Q3 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

Other Participants

- Alexander Robarts, Analyst
- Andrew C De Luca, Analyst
- Antonio Barreto, Analyst
- Lauren Torres, Analyst
- Pedro Leduc, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to Marfrig Global Foods SA Conference Call to present and discuss its results for Third Quarter of 2015. It's worth mentioning that in compliance with Law 11,638/07, the financial statements reflects the adoption of international accounting standards, IFRS, and have 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 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, Chairman of Marfrig.

Frank Ravndal {BIO 19230519 <GO>}

Marcos will make some opening comments and I will translate for him.

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

Thank you, Frank. Good morning, everyone. It's with great satisfaction that we're announcing the results of the third quarter.

Thus far, I'd like to congratulate all of the team across Marfrig for the good performance on the solid results. An important quarter to reinforce the progress on the strategy and on the Focus to Win. I'd like to also reinforce my personal commitment and that of the board for the continuous improvement in financial position, in the financial discipline to lower the interest rate and improve the yield curve and to continue with the organic growth.

I'd like to pass the word now to Martin Secco, Global CEO.

Martin Secco Arias {BIO 18098476 <GO>}

Thank you, Marcos. Thank you, Frank. Good morning, ladies and gentlemen. I would like to start by thanking everyone who participate in another Marfrig conference call. Today we will comment on results for the third quarter for the first nine months of 2015.

On the slide three, Marfrig today has a simple and more focused operation with two business units, Keystone and Marfrig Beef, each one representing today approximately 50% of our total revenue. Marfrig remains highly globalized with operational presence in 11 countries and stand as one of the most diversified and largest company in the global protein market.

The group strategy is to continue growing globally in value-added protein products, increasing its focus on foodservice segment and taking advantage of the highly competitive and geographically diversified base (05:23) to supply beef from South America. I believe Marfrig is very well positioned to capture existing opportunities in the global market, given our diversified position both geographically and in term of protein type.

On slide four, we summarize the pillar of our strategic plan, Focus to Win, where the purpose is to maximize value of all our shareholders. We remain very focused on implementing operational improvement on Marfrig Beef and obtain profitable organic growth at Keystone. The action adopted on Marfrig Beef, such as productivity agenda, the optimization of the production facility and the better sales mix with a focus on profitability continued to show very good results. The performance achieved in the third quarter were strictly (06:36) focused on profitability and firm commitment to cost discipline and the ongoing effort to optimize operation at our existing assets.

As part of the strategy to improve our capital structure, after the closing of the sale of Moy Park on the last September 28, Marfrig began the first phase of its liability management process, which in total should reduce gross debt by US$1.2 billion over the next 12 months. We will comment in more detail on the next slides.

Marfrig present again another quarter of strong growth in consolidated net revenue and adjusted EBITDA. Net revenue advanced 30% year-over-year and EBITDA growth 40%. All our operations performed very well with consolidated EBITDA margin expanding 70 basis points to 9.6%. Cash flow in the quarter consider only continued operations was positive R$116 million.

Keystone continue to post strong growth benefiting from its strategies to expand sales volume in Asia and key accounts globally. Keystone EBITDA amounted to US$53 million, growing 41% year-over-year. This result reflect Keystone strategy and operational discipline as well as a low volatility on its business model.

Marfrig Beef post EBITDA of R$284 million with EBITDA margin of 11.6%. The solid performance of – reflect the effort to capture operational efficiencies, gains and the focus on profitability and cash generation at the expenses of volume. The action adopted in the recent quarters continued to appear in the results. The full year operation performance combined with the proceeds from the Moy Park sale lead the company to post net income R$186 million in the quarter, reducing in net loss year-to-date.

Regarding the liability management process recently announced in the first phase which was conclude during October 2015 and that will affect the result of the fourth quarter 2015, the company successfully and opportunistically repurchased US$406 million in senior notes.

On the slide six, considering both the combined operation and continued operation, the results achieved are in line to reach our guidance for the year. Free cash flow from these operations in the first nine months of the year was R$186 million achieving ahead our full year target in the first nine months of the year.

Considering only the continued operation and excluding the effect of the discontinued operation for Moy Park, free cash flow in the first nine months of the year was R$70 million. The result is very strong, even it does not include the benefit from the lower interest expenses resulting from the Moy Park divestment. These results also demonstrate the strong cash generation at Marfrig Beef and Keystone. Adjusted EBITDA margin from the first nine months of 2015 was 9.2%, which is about the upper limit to the guidance range of 8% to 9% of the year.

Combined CapEx in the year today was R$538 million. Despite the sharp depreciation in the Brazilian real, we are working to keep the total amount of CapEx for the year within our guidance range. The guidance for net revenue considering the combined operation should also be delivered.

I will pass now to Marcelo Di Lorenzo, our Strategic Planning and Investor Relation Office, who will comment on the consolidated financial performance of the Marfrig Group.

Marcelo Di Lorenzo {BIO 16117381 <GO>}

Thank you, Martin. Good morning, everyone. I'm on slide seven. This slide shows the third quarter results which as we mentioned were very strong, very solid. Net revenue once again posted strong growth and reached R$4.9 billion in the quarter, an increase of 30% year-over-year.

The lower sales volumes which was affected by our decision to optimize our operations and improve the profitability of our assets in Brazil was offset by the positive effect from the Brazilian real depreciation on export from Brazil, by the ongoing efforts to reduce cost and expenses and by the continued good performance at Keystone. Year-to-date, the continued operations posted net revenue of approximately R$14 billion.

I'd like to highlight that even after this divestment process, Marfrig remains a global company. Our international operations accounted for 61% of the group's revenue and around 80% of the group revenue is linked to currencies other than the Brazilian real. It's also noteworthy that in this quarter, Keystone's revenue represented more than 60% of the group's total revenue.

Consolidated adjusted EBITDA in the third quarter was R$475 million, representing strong growth of 40% compared to the same quarter last year. Adjusted EBITDA margin stood at 9.6% driven by margin expansion at both Marfrig Beef and Keystone business units. The main factors contributing to this performance were the firm commitment to cost discipline, the weaker Brazilian real and the margin expansion driven by a better sales mix and production facility optimization in Brazil.

It's important to highlight our ongoing efforts to capture operational efficiency gains under the strategic plan, Focus to Win. These efforts led to a reduction in SG&A expenses of R$60 million in the first nine months of the year compared to the same period of last year despite of higher inflation in Brazil and a very large depreciation of the Brazilian real.

In the first nine months of the year, Marfrig posted adjusted EBITDA of R$1.3 billion, an increase of 33% with a margin of 9.2%, up 50 basis points from 8.7% in the same period of last year. In the next slide, I would – the net income for the quarter and for the first nine months. The operation improvement and the positive impact of around R$1 billion (15:13) impact of the gain in the sale of Moy Park of around R$1 billion net of taxes led Marfrig to post net income of R$186 million in the quarter even after the strong devaluation of the Brazilian real.

Year-to-date, Marfrig posted a net loss of R$391 million, which is affected by the net financial expenses arriving from the impact of the currency depreciation. The amount, however, is 14% lower than the same period of last year.

Before moving to the next slide, I'd like to pass the call over to Frank Ravndal, Keystone's - Keystone Foods CEO, to comment on the results for his unit.

Frank Ravndal {BIO 19230519 <GO>}

Thanks, Marcelo. Good morning, everyone. The third quarter was another strong quarter for Keystone. We grew adjusted EBITDA 41% in U.S. dollar terms and improved adjusted EBITDA margin by 160 basis points over last year. Similar to the second quarter, significant improvements in commodity input cost in the U.S., continued volume growth in Asia, and strong double-digit global key account growth were all key drivers for our success this quarter.

In U.S. dollars, net revenue increased 12% over last year's quarter, increasing to $697 million. We continued to have positive momentum in our APMEA business with 31% volume growth for the quarter. Our businesses in China, Malaysia and Thailand all posted solid double-digit growth and led our gains in the region.

In the U.S., solid poultry volume performance in the QSR channel and continued strong expansion in the retail channel also contributed to the result. Gross profit for the quarter was $53 million, a 42% increase, netting 160 basis point increase in gross margin to 7.6%. And there were four key drivers to the improvement in margin; first, lower commodity input cost in the U.S. bolstered the results.

Outside meat cost was lower by 20% per pound and feed cost declined by 16% per ton. Second, we experienced improved mix in our key account business in the U.S. Third, we had an unrealized mark-to-market loss on grain hedge contracts of $2.4 million during last year's quarter, resulting in a positive $2.4 million variance year-over-year. And finally, the 31% volume growth in our APMEA business rounded out the improvement in gross margin.

Keystone managed significant gross profit and margin gains during the third quarter in an overall market in the U.S. where chicken prices were significantly lower than last year. The closure of export markets and higher inventories in cold storage across the industry have resulted in lower market prices not only on dark meat, but also on breast pricing during the third quarter. Lower raw material and feed cost for our further processing operations mitigated the impact of lower pricing during the quarter.

Turning to SG&A, SG&A as a percent of net revenue came in at 2.4%, which is in our normal range. Last year's result of 3% of net revenue included a set of costs that has since been reclassified to cost of goods sold.

All of the aforementioned factors drove the 41% increase over last year's adjusted EBITDA, which increased to $53 million. Our adjusted EBITDA margin also rose 160 basis points to 7.7%.

Overall, we're pleased with the third quarter performance and feel it was a strong quarter. Our production base in Asia and our strategy to focus on key account growth are paying off.

Additionally, through the first nine months of the year, lower commodity costs in the U.S. have driven gains in our profitability. As we look to the end of 2015, we expect the magnitude of some of those benefits in the U.S. to abate then (19:23), while we continue to outperform in Asia. And net result should be solid performance for 2015 as a whole.

Before moving to the next slide, I'll pass the call over to Andrew Murchie, CEO of Marfrig Beef Brazil, who will comment on the results of that business unit.

Andrew Murchie {BIO 18098471 <GO>}

Thank you, Frank. Good morning, everyone. In this quarter, Marfrig Beef presented net revenue of R$2.4 billion, up 3% from the third quarter of last year. In the first nine months of 2015, the division's net revenue came to R$7.2 billion, up 8% over the same period of last year.

The lower sales volume due to the company's decision to optimize its production facilities in Brazil, which is in line with the current availability of cattle supply in the country, was offset by the increase in average prices.

The higher price is explained by the Brazilian real depreciation and the company's strategy to focus on more profitable channels such as food service, small retail and exports. Our slaughter operation in Brazil reached 93% utilization rate based on the effective capacity available in this quarter.

Know that only 39% of the business unit revenue related to the Brazilian domestic market, which reflects the diversification of our sales portfolio and the strategy to maximize profitability.

Marfrig Beef posted adjusted EBITDA of R$284 million in the third quarter of 2015, increasing 13% versus third quarter of 2014. The lower gross income affected by the lower margin at the international unit was offset by the reduction in sales in SG&A expenses, reflecting the ongoing process to better manage cost and expenses based on implementing of series of actions at the units in Brazil launched in the middle of the second quarter of 2014.

In this quarter, we obtained around R$21 million in savings additionally to the R$27 million in savings obtained in the first half of the year.

In the first nine months of the year, EBITDA was R$762 million, advancing 19% year-over-year. Adjusted EBITDA margins to the 10.6%, which reflects the good moment in the cycle and the discipline adopted to maximize business profitability.

Let's turn to slide 11 where I will comment on the performance of Marfrig Beef Brazil, which is responsible for around 80% of its unit revenue. Net revenue from Brazil domestic market came to R$965 million in the third quarter of 2015, down 12% versus the same period last year.

The lower sales volume, which (22:50) the slowdown in the Brazilian market and reflects the measurements adopted to optimize production capacity given the lower cost of supply in the country, was partially offset by the high average price resulting from the strategy to improve the sales mix.

The foodservice, small retail and export channels, which are the focus of Marfrig Beef growth, accounted for around 80% of sales revenue in the segment of fresh meat, reflecting the company's effort on prioritizing profitability.

Sales in the foodservice channel accounted for 42% of the market – the domestic market revenue, an increase of around 10 percentage points versus the same quarter last year. Meanwhile, revenue from export accounted for 49% of the unit revenue, which reflects our strategy to capture opportunity with good profitability in the international market.

Sales volumes, however, declined due to optimization in production facilities, as recently explained.

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

Ricardo Florence dos Santos {BIO 20008948 <GO>}

Thank you, Andrew. Go now to the slide number 12. Our free cash flow from continued operations in the quarter amounted R$116 million, with R$569 million of operational cash flow financing the CapEx of R$107 million and the financial interest of R$349 million. Adding the proceeds from the asset sales, total free cash flow amounted R$4.9 billion in the third quarter of 2015.

With this result and despite of the exchange variation of R$2.65 billion with no cash effects, net debt was reduced from R$9.37 billion in the second quarter to R$7.17 billion in the third quarter. Or if you take the same figures in U.S. dollars, it would be a reduction of 40% from $3 billion that we had in net debt at the end of the second quarter to $1.8 billion at the end of the third quarter.

In the accumulated figures in the nine months year-to-date, we have free cash flow of R$378 million adjusted to R$70 million in the continued operations, excluding the transactions of R$308 million that we have on the discontinued operations.

Moving now to the slide number 13, after receiving the net proceeds of the asset sales of $1.21 billion (26:33) in last September 28, in the last days of the quarter, cash and equivalents amounted R$7.9 billion, and this amount is enough to cover the maturities up to 2018, which means 3.3 years of coverage.

The capital structure continues to present improvement every quarter, and at the end of the third quarter, the current liquidity was 2.32 times, an improvement of 0.53 times compared to the second quarter. And also the average cost of our debt was reduced by 30 basis points to 7.9% in the same period. Our net leverage measured by the net debt divided by the annualized EBITDA of the continued operations was 3.77 times.

I'd like to stress that the difference between the average exchange rate and the period end exchange rate was to 11.8% (28:08). We had R$3.54 per dollar for the average and R$3.97 for the final exchange rate. Adjusted to the same basis, our net leverage is 3.37 times in the - at the end of the third quarter that we believe that's the best way to measure the leverage of the company.

The proportion of the maturities in the short-term is 15.6%, and this is fully aligned with our goal to have between 15% and 20% of the total debt in the short-term.

Right after the receivable of the net proceeds of the asset sale, we started a tender offer, opportunistic, to buy back our bonds of 2018, 2019, 2020 and 2021. I will give you more details in the next slide.

Now moving to the slide number 14. The bonds that we purchased in the tender offer, they amounted $406 million at a cost 7.6% below face value, which means $30.7 million of savings, thus, will be (29:51) figures in the fourth quarter, leading to annual interest savings of $33.7 million only related to this offer. It's very important to stress that the net present value of the bond standard in this offer was $110 million or positive 27%.

Beside this success, we were very pleased with the support provided by our bondholders to the immediate execution of the tender offer after the receivable on the proceeds. And the face value of all our senior notes after the closing have increased by up to 700 basis points compared to the beginning of the offer.

I will now pass over to Martin, the CEO of Marfrig Global Foods.

Martin Secco Arias {BIO 18098476 <GO>}

Thank you, Ricardo. On the last slide, I will comment on Marfrig's differentials and priorities. In term of differentials, even we are with a strong focus on productivity, on basic on reducing our cost, Marfrig continued with a high commitment on sustainability and animal welfare.

One of the example of that is in the last fair of Anuga in October, we opened to the market, a line of frozen hamburgers making in our customer in Germany under the name of the brand Frozen Butcher, a line of hamburgers with Rainforest Alliance Certified beef.

Marfrig is a pioneer company in Brazil to make this project, and it's another example of our commitment on this type of product.

This is just one of the examples of our efforts to being made in value front with Rainforest Marfrig (32:25) commitment to prioritize client satisfaction and expectation (32:32). Regarding the global economy, despite the still challenging scenario, the outlook for the animal protein industry remain positive. Growth in the mid income level in emerging market, particularly in Asia, should continue to contribute to this scenario. It is important to highlight that in the last week, another plant of Marfrig Beef in Brazil, our third plant, was certified to export fresh beef to china. In the international beef market, we expect a favorable scenario.

The lower cattle supply in Australia and the future opening for the United States market for Brazilian beef, as well as the growing demand from China, are positive factors for the industry in Brazil. (33:31) market balance between supply and demand associated with the Brazilian real depreciation and the opportunity arising from the international market should benefit the players with higher exposure to export.

In the global poultry market, the perspective is of a normalization of margin after three consecutive years of expansion. At Keystone, we expect profitability not to be strongly like the last two years. Our factory to remain related to the impact on leg quarter prices while export market are still closed due to the outbreak of avian flu in the U.S., which occurred in the first half of the year.

In this context, we remain committed to the strength Marfrig Global Food by focusing on profitability to the ongoing capture of operational efficient and productivity gain at Marfrig Beef by prioritizing growth in the food service channel by capturing opportunity in the international market supported by the future open in the U.S. market and expansion of export to China; expanding Keystone food service business in both the United States and Asia; and maintain a strong focus on financial discipline, cost optimization, delivering (34:06) and free cash flow generation. In this scenario, our expectation is that Marfrig present a solid result in 2015 and also a good result in 2016.

I would like to thank you for the share with us, the presentation. And now, we start the questions that you (35:32). Thank you very much.

Q&A

Operator

Thank you. Ladies and gentlemen, we will now begin the question and answer session. [Operator Instruction] The first question comes from Lauren Torres, UBS.

Q - Lauren Torres {BIO 7323680 <GO>}

Yes. Hi, everyone. If I could just ask first about the current structure of your business. You've mentioned before that with Marfrig Beef and Keystone, you've gotten it to where you needed to be, but we're hearing now about the sale of your operations in Argentina and Marfood in U.S. So just curious if you have buyers of those assets, if there is other assets that you're looking to sell, just a little bit of a heads up, I guess, on kind of what (36:22) may need to change at Marfrig with respect to what businesses you have.

And then if I could just ask a question on Marfrig with respect to the operational efficiencies. It seems like you've done an excellent job realizing those efficiencies. Just curious to get an update of where we are in that process and if we should expect more to come, or the changes you made will just continue to flow through and help those results? Just to get that perspective would be great. Thank you.

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

Hi, Lauren. This is Marcelo. How are you?

Q - Lauren Torres {BIO 7323680 <GO>}

Good, thanks.

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

On your first question, I think there are no more assets to be sold. I think what the decision to really put both the Argentine assets and the beef jerky asset in the U.S. up for sale are related to our strategy of focusing on profitability and increasing return on assets. Those are relatively small assets. If you look at Argentina, we are talking about 3% to 4% of the global revenue, and even smaller in terms of contributing to EBITDA. In fact, those two business combined, they had a negative EBITDA.

We have – we are in conversations with two interested parties to buy the businesses. And the conversations are ongoing, still nonbinding (38:10), but we believe that, yes, we can sell these two businesses. Okay? And again, I just want to reinforce that these are small assets that we consider them at this point in time, non-core, and there are no other assets that we will sell. Okay?

In terms of operational efficiencies, I think this process started over a year ago. I think a lot has been achieved in terms of cost reduction and efficiencies. And I think obviously, going forward, it's harder to really get more. The company though is highly focused on improving efficiencies and will continue to look for opportunities where they greet them (39:15), and they are – and they do exist. I think now, the magnitude of those improvements going forward should be smaller, okay?

Q - Lauren Torres {BIO 7323680 <GO>}

That's great. And if I can ask just one housekeeping question. You mentioned that you are not changing and you expect to deliver your previously announced guidance. So does that mean we look at your nine months combined or actual then to get to your full year target range?

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

We're talking about the guidance for the year. We have not changed that guidance. We didn't feel that, that was necessary. If you look at the combined number, they point to us to achieve the guidance, and in terms of free cash flow, we are ready. We think the range that we promised, if you look at the margins, we are slightly above. And revenues, with the revenues of the continuing operations in the fourth quarter, we should be at the top of the range or even slightly above the range. So we didn't feel the need to really redo those and obviously, we will assess the need to provide new guidance to the market, more long-term guidance. And if that is the case, we will do it the beginning of next year.

Q - Lauren Torres {BIO 7323680 <GO>}

Okay. Very good. Thank you.

Operator

The next question comes from Alex Robarts, Citi.

Q - Alexander Robarts {BIO 1499637 <GO>}

Thank you, and hi, everybody. I also have two questions and I was hoping really to start on Brazil. The gain that we are getting from the Gravos (41:04) program and such and the efficiencies clearly have been helping the domestic beef business. And the question relates to kind of the short-term outlook for that Brazilian beef margin. I guess, it was interesting on the Brazil Portuguese call earlier, you mentioned that the fresh beef volumes had been – are falling about 30% year-on-year. We – I mean, clearly the export shift in – is part of that, but I think there is another situation with the cattle cost, I mean, I guess it was still at the peak level here of R$150 per arroba. We are coming into the rainy season and our chance (41:56) is that the cattle cost can get higher. And then as you just kind of mentioned, the fourth quarter is the first quarter where you cycle these savings. I mean, how should we think about the short-term margin evolution in Brazil domestic beef thinking about these factors? So that's the first question. And then I have one on Keystone USA. Thank you.

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

Well, in terms of the domestic margin, I think we had a very strong third quarter in Brazil. Despite of the higher cattle prices, I think we – seasonally, we are seeing a slightly increase, but that you also have the benefit of a higher average exchange rate. Don't forget that the exchange rate for the third quarter was R$3.55. And we are now talking probably something at least year-to – quarter-to-date, we are about R$3.80.

So that has a positive impact on the numbers. On top of that, I think most of the – well, not most, but all of the restructuring that went through to the third quarter, obviously, has always some impact on operations. And I think this is going to be a clean quarter in that regard. So we are positive about the prospects of the Beef Brazil business in the fourth quarter and the next year as well.

Q - Alexander Robarts {BIO 1499637 <GO>}

Do you have a feeling inside (43:31) that we could get higher on the cattle cost or...

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

I can't – Alex, sorry, but we are not going to give guidance on a quarterly basis. It's something that we don't do, but we have – we are feeling very positive about the quarter.

Q - Alexander Robarts {BIO 1499637 <GO>}

Fair enough. Okay. Thank you.

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

And also, I think what's important to mention is that the Uruguayan business in the third quarter hurt the margin, the results, and we are seeing a recovery. We saw it already in October, not to the levels that we like, but we – and we expect (44:08) that the November and December will be strong months in Uruguay as well, helping overall, the margin for the beef division.

Q - Alexander Robarts {BIO 1499637 <GO>}

Okay. Okay, fair enough. No, thanks for that. The Keystone, you had a question – I mean, I – the first driver, you talked about just on lower commodity costs, I guess, the grains down 16%, outside meat cost down 20%. How are you looking at a kind of six-month to 12-month period for those grain costs? And I guess it's – obviously, there is future prices and such, but I guess I'm wondering this year, we're going to have El Niño and it has various impacts in various countries. But I mean how are you thinking about just generally your cost structure from these raw materials in Keystone Asia over the kind of shorter term?

And kind of combining the answer with the pricing pressures from the weak dollar, as you mentioned the supply is increasing, as I guess there's some flow-back from the export market and just trying to understand the pricing product dynamics of these two trends that you've talked about in the short term. Thanks very much.

A - Frank Ravndal {BIO 19230519 <GO>}

Yeah, you bet. Thanks for the question. This is Frank Ravndal. So let me start with the grain, I mean our outlook over the next six to nine months and we're the markets have been trading, it feels pretty good in terms of what that input is likely to mean in terms of cost structure. So I think favorable weather, South America very good supply levels coming off of the harvest, so all of the indicators in the winter market has been trading, feels like that's a fairly benign type of input and risk.

And relative to the U.S. situation in terms of supply and, therefore, the overall at least within the U.S. let's say the component of raw material cost outside of the commodity grain, that is looking – again, I think in general the industry is looking at a lower increase to supply in 2016 versus what we saw in 2015. So that should help take a little bit of the pressure off of the current situation that we're seeing.

So we're expecting that to stay in general for where we have our exposure, which is really on the late quarter for the things that we don't have sort of the complete protection in terms of the ability to pass all of those costs on through our further processed (47:17) type of product, which is clearly the focus of our business model, that we're seeing likelihood over the next couple of months of continued weak pricing on what we get for the sale of those late quarters.

And then I think that lower supply relative to 2015, heading into 2016 should help a little bit and also I think you mentioned kind of the weak dollar impact but then there's also the avian influenza impact of the – some of the export markets being closed. See a couple of positive signals recently. South Korea making an announcement about starting a process to open.

So then depending on whether if the migration starts to pick up speed here whether there's any other instance or not, certainly the reopening of some of those export markets will help take some pressure off the U.S. market as well. So we're anticipating a continued sort of low price environment over the next couple months here and then depending on the reopening of some of those export markets, maybe a little bit of that pressure coming off.

Q - Alexander Robarts {BIO 1499637 <GO>}

Very helpful. Thanks a lot. Thank you.

A - Frank Ravndal {BIO 19230519 <GO>}

Thanks for the question.

Operator

The next question comes from Antonio Barreto, Itaú BBA.

Q - Antonio Barreto {BIO 17449798 <GO>}

Good morning, everyone. Thanks for taking my question and I'm sorry if you have addressed this before on the Portuguese call. I was not able to connect. My first question is about the optimal level of your cash holding versus liability management. We know that it is the first part of the liability management in the fourth quarter, but you still have a considerable amount of cash holding.

And I would say that that's a good thing in this current scenario with some credit restriction not for only Marfrig but for the entire market I would say. But how do you guys see the optimal level between those cash holdings and more liability management in 2016?

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

Hi, Antonio. This is Ricardo speaking. We gave to the market our intention to buy back between $1 billion and $1.2 billion of our debt. We are barely on half of this at this point. This means that we also have a significant amount to buy back up to the end of the next year. Excluding this amount, we would remain with about the same coverage that we have compared to the short-term debt.

But it's very important to stress that we have unused the revolving line of credit in a significant extent on Keystone Foods, which amount at this point $630 million of which only half of this is used at this point. This is a reserve that a company has and that's why we understand that we are very comfortable in this area as well, given the intention of buyback of our debt that we provided to the market. This is something that I have discussed entirely in our financial committees and with the board of directors as well.

Q - Antonio Barreto {BIO 17449798 <GO>}

Okay. Thank you very much. That's very clear. And my second question is have you guys done any kind of calculation or estimate regarding the potential effect of the Trans-Pacific Partnership over your assets because we know that you have the assets in Keystone in the U.S. and you have several countries in Asia as well that could be inside the Trans-Pacific. So have you guys done any estimate on that at all?

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

We didn't do a specific details analysis also because it is really hard to estimate precisely the impact. But what we can tell you, Antonio, is that we expect no effect on the beef business. And for Keystone, given that Keystone is in the U.S. and in Australia, it could be then potentially be benefited by that.

Q - Antonio Barreto {BIO 17449798 <GO>}

Okay. Thank you very much. Just one last quick question. I have seen that you guys have still on the balance sheet some net assets held for sale. If I'm not mistaken, the net value would be around R$170 million. Is that still part of the Moy Park sale that is still...?

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

No, no. This is Argentina, Argentinean assets and beef jerky assets.

Q - Antonio Barreto {BIO 17449798 <GO>}

Okay. The two businesses that you commented before. Okay.

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

(52:37), yes.

Q - Antonio Barreto {BIO 17449798 <GO>}

Okay. Thank you.

Operator

The next question comes from Andrew De Luca, Credit Suisse.

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

Hi. Thank you for taking my questions. Actually most of them have been answered, but I was wondering if you could just give us a little bit additional color on what was happening on the gross margin side of the business. So we saw the 130 basis point contraction, and I think you mentioned that there was a more adverse seasonality effect in Uruguay. So I was wondering if you could just tell us exactly what happened in that market and some of the headwinds that you are seeing there. Thank you.

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

Yeah. No, it's exactly what you mentioned. It's essentially, in the Uruguayan market, you had – is very abrupt (53:29) that was stronger than expected. And with that, you have issues with availability of cattle because of the quality of the pasture combined with a domestic market that had some pricing pressure, especially because the government is trying to contain inflation there. So the combination of higher cost with contained prices resulted effectively in significantly lower gross margins, which affected the overall beef margin. If you look at Brazil, Brazil has very healthy margins with very healthy EBITDA, which was when you combine with Uruguay result in the 11.7% result.

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

Okay. And just a follow-up, how much of the 130 bps split contraction is attributable specifically to Uruguay?

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

Entirely.

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

Okay. That's helpful. Thank you.

Operator

The next question comes from Pedro Leduc, Banco JPMorgan.

Q - Pedro Leduc {BIO 16665775 <GO>}

Hi, thank you very much, impressed with the results. Quick follow-up on the Brazil beef business, some massive reduction volumes there, of course, related to your capacity adjustment (55:12) profitability, wondering if the capacity that you finished 3Q, is this the one that you would like to carry on forward or is there more shutdowns to be made? That would be basically. Thank you.

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

Well, Pedro, as we mentioned in the call, the restructuring in terms of plant optimization has been completed and that was – I keep – (55:40) during the third quarter, we still had some movements there. But going forward, we believe that we have the right capacity given what the market allow us to buy in terms of cattle availability. If over time cattle availability improves, which we expect to happen at the end of next year or maybe 2017, we may consider reopening one or two plants.

Q - Pedro Leduc {BIO 16665775 <GO>}

Okay, okay. Then I just got a follow-up on the Keystone, nice strong volumes both in Asia and the United States, if you could tell us if perhaps there's anything non-recurring in there and if your current installed capacity accommodates more quarters of this and how are you actually coping with 30% higher volumes in Asia so you're (56:32) relying maybe on third party partners there, et cetera? Thank you.

A - Frank Ravndal {BIO 19230519 <GO>}

Pedro, could you repeat the first part of your question?

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

Yeah, it was hard to hear.

Q - Pedro Leduc {BIO 16665775 <GO>}

Yes, that was regarding volume growth in Keystone, both United States and Asia, first part of the question will be if there's anything non-recurring to this heightened volumes, the acceleration, no, that we saw this third quarter. And number two of that same question is if your current installed capacity does accommodate further quarters of such growth and you're probably relying on partners for Asia, no? Thank you.

A - Frank Ravndal {BIO 19230519 <GO>}

Yeah. No thanks. First of all, I wouldn't say there is anything non-recurring in the results for the third quarter. What you have is really if you'll recall back to last year, that is off a particularly weak quarter in terms of what started to drive that significant volume growth across APMEA.

But really a big change in that particular period was China. And there had been a big event in the third quarter of last year that really brought demand down and there was sort of a need and an opportunity for Keystone to step into some significantly higher volumes for several key customers. And we were able to do that. And we've been able to continue to maintain that higher volume. So even with it being about a 31% increase in Asia from the quarter-to-quarter comparison, if you stretch that out over the nine-month comparison, it's still about 30%. So it's not really just the one quarter type of comparison.

So I would say that we continue to focus on what we can do to keep the volume growth that we've had. And see what we can do but I wouldn't call anything sort of non-recurring. It's just the – as you grow that much, you have increasing challenges in the future of how you're going to keep adding to that volume and do it profitably.

And the second part, sorry, the second part of your question was around the capacity constraints to do that. So within what we look at as our projection so – and over the next year we have ongoing CapEx needs and requirements that we look at to be able to be in a position to have assured supply for the marketing efforts that we're making with customers. So don't see anything out of the normal amount of growth and reinvestment that we need to do around capacity.

Q - Pedro Leduc {BIO 16665775 <GO>}

Thank you very much and congrats again.

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. I would like to thank you again all of you to share this time with us. And we keep in touch through the normal channels for next days, if you have any further questions or even comment for our result of the third quarter of 2015. Thank you very much.

Operator

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