

Q1 2018 Earnings Call

Company Participants

- André Nogueira de Souza, President & Chief Executive Officer of JBS USA
- Gilberto Tomazoni, Chief Operating Officer
- Jeremiah Alphonsus O'Callaghan, Investor Relations Officer
- Wesley Mendonça Batista Filho, Board Member & President of JBS Operations in South America
- [09PT62-E Jerry O'Callaghan]

Other Participants

- Andrew De Luca, Vice President
- Botir Sharipov, Analyst
- Bryan C. Hunt, Analyst
- Farha Aslam, Analyst
- Guilherme Hagiara, Analyst
- Julia Rizzo, Investment Specialist
- Teo Lasarte, Analyst

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 first quarter of 2018. 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 on this call, we have Mr. Gilberto Tomazoni, Global COO of JBS; Mr. André Nogueira, CEO of JBS USA; Mr. Wesley Batista Filho, CEO of JBS Brazil; 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, ma'am. Thank you. Good morning, everybody, and welcome to this call to discuss our results for the first quarter of 2018. Before I hand you over to Mr. Tomazoni for some opening remarks, I just wanted to mention that we posted a presentation on our website just 10 minutes ago. We've got a disclaimer on that. So please bear that in mind,

and we will make reference to that presentation during our prepared comments here, so we will reference page numbers to facilitate the communication with you. But before we get to the presentation, I would like to hand you over to Mr. Tomazoni for his opening remarks here. Tomazoni?

Gilberto Tomazoni {BIO 2090061 <GO>}

Good morning. Thank you, everyone, to be part of this call. We show now it's a great quarter. Net revenue up almost 6% to BRL 40 billion, EBITDA up more than 40% (sic) [30%] (00:02:09), net income up more than 40%, and leverage was down.

And we are pleased to announce the agreement with the bank in Brazil regardless our debt in Brazil. This show the confidence of the financial institute have demonstrate in the company. I want to point out even that the - our advance in compliance, and Jerry will give you more details later. Jerry, please go through the financial details.

[09PT62-E Jerry O'Callaghan]

Okay, Tomazoni. Thank you, thank you for your comments. So making reference to our presentation and jumping in on slide 5 in our presentation regarding our results, net revenue, as Tomazoni just mentioned, came in at just under BRL 40 billion, BRL 39.8 billion, up 5.8% in relation to the corresponding period last year. Gross margin came in at BRL 5.2 billion, that was up 16.5% in relation to the first quarter of last year, gross margin increasing from 11.8% to 13%.

Moving on to the next page in the presentation, EBITDA, EBITDA came in at BRL 2.8 billion, with an EBITDA margin of 7%, up from 5.7% or BRL 2.14 billion in the same period last year. Net income also up - substantially up 43.5% from BRL 353 million up to BRL 507 million, with earnings per share going from BRL 0.12 per share up to BRL 0.18 per share. With regard to cash flow of page 7 in our presentation. Operational cash flow came in positive BRL 163 million. Free cash flow came in negative, BRL 110 million in the quarter.

Our leverage and our cash position, page 8 in our presentation, our net debt reduced by BRL 2.3 billion when compared with the first quarter of last year. Leverage came down quite substantially quarter-on-quarter from 4.23 times in the first quarter of last year, down to 3.24 times at the end of the first quarter in 2018. Our cash position at the end of the period was BRL 10.8 billion, and if we add to that the \$1.3 billion or BRL 4.3 billion of the committed lines available to JBS in the USA, our total liquidity reached BRL 15.1 billion, which is more than BRL 2 billion above the total short-term debt of the company.

Also on page 8 in our presentation, just briefly to mention, the reduction in short-term debt as a percentage of the net debt of the company, we're down from it being one-third of the total net debt a year ago to 23% at the end of first quarter, 95-plus percent of our debt is in U.S. dollars and 4.7% in Brazilian real. And the cost - the average cost of that debt is 5.58% in dollars and 9.2% in reals.

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Now going to each business unit briefly and going through the presentation by business unit and starting with Seara in Brazil, page 10 in our presentation, revenue is almost flat year-on-year, down 2.7% from BRL 4.08 billion down to BRL 3.97 billion. EBITDA though was up from BRL 216 million up to BRL 330 million, that's 53% increase in EBITDA. EBITDA margin went from 5.3% to 8.3%. The processed products category in Brazil posted an increase of 1.9% in pricing, basically reflecting the company's strategy to prioritize higher value-added products and profitability. We also launched a new marketing campaign for our Seara branded businesses in Brazil just recently at the beginning of this month.

Moving on in our presentation to talk about JBS Brazil, and just to remind everybody who's on the call, JBS Brazil is our Brazilian beef business, our leather and hides business which is primarily in Brazil, but there are some units outside of Brazil, and all of the other related businesses we have which are quite substantial, biodiesel production, collagen production. There are quite a number of other businesses, all of which are part of this business unit. Net revenue came in at BRL 5.91 billion, that was down 4.7% in relation to the same period last year when it came in at BRL 6.2 billion.

EBITDA also was down, negative BRL 92.5 million in the first quarter, with a negative margin of 1.6%, that's down from positive BRL 59 million in the corresponding quarter last year, which was a 1% EBITDA margin then. Number of livestock processed and revenues in Brazil are back to the historical levels and basically in line with the company's processing capacity. We saw pressure on raw material costs mainly in regions where the industry as a whole has increased its processing capacity, relevant increase in some of the states in Brazil.

We're focusing on value-added products and on more profitable export markets. And we're also beginning to observe an improvement in the fundamentals around the leather and the hides operations, which indicate we will see a reversion of the negative trend in margins in that business over the last number of quarters.

Moving on to JBS USA Beef, we saw revenues up almost 3% to \$5.06 billion. Now we will speak in dollars from now on in the presentation, up from \$4.92 billion in the corresponding period last year. EBITDA was - came in strong at \$308 million, up 68% from \$183 million in the corresponding period. EBITDA margin's going from 3.7% to 6.1%. The North America operations, the improvement was driven by the company's focus on product diversification and customer segmentation, by the improvement in the U.S. economy, and by the increasing demand in the international market.

In Australia, we saw an improvement in beef operations in relation to the previous year, although there were still a limitation on improvement due to less availability of cattle in Australia. Primo, which is a market leader in prepared foods in Australia, had relevant operational improvements and better yields in its prepared foods business.

Moving on page 13 in our presentation, JBS USA Pork, we saw revenues up 5%, \$1.46 billion against \$1.39 billion in the previous year. EBITDA was also up \$178 million, up 11.5% in relation to the \$160 million of the first quarter of 2017 EBITDA margin going from 11.4% to 12.1%.

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We saw growth in volume and in revenue in the export market, boosted by selling products into diversified regions, much increased sales into Colombia for instance in South America, and also into the Central American countries on top of the traditional markets like Mexico and Asia, particularly Japan, which are traditional markets for our Pork products. JBS Pork continues to increase its volume and portfolio of higher value-added products in the domestic U.S. market associated with commercial partnerships and with key customers.

We also brought in Mr. Lopez, Tom Lopez, at the beginning of the quarter, he came from Kraft-Heinz and his job is to, together with the team, improve the segment of prepared foods in the U.S. under the Plumrose brand. This is the Plumrose business which JBS USA acquired in May of last year. And obviously he's focusing on synergies in addition to increasing the performance of the Plumrose business.

Our chicken business, Pilgrim's Pride, remember in the U.S. and Mexico and also relevant operations in Europe, we saw revenue increasing 10.8% going from \$2.48 billion up to \$2.75 billion in the comparable periods. EBITDA margin was up also from 9.2% to almost 10%. EBITDA increasing from \$228 million, up to \$272 million, a 19% increase in actual EBITDA. Net revenue of the U.S. operations grew by 6% when compared with the corresponding period last year due to increase in volumes of prepared products and pricing, and that includes obviously the GNP acquisition, which Pilgrim's completed in January of 2017.

In Mexico, operations performed beyond our expectations, mainly due to an increase in volumes and the normalization of that market in the aftermath of the earthquake at the end of 2017. In Europe, the companies already sees positive results from the integration with Moy Park and from the operational improvements that are generating synergies ahead of original expectations.

Couple of other slides to go through before I hand you over for Q&A. Just to cover a couple of non-operational aspects here. We've talked in previous calls about compliance. We hired a Global Compliance Officer, who's been boosting our team out of Brazil in the middle of last year. Just recently, we hired a - we appointed a Head of Ethics and Compliance for our operations outside of Brazil, Lance Kotschwar was appointed to that position. He will lead the code of conduct, whistleblower hotline, global anti-corruption policies, antitrust and competition law, trade compliance and conflict of interest policies, assuring JBS global operations will implement and conduct its business in the highest ethical standards.

We also - having approved our code of - our Global Code of Conduct and Ethics at Board level at the end of March, we launched that code at the beginning of May. There's very relevant internal communication to all of the team around the world. This is a Global Code of Conduct and Ethics contemplating legislation and regulation in all parts of the world where we operate. So we took a lot of time and we put a lot of effort into coming up with a very comprehensive code of conduct and ethics. And we also launched parallel a Business Associate Code of Conduct and Ethics comprising of specific rules for our relationship with vendors and third parties.

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Page 17 in our presentation, we've been raising the bar in food safety and quality assurance. We pay a lot of attention to this. JBS has been a global standard bearer for food safety and quality assurance, Alfred Almanza, whom we appointed from his very long experience at the USDA, he's our Global Head of Food Safety and Quality Assurance. He's been traveling the globe and meeting with government officials in several countries to stress JBS' ongoing commitment to food safety and quality assurance.

We have a food safety and quality assurance team, a global team coordinating the best global practices in all our business units around the world. Also to reinforce that team, Ann Knapp, a former government contractor for multiple agencies in the USDA, joined that team to strengthen that team recently and joined us earlier this year. And we've also been working very hard on standardizing our lab tests around the world and improving our relationship with service providers in this category.

Just finally before we hand you over for our Q&A session, just a little bit about Seara recently launched a national campaign in Brazil associated with the Seara portfolio of products where quality is the keyword, basically this campaign is very visible in Brazil across all of the media channels in Brazil. We've also seen at Pilgrim's in the U.S. relevant investments in the brand, which is called Just Bare, Just Bare Chicken, Just Bare brand in the U.S. There's been relevant growth online - in online sales with Amazon under this brand. Just Bare is outpacing the growth of AmazonFresh products generally, and it's in the list of the top 50 best brands of Amazon. And we're also supplying Just Bare to traditional retailers national - nationwide, excuse me, nationwide in the U.S.

So just to run through the priorities briefly for JBS going forward here, page 20 in our presentation, I'm speaking in the name of Tomazoni here: a continuous focus on operational efficiency, basically these are the pillars which we are focused upon across all our operations; organic growth, organic growth through increased utilization of capacity and also through improved product mix; investments in innovation and quality. We are tireless in our investments across all the geographies and in innovation and quality; deleveraging, we mentioned in our previous call, our goal to be under 3 times leverage by the end of 2018 and to be around 2 times leverage by the end of next year, 2019. We continue to focus on that; and as I mentioned, we've put a lot of effort into being a world-class global compliance program across our businesses around the world.

So with that, that completes our prepared remarks today. We would like to open for questions-and-answers, please. Thank you.

Q&A

Operator

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

Q - Farha Aslam {BIO 6151888 <GO>}

Hi, good morning.

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A - Gilberto Tomazoni {BIO 2090061 <GO>}

Hi, Farha.

Q - Farha Aslam {BIO 6151888 <GO>}

Your Pork...

A - Gilberto Tomazoni {BIO 2090061 <GO>}

Good morning.

Q - Farha Aslam {BIO 6151888 <GO>}

Good morning. Your Pork results were quite notable, especially given you have new pork slaughter capacity opening up in the U.S. Could you share with us any exchanges in sourcing that you made that allowed you to get the results that you got and your outlook for that business, particularly any color you could provide about hog availability versus slaughter capacity in the U.S.?

A - Gilberto Tomazoni {BIO 2090061 <GO>}

André?

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

Hi, Farha. Good morning. No change in any supply of hogs for us. We have the same balance that we had before. We have a pretty good mix in terms of how we source hogs. We have a piece of (00:20:22) that's our own production. We have a piece that is based in some form of base in grain (00:20:27) price, have some piece that's based in future of hogs and we buy hogs in the market. So we are pretty happy with the diversification of the mix, how we source the hogs, and how we price the hogs.

I think that our team are doing a fantastic job in terms of operational excellence, Farha. Our cost of production per hog this year is below how was last year despite of our inflation, despite we have been raising compensation, especially for hourly employee way ahead of this shortage of labor in U.S. and start to do that four years ago. So despite of all this, we finished the quarter with a cost per head that was lower than last year. As you know, we integrated - finished the integration of the plant that we acquire. We capture all the synergies that we plan. In fact, we capture a little bit more. Our export continued to perform extremely well.

And as you know, we now have a piece that is prepared foods inside of the Pork business, with Plumrose in, it's the bacon operation, that are performed in a very strong way. So our absolute support, we think that (00:21:50) in terms of supply and demand being a good balance, despite of the new production that you are aware, I think that the hog produce have been growing, the herd in U.S. ahead of this growth of capacity (00:22:10). So I think that will be a good balance. The big question for the future is, if you had to be able to continue to grow exports to absorb this new production, and this is a fair question until

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now. It's working well, the rest is growing exports, probably not the feed (00:22:29) that should be, that I think that's more a question of time.

I think the demand will be there, I think that U.S. is extremely competitive. For our business, as we anticipate last quarter, we think that will be a stronger year for our Pork business. I think that we will continue to be double-digit margins for the year. We do not anticipate that to be as strong as it was last year. So I think that we're a little bit less than last year, but still in the double-digit margins.

Q - Farha Aslam {BIO 6151888 <GO>}

That's helpful. And just as a follow-up on U.S. Beef, currently you have very ample supplies of beef and very high processing margins. Could you share with us your outlook for the cattle supply, particularly given that we're seeing dry weather in the West and we're starting to hear about cows going to slaughter, any concern about cattle supplies going into next year?

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

No, not at all. I think that the cattle supply for next few years are already done in reality. Cattle supply for the next two, three years are already done, with the amount of cow herd that we have in place, we would not see any relevant cow liquidation or half our (00:23:49) liquidation. I think that you have expand the pretty strong base in the last two, three years. I don't think that they're going to continue to expand the herd in the same pace. I think that would be stable, but we do not anticipate any liquidation.

Margin's profitability continue to be pretty strong in the whole chain of the cow-calf producer for the feedlots and for the packing industry. So I think that the supply for the next two, three years is done. If we stop to grow the herd, then we'll be stable. We will continue to grow production next year. I think that production this year will be 2%, 3% higher than last year, and another 2% for next year and probably stable for 2020. I don't anticipate - I'm not seeing and do not anticipate any relevant liquidation. I think that the margin will be pretty strong, U.S. North America demand is very strong, that's both Mexico, U.S., and Canada, export is doing extremely well. We grew our export last quarter, 21% in sales. So I think that's fair good supply of cattle for this year from a foreseeable future and a great demand both inside of U.S. and in all the country that we export.

Q - Farha Aslam {BIO 6151888 <GO>}

That's helpful. Thank you.

A - Gilberto Tomazoni {BIO 2090061 <GO>}

Thank you, Farha.

Operator

Our next question comes from Teo Lasarte with Insight Investment.

Q - Teo Lasarte {BIO 15017626 <GO>}

Hello. I was wondering if you can comment a bit on what you see the outlook for Brazil beef (00:25:43), first of all, given the moves in FX, but also what you've said about level of competition.

A - Wesley Mendonça Batista Filho

Yes, Teo. So, Teo, this is Wesley. So what we've been seeing is, our volumes are back at the same level as what we had last year. So volume-wise and efficiency-wise, we are - we're back at our normal volume, our - the volume of our plants, the capacity of our plants. But as we mentioned in the release, we see increased competition in some states, especially home loan (00:26:21) in Mato Grosso in the north of Brazil. Those states we saw a significant increase in competition for cattle procurement.

We see that competition staying in the medium term. We don't see any changes to that, but we see a few other things that are improving in the market that makes us a little bit more optimistic. So we have the leather business in Brazil, which is - had a relevant effect on - a negative effect on our results for this business unit, we see that coming back. We see the positive signs in the future. We also see export demand in some of the main markets, so China has been very strong for us, and see some of the Middle Eastern countries as well. Europe as well has been very strong for us. So we're focusing very much so on those markets, and with the currency here in Brazil, that's going to support the exporting of more beef out of Brazil.

And in the domestic market where we've been focusing a lot on further value-added products, so on one hand, through our brands and different types of beef here in Brazil, but also on our processed beef, so burgers and patties and all of that, we're seeing a good margin and good improvement there. So summarizing cattle supply and cattle competition for cattle procurement in the medium term, tough, but we see an upside on the export and further value-added products here in Brazil.

Q - Teo Lasarte {BIO 15017626 <GO>}

Okay. That's helpful. And so we've seen then Q1 of this year as being kind of the trough in terms of Brazil margins. Do you think you have another couple of difficult quarters to go before we see an improvement?

A - Wesley Mendonça Batista Filho

No, we see that we have more positive signs in the future like I mentioned before, not necessarily that it's going to come back very - right now to the normalized margin that we expect out of this business, but we're working hard to bring it back to a more normalized level in the future here.

Q - Teo Lasarte {BIO 15017626 <GO>}

Okay. Thank you.

A - Gilberto Tomazoni {BIO 2090061 <GO>}

Thank you, Teo.

Operator

Our next question comes from Guilherme Haguiara with UBS.

Q - Guilherme Haguiara {BIO 18467376 <GO>}

Hi.

A - Gilberto Tomazoni {BIO 2090061 <GO>}

Hi, Guilherme.

Q - Guilherme Haguiara {BIO 18467376 <GO>}

Good morning. Thanks for taking my questions. I have a couple of questions here. The first one, a follow-up on JBS Brazil, we have seen another quarter of negative EBITDA margin, and we appreciate your comments on some type of (00:29:22) cost pressure. But we were wondering if you could provide us some color on how was the margin progression through the quarter, I mean, where we left off by end March? And what are your expectations for the remaining of the year, and if you're seeing the strict (00:29:42) capacity adjustments following this cost pressure?

And my second one would be on below your operating line, we saw a positive contribution from the income tax line supporting your strong net profit growth, despite a lower pre-tax profit year-over-year. And we're just wondering what drove this positive income tax effect in the P&L? And what should we expect our effective tax rate should be in this year and on a more normalized basis going forward?

A - Wesley Mendonça Batista Filho

So I will speak here about the follow-up question on Brazil. So, we don't disclose the month-by-month margin, but the trend is more positive on the end of the quarter than at the beginning of the quarter. So we see a positive trend here in the future. Now when we talk about adjustment, we've seen nothing very relevant on capacity adjustment to be in line with the cattle supply. But we - what we are seeing is that on our side especially is we have been adjusting, we're in line with the same slaughter (00:31:07) as same processing rate as last - the same time last year, but we are adjusting within our plants. We have increased in the production in plants to have more approvals for exports, and then we have reduced for example plants that have more commodity mix. And so we have been changing the mix of plants that we have been producing, that's a huge focus of ours as well.

Q - Guilherme Haguiara {BIO 18467376 <GO>}

Regarding another question on tax, the improvement in the tax rate at JBS SA is due to the fact that JBS Brazil incurred losses, so that improved the tax rate, and obviously there was a new tax regime in the U.S. also which is quite relevant towards our business. I don't know if André wants to make any comment about the tax in the U.S. André?

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A - Gilberto Tomazoni {BIO 2090061 <GO>}

Hey, Jerry. I think that...

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

Hey, Jerry. No, no, no, no big comments, it is just the change in the regime that represents that the tax rate and you're asking (00:32:21) from 34% to 21%. And we represent for us in the consolidated basis \$200 million in savings for the (00:32:33).

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

Okay. Thank you.

Q - Guilherme Hagiara {BIO 18467376 <GO>}

Okay. Thanks, that's clear. Thank you for your answers.

A - Gilberto Tomazoni {BIO 2090061 <GO>}

Thank you, Guilherme.

Operator

Our next question comes from Andrew De Luca with Barclays.

Q - Andrew De Luca {BIO 18025129 <GO>}

Hi. Good morning and congrats on getting the bank negotiation completed. I just had a quick question on that, you mentioned that you've rolled 78% of that debt for three years. Can you just provide us with an update for the remaining 22%?

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

The remaining debt, it will be decided upon in bilateral conversations and negotiations with the other banks that were not involved in the package, the normalization package that we announced.

Q - Andrew De Luca {BIO 18025129 <GO>}

Thanks, Jerry. And those are also set to expire in July of this month?

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

In principle, yes. But obviously there are ongoing conversations with all of these financial institutions well before the deadline.

Q - Andrew De Luca {BIO 18025129 <GO>}

Sure. Sure. And then just on the debt that was rolled, can you let us know if there - I remember under the previous extension, there were leverage targets that you had to

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meet, 3.5 times by year-end 2018 and 3 times by year-end 2019, I believe. Are those still there or have those been revised?

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

Those have been revised, Andrew. Those have been revised. André, did you want to comment on that?

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

Yes. We are now much closer to what is in the bonds level with the same leverage language (00:34:10) that is in the bond, so there is no covenant (00:34:16) full covenant, so giving the company much more flexibility than the previous covenants there.

Q - Andrew De Luca {BIO 18025129 <GO>}

Great. Thanks, André. Thanks, Jerry.

Operator

Our next question comes from Bryan Hunt with Wells Fargo.

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

Thanks for your time. My first question is considering (00:34:41) on the balance sheet question that was just asked. You're considering that you've got your short-term debt issues in Brazil settled. When you think about reaching your leverage targets of 3 times, it seems that you would begin to pay down debt in pockets in regions where you haven't in the past, like the U.S. Could you just talk about how you plan on achieving your 3 times this year and your 2 times next year?

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

Bryan, obviously there are two manners of reaching the leverage target, increasing EBITDA. There are good indications for a strong year, and generating cash to pay down debt. We will look across all the geographies where we have debt expiring that can be - that is payable, that is callable, to focus on the most expensive debt by region and pay down that debt in order to reach those leverage targets.

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

Thank you. My next question is with your new executive from Kraft-Heinz, looking at Primrose (sic) [Plumrose] (00:35:58) and garnering additional synergies, can you talk about his initial evaluations and what additional synergies he's found so far?

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

André, I think you wanted to make a comment, André, about leverage. And then can you take up that question as well, please?

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

Yeah. So about the leverage, so the agreement with the banks in Brazil is that the lines of credit will be guaranteed for three years, but there's no panouts (00:36:26) for us to pay or accelerate that payment, so that can be paid faster. And as Jerry pointed very well, we look in each region what's the most efficient use and probably pay that in all the regions that we have operations. So they constituted the amount of free cash flow that we expect to generate in the next one and two years.

About Plumrose, not only the executive, we have a full team in Plumrose now. So Tom Lopez already set up, we have a new Head of Operation and new Head of Marketing and new Head of Innovation. So we have a full team in Plumrose that are reviewing the plan and put a very aggressive plan for growth and for increasing margins. I think that's a little bit too early to put any target on that. The team is now more (00:37:19) than less than two months. But we're very excited for the quality of the team that we've put in place, and we are very excited with the improvement that you saw in these two months that the team has worked together.

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

And then my last question is, Pilgrim's on their conference call talked about new automation that they're putting in place in light of the tightening labor markets in the United States. Can you comment on anything you might be doing on the JB (sic) [JBS] (00:37:48) USA to shield yourself from shortage in labor as well as escalating labor rates? That's it for me. Thank you.

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

So, Brian, I think that the labor is a big topic of conversation. It's a big topic of conversation in U.S. I'm very happy with the improvement that we did. I can tell you that our turnover rates in U.S. for the first quarter of this year, it's lower than last year despite of all the tightening in the labor market, I think that we saw that coming. We prepare ourselves for that. We have the best turnover ever in the company, in the management team, supervisor up, and even the hourly turnover is lower than it was for the company combined U.S. than it was in the first quarter of last year.

So the first thing is, stay in the right level. Just a little bit ahead of the competition, have the right management team in place, that's the most important thing to face the tight labor market in U.S. On top of that, the investment that we are doing, as you know with the partnership and the ownership that we have in the squad (00:39:12), we have a lot of projects in place. I think that probably in chicken is - the projects can deliver results faster, while the technology is more close to be available and deliver the yield that needs to be delivered.

In the other business, you have more that is not a full technology that you can implement but in (00:39:37). The Scott Technology just did acquisition of a company that will help us to accelerate the improvement and the technology in the back of the plan, it's a German company that they did the acquisition a few months ago, and we will continue to invest in

that, invest in Scott and invest at Scott help the whole JBS to improve the use of the technology to reduce labor.

But for this year, for next year is much more treat the labor in the right way, all the investment that JBS did in the last several years at the facility level, in parking lots, in restrooms, in the cafeteria, all the investment that we put technology spend (00:40:28) are now paying off, but I think that we are way ahead of our competition in all these things that matter for the elderly people, and that's why we are seeing that despite of a very tough labor market, our turnover was lower this year than it was last year.

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

Thank you for your time.

Operator

Our next question comes from Botir Sharipov with HSBC.

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

Good morning, Botir.

Q - Botir Sharipov {BIO 16759043 <GO>}

Hi, Jerry and the team (00:41:01), hi, Jerry, how are you? Hi, everyone. I'm asking couple of questions on behalf of Carlos Laboy. Jerry, are you going still on track to start preparing for the new stock exchange listing later this year, I guess? And do you see the DoJ, CVM and forensics audits in the rearview mirror at some point in the second half of this year? That's my first question.

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

Okay. So, Botir, with regards to the events that you mentioned, all of those events are progressing (00:41:37). The question with the authorities in Brazil and in the U.S., there was good dialogue and we are progressing with all of these matters, and the conclusion of those issues will determine us going to the market already (00:42:02) and eventual IPO process will be conditional to how all of these events progress, but I can tell you, they're progressing well within the timeline that we expected, and we don't expect to see any reversion of those spends (00:42:21) until we're in a situation where we can make a decision about the IPO prospect.

Q - Botir Sharipov {BIO 16759043 <GO>}

Right. But I guess as far as the internal plan is concerned, are your expectations to be done with those, hopefully all of those investigations, may be before the end of the year and next few months? Would that be a fair assumption?

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

It's difficult for us to determine a timeline. But like I said, everything is progressing well towards a satisfactory conclusion. And our expectations are that (00:42:51) by the end of this year.

Q - Botir Sharipov {BIO 16759043 <GO>}

Okay, perfect. Thank you. And I guess the second question would be on a similar topic. Is the BNDES in your view kind of still resistant to the full New York stock exchange listing as you originally contemplated? Or were they sufficiently appeased, so to speak, but in terms of the restrictions that you guys have - you have to implement or you have done so far?

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

No, the BNDES is a relevant shareholder of the company, and there was the shareholders' agreement, which is a public document, and obviously all of the shareholders including the BNDES are interested in seeing the enhancement of the value of the company, and we feel that everybody would support (00:43:42) to unlock value, and we believe that listing process outside of Brazil would definitely be an event which would unlock relevant value.

Q - Botir Sharipov {BIO 16759043 <GO>}

Perfect. Thank you so much.

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

Thank you, Botir.

Operator

Our next question comes from Julia Rizzo with HDI Capital.

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

Hi, Julia.

Q - Julia Rizzo {BIO 15354725 <GO>}

Hi. Thank you very much for - hello, how are you doing, Jerry? My question (00:44:10) an update on how much exports represent from each of the business, especially in Brazil and Seara?

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

Seara is 50% of the revenue, and the Beef is around 40%.

Q - Julia Rizzo {BIO 15354725 <GO>}

And in the U.S., can you give me an update as well?

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

André, could you help?

Q - Julia Rizzo {BIO 15354725 <GO>}

For billings and the (00:44:41) Beef?

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

Beef export's around 18%, for (00:44:48), it's less than that around 10% is export, and Pork is around 15%.

Q - Julia Rizzo {BIO 15354725 <GO>}

Okay. André, can you give me a little bit of an update on the Beef? What is your outlook for margins for this year? I understand that first Q is not the best Q for the company. And also since exports are growing that much for U.S. overall proteins, from who are you taking shares and how much you think that's sustainable?

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

So normally, in Beef, the first quarter - or for the company overall outside of Brazil, the first quarter is a weaker quarter, and I believe that this year will be the same. The first quarter will be the weakest quarter, and that the margin will increase in the Beef, and the second and third quarter will be pretty strong margins from the historical level, probably the record quarter for the historical level in the second and third quarter, and lot of scale available, good demand in the domestic market and very good demand in exports.

I'm not sure for taking share from anyone. I think that's just more demand, demand is growing. If you look the cows (00:46:04) that we grew more export in Beef, it's Japan, it's South Korea, it's Mexico, it's China, I think that is just growth demand probably for Japan, South Korea, and China, it's replacing domestic production. I think that if you look domestic production in Japan, South Korea, and China, all went down during this time. So I think that's replacing domestic production. We are not taking market share of Australia. Australia continued to be pretty strong in all those markets, it's just more demand and lower domestic production.

Q - Julia Rizzo {BIO 15354725 <GO>}

One last question, do you have anything that would prohibit the company to do more M&As this year, especially using other vehicles, perhaps Pilgrim's?

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

Could you repeat that question? I'm not sure if I understood the question.

Q - Julia Rizzo {BIO 15354725 <GO>}

Is there anything that would avoid making the company because of the holdouts or the leveraging target goals that would make the company less willing to do M&A

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opportunities around?

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

I think that Tomazoni commented...

A - Gilberto Tomazoni {BIO 2090061 <GO>}

Yes.

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

...the priority for the whole company is to deleverage inorganic growth. So for the whole JBS, we are not looking acquisitions. There was a different situation period that upgrade (00:47:37) company that to do what's the best for the comps, so if they have the right opportunity in place, if they have - I think that they have the financial capability to do (00:47:46) what makes sense for Pilgrim's. So Pilgrim's is a different story inside of JBS. For the whole company, we are looking for organic growth, and we're looking for deleverage for their clear targets just to below 3 times at the end of this year and around 2 times for the end of next year.

Q - Julia Rizzo {BIO 15354725 <GO>}

Thank you.

A - Gilberto Tomazoni {BIO 2090061 <GO>}

Thank you, Julia.

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>}

Thank you, everyone, to be part of this call, and I hope we can deliver next quarter good results like this quarter. Thank you.

Operator

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

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