. For sure, we want to bring this well-balanced. So we see our leverage in the – by the end of this year in the hand of (45:43) 2.5 times leverage that we feel comfortable. But, for sure, this is going to depend on how much opportunity we see in this front, in the share buyback and in the debt opportunity. But what I can tell you that we are going to be handling this in a balanced way. We are not going to accelerate buyback, if we are going to jeopardize leverage. And we are not going to – if we are not generating enough free cash flow, we are going to be looking how to bring this together.

A - Operator

Working capital.

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

And working capital. The opportunities basically in account receivables, inventory and account payables, normal opportunities. We see opportunity to reduce inventory. We see opportunity to increase terms in our accounts payable. So, we see a quite sizeable opportunity in working capital overall.

Q - Jeronimo De Guzman {BIO 15888043 <GO>}

Okay, thanks. And CapEx, any sense of how much investment in CapEx for the year?

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

CapEx, Jeronimo. As a percentage of revenue, it's always somewhere between about 1.6% and 1.8%, 1.9% of our revenues. So, that's a good range. Because we're incorporating acquisitions as an absolute number, it's kind of difficult to give you an absolute number. But if you work with it, as a percentage of our revenues, that's probably the best way you can estimate it.

Q - Jeronimo De Guzman {BIO 15888043 <GO>}

Perfect, thanks. And just to follow up on Mercosul. Obviously, the margins have been very strong, but just wanted to get a sense of where you see volumes? I mean, when do you think you're going to start seeing some growth in volumes, now that you're already starting to lap quarters of volume declines?

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

Yeah. Mercosul, the business is not so much about volumes, as it is about having a good balance between supply and demand. The fact is that, there was some headwinds in demand in Brazil, but there were good tailwinds in the international market, so, one, it's pretty much balancing out the other. We've had good access to new markets for the beef business in South America in the last six months, which is, it's translated into the better results in these business units in the second half of 2015. And we're coming into 2016 basically with that same sort of environment, some headwinds in Brazil, but improvements in the international market and expectations about the continuity of expanding our capacity to export more through the opening up of incremental markets.

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

In summary, I want to add more. We see volume stable, not any meaningful change in volume in our America food business because you need to remember some places, Uruguay, Paraguay, we are increasing our volume. Argentina, we have a bullish view now about Argentina and we are going to see volume increase in Argentina. Paraguay and Brazil made some small reduction, but when you put out together, we see volume is stable.

I wanted to add one more point on the CapEx. If you look our CapEx in 2015, so we spent R$4.25 billion. Our projection for 2016 is R$3.5 billion. And why this reduction? Because we have been investing in our business in the last many years. And in some point, we start to see less project that has great and quick paybacks.

Q - Jeronimo De Guzman {BIO 15888043 <GO>}

Okay. Thank you.

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

Thank you.

Operator

The next question comes from Ronan Clarke, Deutsche Bank.

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

Hey, Ronan.

Q - Ronan B. Clarke {BIO 16934256 <GO>}

Hi, there. Hello. Hi there. (50:50).

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

Thank you.

Q - Ronan B. Clarke {BIO 16934256 <GO>}

I just wanted to know, could you talk a bit, please, about the synergy opportunity at Moy Park? I think back in June, you said $50 million. So, I'm just wondering, is that still the right number, and what's the latest thinking on timing? And then related to that, I'm wondering if your comments about M&A and better opportunities organic rather than external, does that also apply to the European platform?

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

We're still seeing this $50 million opportunity in synergy. We think that we can add something more on top of this $50 million, but I think it's early. We are going deeply in every area to understand what more synergy we can capture. But at this point, we're still running with the $50 million assumption for synergy.

In terms of M&A, again, like I mentioned before, we don't see acquisition that we can do, that is going to deliver better return for us and invest inside of JBS for now. So, it's hard to justify an M&A until we have a better opportunity inside of our current business.

Q - Ronan B. Clarke {BIO 16934256 <GO>}

Okay. And just to go back to the synergies and to help me better understand, I would assume it was heavily weighted towards procurement. So, in which case we would expect it to be fairly front-loaded and we start to see it pretty much immediately? Is that not the right way to think?

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

Yeah, yeah. We are working with the assumption to capture the $50 million – the full $50 million in 2016. So, of course, it's a ramp-up process, but coming from purchasing and coming from agriculture and operation, these are the three main areas that is not very difficult to implement. So, because of this, we see this being captured, the full number in 2016.

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

Just to add to that, we have a couple of our procurement team members from the U.S. and from South America at Moy Park this week working on those synergies. So, it's ongoing as we are talking.

Q - Ronan B. Clarke {BIO 16934256 <GO>}

Okay, super. That's very helpful. Thank you.

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

Thank you.

Operator

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

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

I'd like to thank you all for being in the 2015 earnings call with us. And I'd like to thank, again, our 230,000 team members that have been working, holding our culture, our mission, and they are the team, that is responsible for us to be where we are. Thank you. Have a good day to you all.

Operator

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