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Bloomberg Transcript

Q4 2017 Earnings Call

Company Participants

- André Nogueira de Souza, President & Chief Executive Officer-JBS USA
- Gilberto Tomazoni, Global Chief Operating Officer
- Jeremiah Alphonsus O'Callaghan, Director-Investor Relations
- [09PT62-E Jerry O'Callaghan]

Other Participants

- Bryan C. Hunt, Analyst
- Carla Casella, Analyst
- Declan Hanlon, Managing Director-Credit Trading

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, everyone and welcome to JBS Conference Call. During this call, we will present and analyze the results 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 the company's website at www.jbs.com.br/ir.

Taking part in this call, we have Mr. Gilberto Tomazoni, Global COO of JBS; Mr. André Nogueira, CEO of JBS USA; and Mr. Jerry O'Callaghan, Investor Relations Officer.

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

[09PT62-E Jerry O'Callaghan]

Thank you. Thank you. Good morning, everybody and welcome to the JBS 2017 earnings call. Before I hand you over to Mr. Tomazoni to talk about the highlights for the year, I just wanted to remind you that we have a presentation which is available on our website, and right on page 2 of our presentation, we've got our disclaimer. So I request that you please make reference to the disclaimer and read the disclaimer when analyzing the presentation.

I will hand you over to Mr. Tomazoni now before we discuss the details of the results for business unit. Tomazoni?

Gilberto Tomazoni {BIO 2090061 <GO>}

Thank you, Jerry. Good morning, everyone. Thank you for joining this call today. In 2017, we recorded the net revenue BRL 163.2 billion, equivalent to $51.5 billion, and our consolidated gross profit of BRL 23.8 billion, an increase of 11.5% compared to the last year.

Consolidated EBITDA was BRL 13.4 billion, an increase of 18.9% compared to 2016. Consolidated EBITDA margin was 8.2%. Adjusted net income, which reflects a one-time tax payment was BRL 2.1 billion; 804% higher than 2016.

Operational cash flow was BRL 5.2 billion and free cash flow was BRL 2.8 billion. Leverage was reduced to 3.38 times from 4.16 times at the beginning of the year and short-term debt was reduced by 25%.

I will ask Jerry now to provide more detailed analysis for our performance in 2017.

[09PT62-E Jerry O'Callaghan]

Thank you, Tomazoni. So, I will go through the presentation here, some slides in our presentation, I'll make references to the page numbers to facilitate people accompanying our call online.

So, starting maybe on page 4, some of the focuses of the company, we just wanted to remind everybody on the call of our relentless pursuit of operational excellence to drive results. We will talk about that when we talk about business units and in the Q&A session later on. A strong culture and a team of proven leaders, we are very proud of our team. They did a great job in 2017 and we've been able to enhance that team through the last 12 months and we will talk about that as well later on.

Tomazoni already mentioned a reduction in leverage. We had a very relevant reduction in leverage when we compare 2017 to 2016. We went from above 4 times leverage at the end of 2016 to under 3.4 times leverage at the end of 2017. And we continue to pursue that deleveraging process into 2018. We also increased our liquidity, if you look at our liquidity, I will show the numbers in a little while, but our liquidity today is greater than our short-term debt. We've extended maturities particularly at JBS USA, we've had the opportunity to extend maturities well beyond the coming years, and we will also talk about maturities in Brazil.

Also over the last 12 months, we've spent a lot of time reinforcing and strengthening our compliance team and we've taken a number of major steps which we can talk about in greater detail later on also, with regard to our compliance program.

On page 5 of our presentation, a little bit about our global diverse footprint. We think this is definitely a competitive advantage to have operations and sales in such diverse geographies and to have the opportunity basically to service every single market in the world. So attention to the fact that a good portion of our sales are for instance in Asia, 13% of our global revenue comes from Asia, where we have distribution and sales capabilities, and only one small leather operation there, while for instance in Brazil, 14% of our revenues are derived from sales domestically in Brazil, because in Brazil it's a major export platform besides our presence in the domestic market.

Page 6 of our presentation, just a little bit about where we stand in terms of our global positioning, we're the number one beef producer globally with the operations in Brazil, in North America, the U.S. and Canada and in Australia as well. We're also the world's largest leather processor; most of that is done in Brazil. And, the world's largest chicken producer, with operations, again, in Brazil, in Mexico, in the U.S. and in Europe. We're the second largest pork producer in North America and also the second-largest lamb producer globally. And we have the leadership position in prepared foods globally, remembering our operation of Primo in Australia, Plumrose, just some examples in the U.S. and Seara in Brazil.

On page 7, we have our leadership team across each one of our business units, all of them very, very experienced. I will not go through all the names, but we're very proud of all those people on that slide on page 7.

A little bit more about our compliance program. As I mentioned, we've strengthened our compliance program. During 2017 and in 2018, we appointed a respected lawyer and academic, Marcelo Proença as our Global Head of Compliance in the middle of last year. We hired external counsel, White & Case, to support the implementation of our compliance program globally. We've also used the services of Deloitte to conduct a thorough review of all our third-party contracts.

We've established a new ethics line or whistleblower line, which is in operation since the 1st of December last year. And we've also launched an Always Do It Right compliance program. This has been very visible in Brazil, but it is a global program. And we are building a strong compliance department. We've brought-in a number of senior people not only in Brazil but outside of Brazil as well. We've been working with Transparency International to demonstrate the improvements that we've implemented with regard to compliance, with regard to governance as well. And we've been given a ranking well above the Brazilian average by Transparency International recently.

And we announced a divestment program in the middle of last year again and we have now fully implemented that divestment program, which has resulted in JBS raising about BRL 6 billion. Just to remind everybody, we sold our operations in Argentina, Paraguay and Uruguay July of last year. We then sold Moy Park on to Pilgrim's Pride in October of last year. We also divested our stake in Brazilian value-added dairy business called Vigor also in October of last year. We also divested the feedlot and farm operation in Canada in the same month. And then we finalized our divestment program in March just this month through the sale of Five Rivers in the U.S.

The sale of the majority of these assets included, as I mentioned, the proceeds of BRL 6 billion. A substantial portion of those proceeds were received by Brazil and were used to pay down short-term debt and we will talk about short-term debt in a minute.

On our consolidated results, Tomazoni already talked about revenue of BRL 163 plus billion, $51.5 billion. In terms of gross profit, we had gross profit of BRL 23.77 billion, up from BRL 21.31 billion in 2016. And the gross margin went from 12.5% to 14.6%. So not only an increase in gross profit, but an increase in gross profit margin as well.

In terms of EBITDA, EBITDA came in at BRL 13.41 billion in 2017 against BRL 11.28 billion the previous year. And, again, EBITDA margin going from 6.6% to 8.2%.

Net income was influenced by the one-off tax negotiation we did in Brazil last year, but it would have been BRL 2.1 billion where it not for the tax adjustment. We reported BRL 534 million or BRL 0.19 per share after contemplating the tax agreement that we reached in Brazil in 2017.

In terms of cash flow, operational cash flow was BRL 5.2 billion, up 42% from BRL 3.66 billion in 2016 and free cash was up more than 2,000% at BRL 2.78 billion last year against BRL 128 million in 2016.

For the fourth quarter, I'm on page 14 of our presentation for those of you who are following the presentation. For the fourth quarter of 2017, we had BRL 42.7 billion against BRL 41.6 billion in the corresponding quarter in 2016, an increase of 2.7%. Gross profit, again, in the quarter was up to 14.8%, the margin from 14.3%, going from BRL 5.9 billion to BRL 6.34 billion in the fourth quarter of 2017. EBITDA came in at BRL 3.2 billion, up again 2.7%. EBITDA margin was stable at 7.5% when compared with fourth quarter of 2016.

Net income came in negative BRL 451 million, basically completely accounted for by the FX of the Brazilian real against the U.S. dollar. We had a relevant depreciation of the real in the fourth quarter of 2017, which affected net income about BRL 0.15 of the real against each dollar from the end of the third quarter 2017 to the end of the year.

Page 15 of our presentation, we already mentioned net debt came down to BRL 45.28 billion from BRL 46.9 billion at the end of 2016. And leverage declined quite substantially from 4.16 times at the end of 2016 to 3.38 times at the end of 2017. That is a reduction of BRL 1.6 billion or $700 million in the period. Our cash position at the end of the year was BRL 11.7 billion.

Moving on to page 16 in our presentation, a little bit more about our debt. 95% of our total debt is in U.S. dollars and 5% in Brazilian reals. And the cost of the U.S. dollar – the average cost is at 5.4%, while the average cost of the real-denominated debt is at 9.13%. Important, when we compare the end of 2016 to the end of 2017 is the reduction in short-term debt. Short-term at the end of the 2016 was 32% of net debt. It was down to 24% at the end of 2017. That's a reduction of 25% in short-term debt year-on-year.

And basically, I've mentioned this in the past, but the majority of the short-term debt are the rolling export credit facilities in Brazil. So, they're short-term by nature but they're rolled on a regular basis. Total liquidity at the end of the year was BRL 15.2 billion against a net debt of BRL 1.7 billion above net debt at the end of the period.

We get into the business units here briefly before I hand you over André Nogueira to speak about OUS business. Firstly on Seara; Seara's revenue declined year-on-year from BRL 18.15 billion to BRL 17.47 billion, a decline of just under 4%. EBITDA was flat or down marginally year-on-year. EBITDA margin was up from 8.8% in 2016 to 9% in 2017.

We saw an increase in exports, particularly to two or three markets, highlights obvious for Asia, the Middle East and particularly in North Africa. We launched a number of new items, particularly under Seara Gourmet brand in Brazil. 94 new products were launched by Seara in Brazil last year. We experienced a leadership position in a number of relevant regions in Brazil also last year. We had the best holiday campaign at the end of 2017. There was a big number of Christmas items, holiday items in the Seara portfolio. And we had our best holiday campaign in the last three years at the holiday period in 2017.

Obviously, there is a continuous focus on the reduction of costs and expenses at Seara that is a constant issue that we look at on a regular basis. And we've seen an increase by consumers in Brazil and having preference towards the Seara portfolio of brands.

Moving on to page 19 in our presentation, JBS Brazil, which basically is our beef business, our leather business and other related businesses in Brazil. We had a decline in revenues from BRL 28.2 billion to BRL 23.4 billion in 2017. Again in 2017, we also had a decline in EBITDA and EBITDA margin. EBITDA went from BRL 1.7 billion in 2016 to BRL 84 billion (sic) [BRL 84 million] in 2017. EBITDA margin from 6% down to 0.4%.

What were the major drivers: we had a decline of 14% decline in the volume of livestock which were processed in Brazil. We also, as I mentioned earlier, we divested our operations outside of Brazil which were part of this business unit in 2016. We divested Argentina, Paraguay and Uruguay, our beef slaughter operations in those countries.

The leather business was hit by an increase in global slaughter in 2017. And so, we had a relevant decline in the performance of that business, which is part of this business unit in 2017. We're beginning to see that picking up in 2018, but we saw relevant decline through 2017. And also, we had some non-recurring expenses related with issues in this business unit in Brazil in 2017.

Now to speak about our businesses outside of Brazil, I will hand you on to André Nogueira. André?

André Nogueira de Souza {BIO 20244486 <GO>}

Thank you, Jerry. Good morning, everyone. Let's first talk about JBS USA Beef. The unit that includes our operation in beef in U.S., Canada, Australia, our lamb business in Australia and our prepared food business in Australia and New Zealand.

Net revenue for that business achieved $21.6 billion for 2016, a growth of 5.4%. Organic growth that was part in volume and part from price. EBITDA achieved $1.3 billion for the period, 6% margin, a growth of 177%. The highlights for 2017 the beef units was the growth in EBITDA of 177% increase, increase in demand in the domestic and international markets and increase in beef price.

Growing availability of cattle in the U.S. and Canada. In Australia, industry-wide limited availability of cattle throughout the year affected the company' performance. So, Australia business continue to recover – the herd on the Australia continue to recover. We expect that we're going to have a better 2018 compared to 2017, will not be in the full potential for Australia yet. Primo Smallgoods, which operates in the prepared food segments continue to improve. The Primo brands continue to gain market share in Australia and New Zealand.

Talk about our JBS USA Pork, that's the fresh pork business in U.S. and the prepared food with the Plumrose acquisition. Net revenue for that unit achieved BRL 6.2 billion for 2017, a growth of 16.2% again part of this organic growth and part of this was acquisition in that period of Plumrose. EBITDA achieved 12.6%, $779 million in 2017.

Our highlights for that business unit was increase in revenue was driven by growth in the demand for pork in domestic and international markets and by the Plumrose acquisition. Despite of increase in domestic market competitiveness with the two new plants that are opened, EBITDA margin increased from 11.5% in 2016 to 12.6% in 2017. Our relentless focus in operational efficiency as well as the decision to diversify into high value-added products was reflected in the excellent results. We've fully implement our operational model in the two new plants that we acquired and improved the margins by 500 basis points since the acquisition.

In January, we announced a new management team that will lead our Plumrose and our prepared food business in the U.S. We hired Tom Lopez, that was previously President of two businesses inside of Kraft-Heinz.

Pilgrim's Pride, net revenue was $10.7 billion for 2017, a growth of 9%. EBITDA, $1.38 billion for 2017 with 12.9% margins. The highlights in the page 22, net revenue increased in all regions, Mexico, U.S. and Europe. Growth was 34.8% in EBITDA with EBITDA margin increased from 10.4% in 2016 to 12.9% in 2017. PPC completed several strategic investments during the year that contributed to positioning the company as a leader in the production of organic chicken, focused its operation on the enhancement of its relationship with key customers, differentiated its brand and product portfolio and improved its margin profile. The integration of GNP is going very well. Margins have improved by over 600 basis points as we apply our operational method.

With that, I'll turn back to Tomazoni.

Gilberto Tomazoni {BIO 2090061 <GO>}

Thank you, André. As we look to the future, we view global protein demand is predicted to steadily increase through 2030. The company's global diversified production platform and product portfolio are perfectly aligned to meet the growth demand. Projected growth in beef, pork, poultry and lamb demand over the next decade should create significant growth opportunity for the company.

Importantly, in 2017, JBS appointed Al Almanza, former U.S. Under Secretary for Food Safety as our Global Head of Food Safety and Quality Assurance. Almanza spent nearly 40 years with the USDA, and he is a global recognized expert on food safety in international market access for meat and poultry. Under Al Almanza's leadership, the company is establishing JBS as the global reference for food safety and quality.

Innovation is part of our culture. JBS constantly strives to anticipate customer needs in meat, the involvement and expectation in preference of the consumers. We will continue to integrate recent investments that have expanded our prepared food capabilities and leverage our major stake in this core technology, which provides to the company direct access to a state-of-the-art robotics, focus on improving efficiency and reduce costs.

In the next slide, we talk about our long-term strategy. We never change our long-term strategy. Our main strategy is to build our global diversified production and distribution platform, while increase our focus on value-added products, we recognize as consumer brands.

Our priorities or the company priorities, we have five priorities. First, continuous focus on operational efficiency, organic growth, investments in innovation, deleverage the company. We have targeted for 2018 lower than 3 times and 2019 around 2 times and implementation of the world-class Compliance Program.

I think now, we can, as for the operator, we are ready to begin the question-and-answer section.

[09PT62-E Jerry O'Callaghan]

Yeah. Tomazoni, thank you. Operator?

Q&A

Operator

Ladies and gentlemen, we will now begin the question-and-answer session. Our first question comes from Bryan Hunt with Wells Fargo.

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

Hi, Bryan. I don't think Bryan is on the line.

Operator

Bryan is not on the line.

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

I think Bryan is back on the line.

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

Can you hear me, Jerry?

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

Now we can hear you, Bryan.

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

Okay, very good. So, thank you for your time. And when you look at your leverage target for 2018 below 3 times, can you talk about the process of getting there? Is it a combination of EBTIDA growth and actual debt reduction on a gross basis or will you all continue to build cash on the balance sheet?

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

Bryan, it will be a combination of EBITDA growth and payments of the debt. We're very confident in our free cash flow generation for 2018, especially the operations outside of Brazil. And for that we believe that we can pay down the debt in a more aggressive way to achieve these levers that we're talking about. I think that we have a lot of cash in our balance sheet, the way that we finished the year in a comfortable level. So, I do not assume that they're going to continue to build up cash. We already have a very possible level in the cash. So, I think that the free cash flow will be used to pay down the short-term debt and the more expense debt.

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

Very good. My next question is, and sticking to debt. When you look at your debt balance, only 5% of it's in reals now. I mean, what's the optimal balance? It seems like, when I balance that in between reals and U.S. dollars, it's extremely low. Again, do you foresee paying down more reals debt relative to U.S. dollar debt going forward?

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

Bryan, sorry. This is André. I think that the balance between the reals and dollar is okay consider where the company generates your revenues in reals and dollar, but remember that Brazil have a lot of debt that is in dollar because Brazil have a lot of export. So I think that the balance between reals and dollar, it's okay. We'll continue to pay down debt in Brazil, because we continue to have more debt in Brazil in a proportional way than what we have outside. We don't have any relevant maturities outside of Brazil. So, we anticipate that the free cash flow, a relevant part of the free cash flow that will be generated will pay down debt in Brazil. Not necessarily debt in reals because Brazil have a lot of other debt that are dollar-based, like the operation like ACC in Brazil and pre-export finance are all dollar based.

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

Remember, just, Bryan, just to add to André's comments, we're probably the largest exporter out of Brazil. We export more than $7 billion per annum out of Brazil. And particularly with where interest rates were in Brazil until recently, by far the most efficient manner of financing our working capital was by using these dollar denominated lines against exports. So, although the debt is skewed in dollars, it's to a great extent the portion of it in Brazil, it's because we're such relevant exporters and it was the most efficient manner to finance our working capital in Brazil.

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

And then a last question, and I'll hand it off. I can appreciate your time. When you look at the recent wildfires and other weather issues in Australia, did you all experience any direct impact from that? And if so, is there any way you can put some numbers around it for Q1?

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

No, Bryan. The direct impact of that fire in Australia in our operation was not in any area that's relevant for production. It's kind of the other way around and the big area that produce scale in Australia has a lot of rain, the grass is in great shape. So, the farmers, the ranchers there are continue to retain, care and grow their herds. So, if you pick areas in Australia that are relevant for cattle production, then most of that are in pretty good shape.

We have one specific event that will impact the industry in Australia a little bit. There is one big plant of a big competitor that was destroyed by a fire. So, this probably calls some unbalance for a period of time, but that for the industry overall, unfortunately for that competitor is negative for the industry overall. It's got some benefits from that.

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

Very good. I'll hand it off. And best of luck.

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

Thank you, Bryan.

Operator

Our next question comes from Philip Kendall with BNP.

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

Hey, Philip.

Q - Declan Hanlon {BIO 16465938 <GO>}

Hi, good morning. Hi, Jerry. It's Declan. I have a couple of questions for you. First off, can you update us on the process to have your auditor's financials done on schedule with or without qualifications?

And secondly, can you talk a little bit about some of the information we're receiving that you're close to refinancing your working capital lines? If you can map out what you're expecting in terms of structure there, will it be similar to the last where you had amortization triggers embedded? That would be helpful. Just those two questions for now.

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

Okay. Well, Jerry here, Declan. First question with regard to the audited financials, we published yesterday our financials with a qualified opinion from the auditors. The qualified opinion which is probably you can read it, it's basically with regard to the termination of the investigation which is well-advanced in Brazil. So, our expectations are with the completion of the investigation, we would have an unqualified opinion. I don't want to put a timeline to it, but it's on the horizon, we don't think it is far away. Although I don't want to be precise because it depends on third-parties.

With regard to question two, which is with regard to the continued conversation with the...

Q - Declan Hanlon {BIO 16465938 <GO>}

Backlash (33:49)?

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

Yes. I'm going to hand you over to André Nogueira to talk about that. He's been directly involved in the conversations.

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

So, what you can say at this point that having conversations and the conversations have been very positive. The banks, the core group of banks have been very supportive. And I think that we are very close to have a final position on that. I don't want to comment yet about the structure, but I think that we're very close to have a final position on that.

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

Operator, if you're there, I think we lost the line. Did you get all of that, Declan?

Q - Declan Hanlon {BIO 16465938 <GO>}

Actually, the line dropped, Jerry. Shortly after André started speaking. So, we're having some – from my side, we didn't hear anything.

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

We'll repeat it.

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

I was telling that we had a very positive conversation. We're having very positive conversations with the core group of banks. The banks have been very supportive. We're well advanced in the discussion. And I think that we're going to be in a position to announce something soon. I don't want to anticipate any of the terms because it's still discussing, want to be respectful but we have – the conversation have been extremely positive. That's what I would say at this point.

Q - Declan Hanlon {BIO 16465938 <GO>}

Okay. Thank you. Got that.

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

Thank you, Declan.

Operator

Our next question comes from Isidro Arrieta with Neuberger Berman (35:19).

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

Hi, Isidro (35:25).

Q - Operator

Hey, everyone. Thank you very much. Hi, hi, Jerry how are you?

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

Very good.

Q - Operator

Thank you very much for the call. And I wanted to ask here a few question on the chicken business in Brazil. What are you guys seeing up there? Obviously, the headlines we're seeing on one of the biggest competitors out there, and is there going to be – what are you seeing the impact in Brazil, as probably some of these competitor's exports are at jeopardy here? Thank you.

A - Gilberto Tomazoni {BIO 2090061 <GO>}

The impact in Brazil is in the domestic markets, because in the short-term, we will be having oversupply that will be adjusted in the medium term. But on the other side, we see the opportunity for the exporting market.

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

So, basically I think Isidro (36:17), almost half of what is produced by Seara is export – about half of what is produced is exported. So if there is a disadvantage associated with an oversupply in the domestic market, that implies a short supply on the international market, and we have quite a lot of flexibility. We've had an increased number of our operations in Brazil which have been export accredited. So, basically, it's a question of adjusting our production to that market which is an opportunity, which offsets the oversupply in the domestic market.

A - Gilberto Tomazoni {BIO 2090061 <GO>}

And in medium term, the domestic market will be, I think that will be adjusted by itself.

Q - Operator

Okay. Sorry, Jerry, I think I lost you in the middle of your answer. So if I understood correctly, maybe I missed an important part. The impact that you're seeing on the domestic side and maybe some oversupply, but you can counter that with a better gain in the export in chicken in Brazil?

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

Yeah, that is – we seem to have a problem with the line, but that is, yeah, that is true. Like I mentioned that it's about half and half, domestic and export. So a very relevant portion of the Seara business is in the export market. An increased number of the Seara facilities have been accredited for exports to various markets. And so with the oversupply situation, as you mentioned on the domestic market, that creates an opportunity whereby Seara can direct more products onto the international market.

Q - Operator

Okay. Perfect. Thank you very much.

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

Thank you, Isidro (38:04).

Operator

Our next question comes from Carla Casella, JPMorgan.

Q - Carla Casella {BIO 2215113 <GO>}

Hi. I had a question on trade. Given all the press and the comments around trade with China and then also around NAFTA, are there any updates or thoughts you have regarding potential trade restrictions?

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

Carla, I would call your attention for our page 6, where you see the footprint of JBS and where we sell products. You can see that Asia represents 13% of the total sales in page 5, sorry. So we have a footprint for the company that allowed us to take advantage or mitigate any risks with any trade disruption. The most recent discussion around China, important to remind that if there is a tariff, if that is implemented, 25% imports, China represents 6% of the U.S. export/import, and this export represents around 1% – a little bit more than 1% of the U.S. production imports. So, if you're being taxed, I think that this impact will not be meaningful for the U.S. and there's a high potential for Brazil to get some benefit of that.

NAFTA, we don't see any disruption or we don't expect at the end any disruption. Both Mexico and Canada are very important partners. If in the limit something happen there, probably Canada would take advantage. Australia would take advantage and Brazil will take some advantage. So even the worst case scenario that will have some impact, we have other parts of JBS that will get benefit from that. Again, our base case scenario at NAFTA for the type of business we do, we will continue in the same level that it is today. So we don't work if it's in there for any disruption in that market.

Q - Carla Casella {BIO 2215113 <GO>}

Okay, great. And then, do you have normalized margin ranges that you would look to for the U.S. beef and pork businesses, now that they've changed somewhat over the years in terms of – from M&A and also just you're focused more on value added?

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

Yeah. Carla, I think that we're in the transition mode in each one of this business. No question that any normalizes that we look for the future is higher than what was before because of the diversification, because of the value-added that we put inside of the business, because of the investments, because of the movements in the market. So, all of that impact that the expectation for this year, for next year would be much higher than the original expectation.

But I can say you that we finished 2017, each part of the international part of JBS or other business side of JBS, you saw that we grew EBITDA in each one of the business, beef, pork, and chicken, we grew sales in each one of the business. We had a fantastic year in terms of total performance. We outperformed each competitor in each market that we operate that I'm really proud about what the team was able to deliver. It's not that the market give us the margin, but the way that we performed, the structure that we put in place, the teams that we put in place, the operational system that we put in place allowed JBS to outperform each competitor in each market.

So, having said that, I'll tell you that 2018, we expect that to be even better than it was 2017, not only because we believe that the market dynamics is very strong, but with all the improvement that we are looking, continue to look to – continue to implement inside of the company.

Q - Carla Casella {BIO 2215113 <GO>}

Okay. Thank you.

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

Thank you, Carla.

Operator

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

A - Gilberto Tomazoni {BIO 2090061 <GO>}

The expectation for 2018 are very positive. Even though we are facing challenge in the Brazil, the expecting performance in other business mainly in U.S. more than compensated. We have very positive outlook for 2018 in the coming years. Thank you, everyone, for participating on this call today.

A - [09PT62-E Jerry O'Callaghan]

Thank you. Thank you, Tomazoni.

Operator

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