FINAL

Bloomberg Transcript

Q4 2015 Earnings Call

Company Participants

- Andrew Murchie, Chief Executive Officer-Marfrig Beef
- Frank Ravndal, President & Chief Executive Officer
- Marcelo Di Lorenzo, VP-Strategic Planning & Investor Relations Officer
- Marcos Antonio Molina dos Santos, Chairman
- Martin Secco Arias, Chief Executive Officer
- Ricardo Florence dos Santos, Chief Financial & Administrative Officer
- Unverified Participant
- [0BZFD5-E Frank Ravndal][05RNCV-E Lauren Torres]

Other Participants

- Andrew Muench, Analyst
- Eleanor Price, Senior Credit Analyst
- Jose J. Yordan, Analyst
- Lauren Torres, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to Marfrig Global Foods S.A. Conference Call to present and discuss its Results for Fourth Quarter and Fiscal Year 2015. It's worth mentioning that in compliance with Law 11,638/07, the financial statements reflect the adoption of International Accounting Standards, IFRS, and has been reviewed by independent external auditors.

The audio for this conference is being broadcast simultaneously through the Internet in the website, marfrig.com.br/ir. In that address, you can also find the slide show presentation available for download.

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

Before proceeding, let me mention that forward-looking statements are being made under the Safe Harbor of the Securities Litigation Reform Act of 1996. Forward-looking statements are based on the beliefs and assumptions of Marfrig's management and on information currently available to the company.

Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions because they relate to future events and, therefore, depend on circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions, and other operating factors could also affect the future results of Marfrig and could cause results to differ materially from those expressed in such forward-looking statements.

Now, I'll turn the conference over to Mr. Marcos Molina, Marfrig's Global Chairman. Please Mr. Molina. You may now begin the conference.

Unverified Participant

Marcos Molina will make his initial remarks in Portuguese and I will translate.

Marcos Antonio Molina dos Santos {BIO 15363967 <GO>}

Good afternoon. I'd like to thank everyone's presence today. It's a great pleasure that we present the 2015 results. The solid results reflect our continuous commitment in improving the business. I'd like to reinforce my and the board's commitment to the company and its plan Focus to Win has allowed us to be disciplined in terms of targets and goals to be pursued.

I'd like to congratulate and thank everyone at Marfrig Global Foods for the achievement of the 2015 guidance for the third year in a row. We were able to achieve such results with the full contribution from our two divisions. The figures delivered demonstrates that our strategy is in the right direction. For us, for 2016, our two divisions are fully committed and ready to deliver this year. In my view the plan Focus to Win will go beyond the focus to be now profitable.

I'd like to thank everyone including our employees, suppliers, clients, farmers and shareholders to be part of Marfrig Global Foods. I'll now hand the call over to our CEO, Martin Secco.

Martin Secco Arias {BIO 18098476 <GO>}

Good afternoon. I would like to start by thanking everyone for participating in another Marfrig earnings conference call. Today, we will comment on the results of the fourth quarter and the fiscal year 2015.

Let's move to slide number three. Marfrig continued to move forward in the restructuring process and in line with its Focus to Win projects. Various transformational actions were taken.

The current level of cattle supply in Brazil led to the company to take the decision to temporarily optimize its production capacity in Brazil. The continuous search for operating efficiency gains and the stronger focus in high margin channels reflect the company's commitment to prioritize profitable and expansion of volume.

Consistent with the strategic discipline and commitment to the financial discipline in 2015, Marfrig decided to divest certain non-core assets and today has two divisions; Keystone and Marfrig Beef.

Keystone will drive our global growth in higher value animal protein product in APMEA and in the United States with a strong focus on the food service segment.

Meanwhile, Marfrig Beef's highly competitive and diversified products in South America will enable to serve the global beef and lamb market. All of this, without losing sight on the financial discipline.

The process from the Moy Park divestment, which closed in September 2015, an amount of U.S.$1.2 billion net, gave continuity to the liability management process.

During the quarter, we lowered our gross debt by around U.S.$680 million, while our leverage ratio considering only the continued operation and based on the analyzed fourth quarter EBITDA fell to 3.38 times. During the year, gross debt was reduced in $1.1 billion.

On slide four, in March 2014, during the Marfrig Day, we announced our guidance for the year considering the operation that are now classified as discontinued, such as Moy Park. Therefore for a comparison purpose the table you see include these operations and in the third quarter of 2015.

As you can see, even in the current challenging scenario, by moderate growth in the world GDP and by the recession here in Brazil, Marfrig delivered in all metrics of the results it committed to deliver, for the third consecutive year, as Marcos said a couple of minutes ago.

This result not only reflects the change in our operation, restructuring and the ongoing improvement in our cash-generation capacity, but also the commitment of our team to create more value from our production chain. It is worth highlighting that 2015 total free cash flow was R$213 million, significantly higher than in 2014.

I take this opportunity to extend my congratulations to all Marfrig employees and to thank our shareholders for their trust and support in the execution of our strategy plan, which is fundamental to continue the strength on the company.

Let's go to slide five. I will ask to Marcelo to present to you the Marfrig's result.

Marcelo Di Lorenzo {BIO 16117381 <GO>}

Thank you, Martin. Good afternoon, everyone. On slide five, Marfrig's consolidated net revenue posted double-digits growth in both the quarter and full year. In the year, net revenue was R$19 billion, growing 24% on the prior year. The highlights were at Marfrig Beef, the better sales mix with a stronger focus on the food service is more retail and export channels. The higher average sales price in Brazil, the 42% depreciation of the

Brazilian real against the U.S. dollar, and the 7.6% growth in U.S. dollar revenues at Keystone.

In the quarter, net revenue was R$5.2 billion, up 18% from the fourth quarter 2014. This performance is mainly explained by the higher average sales price in the Brazilian market and the depreciation of the Brazilian real against the dollar.

Let's go to slide six, where we'll comment on revenue profile. On slide six, you can see the change in the profile of Marfrig's consolidated net revenue in 2015. Only 21% of the company's revenue in the year was linked to the Brazilian real, down seven percentage points from 2014. This shift reflects the company's strategy to expand in higher margin channels such as exports.

This lower exposure to the Brazilian market also reflects the company's capacity in adverse market scenario to take advantage of good opportunities, in export channels and to prioritize more profitable channels.

The international operations, Keystone and Marfrig Beef (11:59) International accounted for 59% of total revenue, up from 50% in 2014, which demonstrates the growing degree of internationalization of our business.

On slide seven, we'll comment on Marfrig's gross income and margin. Gross income in 2015 was R$2.3 billion, an increase of 16% on the prior year. The main factors contribute this performance were the higher sales volume of Keystone led by double-digit growth in Key Accounts, the average depreciation of the Brazilian real against the U.S. dollar and lower raw material cost in international operations. These factors were partially offset by higher cattle prices in Brazil.

Another highlight in the period was international operations, Keystone and Marfrig Beef International, contributing 42% of total gross income, an increase of 7 percentage points from 2014. Meanwhile, gross margin decreased 80 basis points year-over-year. The main factor for the retraction was a contraction in purchases from Russia in the first quarter 2015, which led export margins in the Beef division to contract in that quarter, and the weak performance of the Uruguayan operation in the second half of the year.

In the fourth quarter, gross income was R$683 million, increasing 16% on the same quarter of 2014, benefiting again from the Brazilian real depreciation in the period. Gross margin in the quarter was 13.2%, a slight drop of 30 basis points, which is mainly explained by the lower margin in the Uruguayan operation, affected by a longer dry season and the lower average price in U.S. dollars.

On slide eight, I will comment on SG&A expenses. Marfrig remains firmly committed to effectively managing its expenses; with SG&A in the year of R$944 million is slightly lower, in nominal terms from 2014. Selling expenses fell R$72 million, due to lower marketing expenses, which in 2014, were affected by the sponsorship of the FIFA World Cup.

G&A expenses increased 17%, mainly due to effects from the translation of amounts at international units to Brazilian real, which is the company's functional currency. Note that in 2015, the average depreciation of the Brazilian real against the dollar was 42%.

SG&A expenses as a ratio of net revenue stood at 5%, down 130 basis points from 2014. This decline reflects the company's commitment to reduce fixed costs, in line with the strategic actions of our Focus to Win plan. In the fourth quarter, SG&A as a ratio of net revenues stood at 5.4%, practically in line with the prior year period. In nominal terms, SG&A expense increased 20%, mainly explained by the average depreciation of the Brazilian real against the dollar.

On slide nine, I will comment on consolidated adjusted EBITDA and EBITDA margin of Marfrig Global Foods. Despite the current global scenario, Marfrig posted adjusted EBITDA of R$1.8 billion in the year, an increase of 32% year-over-year. The main drivers of this growth were the margin recovery at Marfrig Beef Brazil as of the second quarter, combined with Keystone's growth and the effect from the real depreciation. Another highlight was the growth in Keystone's contribution to consolidated adjusted EBITDA in the year to 41%, up nine percentage points from the previous year.

In the fourth quarter, Marfrig posted adjusted EBITDA of R$527 million, advancing almost 20% on the same quarter of 2014. The lower sales volume was offset by the high average price in the Brazilian market and by the weaker Brazilian real.

On slide 10, I'll comment on the company's net loss. In the fourth quarter, Marfrig posted a net loss of R$194 million, an improvement of R$88 million from the prior year period. Main drivers of this improvement were the better operational performance and the better financial results.

In the year, Marfrig posted a net loss of R$586 million, an improvement of 21% from 2014. In addition to the better operational performance, the result was influenced by the positive impact from the conclusion of the Moy Park divestment in the third quarter of the year and negatively impacted from the devaluation of the Brazilian real on our gross debt.

It's important to mention that continued operations presented a smaller loss of R$63 million in the fourth quarter of 2015 (17:37) if there is a more stable currency environment.

I'll now hand the call over to Frank Ravndal, Keystone's CEO.

Frank Ravndal {BIO 19230519 <GO>}

Thanks, Marcelo. Good afternoon or good morning, everyone. 2015 was a very strong year for Keystone. Sales increased 8% to $2.7 billion on volume growth of 7% and EBITDA increased 17.3% resulting in an 8% margin.

Our excellent food, safety and quality standards combined with our reputation around innovation and product development were fundamental to our success in attracting new customers and in growing with existing customers.

During the year, we focused on talent management and in creating the right talent bench and organizational structure to position us for continued success long-term. The results achieved demonstrate the great teamwork across our businesses in a challenging market environment. Multiple markets in our APMEA business recovered nicely from several difficult macro market setbacks in 2014 and we saw continued growth and expansion of many of our larger customers.

In the U.S., the A.I. outbreaks lasting into June, led to greatly reduced export options for U.S. poultry and had a dramatic impact on prices through most of the year across the industry.

Keystone's business model, which is heavily weighted towards value added food and processed products within the food service channels, provided good protection against that market environment.

Let's review the overall 2015 performance and the fourth quarter in a little more detail. On slide 11, you can see the volume highlights. As shown on the right side of the graph, we closed the year with a 7% increase in volume. Both regions showed solid volume gains, however, the recovery in various APMEA markets led the growth.

The overall 23% growth across APMEA, where we operate from five countries was led by fantastic performance in China and Thailand. I can't say enough about our teams there and the agility they demonstrate consistently to keep our customers delighted.

In the quarter-to-quarter comparison, volume was down about 1%. The main reason for that was lower sales of parts, mainly Leg Quarters at the end of the year given price levels.

Moving to the next slide, 2015 sales increased by 8% over 2014. Again, the financial results we're showing for Keystone are in U.S. dollars. The main drivers for this growth are the same as we discussed relative to the volume gains. As you can see at the bottom of the annual chart, Key Accounts reached 25% of total sales, up from 22% last year.

For the quarter, sales dropped 3%. The two main reasons for the reduction were the low sales prices for Leg Quarters following the closing of many U.S. export markets and the lower sales price of some of our products due to the deflationary impact of lower cost of foreign and meal inputs uncertain of our sales contract.

Moving to the next slide, slide 13; let's go through our EBITDA results. Looking again to the right graph on the slide, you can see the annual results. We generated adjusted EBITDA of $216 million in 2015, up from $185 million in 2014, which represents an increase of 17% year-on-year.

In terms of margin, we ended up the year with an 8% margin, an increase of 60 basis points over 2014. This strong performance was led by three factors. First of all, we believe we did a very good job expanding the Key Accounts business as mentioned before. That led to a better mix and therefore improved margins.

Another important contributor to the margin expansion was the positive commodity market environment, which led to an 11% drop in fee costs versus 2014 and also lower outside meal cost in the U.S.

Lastly, we had efficiency gains in both markets as a function of the increase in volume. Better risk management in our purchases of raw material in APMEA and as a result of the investments made in the past three years and move to bigger bird weights in several of our U.S. complexes.

Looking at the chart on the left, fourth quarter EBITDA increased 12% compared to the same period in 2014, driven by the same factors that we just discussed relative to 2015 overall. In addition, we recorded some exceptional gains from efficiency improvements in the quarter of approximately $4 million. The chart shows the trend of both EBITDA and the resulting margin throughout the year and the good consistency of those results.

Moving to my last slide, I want to highlight how important having a robust innovation process has been to Keystone's success over the years and the additional emphasis we're putting on it going forward as consumer taste and preferences continue to change very rapidly.

We opened an innovation center in Shanghai last year and have hired the core resources for our regional APMEA innovation center that will be based in Thailand. In the U.S. and in APMEA, we're putting more focus on developing better consumer insights and getting closer to the consumer in general. We understand that is what is required to bring truly innovative ideas to our strategic customers. More than ever, they are relying on their strongest suppliers to bring them ideas and solutions that help them stay relevant to their customer base and create growth opportunities.

You can see a few data points related to new products introduced into the marketplace in 2015 across Keystone. I would say those results were fairly similar to what we generated in 2013 and 2014 as well. Of course, not all new products are of equal value to the enterprise, but this is one simple metric to share with you.

We continue to develop several internal metrics to help the marketing and innovation teams to stay focused on the right thing. The best macro measure for us is the significant growth in the number of new customers we have added in the past three to four years as you can see form the Key Accounts growth numbers we shared with you earlier.

In closing, 2015 was a very strong year for Keystone Foods, a record year. I would now like to pass the call to Andrew Murchie, CEO of Marfrig Beef Brazil to go over 2015 and fourth quarter results for that business. Andrew?

Andrew Murchie {BIO 18098471 <GO>}

Thank you, Frank, and good morning, everyone. On slide 15, I'll comment on the evolution of the Marfrig Beef net revenue. Net revenue in 2015 was R$9.9 billion, increasing 6% on – when compared to the prior year. The lower sales volume which was affected by the lower cattle supply in Brazil and by the company's decision to temporarily reduce the slaughter capacity in Brazil was basically offset by the higher average price in the Brazilian market, reflecting the better sales mix with a focus on serving more profitable channels such as export, food service and small retailers, and also by the depreciation of the Brazilian real against the U.S. dollar.

In 2015, only 41% of the unit's revenue was associated to Brazilian domestic market, which reflects the diversification of our sales portfolio and the strategy to maximize profitability. In fourth quarter, net revenue was R$2.7 billion, practically in line with the prior year, and influenced by the same factors that supported revenue growth in the annual analysis.

Another highlight was the growth in revenue from the international operations and from Brazilian exports, which combined, accounted for 62% of revenue in the quarter, an increase of 7 percentage points from the fourth quarter of 2014.

Moving to slide 16, on this slide I will comment specifically on the performance of the Marfrig Beef operation in Brazil. Net revenue in the year, from the Brazil domestic market came in at R$4 billion. The lower sales volume which was affected by weaker demand on the domestic market and also reflects the measures to optimize the company's production capacity in Brazil as mentioned earlier was partially offset by the higher average price and better sales mix.

Despite a scenario marked by lower volumes, I want to highlight the successful strategy of capturing market share in the food service and small retail channels, which supported sales growth of 3% in this segment, despite the highly adverse macro economical scenario.

This growth reflects the company's commitment to creating value through the chain through initiatives that range from programs to support cattle farmers, focusing on animal welfare and beef quality for serving our clients with consistent and exceptional products.

Another highlight was the increase of exports share in total revenue which in 2015 accounted for nearly 50% of the revenue in the Brazilian operation. The total revenue of the division in 2015 was R$7.8 billion.

Let's go to slide 17. On this slide, I'll comment on some of the competitive advantage of our Brazil operations, and which reflect the company's strategy to prioritize higher margin channels. Despite the recession in Brazil, sales of the company on special lines posted strong growth. In addition to the quality differential of our products, this strong growth reflects a strategy, not a strategy – of restructuring our sales team with a reduction in head count more than offset by the capture of efficiency and productivity gains.

Bassi, one of the first premium brands in Brazil, posted volume growth of 90% in 2015 compared to 2014. The Bassi Cuts attract gourmet consumers who wants quality and sophistication. Meanwhile, our Angus line posted growth of 73%. Angus Beef is globally known and the Marfrig Angus bears the seal of the Brazilian Angus Association which attests a genuine product.

In the export market, the opening up of the Chinese market to fresh beef imports from Brazil supported exponential growth in our exports. In December, Continental China accounted for 15% of our total exports, making it the second most important destination. And if we include Hong Kong, it was number one destination. This slide reflects the company's flexibility and successful strategy to prioritize higher margin channels, such as the niche markets of small retails and the best export channels.

On slide 18, I will comment on Marfrig Beef adjusted EBITDA. Marfrig Beef posted adjusted EBITDA in 2015 of R$1.1 billion, up 16% on the prior year. The lower sales volume was offset by local currency depreciation and the higher average price in the Brazilian market.

Another factor contributing to this result was a 12% drop in SG&A expenses, which came to R$709 million. SG&A expenses as a ratio of net revenue stood at 7.2%, declining 150 basis points, which reflects the unit commitment to structurally reduce its fixed costs and expenses in line with our Focus to Win strategy.

In the quarter, EBITDA was R$292 million. The main factors to the lower sales volume, which reflects the current capital supply in Brazil and the weak performance of the Uruguay operations, which suffered in the second half of the year from a longer dry season and lower prices in U.S. dollars, accompanying the trend in the international market. Despite the challenges of 2015 was a very good year. We have managed to expand our EBITDA margin in 19 basis points.

Before moving to the next slide, I will pass the call over to Ricardo Florence, CFO of Marfrig Global Foods.

Ricardo Florence dos Santos {BIO 20008948 <GO>}

Thank you, Andrew. Good afternoon, everyone. On slide 19, I will comment on the continuity of our liability management process. In line with the strategy to improve our capital structure, whose goal has been to reduce gross debt by $1.2 billion by the end of this year compared to the second quarter of 2015. Marfrig launched an offering to repurchase partially the senior notes maturing in 2018, 2019, 2020 and 2021. Through the offering, the company successfully and opportunistically settled $406 million at a cost $30 million below face value. Marfrig also purchased directly in the market another $64 million, again at a cost below face value.

It's important to highlight that this amount was not reduced from our gross debt yet and is registered in short-term investments. This brought total face value of repurchases in 2015 to $470 million. This should bring annual savings in interest expenses of around $40 million. The company also settled additional debts during the quarter, leading to a total gross debt reduction of $684 million, from third quarter and $1.1 billion from 2014 year-end.

Moving on to the next slide, onto slide 20, I will comment on Keystone's credit facilities in which the financial team did an excellent job in 2015. The available credit lines increased by $270 million to a total of $900 million, at a more comparative cost than before.

I'm talking about LIBOR plus 125 bps to 250 basis points. The renewed lines, they consist of a revolver credit facility of $530 million, maturing now in 2020, two years more than before and a term loan of $370 million due in 2022, of which about $430 million were used by 2015 year-end. These lines provide an important liquidity quotient of almost $500 million to Marfrig and improved even more our capital structure.

Let's go to next slide, please. On slide 21, this slide shows Marfrig's liquidity and debt maturity. At 2015 year-end, we had cash and marketable securities covering our debt maturity up to 2018 do not including Keystone's revolver availability.

Our gross debt of R$12 billion at December 31 means a reduction of 19% from the previous quarter. This reduction is explained by the initiatives implemented under our liability management program as I just explained to you.

We ended the year with a significantly longer average debt term reaching 50 months, increased by seven months from the previous quarter at an average cost of 7.88% per annum, which is down slightly from the cost in the third quarter. The lower gross debt and the EBITDA growth in the last 12 months has led the company to end the year with a leverage ratio of 2.26 times. It's important to bear in mind that this amount includes the tax from the asset divestments. Therefore, we believe that the ratios at best reflects our current leverage is our R$7.1 billion net debt, provided by the annualized fourth quarter adjusted EBITDA from continued operations, which ended the period at 3.38 times.

Let's go to the next slide please. On slide 22, I'll comment on cash flow in the fourth quarter. Operating cash flow before interest and CapEx was R$475 million in the quarter.

The operational performance had also working capital effects such as the higher balance of accounts receivable which was affected by the lower volume of working capital transactions, the higher level of inventories and the improvement in the suppliers due to the seasonally longer payment term.

In the fourth quarter, we invested around R$114 million in CapEx in line with the amount disbursed in the previous quarter. As a result, operating cash flow in the quarter was R$361 million. It's important to emphasize that free cash flow in the quarter was positive, reaching R$43 million after the financial expenses.

Before moving on to the next slide, I will hand the call over to Martin, our CEO.

Martin Secco Arias {BIO 18098476 <GO>}

Thank you, Ricardo. Please let's jump to the slide 26. On slide 26, we're presenting a summary of our main accomplishment during the year. We define Keystone and Marfrig as our growth avenue.

The strategic division, combined with our financial discipline allow us to solve our debt burden. As we already mentioned, through the presentation, we continue our liability management process in October 2015 and in this process we should reduce the company's gross debt.

We also count on Keystone credit facility, an important liquid cash and at extremely competitive cost. Our commitment to deliver cash generation was met and free cash flow from continued operation was R$103 million in 2015.

The operational change in Marfrig Beef brought efficiency and productivity improvement and it should bring additional gains during 2016. Keystone solid result reflects our business model lets us grow with our clients and expand into new account, even in adverse market scenarios.

All these factored together with our team's commitment with delivering result allow us to once again, deliver the promised guidance to the third time in a row.

In the slide 27, I will comment on Marfrig's priority for 2016. We remain committed to strengthening Marfrig by focusing on profitability, by capturing operational efficiency and productivity gains. At Marfrig Beef, by prioritizing growth in higher value channels such as food service and capturing opportunity in the international market.

Today, we've got eight plants outer side to (40:06) operating to export to China in Marfrig Beef and in the first quarter, we have already reassumed export to South Paraguay (40:14) from Brazil. Also, we have in 2016, the expectation to be approved like a country for the U.S. market for beef.

The other point is by continuing to expand Keystone food service business in both United States and Asia, and maintain our strong focus on financial discipline, controlling costs and delivery. And in this scenario, my expectation is in 2016, Marfrig will deliver good results once again.

Taking into account the priority that I mentioned, and now I will share with you, our main target for 2016. We expect to deliver net revenue from R$22 billion to R$24 billion, with an EBITDA margin between 8.5% and 9.5%.

Marfrig's strategy continued to be based on the conscious use of our cash generation by prioritizing on planning investment with higher return, which will allow us to continue expanding in EMEA, in order to meet the regional growth.

In this quarter, I reinforce for our commitment to positive free cash flow in view of the progress in the liability management process and the potential foreign exchange volatility. Our target is to have a free cash flow between R$100 million and R$200 million.

We're starting to be focused in organic growth at Keystone, should amount between R$450 million and R$600 million depending on our free cash flow generation capacity.

Just to finish, I will open now the time for the Q&A.

Q&A

Operator

Ladies and gentlemen, we will now begin the question-and-answer session. Our first question comes from Lauren Torres, UBS.

Q - Lauren Torres {BIO 7323680 <GO>}

Yes. Hi, everyone. I guess, my question will focus more on Keystone. As we saw some nice margin progression over the course of last year and I guess, looking at your consolidated EBITDA margin guidance for this year, I was curious about the progression, I guess, at both businesses, but more so at Keystone for this year, it seems like the benefit came from sales mix improvement, efficiency gains, and things like that.

So I'm curious to get your perspective on where the remaining upside is at Keystone on the margin side. If it's something, more things like commodities versus a lot of the opportunities that haven't – if you want to put a number I guess to the potential of margin expansion at Keystone, that would be great too? Thank you.

A - [0BZFD5-E Frank Ravndal][05RNCV-E Lauren Torres]

Okay. It's Frank. I think – that relative to the guidance that we have in the businesses and the overall consolidated guidance, we're not in a position to provide that. But I think, longer term, we had set some specific guidance for Keystone out through 2018 I think in one of the earlier Marfrig Day presentations. And so at that time, we had talked about longer-term margin potential of the business model that Keystone has, as being 8% to 9%. And I think the target year we put on that was about 2018. And so, with the 2015 Keystone margin at 8%, it certainly feels that that is something that shows a lot of improvement over the last couple of years. And I think, gets at closer to where the business model potential is.

So, that earlier guidance is what I would still point to, over the next couple of years, but I can't really go into more detail relative to 2016.

Q - Lauren Torres {BIO 7323680 <GO>}

So with that said, can you talk about the components of that improvement? I mean, like I said, we've seen a lot of improvement already. What are you most excited about? Where is the upside coming from, I guess, over the next two years as far as efficiency, sales mix, head count expansion, how should we think about that?

A - Frank Ravndal {BIO 19230519 <GO>}

Well, I think that, I think there may not be a consistent answer to that. I think the business model will have some opportunities that will fit in each of those buckets. And I think you did a great job of articulating really what that improvement over the last year or two has been built on. And I think the business model can be sustainable over a longer-term at this type of level.

I think those individual drivers to quarters that are better than that or quarters that are worse than that will sort of vary. But I think there's still opportunity on the operating efficiency side. And I think there'll be times where we can also continue to take advantage of some better raw material types of purchasing.

Q - Lauren Torres {BIO 7323680 <GO>}

All right. Thank you.

A - Frank Ravndal {BIO 19230519 <GO>}

Thank you.

Operator

The next question comes from Andrew Muench, HSBC.

Q - Andrew Muench {BIO 17481422 <GO>}

Hi, good afternoon. Thank you for taking this question. On Keystone actually, I have two questions. I see that you're obviously attracting new customers. It's a very good thing, but perhaps you can help us speak to the type of customer you're trying to recruit. And so like, what – for instance, let's say the quick service restaurants, when could Keystone supply to Chipotle? Do you see quick service growing a lot faster than QSRs?

And then the second question is, you said you're getting closer to the consumer and that's also a very good thing. So, what does it mean to get closer to the consumer? How has your innovation process changed? Thank you very much.

A - Frank Ravndal {BIO 19230519 <GO>}

Yeah, you bet. So, I think the Key Accounts growth in terms of the new customers, really fits a number of different channels. There's still a lot of concentration and a lot of growth opportunities in QSR space globally. So we've seen quite a bit of growth there. And we've had very high growth in the retail end of food service. So, where we provide either the whole birds of a deli section, that's been a growth area. And then we've had some penetration into convenience stores in certain markets in the world.

So, I think relative to that broader food service umbrella, we've seen growth opportunities in adding new customers across multiple places. What was your second question?

Q - Andrew Muench {BIO 17481422 <GO>}

On the topic of getting closer to the consumers, so – and I guess it kind of dovetails into the first one, which is we see more growth let's say in like a quick service restaurant than we do QSRs? So just that you're adding let's say new accounts, more restaurants, but has it reached a point where that industry kind of as a whole doesn't see as much growth as other places?

A - Frank Ravndal {BIO 19230519 <GO>}

Yeah, well so we are broadening out the type of channel like I mentioned earlier. I think the process relative to the innovation and getting and developing more consumer insight is to try and continue to add value to our customers. So, when we talk about getting close to the consumer it's still within a business-to-business environment as opposed to developing more direct, retail or branded. And so our consumer insights will be then to become better partners and over time with our customers about what are the right flavor profiles and product characteristics that they should be introducing.

Q - Andrew Muench {BIO 17481422 <GO>}

Got you. I guess, maybe just one last question, which is, do you worry at all that these customers obviously have a sort of – continue out there selling to, but why not look outside of that consumer? The consumer that the QSR addresses, to the broader consumer that where there may be other pockets of growth, because I guess, I worry that you're looking through the lens of your customer that may only be focused on a particular type of customer.

A - Frank Ravndal {BIO 19230519 <GO>}

Well, I think, I guess if they were only focused on the QSR, then that would be a true statement, but since those different channels do appeal to a different customer base, partially or certainly a different demographic, then as we're getting a broader set of clients, our antenna and our opportunity to develop customer and consumer insight increases. And we're, in fact, going to be getting and building a little bit more flexibility in terms of the types of product offerings that we have to fit that different consumer base. So, convenience stores, for instance, has a very different look to the product profile than the QSR.

Q - Andrew Muench {BIO 17481422 <GO>}

Great, and thank you very much.

Operator

The next question comes from Jose Yordan, Deutsche Bank.

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

Hi, good morning everyone. I have a couple – I mean one question on each business. On Keystone, I understand the reasons for the slightly better than expected margins during the quarter, but the top line declined, especially sequentially versus the third quarter seems a little overdone. I think it went down more than what I would have expected.

And I was wondering, given that the A.I. worries were not particularly new in the fourth quarter. Is there anything else behind the steeper sequential decline in top line, I mean, is it possible? Was it the pass-through of lower cost to McDonald's or was there any other factor involved there? That's my first question.

A - Andrew Murchie {BIO 18098471 <GO>}

Yeah, no. So, I mean, relative to the quarter-to-quarter comparison against fourth quarter, I think we talked about that, which was about 1% in terms of volume and about 3% in terms of revenue. Relative to a bigger drop from the third quarter, I think that some of those same factors are in there, just relative to pricing levels overall, volume in terms of the part sales, and then I think lower level of activity and some promotions across multiple markets and nothing big enough by itself to be an explanation, sort of a lot of different things that lead to that third quarter comparison.

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

Okay. Great. And then on the beef side, I actually would have expected a higher sequential increase in margin from the 10.5% of the third quarter, especially given that the comparison in cattle cost versus last year was much easier during the fourth quarter, and instead margins obviously went down over 100 basis points both year-on-year and sequentially.

So, I was wondering, if you could go a little more into what's happening there, perhaps, it sounds like Uruguay is a big part of the explanation. So I think if you could give us a little more color on what's happening in Uruguay and especially for how much longer is it going to be an issue?

A - Marcelo Di Lorenzo {BIO 16117381 <GO>}

Hi, Jose. This is Marcelo. Yes, I think you pointed out the main reason for the margin contraction in the quarter and the reason is Uruguay. Uruguay is improving, but it's improving slowly. Especially in the fourth quarter, we saw some improvement in December and we're seeing some improvement now from – in the first quarter, but it's a slow process.

I think the lower international meat prices, beef prices have also something to do with that margin contraction in Uruguay, coupled with in the past two quarters, a longer dry season which pressured cattle prices.

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

Great. So, what are cattle prices doing now in during the summer?

A - Marcelo Di Lorenzo {BIO 16117381 <GO>}

Yeah. Cattle prices are coming down in Uruguay and that's helping.

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

Okay, great. Thanks a lot.

Operator

Our next question comes from Eleanor Price, Insight Investment.

Q - Eleanor Price {BIO 21047560 <GO>}

Oh, hi there. Just a couple of questions. I don't know if you mentioned the number that you're expecting to spend on CapEx this year. I'm afraid I didn't catch it on the call. I also wondered if you could be a bit more specific about any plans for further debt reduction. I think that you've (53:49) just that you might look at further debt buyback.

And finally, on your export to China, can you comment on how profitable they are? I think I had heard somewhere that they are particularly profitable compared to exports to other markets. I just wonder if you could confirm that.

A - Ricardo Florence dos Santos {BIO 20008948 <GO>}

Hi, Eleanor, this is Ricardo speaking. I'll comment on the first part of that and I'll hand over to Martin to complement the second part. We gave to the market a commitment to reduce our debt to the end of 2016. However, I hope that you understand that we cannot be precise in terms of reach (54:44) that we intend to pursue on the reduction.

One thing that you all can be sure is that the company has been very conservative in terms of the cash that we have in our hands. You all know the scarcity that we have in the market on this and we intend to pursue this at the lowest possible cost, which means our goal is to be to continue to reduce the interest that we pay in our debt, up to the end of the next year. It has the reduction of $1.2 billion compared to the middle of the last year. I'm afraid that this is all that I can say at this point. I'll pass now to Martin.

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

Thank you, Ricardo. Just to answer to you the question, if I understand correct, why China is a very profitable market. As you know, when we produce or slaughter and deboning an animal in a slaughter house, we need to try to make the better mix on the prices regarding the market that we have. And for example the prime cuts of the animal that is about more or less 20 kilos or 100 kilo of beef that we have per animal.

Of course, the much better market that we have is Europe that we focus on the prime cuts over there, all the production is fresh and the hindquarter and non-hindquarter. But the rest of the animal in most part of the world, the consumption is doing by processing the beef, in different type, for example, hamburger, pork or whatever. And in this industry market, China and U.S. are the better market for the – regarding the price when you are thinking to export from this region of the world.

For that, China today, in this kind of beef is a much better prices and margin than we have, if you compare it with other margins and the price we have but also in Uruguay, that is allowed to export to U.S. and other countries than Brazil, it's not really approved.

China is a very strong market for us. Uruguay is more than 50% of the volume of the beef is going to China. China have a strong consumption now. It's growing. More people is starting to make a consumption of beef protein year-by-year and for that we have a lot of expectation that China will continue doing a strong demand from this region of the world. I don't know it's clear to you or not.

A - Ricardo Florence dos Santos {BIO 20008948 <GO>}

Yeah, I think there was another question, which was the guidance of CapEx for the year.

Q - Eleanor Price {BIO 21047560 <GO>}

Yeah.

A - Ricardo Florence dos Santos {BIO 20008948 <GO>}

The number is between R$450 million and R$600 million.

Q - Eleanor Price {BIO 21047560 <GO>}

Okay.

A - Andrew Murchie {BIO 18098471 <GO>}

And then did you have a question with in and around Asia?

Q - Eleanor Price {BIO 21047560 <GO>}

No, that's fine. I just wondered, are there any specific projects that you're generally focusing on with your CapEx or is that just – how much of that is sort of maintenance?

A - Ricardo Florence dos Santos {BIO 20008948 <GO>}

We don't provide that breakdown, but what we can say is that the most of the CapEx will be used at Keystone for organic growth.

Q - Eleanor Price {BIO 21047560 <GO>}

Okay. Thank you very much.

Operator

Our next question comes from Jose Yordan, Deutsche Bank.

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

Hi, if I can just have a quick follow-up. I saw some of the earlier headlines I guess from your press conference this morning et cetera, about the pace of the asset sales in Argentina going slower than expected I guess and that you'd be doing an assessment. Just wanted to see if you can give us anymore color as to what's happening there and when to expect those assets to be finally sold?

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

Okay Jose, its Martin. The transaction is, we are working on the transaction. We have a little bit delay because these are very complex transaction, because it involves four units from Argentina, three slaughterhouse and one (60:14) that we are planning to (60:18) and independent of the transaction is quite difficult. We are a little bit delayed in our plans, because we have the transition from one new government in December in Argentina, changed a lot of people in the official offices and we are waiting for some approvals to make the transaction. Everything is under the plans, except the time and we expect to finish in the next weeks.

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

Oh, great. So, sometime in the first quarter.

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

We hope so.

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

Okay. Sounds good.

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

Just for your information, we closed already the operation of Marfrig that we sell in December. Marfrig (61:22) business.

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

Marfrig Foods, okay. Thank you.

Operator

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

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

Thank you. Okay. In 2015, we moved forward into our Focus to Win plan and promoted a major transformation at Marfrig. We reduced our scale, but remain a lower and diversified company. The year 2016 will continue to be one of the transition in which we continue to have the fruits of this transformation. Our focus will remain on our commitment to deliver result, lowering our gross debt and leverage ratio and on generation of positive free cash flow.

We remain committed to strengthen Marfrig Global Foods with profitability and we believe the business unit will support the delivery of this goal. Keystone Food is one of the largest global supplier who have value protein product to the fast food retail and food processing industry and Marfrig Beef offer a portfolio of exceptional product and is recognized around the world for its quality and commitment to serving the entire value change.

I would like to thank to you for the participation today and, of course, we wish from here to all of you an excellent year and we'll be in contact in the next post or personally in the near future. Thanks.

Operator

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