Q4 2016 Earnings Call

Company Participants

- Andrew Murchie, Chief Executive Officer
- Eduardo Miron, Chief Financial and Adm. Officer and IRO
- Frank Ravndal, President & Chief Executive Officer
- Marcos Antonio Molina dos Santos, Chairman
- Martin Secco Arias, Chief Executive Officer

Other Participants

- Alessandro Arlant, Analyst
- Alexander Robarts, Analyst
- Ian Luketic, Analyst
- Isabella Simonato, Analyst
- Thiago Duarte, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good afternoon, 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 the Fourth Quarter and Full Year of 2016.

The audio for this conference is being broadcast simultaneously through the Internet in the website, www.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 session. 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 belief 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 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 (01:37-01:43) 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 Global Foods' Chairman. Please, Mr. Molina, you may now begin your conference, sir.

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

Good afternoon. We announced today the results of 2016 and the end of a cycle in Marfrig's history. While we, have beyond the challenges, are paying more than BRL 2 billion of interest in our debentures, we have invested more than BRL 2 billion in CapEx with the challenge of keeping positive cash flow, lowering our indebtedness, improving our financial metrics and keeping a very rigorous financial discipline.

We have accomplished all the challenges and met the guidance that we imposed to ourselves, under a very volatile and challenging environment that Brazil has faced over this past year. We have done a very good job and have succeeded in our challenges, based on our Focus to Win plan. I'd like to take the opportunity to thanks all our teams across the globe, including our partners, our stakeholders and the financial industry that has given a lot of support to the company across these years.

Now, we are turning the page to a new cycle, but keeping the financial discipline and being - under a very conservative approach - taking a very conservative approach. This new phase is going to be focused on organic growth, mainly on the regions of the U.S. and Asia, where we have a very solid base in a long-lasting history of more than 60 years with our operation Keystone Foods, a global company with high level standards of quality, with a very strong history of innovation, an outstanding footprint and quality of the plant. All that give us the confidence of having exceptional results for the future.

Talking now about the South America, we will continue looking for efficiency and improvement. We will soon present our plans for - our strategic plans, which is at the end of the day based on return to the shareholders and stakeholders.

Thank you all again and I'd like to pass the call to Martin Secco, CEO of the company.

Martin Secco Arias {BIO 18098476 <GO>}

Thank you, Marcos. Good afternoon, ladies and gentlemen. I want to start by thanking everyone for participating in another earnings conference call of Marfrig Global Foods.

Today, we will be commenting on the result for the fourth quarter 2016 and for the fiscal year of 2016. With me are the CEOs of the Division, Frank and Andrew and our Global IRO and CFO, Eduardo Miron, and our IR Manager, Roberta Varella.

Before I begin the presentation, I want to highlight that despite a challenging year, Marfrig was able to deliver the result as promised. That reflects its strength like the geographic diversification with production sites across the globe, its portfolio diversification with high-value processed products and also the effort and the commitment of all the employees at all the levels of the organization.

Now, I will pass the call over to Eduardo, who will begin the presentation on the result of the quarter.

Eduardo Miron

Thank you, Martin. Let's go to slide three, while we begin the presentation on the fourth quarter, starting with net revenue. As you can see in the chart, on the last market posted net revenue of BRL 5 billion in the quarter, down 6% year-over-year. The main drivers were the 14.3% appreciation of the Brazilian real against the U.S. dollar, the lower average sales price in Beef Division in line with the industry trend and the lower average price in Keystone Division due to lower international commodity price, partially offset by the 70% growth in sales volume in Keystone Division.

Keystone and International Beef operations accounted for 60% of the total revenue in this quarter, in line with the profile in the fourth quarter of 2015. Regarding our currency exposure, note that in the fourth quarter, 76% of the revenue was in currencies other than the Brazilian real, versus 81% in the fourth quarter 2015.

Let's now turn to slide four please. On slide four, I will comment on Marfrig's consolidated gross income and adjusted EBITDA. On the chart on the right, gross margin stood at 10.6% in the quarter, with gross income of BRL 530 million, down 23% from the fourth quarter of 2015. The main factor contributing to this performance were the 14.3% depreciation of the U.S. dollar against the Brazilian real and the lower sales volume and margin compression in this Division, which followed the industry trend. These two factors partially offset by the continued solid performance in Keystone Division. Note that in comparison with the third quarter of 2016, gross income grew by 8.9%, which is in line with our expectation of generating stronger results in the last quarter of the year.

Adjusted EBITDA in the fourth quarter was BRL 394 million, with margin of 7.9%, down 24% on the same quarter of 2015 and following the decline in gross income. In comparison with the third quarter, however, adjusted EBITDA grew by 60%. The results reflect the better margin at Keystone and the improvements in sales and administrative areas in this division. Lastly, the chart on the lower right provides a breakdown of EBITDA in the quarter by divisions with Keystone contributing 55% or 10 percentage points above the same quarter of 2015.

Let's go to the next slide, please. Turning to slide five, you can see the net income in the quarter and fiscal year, considering only the continuing operation. In other words, excluding the non-recurrent gains from the asset divestments. In the quarter, Marfrig posted a net loss of BRL 241 million, reflecting the weaker operating income, as explained earlier.

In the year, Marfrig posted a net loss of BRL 726 million, which represents an improvement of BRL 700 million or 49% from the net loss of BRL 1.4 billion in 2015. The continued solid results of Keystone and the Liability Management action focused on reducing debt cost contributed to this performance.

Now, I will pass the call over to Frank Ravndal.

Frank Ravndal {BIO 19230519 <GO>}

Thanks, Eduardo. Good morning, everyone. As expected, the fourth quarter was another strong quarter for Keystone. Before going through the results detailed on the slide, I wanted to outline the four main contributors to the strong quarterly performance.

First, the fourth quarter saw strong year-over-year volume growth across the entire Keystone enterprise. Our U.S. Key Accounts business was a big reason for this success. As I mentioned before, Keystone is strategically committed to continue growing our sales of value-added products through our Key Accounts and that strategy continues to produce results.

As a percentage of total sales, our fourth quarter sales to Key Accounts increased from 29% to 31%, driven by significant new product introductions and by adding new customers. During 2016, 52, new products were commercialized and 10 new customers were added in the U.S. alone. This steady growth reflects our commitment to be the preferred value-added supplier to the world's best consumer brands, by creating high-quality food products with our proven commitment to food safety.

Our APMEA business was the other key reason for the quarter volume growth, led by our operations in Australia and Malaysia. Those operations continue to grow their exports to Asian and Middle East markets and also grew in their domestic markets.

The second theme for the fourth quarter was our changing product mix. As we continue to support our customers' efforts to meet evolving consumer preferences, in particular, our expansion of No Antibiotic Ever products and similar products delivered a solid contribution to both product demand and margin.

Third, we saw increased demand in pricing for poultry exports from the U.S. into international markets, as export bans from the prior year continue to roll off. This development increased demand for leg quarters, resulting in greater than 40% increase in prices. In fact, you may recall that in the fourth quarter of 2015, we actually decided to hold inventory of leg quarters due to declining prices. That action also contributed to the volume and revenue growth year-over-year.

The fourth and final theme for the quarter was a beneficial market for many of the commodities we buy. In particular, feed prices were down 6.9% year-over-year.

Now, let's turn to the slide and review our fourth quarter results in more detail. As a reminder, we present all Keystone financial data in U.S. dollars. Let's start with the net revenue, which appears on the graph on the lower left of the slide.

Fourth quarter net revenue was up 12% compared to the fourth quarter of 2015. Again, one of the keys here was the double-digit volume growth across the whole company, driven by our expansion in APMEA and our continued success in the U.S. Key Accounts, including our new No Antibiotics Ever products. The increased global demand for and price of leg quarters was also a revenue driver.

Moving up the slide, fourth quarter increased 17% year-over-year. The drivers for the nice volume increase are the same that impacted revenue. In terms of EBITDA and EBITDA margin for the fourth quarter, we generated adjusted EBITDA of $66 million, up from $61 million, an increase of 8.6% year-over-year. Keystone has now maintained an EBITDA margin above 9% for five consecutive quarters.

To conclude, the fourth quarter was a great one for Keystone, driven by strong volume growth across the business, contribution from No Antibiotics Ever products, the recovery of leg quarter exports, and a favorable commodity market for feed imports. This great fourth quarter concluded an outstanding year for Keystone.

I'd like to now pass the call to Andrew Murchie, CEO of Beef Brazil, who will present the results of the overall Marfrig Beef business.

Andrew Murchie {BIO 18098471 <GO>}

Thank you, Frank, and good morning, everyone. Now on slide seven, I will comment on the result of the Beef Division, which is formed by the Brazilian beef operation and the International beef operations. The fourth quarter reflected a still challenging scenario in the Brazilian operation, given the limited supply of fed cattle and a reversal in the recovery in international prices. Compared to the fourth quarter of 2015, our export spread which is the difference between our sales price and our cattle cost in both the Brazilian and Uruguayan operation narrowed in the period by 24% and 10%, respectively.

As you can see in the chart on the top left, net revenue was BRL 2.7 billion, down 8% from the prior year quarter. The main reason for the lower revenue were the Brazilian real appreciation in 14% and the lower sales volume, which were partially offset by the better performance in the domestic market, where prices increased by approximately 7%.

Sales volumes, as you can see in the chart on the lower left fell by 11,000 tons compared to the fourth quarter of 2015, which is explained by the lower slaughter volume due to the cattle cycle and by the priority given to high margin channels in the domestic markets, where the food service channel grew by 18% as well as in the export market where Asia accounted for 38% of the export volume in the quarter, increasing its shares by 1,000 basis points. I want to take this opportunity to mention that our export volume in the last quarter posted a strong growth of nearly 50% from the previous quarter, reflecting the strategy mentioned in our last call of retaining a portion of exports to capture a high average sales price.

On the chart on the top right, you can see the adjusted EBITDA of the Beef Division, which was BRL 177 million in the quarter, with a margin of 6.6%, which represents a sharp reduction from the same quarter of 2015. This was due to a sharp drop on the export spreads, which declined of 24% in Brazil and 10% in Uruguay. Also the 14% appreciation in the local currency and a lower sales volume. With this partially offset by the recovery in prices in the domestic market and also the lower expenses in the sales are administrative due to a streamlining.

Compared to the third quarter, however, EBITDA improved by some BRL 40 million. The increase is explained by the sales volume growth by the lower SG&A expense that I mentioned earlier. In the case of EBITDA margin, the reduction between quarters is explained by the lower slaughter volume and consequent lower dilution of the fixed costs.

Before moving on to the next slide, I will pass the call back over to Eduardo Miron.

Eduardo Miron

Thank you, Andrew. So, moving to slide eight, it shows Marfrig's liquidity and debt maturity scale. As you can see in the chart, on the lower right, net debt in U.S. dollar, which is our main metric, remains stable at $1.8 billion, reflecting the stability achieved in our cash flow. In Brazil real, net debt stood at BRL 5.9 billion, also stable.

As you can see in the chart, Marfrig's gross debt ended the fourth quarter at BRL 11.2 billion, declining around 4% from the end of the third quarter. In U.S. dollar, gross debt ended up at $3.4 billion, down 5%, explained by the payment of $100.1 million of the outstanding balance of the 2016 bonds, which came due in November.

With that, the balance of cash and cash equivalent declined in the same proportion to $1.6 billion or BRL 5.3 billion. I'd like to call your attention that we also had, in January of this year, repayment of the last installment of the mandatory convertible debenture in the amount of BRL 327 million.

The leverage ratio measured by net debt to adjusted EBITDA in the last 12 months ended the quarter at 3.7 times, which represents an increase of 0.3 times from the ratio of 3.4 times at the end of the third quarter, reflecting the lower 2016 EBITDA, as mentioned earlier. As a highlight for the year is the Liability Management, which led to an average debt cost of 7.3% per annum, down 60 basis points from the end of 2015.

Lastly, I'd like to take this opportunity to comment that in January, after the conversion of the debentures, Moody's updated its credit report, which reaffirmed our rating and upgraded our outlook from stable to positive.

Let's go now to the next slide, please. On slide nine, I will comment on cash flow in the fourth quarter of the year. Operating cash flow before interest and CapEx in the quarter came to BRL 528 million, which was positively influenced by the continued solid operating result at Keystone and the improvement in working capital in the period, driven basically by the reduction of inventories in the Beef Division.

On CapEx, we maintained our investment in both maintenance and improving existing operations, such as the organic growth project at Keystone. Note that this figure of BRL 182 million was the highest in a single quarter this year. We always, always like to emphasize this when commenting on cash flow, because we have a long-term commitment and we have maintained our investments, despite our more rigorous financial discipline and vow to – of delivering positive cash flow.

Interest expenses came to BRL 280 million or 4% lower than in the prior quarter due to the decline in gross debt that I had mentioned. Free cash flow in the quarter was positive at BRL 68 million.

I will now pause and pass the call over to Martin Secco for his final comments and closing remarks.

Martin Secco Arias {BIO 18098476 <GO>}

Thank you, Miron. I will ask you to share the page number 10 and number 11. I will comment our key financial metrics and our guidance of 2016. Net revenue in the year was BRL 19 billion, practically in line with 2015 and in line with our guidance. The performance of Beef Division influenced by the negative movement in Brazil cattle cycle and the lower average sales price in Keystone Division due to the lower grain and fresh prices, were the main factors that adversely affected our sales, which were offset by factors as 5% growth in sales in volume in Keystone Division and the average depreciation in Brazilian real against the U.S. dollar of 4.8%.

In the year, EBITDA came to BRL 1.6 billion with adjusted EBITDA margin of 8.2%, slightly below our guidance. The lower result of Beef Division was partially offset by exceptional result of Keystone. Our CapEx in the year was BRL 526 million, also within the guidance range. The result reflects our commitment to maintain our investment to support growth in our different regions.

Free cash flow was BRL 39 million, which is within our range zero to BRL 100 million. The result is explained by the solid performance of Keystone and our Liability Management actions and the opportunity to optimize our working capital. Marfrig, for the fourth straight year was able to generate positive cash flow and support our initiative to grow in the CapEx. The result reflects our continuous commitment to creating value without (27: 54) our investment, an improvement in organic expansion project to ensure the growth and the perpetuity of our business.

2016, as Marcos mentioned, was a consolidation of Marfrig Global Foods and its operations, which today are represented by Keystone and Beef Divisions. The current moment in Brazilian cattle cycle and stronger Brazilian real that initially expected – affected the result of Beef Division. This adverse scenario was partially offset by the operational flexibility on the Beef Division.

Meanwhile, Keystone Division continued to deliver a solid performance. The ongoing and successful strategy to deliver – to diversify its client base combined with a better sales mix with an important contribution coming from a Non Antibiotic Ever product, led the subsidiary to post record EBITDA of BRL 252 million (29:09) in the year.

In keeping with this commitment to the financial discipline, Marfrig continue to execute its Liability Management process with focus on reducing the debt cost and the lengthening of the debt term, while maintaining an important liquidity position to confront the still volatile scenario in Brazil. And the commitment to deliver positive free cash flow was met, as I commented, a very important target of the company.

I also want to comment on the important mark that we have reached now in January that has yet to reflect in the company results and which was recurring topic during 2016. As Marcos mentioned, this conversion brings important saving in our annual interest payment of around BRL 300 million and will make a material contribution on our free cash flow.

Before concluding today's presentation, I want to comment on the outlook for the coming quarters. As you all know, with the reporting of its annual results, Marfrig typically announced its guidance for the current year for the key financial indicators. However, Marfrig now is starting on a new phase of this evolution, we are delightfully working in a strategic plan for the next five years, our 2021 Vision. The focus will be on building a solid foundation, identifying our competitive advantage and potential opportunity. So, we can assure that perpetually of our business and continue to make Marfrig a more solid and profitable company.

And since we are still in the end of this process to formulate this vision, we have decided to not announce our guidance on this time. This is a position that maybe you consider conservative, but we believe it's pertinent in this moment. Given that the strategic plan for the incoming years, it is still in the finalization process and it will present in the short-term. Last, but certainly not the least, I want to emphasize what does not change in the new phase of our firm dedication to the financial discipline.

We conclude now our presentation and we are open to start the question-and-answer session.

Q&A

Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. Our first question comes from Isabella Simonato with Bank of America Merrill Lynch.

Q - Isabella Simonato {BIO 16693071 <GO>}

Good morning, everyone. Thank you for the call. I have two questions. First on the Beef operations. If you could provide in a quality basis - qualitative basis, what are you seeing in terms of margins for the sector in 2017, considering that cattle prices have started to decline, but at the same time the BRL appreciated, so what's your view on margins for the second - sector in 2017?

And also, the second question on Keystone, I think top-line growth was really strong in the fourth quarter in 2016, considering the new capacity that you're also investing. What sort of growth can we expect for Keystone in 2017? Thank you.

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

Thanks for the question. Regarding the first question, we are optimistic for the year 2017. As you know, it's very difficult to predict the result at the beginning of the year. There are some topics that help us to be optimistic.

Regarding the - which are this topic, we are beginning the - at the beginning of the year having a very good offer of cattle. And it's the first year in the last three years that the price of the cattle is reducing during this part of the year that most of the time these are good at the second semester of the year.

The other thing is important for us is the relation between the cost of the grain and the cost of the arroba or the kilo of the animal for the farmers, that is in a very good scenario. For the second semester of the year that will be very important for the feedlot animals. That is very important source in the second semester.

Regarding the exchange rate is another challenge for the company. It's very difficult to predict. But we are very confident that with the market that we opened last year, like China and U.S., we will have a very good balance between export and internal market, now as you know, Marfrig is very strong in the last years.

Regarding the second question, I will ask Frank to answer to you.

A - Frank Ravndal {BIO 19230519 <GO>}

Thanks. And thank you, Isabella for the question. As Martin mentioned earlier, we aren't going to be providing guidance for 2017 specifically, but what I can tell you is that with respect to formulating that longer-term strategy, Keystone has actually concluded the work over the last couple of months. And in looking to do sort of a really deep dive process and so, that five-year growth strategy, I think really shows exciting continued longer-term opportunities for Keystone to continue to grow in the existing strongest channels over the last few years, as well as building out more recent successes in newer channels like more SKUs in the higher end retail, private label, convenience, et cetera.

So, without focusing on 2017 volume specifically, I think we really feel good after that work that when we look back now on an excellent sort of consistent build on both volume and

EBITDA growth over the past four years, we feel great about what the 10-year picture will look like when we look back in 2022 on it.

So, the right at the – 2016 was very nice kind of volume growth across the year and we feel really good about the longer-term prospects. And you said – like you said, we have some new plant that will be commissioned midyear, probably a little bit later than midyear, but we'll have some other investments we'll have to make to fuel the rest of that growth. But the underlying market opportunity looks very, very exciting for us.

Q - Isabella Simonato {BIO 16693071 <GO>}

Thank you.

Operator

The next question comes from Alex Robarts with Citigroup. Mr. Robarts, your line is open. The next question comes from Alessandro Arlant with Bank of America Merrill Lynch.

Q - Alessandro Arlant {BIO 15732215 <GO>}

Hello. Good afternoon, gentlemen. First question would be potential for additional Liability Management. When we look at the dollar bonds of Marfrig, there is the opportunity to make – or to exercise a call particularly on the 2020 dollar bonds. We're talking about almost $500 million now in March. And then you have the opportunity to do another call on the 2019 bonds of almost $700 million in June 2017.

When I look at your cash balance, you have approximately $1.5 billion, $1.6 billion in cash and given that these are still expensive debts that you have and that the performance of the dollar bonds have been quite strong with the improvement on the operations of the company, what could we expect in terms of activity on this front this year for you? Thank you.

A - Eduardo Miron

Hi, Alessandro. This is Eduardo Miron. Thanks for your question. As you know, the Liability Management program is an ongoing process and we keep our eyes very close to any opportunity to meet the two main objectives, which is reduce the cost and extend terms. At the same time, we have to take into consideration the overall scenario of the different markets we play and the risks that we have to address. So, the fact that we have a strong cash position, it is in some way the reflection of the overall situation which has been quite challenging over the years. So having said that, we don't necessarily discuss our specific plans on Liability Management, but we'll keep our eyes and if the window is open, we will act.

Q - Alessandro Arlant {BIO 15732215 <GO>}

Okay. Let me try to ask then in another way. Given the $1.5 billion, $1.6 billion cash position that you have and the fact that the short-term debt for the company is only 15% of total debt, which is really good, right? That means you pushed a lot of the maturities already for more than a couple of years down the road. From a financial policy perspective, what would be the optimal cash balance for the company?

A - Eduardo Miron

Alessandro, again, thanks a lot for your question and recognition of our good work on the Liability Management. The cash size is a definition that is taken by the board of the company. So it's taken not lightly and we all understand the carry cost and we all understand the details around this. At the same time, we have a very conservative approach, given the scenario that we evaluate. So, there is evaluation of the scenario and we feel that the current level is okay, although we - as you see, we are using this cash to liquidate debts that are matured.

Q - Alessandro Arlant {BIO 15732215 <GO>}

Okay. Thank you, Eduardo. And then just one last question on Keystone. I noticed that the company engaged in securitizing accounts receivable in December - last December. And is it reasonable to say that the working capital line in the fourth quarter of last year was positively impacted by this securitization of receivables and the amount that I see here is around BRL 174 million. If you could just confirm that, that'll be great? Thank you.

A - Eduardo Miron

Yeah, I don't want to go into specific details, but I can assure you that we are - we work very diligently in improving our working capital. And as part of this, we had different operations in different countries, in different regions, where we try to bring the liquidity to our cash flow.

Q - Alessandro Arlant {BIO 15732215 <GO>}

Okay. Thank you so much.

A - Eduardo Miron

No problem.

Operator

The next question comes from Ian Luketic with JPMorgan.

Q - Ian Luketic {BIO 18417527 <GO>}

Hello. Thanks for taking my question. A quick question here. Can you help us understand when we can expect a reduction in financial expenses and how the company plans to reach this reduction? Thank you.

A - Eduardo Miron

Ian, I'm sorry I could not follow your question. Could you repeat that?

Q - Ian Luketic {BIO 18417527 <GO>}

Yes, of course. I was just wondering if you can help us understand when we can expect the company to reduce its financial expenses and how the company plans to do that?

A - Eduardo Miron

Well, I mean, in fact, I mean we are reducing, right? So, if you see the comparison of expenses from last quarter to this quarter, there is a reduction. I think we have already mentioned that given the Liability Management we were expecting something around $10 billion (43:32) of savings with the previous Liability Management exercise. We just mentioned about the BRL 300 million in the reduction of expenses that will occur given the conversion. And as long as we'll see the opportunity, we will bring a lower interest back to our company and with that we believe that the trend of reducing that interest is just there.

Q - Ian Luketic {BIO 18417527 <GO>}

Okay. Thank you.

A - Eduardo Miron

No problem.

Operator

Our next question comes from Thiago Duarte with BTG Pactual.

Q - Thiago Duarte {BIO 16541921 <GO>}

Good afternoon, everyone. Thanks for taking my question. Two quick questions, actually. First, I understand you're not providing a guidance, but I think I would be interested to hear what you are projecting in terms of CapEx for the year? I understand you have a new plant under construction for Keystone. On the other side, you had the CapEx for 2016 coming at the higher end of your guidance. So, it would be interesting to hear what's your guidance range is, or some kind of expectations for CapEx for the year?

And the second question is related to financial expenses. There is one line within the financial results. Actually, that's been pretty tricky for us to track and to forecast going forward. It's just related to these other revenues and of course, the bank fees, commissions, finance and other expenses. So, I don't know if you have a sense or any level that you expect this line to come in 2017 and forward financial results? Any help with that would be great. Thank you.

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

Thank you, Thiago, for the question. We are not providing guidance in any of our financial topics. But as you know, there are some important things that are now changing in Marfrig and one of them is our CapEx policy. It's very important for us to continue in the same way that we used to have in the last three, four years. The important amounts of CapEx regarding our future, regarding our develop new products, regarding new factories and regarding our expansion mainly in Asia. For that, we are not going to share any amount, but it will be a very important part of our strategy for the future.

A - Eduardo Miron

Thiago, if you want, I can address the second question, if you are okay with the first part of your question. Okay, so...

Q - Thiago Duarte {BIO 16541921 <GO>}

Yeah, the second part of the – yeah, it's regarding the other lines within the financial results, yeah.

A - Eduardo Miron

Okay. I got it. So, Thiago, as you can identify and you see in the financials, so this line is trending down, right? So, we have expense reduced. We don't expect any major movement in this specific line. This line – and we can take this outside, so we have already provided the data around this and the components of this account. But just giving a little bit of your perspective, so this line is as any other expense line should be trending down.

Q - Thiago Duarte {BIO 16541921 <GO>}

Okay. Thanks.

Operator

Our next question comes from Alex Robarts with Citigroup.

Q - Alexander Robarts {BIO 1499637 <GO>}

Yes. Hi, everybody. Thank you. Two questions really from my side. I wanted to first ask about Keystone in terms of (47:58) but also on some of the capital market transactions that might be around that business. 2016, it seems a record margin for Keystone. I think there were clearly some execution factors, but also some favorable macro factors.

And I guess, as we think about 2017, I appreciate you can't give – have decided not to give guidance, but as we think through some of the commodity and other macro factors, is it safe to assume that perhaps the commodity tailwinds might be a little bit less, I mean, clear or present in the business. In other words, how are you seeing the commodity cost outlook for you guys in the next, I'd say, couple of quarters?

And related to that, how are you seeing the trends in quick serve restaurant food traffic there? Is that channel, do you think able or kind of holding up on in terms of recovery, which we've been noting in other types of information sources? So, commodity, quick serve restaurant trends, if you could comment a little bit about that as you're looking to Keystone USA, right, in the first half of the year?

And the second Keystone question relates to, how are you really thinking about capital market transactions around this business and you've announced the strategic possibility of looking into joint venture, IPO, could you give us a kind of an update on your thinking regarding that for the first half or for 2017? Thanks very much.

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

Hi, Alex. I will ask Frank to – okay, go ahead, Frank.

A - Frank Ravndal {BIO 19230519 <GO>}

Yeah. I think – let me take those in the order you put them out there, Alex. So, I think from a kind of a macro and favorable macros on some of the commodity inputs kind of broadly over the last couple years, I think that the outlook we have right now is for not sort of dramatic changes to that environment. So, I mean, recently, there's been a decent rally over the last six weeks or so, then it's cooled off somewhat more recently in the last week. So, we believe that recent corn and soy meal price uptrends have been influenced largely by non-fundamental sort of money flows into the market and renewed interest in the broader commodity complex.

There's also a strong real that I think impacted it. Record Chinese soybean demand, but you've got U.S. and world inventories remaining really well above year ago levels. South American supply looks really good and you put that in the context of potentially record U.S. bean, acres that were just updated yesterday by the USDA, a comfortable corn acreage estimate. So, we anticipate the valuations in both corn and meal, it could take-on and should take-on a more bearish tone over the next six months.

Severe weather issue that deteriorates yield could – remains the top risk to that outlook, as is always the case. But I mean, how we see those markets developing, it doesn't look like anything significantly off of the environment we saw in 2016 from those inputs.

On some of the meat input prices, it's really too varied to talk about. There isn't one overall trend, it depends. As you know, we're not 100% vertically integrated in the U.S., so we're on the market from time to time. So often depending on what parts we're looking to purchase, softness in the market can actually help us, even though it might hurt us on the revenue line. So those trade-offs are a little bit more complicated than a short answer about kind of just overall meat market inputs. And then of course, we have exposure to meet raw material purchases outside of the U.S., as we are vertically integrated and so we've managed those margins very well over the last few years.

So, I think relative to those macro trends, we don't really see anything out there right now in the horizon that looks very troublesome relative to 2016 actuals. I think the QSR trends you talked about, I mean, that's sort of been challenging for the last couple of years and we've managed to continue to grow significantly within that not-great macro environment.

When I listened to what many of the top operators talk about a very recent quarter release and their outlooks for the year, there have been more recent kind of upticks and favorable comp sales. A lot of people are focused on the guest count that's behind that.

And then you still see a little bit of a mixed bag. So, I think that when you look at the strategies that several of those operators have to continue to drive guest counts into their business, we feel pretty good about where some of those operators are looking to take their business and the strategies that are driving that. So, we don't see kind of dramatic changes there either.

On the last piece, I would say that that's just not something that we're prepared as Marfrig overall to comment relative to plans, capital markets plans, or options with respect to Keystone at this time.

Q - Alexander Robarts {BIO 1499637 <GO>}

Sure. Okay. No, fair enough and thanks for the comments on the trends.

A - Frank Ravndal {BIO 19230519 <GO>}

Thank you.

Operator

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

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

Thank you. I would like to thank you again for joining us in this new call of Marfrig. And we'll be more than open to continue and contact with you through our IR Department in the next days. Thank you.

Operator

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