Y 2014 Earnings Call

Company Participants

- Andre Nogueira, Chief Executive Officer
- Jeremiah Alphonsus O'Callaghan, Investor Relations Director and Member of the Executive Board
- Wesley Mendonca Batista, Global Chief Executive Officer

Other Participants

- Alan Alanis, Analyst
- Alexander Lin, Analyst
- Bryan Hunt, Analyst
- Farha Aslam, Analyst
- Jose Yordan, Analyst
- Pedro Leduc, Analyst

Presentation

Operator

Good morning everyone and welcome to JBS Conference Call. During this call, we will present and analyze the results for the fourth quarter of 2014 and for the year of 2014. As requested by JBS this event is being recorded. The recording will be available to listeners this afternoon and can be accessed by following instructions posted on the company's website at www.jbs.com.br/ir. Taking part on this call, we have Mr. Wesley Batista, Global CEO of JBS; Mr. Andre Nogueira, CEO of JBS USA; Mr. Gilberto Tomazoni, CEO of JBS Foods; Mr. Miguel Gularte, CEO of JBS Mercosul and Mr. Jerry O'Callaghan, Investor Relations Officer.

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

Wesley Mendonca Batista {BIO 15243148 <GO>}

Thank you, good morning to you all. Thank you very much for your participation on this conference call. In which, we will present the results of the fourth quarter and the year of 2014. Before moving forward, I would like to specially thank our more than 215,000 team members as this is only because of them, that we have been able to achieve better and better results every quarter and every year.

These people not only dedicate themselves daily to their success of the company and made a difference, whatever they are, but also keep the spirit of our culture and values alive. I would like also to specially thank all of our shareholders, bondholders and stakeholders, who have always believe and continue to believe in our company. Thank you very much. All of thank you very much all of you. Before going into details more about -- sorry before going into details about our results, I'd like to make a short summary of what we have achieved over the -- in the past few years. Over the last 10 years, we have made transformational movements following internationally acquisition and expansion strategy. These movements where -- we thought about very bold and have resulted in a significant growth of our company. Movements that sometimes did not follow market consensus and may have seemed impossible to achieve, but because our reality, but became a reality only because of a lot of hard work, dedication, competence, our successful strategy and of this spectacular team that we have.

In all of our history of more than 60 years since JBS was created in 1953 by my father, Jose Batista Sobrinho, who donates the initials of his name to the company's name. We have been -- always been faithful to our convictions, convictions that have leaders to perform all of these transformational movements, as we have said before -- as I have said before. Today, when I look back at all that we have done, we are very proud to say that we were able -- we were capable of taking unique opportunities that in our opinion, we will not see again at least for the next decade.

In addition, we were able to put together a spectacular team with absolutely focused on execution and search for excellence. Our process of internationalization the company has been very successful, we took the opportunity of being in the most favorite movement that our corporate account has experienced over the past last decade, when our currency was overvalued between 2007 and 2010, we acquired high potential companies overseas at attractive price, but we were going through difficult times.

Now, as we see our recover in the North American economy and the appreciation of the US dollar, we are clearly in a privileged position, in which our assets overseas are significantly increasing the value. In addition, approximately 80% of our revenue and our cash generation are denominated in US dollars. Nevertheless, none of these would have been possible without the commitment and dedication of all of our team members and the support of our shareholders and bondholders, who have always giving us their trust and believe in our company. To all of them, thank you very much.

Now, I will turn the call to Jere to go through our fourth quarter results and our annual results. Thank you very much.

Jeremiah Alphonsus O'Callaghan

Thank you, Wesley. Thank you very much once again. Good morning and thank you for being on the line with us. So I will make reference to our presentation as I go through the results and I would like you if possible for you to accompany me as I go through page by page. I will mention the page numbers, starting with the disclaimer on page two of our presentation, which I request as you read please as you go forward.

Firstly, page four of our presentation talking about our consolidated results in the fourth quarter of 2014, we had revenues of just R$34.3 billion that was up 26% from the R$27.2 billion in the fourth quarter of the previous year. On an annual basis, our revenue grew from R$92.9 billion in 2013 to almost R$120.5 billion in 2014 and a gain of just under 30% year-on-year.

When we look at our gross profit, firstly for the quarter and then for the year, our gross profit went from R$3.7 billion in the fourth quarter of 2013 to R$5.4 billion in the fourth quarter of 2014, an increase of 45.7%. And our gross margin went from 13.7% to 15.8%. On an annual basis, our gross profit went from R$11.84 billion to R$18.67 billion, 57.6% increase. And our gross profit margin year-over-year went from 12.8% to 15.5%.

Moving on to EBITDA, and firstly for the quarter again. Our EBITDA for the fourth quarter of 2014 was R$3.29 billion an increase of 75.6% from the R$1.87 billion at the end of 2000 -- the last quarter of 2013. Looking at it on an annual basis, our EBITDA on an annual basis, we went from -- excuse me, R$6.13 billion in 2013 to a R$11.1 billion in 2014, that is an increase of 81% year-on-year absolute EBITDA. EBITDA margin went from 6.6% to 9.2%. And then finally, on a consolidated basis speaking of our net income, net income for the quarter was just under R$620 million, 340% above the net income for the last quarter of 2013, which was R$49 million. On an annual basis, our net income went from R$927 million to just over R$2 billion an increase of 120% year-on-year, earnings per share went from R$323 per lot of a thousand shares to R$706 per lot of a thousand shares.

Now on page 5 of our presentation, just to mention a couple of the financial highlights of the company. Net operating cash generation very substantial increase quarter-on-quarter from R$355 million in the fourth quarter of 2013 to R$5.32 billion in the fourth quarter of 2014, an increase of 1,400%. Looking at it on an annual basis, operating cash went from R$2.54 billion to just under R$9 billion an increase of 254% a year-on-year, taking that the year as a whole and then free cash -- free cash in the fourth quarter of 2014, was R$3.67 billion and we had negative cash generation -- free cash generation in the fourth quarter of 2013.

On an annual basis, free cash went from R$635 million in 2013 to R$4.7 billion in 2014. On to net debt and leverage, our net debt at the end of 2014 stable in relation to the third quarter was up R$25.2 billion, but leverage declined quite substantially. If we look at leverage on a quarter-by-quarter basis it declined from 3.7 times at the end of 2013 and we gradually reduced its quarter-on-quarter, we were just above 2 times at the end of 2010 and '14.

And finally, on page 5, regarding debt. Our net debt in US dollars, so we've taken our net debt at the end of each quarter over the last four quarters, and if we look at, just from the third to the fourth quarter of 2014. Our net debt declined by $1 billion quarter-on-quarter $1 billion less.

On page 6, to highlight the percentage of our revenue and EBITDA, which is generated in US dollars, we have a breakdown of our revenues at the top of page 6, JBS USA represent 66% of our revenues, JBS Mercosul, which is our beef and related businesses in South

America 23% and JBS Foods 11%, but if we take the JBS Mercosul business and the JBS Foods business, which have a big percentage of their sales generated through exports and we've broken that down in the pie charts on page 6, 83% of our revenues are in US dollars and 17% in reais.

And then looking at our EBITDA 59% of our EBITDA is generated at JBS USA, 22% of JBS Mercosul, 19% JBS Foods, but again doing a calculation across the percentages of revenues that are generated in the exports. Our EBITDA would have been just under 80% in US dollars and just over 20% in reais for 2014. So with 83% of our net revenue and 79% of our EBITDA linked to the US dollar, the strengthening of this currency is highly -- highly positive for the performance of JBS.

On page 7, we list the 10 priorities for our business in 2015; number one, our focus on organic growth and not on acquisitions, we made a number of substantial acquisitions over the last couple of years in Brazil and abroad. We will be focusing on integrating and capturing the synergies associated with those businesses in 2015 and our focus will not be on acquisitions. Operational excellence, we pride ourselves in our ability to run our plants well, many of the metrics that we see from public numbers demonstrate our ability to run our business as well on an operational basis.

We plan to continue improving our operational excellence in 2015 to continue to extract better margins out of our business, we saw a relevant reduction in our working capital cycles in the last quarter of 2014, when compared with the previous quarter, we will continue to focus upon reducing our working capital as a percentage of the -- of our revenues.

Free cash, again, we saw a very relevant free cash and particularly in the second half of 2014, we will continue to focus on free cash flow generation in 2015. And that will help us continue to deleverage our business at the beginning of last year, we talked about being under 2.5 times by the end of 2014, we were just above 2 times, we believe we can continue to improve on that in 2015 and we will be focused on that.

And obviously as we reduce our leverage, we look to utilize that to reduce the cost of our debt, we will be working on that replacing expensive debt with a longer-term cheaper debt and part of that is working with the rating agencies to improve the perception of the company and the rating of the company. We've been in meetings with the rating agencies and we continue to have dialog with them in order to reach its goal.

Another question is, our effective tax rate is quite high, because of the structure of our business, we will be focusing a lot on improving our effective tax rate in 2015, meaning we will be looking to take all the measures necessary to reallocate that and other measures in order to be more tax effective in 2015. And obviously as a result of all of these measures, we will continue to focus on improving our net income and our earnings per share, generating better return on equity in 2015.

So moving on to our business units now, in our presentation we'll start with JBS Foods on page 10 of our presentation. We have five business units, so we will spend just a couple of minutes on each one of these business units. Net revenues at JBS Foods from the third to the fourth quarter went from R$3.37 billion to R$3.65 billion in the fourth quarter with an increase of 8.1% quarter-on-quarter. We saw an increase in sales volumes in all of the categories on the domestic market highlight for an increase in sales in our fresh chickens in Brazil up to 50% in relation to the third quarter of 2014.

We also saw an increase of our pork sales of almost 5% to the domestic market. And we saw higher volume, almost 5% up and higher prices in the exports of our prepared and convenience products for the export market. EBITDA came in at R$6.56 billion -- R$6.56 million, excuse me, up from R$5.76 million in the third quarter, the margin increasing from 17.1% in the third quarter to 18% in the fourth quarter. We had a decrease in the raw material costs and obviously we had the seasonality associated with this period, the Christmas period in Brazil. And we also had an improvement in our chicken prices on the international market, our fresh chicken sales on the international market, which represents about 83% of our total exports at JBS Foods; we saw an increase in the prices.

On page 11 of our presentation, a little bit about the synergies and the gains that we observed at JBS Foods. Some of you might recall that after we acquired Seara in the middle of 2013, we indicated that we aim to capture about R$1.2 billion in synergies and improvements at JBS Foods in 2014. We actually surpassed that and we gained about R$1.75 billion, those were the actual gains in 2014 and that was up 43% of R$529 million in relation to what we targeted for the year. If you look at the prices of our prepared products on the domestic market in Brazil also, we had quite relevant increase in the pricing partially as a result of price increase, but also as a result of mix optimization and that resulted in an average price increase of 22.8% for our domestic sales and our JBS Foods business in Brazil.

Moving on to JBS Mercosul, which is our beef business and beef and related businesses, primarily in Brazil, but we have operations in Paraguay, in Uruguay and in Argentina as well. And so this in reais, we had an increase of 16.6% in sales quarter-on-quarter, from R$6.47 billion up to R$7.54 billion quarter-on-quarter. We saw an increase in our Fresh Beef sales in domestic market in Brazil and also on the International market, Paraguay and Uruguay operations continue to maintain their good performance.

In Argentina, we have been focusing on reducing cost and rationalization, we've been increasing our domestic sales in Argentina quite substantially of a value-added branded products, we've had substantial market share increase. As a result of our efforts to increase our participation in the value-added business in Argentina. EBITDA in this business one can see in -- on page 13, we've had a slight decline in EBITDA over the last five quarters, was R$534 million down from R$554 [ph] the previous quarter, EBITDA margin coming from 8.6% to 7.1%.

We've seen an increase in cattle prices, particularly in Brazil and we've been maintaining our strategy to increase our branded and value-added beef products on the domestic market in Brazil, we have launched a number of convenience products on the domestic market and we've seen substantial increase in our sales of these products, our sales have been up more than 16% in the value-added branded beef business in Brazil.

Moving on to JBS USA, where we have three business units, our beef business, our core business and our poultry business, starting with our beef business, which includes our Australian and our Canadian business. So these numbers from now on are in US dollars; firstly, revenues in our US beef business went from $5.85 billion to just under $6 billion, an increase of 1.3% quarter-on-quarter, although there was some seasonality associated with the fourth quarter in the beef business. We had an increase of -- in prices of 26% in the domestic and 25% on the international market, which was partially offset by a decline in sales and compared to the third quarter as I mentioned, net revenues were up 1.3%. EBITDA, if we look at EBITDA for the second-half of last year, it was up quite substantially, we had $505 million in EBITDA in the third quarter of $325 million in the fourth quarter, EBITDA margin 8.6% and 5.5%. When we consider the seasonality associated with the last quarter that is quite a strong fourth quarter. And in this business, we outperformed the industry through 2014 with a better performance than our industry peers.

Domestic sales and Australian exports from the US were highlights also during this quarter and our operation in Canada has also been improving compared to the same period the previous year, presenting volume and price increases. Our beef business -- excuse me, our pork business, which is US centric, our pork sales in the fourth quarter were $964 million, up from $938 million in the third quarter, so again an increase of 2.8% going into the fourth quarter. We had EBITDA coming in at -- just under $96 million, down from $113 million in the third quarter, but EBITDA margin, if we look over the last five quarters, EBITDA margin has been double digits or very close to double digits.

As a result of the performance of the management in this business unit, again, we've outperformed the industry public indicators indicate that we've been the strongest company in the pork business in the US in 2014 and our sales also have increased quite substantially out of this business. Pilgrim's Pride already performed -- published its numbers in earlier in at the end of January, beginning of February, but we will quickly go through the numbers here. JBS USA owns 75% of Pilgrim's Pride, we had sales in the quarter of $2.1 billion, down from $2.26 billion in the third quarter, 6.9% decrease, which is very much associated with the seasonality of this business.

We've had strong performance through the last year, we had 19.2% EBITDA margin that was down to 17.4% in the fourth quarter, but again seasonally that's a very strong number, from $435 million down to $368 million in EBITDA in the fourth quarter, net income for this business, we reported separately came in at $167 million that was up from $48 million in the fourth quarter of 2013.

A word about exports, we have a slide on page 21 to demonstrate how relevant exports are for our business. Our exports represent more than 30% of our total revenues. In 2014, we had $16.22 billion in exports from all our production platforms more substantially from South America. We also are relevant exporters out of North America and particularly out of Australia.

So we had $16.22 billion in sales, highlights South America as a whole, out of the South American countries, Chile, Peru being a big importers, Colombia is importing quite a lot more from the West, more recently, African in the Middle East, which is a very traditional market for the South American producers, Greater China, we service Greater China primarily out of Australia. In Mexico, we service Mexico out of our North American business. Our export sales were up 38% year-on-year, when we compare the numbers with 2013.

I now just briefly on our financial metrics talking a little bit about CapEx and cash generation, page 23 of our presentation in the fourth quarter, we had a CapEx of R$1.65 billion, a 434 million of those reais was related to the net effect of working capital of companies that we acquired in the period and -- R$1.2 billion was related to the additions to property, plant and equipment, and intangible assets. Approximately 40% of that corresponds to acquisitions made during the period, during the fourth quarter and the balance it represents CapEx associated with the modernization and maintenance of our facilities.

For the year, our CapEx was R$4.27 billion, including the acquisitions, cash generation, I mentioned it earlier for the fourth quarter, we had R$5.32 billion in operating cash and R$3.67 billion in free cash in the fourth quarter for the year, we had R$9 billion in operating cash and R$4.7 billion in free cash, R$4.7 billion in free cash for the year.

On page 24, looking at our leverage our net debt and our debt to breakdown by currency leverage, as I mentioned earlier, declined quarter-on-quarter to 2.1 times at the end of 2014, net debt in US dollars, very relevant, our net debt quarter-on-quarter was down $1 billion from 10.5 to 9.5 round numbers from the third to the fourth quarter in 2014. Our breakdown by currency and by cost are 80% of our debt is in dollars, 20% is reais. Our cost in US dollars is 5.5%, just under 5.5%, in reais just above 11.5%. Where, we capture our debt by source 40% comes from the debt capital market and practically 60% from the commercial banks. And our breakdown by company, 58% is at JBS SA, 14% at JBS foods and the remaining 28% on other subsidiaries.

A little bit about our profile and maturity on page 26, at the end of the quarter, we had just under R$15 billion in cash or cash equivalents, that's a 109% of our short-term debt, that's up R$2.4 billion in relation to the cash position we had at the end of the third quarter. Besides that we have R$1.43 billion of committed fully available lines in the US, which when added to our cash position represents practically 120% of our short-term debt. Our short-term debt was just about one third of our total debt at the end of the year. And then at the bottom of page 25, we have our debt maturity curve quite a portion of our debt maturing beyond 2020.

And finally before handing you over to our CEO for some comments before, we open for Q&A, a word about the performance of our share price and some recent events I would like to mention before I hand over to Wesley Batista.

Our share price was up 27.7%, we closed at R$11.20 on the Sao Paulo Stock Exchange. It was one of the top 10 performers on the stock exchange and when we compare it with the performance of the exchange itself, it was quite a stellar performance. Our market cap at the end of the year was just under R$33 billion.

Recent events, just briefly there were three recent events that we wanted to mention here in the call. Firstly, our controlled subsidiary in the US Pilgrim's Pride Corporation issued a bond very recently, a 500 million bond in order to extend its maturity curve a 10-year bond at 5.75% yield. That's the lowest yield for any debt contracted by JBS our subsidiary in the history of the company, 10-year bond.

We also had very recently also early March, the final approval from the Australian regulatory authorities for the acquisition of the Primo Group, remembering the Primo Group is a leading producer of value-added meat products with more than 50% market share in Australia and in New Zealand, with some very strong brands like Primo itself, Hans, Beehive, Hunter Valley Quality Meats and Primo Quality Meats. And just finally and again, just to recall, recently Pilgrim's Pride approved and paid a special dividend of $1.5 billion to its shareholders that was approved in January by the Board and it was paid out in February for JBS owned 75% for the company that's represents an income of $1.13 billion, which I might mention is more than the totality of the investment that JBS made to acquire 75% of Pilgrim's Pride.

With that I will hand you over to Mr. Wesley Batista, our CEO to make some comments before we open up for Q&A. Thank you very much.

Wesley Mendonca Batista {BIO 15243148 <GO>}

Thank you, Jere. We are satisfied the way forward 2014 results, but looking forward and looking for in 2015, we've strong believe that we can do more and better, when we look our -- all of our business across the enterprise. I'm very confident that we are going to see even a strong year in our company in terms of our results and our metrics, Jere mentioned our 10 priorities for 2015, and we are very focused on this priorities and we are going to be a 100% focus on this priorities.

We strongly believe that we can add and create a lot of value for all of our shareholders, being very focused on this priorities. We did a lot of transformational movements in our company in this past 10 years. And we have strong believe that 2015 is time for us to consolidate these and more, and create even more value to our company and our shareholders.

So with that I will turn to the operator to open for Q&A. Thank you.

Questions And Answers

Operator

Ladies and gentlemen, we'll now begin the question-and-answer session. (Operator Instructions) Our first question comes from Farha Aslam with Stephens Bank.

Q - Farha Aslam {BIO 6151888 <GO>}

Hi, Good morning.

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

Hi, Farha. Good morning.

A - Andre Nogueira {BIO 19941317 <GO>}

Hi, Farha.

Q - Farha Aslam {BIO 6151888 <GO>}

And could you comment on (inaudible) in the US. How you anticipate that the impact of global poultry, could you do have a global view and in particular, how that would affect your Mexican operations, would it benefited and are you still able to ship out of the US and so far your Mexican operations?

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

Farha, I will give you a quick comments and I will transfer to Andre to talk more about that, but look, as we have operation in US, Mexico and in Brazil for JBS as a whole, we don't see any risk of big impact on our earnings and as well for Pilgrim's, as in Pilgrim's today 8% of our revenues is export, so is not a big amount or portion of our business. So, we don't see this being any big hurt for our business overall. But please Andre, if you can add more comments on that, please.

A - Andre Nogueira {BIO 19941317 <GO>}

Of course, Wesley. And you're right, I think that is, first on Mexico, in Mexico we've build the import for some of business staker, we'll be beneficial for our business in Mexico. But more important for us, I don't think that it be meaningful impact first because of the time of the year that we are, I think that we've started to see that this even influence is caused by the white birds and they are in the time stop integration, because go back, so they spread the limit, I think that we'll see a little bit more spread in this state that we already have, but I don't think that we used that much more than that.

(inaudible) business state is more than seasonal for us to move production for export from one state to the other. So I really don't see any meaningful impact on these and their production or in the exports of the products (inaudible).

Q - Farha Aslam {BIO 6151888 <GO>}

Great, thank you very much.

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

Thank you, Farha.

Operator

Our next question comes from Bryan Hunt with Wells Fargo Securities.

Q - Bryan Hunt {BIO 1530288 <GO>}

Thank you for taking my question. Just a few; one, I was wondering if you could talk about the Trucker's strike in Brazil, kind of where it is geographically and how do you feel like it may impact your results in the near term?

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

So, Bryan, yeah, we had the strike few weeks ago, now is over, things is normal and we are running all the plants normally -- in a normal situation now. We are going to see some impact on our results this year, but it's not anything meaningful. So we are going to see a stronger results in our JBS Foods business unit comparing to 2014, even with this strike. So I don't like to minimize the problem that was a real problem, but is not meaningful to affect our earnings. So we are going to see strong first quarter in our JBS Foods division and especially, with the rial in the level that is now March will be a very strong year and going forward even more remember that 50% of our revenue on JBS Foods is export. And we control all the supply chain, we produce all of our Chickens and we produce here in Brazil of the pork that we process. So we are not seeing a increase in our output and we are going to see a strong balance sheet in terms of our revenue, helped by the weakness of the rial, so yeah.

Q - Bryan Hunt {BIO 1530288 <GO>}

You mention in your slide show you expect cattle supplies in the US to increase in 2013. I was wondering (inaudible) if you could put maybe a percentage around that as well as give us some color on your anticipation for cattle supplies in Brazil as well as Australia, if I recall correctly, Brazilian cattle processing was up double-digit this past year or so. I think probably room for growth. Again, I was wondering if you could just comment on that?

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

I will handle the Brazilian part and I will transfer to Andre to answer the US and Australian part of your question. So, yeah in Brazil, we have been seeing quite strong growth in our herd in the past four years or so more in the end of last year and now, we are going -- we are seeing a cattle retention in Brazil. That this is going to keep increasing the size of the herd, but in short term, this put a pressure in cattle price, because when you see (inaudible) retention you will have less cattle available to process in the plant. So is positive middle-term and long-term, but for in the middle-term, we are seeing some pressure in cattle supply and in cattle price in Brazil. Andre, please, if you can handle the US and Australian?

A - Andre Nogueira {BIO 19941317 <GO>}

So in US (inaudible) we're seeing a very strong retention continues in (inaudible) retention and in the number of cows, so we are today the cow queue [ph] is 20%, beach [ph] cow queue was 20% lower as usual, we're very clear that the retention being very strong. I think that the member of cow in the (inaudible) real problem that we going to have 30% less at cattle for the full-year, probably more availability in the second part of the year compared to the first part of the year, but 30% less at cattle that we acquired this year, if this retention continue strong as the EBITDA now, but to be partially offset by, when sort of investment reduction bring the market down about 1% to 2% down, but this is good news for '16 that we are building, we're did heard very strongly in US and in '16 we use to be more availability.

In Australia, I think that the number of cattle available, we believe that loss just because again we're seeing some retention going on (inaudible), but I think that this will be offset by which Australia will have conditions in the main (inaudible). But I don't expect we're not decreasing Australia production compared to last year and when we go to last year it was 70% higher than the previous year. I expect that to be a little bit less cattle -- about partially offset by more wage on the cattle (inaudible) part of the growth.

Q - Bryan Hunt {BIO 1530288 <GO>}

And two last quick questions. One if you -- Andre while you're on the phone, pork supplies for cast increase in United States, but you're staying about 6% if I recall correctly, are you concerned about the market's ability to absorb that production and do you think that has a probability of price pressuring margins in 2015.

A - Andre Nogueira {BIO 19941317 <GO>}

Let's talk about third and fourth production?

Q - Bryan Hunt {BIO 1530288 <GO>}

Yes. I mean the USPA is forecasting about a 6% increase in supplies, so I'm just wondering, do you think the market can absorb that?

A - Andre Nogueira {BIO 19941317 <GO>}

Yeah. I'm not really concerned with that. If we look at happened last year that pork price in US was very, very high compared to historical number, comparing the global base and that pork just reduced a little bit. My expectation that it should not have been our ability, we are going to pork price lower, we've seen (inaudible) price low and revisited to the US in extremely comparative position to export more.

So my expectation that we balance that two exports. We'll import much than we imported last year than the import in pork was much high last year and I think that we will close to zero, we import much less and we export much more. So that will balance the supply and demand support from (inaudible) US we'll export much more.

Q - Bryan Hunt {BIO 1530288 <GO>}

And the last question, Jere, you talked about agencies and chasing (inaudible), what's the goal of the company could you talk about in the next 12 months. Do you want to be investment grade or can you just give with some primaries [ph] around what your expectations are for your ratings?

A - Jeremiah Alphonsus O'Callaghan

Well, the goal of the company is to reduce the cost of debt, that's the goal basically. And whatever, we possibly can do to reduce the cost of debt we will do. One of the instruments is to work to improve the perception of the company through the rating agencies. We're working with that, but we're communicating quite a lot with the debt capital market in general. And with the banks that we have relationships and the goal is to extend the maturity and reduce the cost of debt and we think the rating agencies could be an instrument towards reaching that goal.

Q - Bryan Hunt {BIO 1530288 <GO>}

Thank you so much for your time.

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

Thank you.

Operator

Our next question comes from Pedro Leduc with JP Morgan.

Q - Pedro Leduc {BIO 16665775 <GO>}

Hi, everyone. Thank you for taking the question. Congratulations on the operational improvements.

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

Great, thank you.

Q - Pedro Leduc {BIO 16665775 <GO>}

Verification strategy working out for you guys glad to see that, but given these improvements and come in together with (inaudible) comments that focus should be more, more on a (inaudible) side this time around. Could shareholders at JBSS3 perhaps expect higher dividends going in '15 or just going ahead, over the first?

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

Pedro look, we of course, we are going to look the amount of free cash flow that we are going to generate, we strongly that we are going to generate strong amount of free cash flow and we are going to watch our leverage, so if our leverage declined more than the level that we are looking. Yeah, this is our possibility that we can analyze, a special dividend to our shareholders. Can be a possibility, but we are going to watch and we are going to do this if our leverage is below the level that we believe we are going to be.

Q - Pedro Leduc {BIO 16665775 <GO>}

Okay, great. Thank you. And someone, I have one operational question on 4Q, our business, the great just (inaudible) beef that are little bit weaker and we look at it was less on the gross margin from, but it was a big SG&A pressure on gross -- on EBITDA margins. If you wonder, could you elaborate a little bit on (inaudible) that SG&A hike sort of unusual for the quarter and if you expect, what would you expect from (inaudible) beef margins in 2015, please.

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

So, Pedro, yeah we have a big spike in SG&A actually is in the SG&A line, but it's part of the non-recurring expensive, where you can see that we incurred in R$500 million in non-recurring expenses and around almost R$400 million of this R$500 million non-recurring expenses that went through the SG&A line is a litigation process there we were litigating with the of spread Goias, one of the states in Brazil, there we have a five operating since the acquisition of legal the probability shown lies case was Lowe was litigating our tax dispute with the Goias state. And this dispute that were claimed for really a sizable amount of money and our legal deployment, the probability to lose this case was low and because it was low following the IRS [ph] rules we did never book this as a provision, we never did this provision.

And but we start off the state of Goias they decide to put I don't know exactly how to call this, a program to incentivize companies to settle dispute and litigation and the program that they put in place that gives up interest rates and penalties and all these shrinks to attractive companies to stop litigating and paying the settle and pay. And we did them this cost almost R$400 million that this is one-time event and we booked all in our fourth quarter. So this was the reason that our SG&A line went up.

I think the last part of your question is about the beef business in Brazil, our outlook. Look, we have seen a headwind coming from the depreciation of the rial, but in the other hand, Brazil was quietly heavy exporting products to Russia, to countries in the Middle East and to other countries that is quite heavily dependent in volume production. And as the ruble depreciated a lot in Russia, we have seen a reduction and in volume and terms of important in Russia and some more the account is the number is public January and February export declined around 30%. So this is the headwind for sure, we have a very strong platform -- beef platform, we are going to see some pressure in beef margin in Brazil, but we have a strong platform and we believe we can handle our business to try to not lose ground in terms of margins.

Overall, fortunately, I have been saying this for a long time, fortunately JBS today, our diversification in terms of geography and as well in terms of the segments that we are at chicken, beef, pork and packaged food products all these things, this give us a good opportunity to have more stable earnings and even with this challenge in the beef business in Brazil. Like I mentioned in my remarks, I strongly believe that we are going to do better in '15 than we did in '14 in all the fronts in terms of net income, in terms of operating income, in terms of free cash flow generation, in terms of keep deleveraging in our balance sheets and hopefully improving our credit rate and so we are confident.

Q - Pedro Leduc {BIO 16665775 <GO>}

Great, that's very useful. Thank you.

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

Okay, Pedro, thank you.

Operator

Our next question comes from Alexander Lin with Bank of America Merrill Lynch.

Q - Alexander Lin {BIO 17703726 <GO>}

Good morning, everyone.

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

Good morning.

Q - Alexander Lin {BIO 17703726 <GO>}

I have two questions if I may. The first one, Jere you were mentioning at the end of the call that Pilgrim's paid a dividend rate of $1.1 billion dividend to JBS, what would be the use of proceeds?

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

The money -- sorry, Alex, this is Wesley, that I am going to answer. So we received over $1.1 billion from the dividend and we are holding this cash to pay the acquisition of premium that is almost in the same amount in US dollars. So the use of this cash is going to be to fund the premium on our acquisition that we are looking to close in the end of March or more exactly March 30th.

Q - Alexander Lin {BIO 17703726 <GO>}

Okay. So that premium closes at March 30th. Okay.

A - Jeremiah Alphonsus O'Callaghan

Yeah.

Q - Alexander Lin {BIO 17703726 <GO>}

And then I think you also have price in Mexico, which is closing this year and it's -- I think it's a $400 million acquisition?

A - Jeremiah Alphonsus O'Callaghan

Yes, that's right. We are waiting for them, I trust the approval in Mexico that we believe, we are going to get these in the second quarter and probably we will have more than cash available to fund business acquisition.

Q - Alexander Lin {BIO 17703726 <GO>}

Okay, great. And you expect Tyson to close in the second quarter of this year, is that's the safe assumption?

A - Jeremiah Alphonsus O'Callaghan

Yes.

Q - Alexander Lin {BIO 17703726 <GO>}

Okay, thank you. And then my second question would be, as you look to reduce the cost of debt, I must imagine you're thinking of doing liability management with your debt particularly in the US, you have a bond coming due now in a month or so. Would you be thinking of calling the 2018 bond and also engaging your liability management more in the US than in Brazil, let's say?

A - Jeremiah Alphonsus O'Callaghan

Look, yeah. The 2018 is callable was seems December, if I'm not wrong or January, sorry it seems January the 2018 is callable and we are always looking options to see what is the best way is the real option that we can call this bond, the question is, it's going to be if we are going to do our liability manage or we are going to use cash we are sitting quite a strong amount of cash to call these bonds. But there -- we need to do some things to balance our debt profile should be more tax efficient. So, yeah, we are going to be looking opportunities and to balance better our balance sheets between ourselves, yeah.

Q - Alexander Lin {BIO 17703726 <GO>}

And whether it be issuing more out of the USA entities rather than the BFC [ph] entity where you have a higher cost of debt, right?

A - Jeremiah Alphonsus O'Callaghan

Yeah, there's a clear possibility, for sure.

Q - Alexander Lin {BIO 17703726 <GO>}

Okay, that's great, thank you so much.

A - Jeremiah Alphonsus O'Callaghan

Thank you.

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

Thank you.

Operator

Our next question comes from Jose Yordan with Deutsche Bank.

Q - Jose Yordan {BIO 1496398 <GO>}

Hi, good morning everyone. Just a couple of questions.

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

Hi, Yordan.

A - Jeremiah Alphonsus O'Callaghan

Yordan, how are you?

Q - Jose Yordan {BIO 1496398 <GO>}

Can you remind us if, it has been a change or whether you're maintaining your sort of normalized margin for the JBS US unit, I think you had mentioned 4% to 5% before, but obviously margins have been trending well above that?

And I guess a related question is, I mean, you had losses in that business, a negative EBITDA for the last couple of years during the first quarter, should we -- our expect that, that will be the case this year given the structural changes happening. So any idea of again margins in the first quarter and then the rest of the year and going forward for JBS US?

And then my second is I mean I know you -- your financial position of the company has changed so much that you cancelled your IPO of JBS Foods and I wonder whether it's even necessary or desirable going forward given that the leverage position is improving so much. I mean, what's your view on the desirability of even having a trader subsidiary or in other complications that come without revenue, obviously you already have one trader subsidiary have two might complicate things further and sort of if you don't needed is that off the table definitely?

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

Yeah, sure. Let me answer the -- your last part of your question about JBS Foods and I will ask Andre to answer your question about the US Beef margin. So, first of all, we were looking to do an IPO on JBS Foods and we decide to stop the process, because the market conditions in Brazil is not favorable, sorry favorable to the equity market in Brazil is not favorable to that math now. But the reason to do an IPO on JBS Food was not to improve balance sheet or it was not because we were looking to raise the equity, because without cash. The reason to do an IPO on JBS Food was more looking to unlock value; we believe that our company, if we look to some of the parts is well below in our view in the level that this should be.

And one of the options that we were looking to do an IPO on JBS Foods to try to demonstrate the real value of this units to unlock value. If I look, I have been doing a lot of exercise here, when I look our business in US, JBS USA, our earnings in US applying the US multiple comparing use in our peers, the same thing when we do here on JBS Foods, our earnings and using multiples comparing to peers in Brazil and in our beef business, so that some of the parts is well below the level that we think is the right value.

So, this was the reason to do an IPO, but we are not going to look to try this unless the market change substantially in Brazil, we don't need to do, we are only going to do this, if we can create value, this is the reason. Andre, can you answer the question about the US beef margin please?

A - Andre Nogueira {BIO 19941317 <GO>}

Well, of course, although we've said that we are continuing to four and five, we delivered in 2013 4.2%. I just want to safely say that the main reason is the cost requirements of this strategy that was good and better in term of our management diversification. So our beef business, well, our US beef business but, we also have two business there is more business that inside the business throughout Australia and throughout Canada, so it's the combination of this.

And there is more operation consequence, also I think that was dynamic investments that was then the previous year, we feel a lot opportunity to continue to improve. Despite of the market condition, the multiple opportunity that we have in (inaudible) and as we improve the consumer aid product, we are very confident that we can deliver a better year, even if the market condition does not improving the reais, we can deliver better year '15 compared to '14. First quarter is always the perfect quarter for the US beef, we'll be probably, we're at the end of the first quarter, but we are very much better than last year again. Not consequence of market condition, of course equivalence of moving that revenue in the company.

So I do not expect and other thing we'll be positive, we'll be much better than last year in the first quarter and because of that we expect that we can deliver 2015 better than '14.

Q - Jose Yordan {BIO 1496398 <GO>}

Great. Thanks a lot.

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

Thank you.

Operator

Our next question comes from Alan Alanis with UBS.

Q - Alan Alanis {BIO 15998010 <GO>}

Thank you for taking my question and congratulations for the results.

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

Thank you.

Q - Alan Alanis {BIO 15998010 <GO>}

I just had a couple of questions also regarding leverage, regarding debt levels, and they have to do with the full year numbers more than the quarterly, basically I mean, if my calculations are right, all the reduction that you had in net debt has because your cash balance has been increasing much faster than your gross debt. I mean, in reais your gross debt year-over-year 2014 versus '13 has grown up 22%, while your cash has gone up 65%

and if we do the same calculation in dollars, I mean, your gross debt in dollars went up 9% in the year and your cash when up 47%.

So I guess my first question is, why not reduce a bit some of the gross debt, would the intended objective that you declared earlier regarding reducing the cost of debt I mean, why not paid more -- the more expensive growth there? That will be my first question. Second is also related to that.

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

You are exactly right, Alan. We are going to see to start to reduce our gross debt and to reduce the amount of cash; we build more cash than we think we need. And we are building more even in the first quarter and we are just starting to start to pay debt that this even is not maturing now that we can pay without any penalty or any make a whole [ph] to reduce. We were looking what's going on in Brazil and as you know the Brazilian market is volatile in this last three months or so and we will think that was prudent to have a strong amount of liquidity, and we are not seeing any problem now that we cannot reduce the amount of cash that we have. So, we are going to do what you said.

Q - Alan Alanis {BIO 15998010 <GO>}

Got it. And my second question, I guess is related and maybe with the same answer, but I mean, you have 72% of your debt in Brazil in JBS SA or JBS Food and 80% of your debt is in US dollars and why not take some of these debt in JBS USA in dollar directly or even in Pilgrim's Pride, I would guess that will have couple of benefits, also reduction in the financial expense or the interest rate that you're paying and also on your effective tax rate, because you will see again the full year numbers, your effective tax rate still increased from a very high level, it was 37% in 2013 and you basically paid a 43% effective tax rate in 2004? So.

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

Yeah. Look your (inaudible) exactly in points that this part of our top 10 priorities for 2015.

Q - Alan Alanis {BIO 15998010 <GO>}

Okay.

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

And we are going to do that exactly what you've mentioned, so we are going to look to rebalance our debt, we are unbalanced today, too much of debt here and less debt in other places that we are fully taxpayer today, we have an (inaudible) here in Brazil and goodwill, sorry. And we are going to go do that exactly what you said Alan, we can benefit from lower interest rate and also we can benefit from a better tax ratio rate on our business.

Q - Alan Alanis {BIO 15998010 <GO>}

Got it. That's very clear. Thank you so much and again congratulations.

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

Thank you very much.

Operator

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

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

I would like to thank you all to be in our earnings call this morning. And again thank you for all of your support and we look forward to keep generating value and delivering better results every quarter. Thank you.

Operator

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