Q2 2013 Earnings Call

Company Participants

- Andre Nogueira, CEO JBS USA
- Jeremiah O'Callaghan, Director IR
- Wesley Batista, Global CEO, President

Other Participants

- Alan Alanis, Analyst
- Daniel Sensel, Analyst
- Farha Aslam, Analyst
- Paul Simenauer, Analyst
- Wesley Brooks, Analyst

Presentation

Operator

Good morning, everyone and welcome to JBS S.A.'s conference call. During this call all participants will be presented and analyze the results for the Second Quarter of 2013. As requested by JBS this event is being recorded. The recording will be available to listeners this afternoon and can be accessed by following the instructions posted on the Company's website at www.jbs.com.br/ir.

Taking part on this call we have Mr. Wesley Batista, Global CEO and President of JBS S.A.; Mr. Andre Nogueira, CEO of JBS USA; Mr. Jeremiah O'Callaghan, Director of Investor Relations and Mr. Eliseu Fernandes, Administrative Director and Controller.

Now I'll turn the call to Mr. Wesley Batista.

Wesley Batista {BIO 15243148 <GO>}

Good morning, everyone and thank you for being with us in this conference call today. I'd like to start this call talking about our journey in these last six years. To recalling, we did an IPO in JBS in 2007. From 2008 until now, we expanded our revenues by 3 times from 2008 until now and our results increased by 5 times. So I think this demonstrates our ability and our capacity to expand and to grow revenue, but more than to grow revenue, to expand margin. And in moments that we were acquiring several large companies abroad, we were able to increase these revenues, but more than the revenues, expand margin.

So we -- at JBS we start the internationalization process back then, back in 2007 when we acquired Swift and after Swift we acquired Pilgrim's Pride and several other businesses abroad in moments that the West economy or other economies was not going so well. And we did all these acquisitions that in our view was in the right moment for our Company and in the right moment to being able to acquire these businesses abroad.

Today we are the most internationalized Brazilian company and I believe that we will collect fruits from these investments that we did abroad by the fact that we are seeing especially the West economy getting better and some other economies -- mature markets that we operate our business. So we are very satisfied by the fact that we are a well positioned in our business with more than two-thirds of our revenues coming from mature markets like North America and Australian and some other markets.

We are a Company that we are proud and we're still very committed to delivering everything that we have been telling investors and the financial community. Since we acquired Swift, we were able to deliver better results and better numbers than we promised. And the same thing in Pilgrim's Pride in US and also we have been able to integrate all of these acquisitions and delivering with the market our deleveraging target. And also we have been able to, quarter by quarter, to deleverage our balance sheet and we still, and we are committed to keep doing so.

Everything that we did was only possible by the fact that we have a very, very strong team, a group of people that I am very, very proud about and the most valuable asset that we have in our Company is our team. We are a Company that we believe in simple things, doing things simple. We believe in hard work and all of our team demonstrate this every day. So to whom I want to say thanks and say that we were and we are only able to keep improving our business with all of our members and our team.

We announced a month and a half ago acquisition of Seara in Brazil and we are still waiting for the anti-trust agents in Brazil to approve this transaction. And after the transaction, I'll quickly overview how will be JBS after this transaction. So we will be approximately BRL100 billion in sales with 185,000 team members operating in North America, South America and Australia and some other markets, with a presence in the most competitive markets to produce protein that is South America and North America.

We published our Second Quarter results that we are satisfied about the results, as you probably saw already the numbers. So we did BRL21.9 billion in sales. That represents an increase at 18.7% this quarter comparing to the Second Quarter in 2012, so a strong growth. And important this growth, this 18% top line growth, 70% came from organic growth. So 30% came from acquisition that we did in Canada, but 70% came from organic growth. So strong top line growth.

In terms of EBITDA, we did BRL1.67 billion in EBITDA. That is also a strong improvement comparing this quarter to the same quarter last year. So almost 65% increase comparing quarter by quarter. This EBITDA represents 7.6% margin EBITDA comparing to 5.5% margin EBITDA in Q2 2012.

So our net income was BRL482 million, adjusted by the deferred tax that we have some good wills in Brazil and also (inaudible) in North America. So for us the real net income is BRL482 million because this deferred tax is non-cash.

Our free cash flow we were able to generate BRL563 million in free cash flow that we are also satisfied the fact that we were able to generate this amount of free cash flow. So operating cash flow was BRL886 million, also a strong operating cash flow. So we end up the Second Quarter with BRL7.2 billion in cash that is represents around 85% of our short-term debt.

Our leverage, and here I want to elaborate a little more about our leverage, our leverage we have been able, like I mentioned in the beginning of the call, we have been able to reduce our leverage quarter by quarter. So we finished the Second Quarter with 3.28 times leverage, but inside of this number is already included approximately BRL325 million that we already assumed in advance from the Seara acquisition. So debt that we already assumed in an event from the Seara acquisition. So if we exclude the Seara acquisition, our leverage is 3.2 times.

And also, if we analyze our numbers, including everything in dollars terms because our debt is updated every quarter using the exchange rate in Brazil in the end of the quarter. But our LTM results is not adjusted in the same way so we calculate our LTM based on the numbers in reals. So if we adjust our results in dollars and also adjust our -- that's already adjusted, our net debt, so our leverage is 3 times in dollars terms.

So we have been investing in our brands. We are very satisfied with the investment that we doing in our brands, especially in Brazil. We are promoting the Friboi brand and we are seeing good results and good find coming from this investment that we are doing in the Friboi brand. And we plan to keep investing in all our brands to aggregate value in our products and to be able to create value in our products being closer to consumers.

So in our numbers also I think it's important to mention some of the Brazilian companies start to do hedge accounting because the fact that the real is getting weaker. We did not use any hedge accounting in our numbers, so our numbers is the same way that we were accounting the numbers before. So we are not using hedge accounts. So our risk management department is our area and is a department that we are very proud about and we believe we have the right tools and the right team. And this area and this department has demonstrated that we have been able and we have been very cautious about how we handle our currency exposure.

So in this quarter, we were impacted by BRL270 million that went in our interest expenses because we placed hedge during the Second Quarter and we incurred BRL207 million in more financial expenses by the fact that we had these for this currency exposure, but we were able to hedge and we are fully hedged in our currency exposure today.

This was very, very effective. If we were not hedged like many other Brazilian companies was, the impact in our numbers, in our balance sheet was going to be almost BRL1 billion. So having BRL207 million demonstrates clear that our strategy in terms of risk management was the right strategy and we were able to maximize a huge impact in our balance sheet.

So with that, I will transfer to Jerry to discuss with you in more detail about each part of our business. Jerry.

Jeremiah O'Callaghan

Thank you, Wesley. I'm going to make reference to the presentation that we put on our webpage this morning. So for those of you who are listening in, I recommend that you follow the presentation. I will make mention of the page numbers so as to facilitate you reading of the numbers as I go forward.

And I'm going to start by going to page five of our presentation, which is -- Wesley has mentioned this already, so I will be quite quick in making a couple of comments on page 5. Just a comparison of our net revenue, of our EBITDA and of our net income in the Second Quarter of 2013 compared with the Second Quarter of 2012.

Our revenue went to almost BRL22 billion, BRL21.9 billion. The revenue of the previous quarter in 2012 was BRL18.5 billion, so we see there an expansion of almost 19%.

Our EBITDA went from just over BRL1 billion in this same corresponding quarter last year to BRL1.67 billion this year. That's an expansion of 65% year on year. And our EBITDA margin went from 5.5% to 7.6%, 210 basis points expansion in our EBITDA margin comparing the same quarters.

Net income and again this is adjusted net income and again it's because of the deferred income tax which is not dispersed and which we view as a nonevent because it is a non-cash event. Net income went from BRL212 million Second Quarter of 2012 up to BRL482.5 million in the Second Quarter of 2013.

So moving on to the next page, page six in the presentation. Again, it's a synopsis of the performance on a consolidated basis over the last five quarters. So back to the Second Quarter of 2012 we can see how revenue has performed. A little bit of seasonality from the Fourth Quarter of 2012 into the beginning of 2013, but we've seen this revenue expansion from the first to the Second Quarter in 2013. And EBITDA again some seasonality, but we've seen a strong increase in EBITDA again from the first to the Second Quarter reaching the 7.6% EBITDA margin in the Second Quarter of 2013.

Speaking now a little bit about each one of our business units. I'm sure most of you will recall that we split up our business into four business units and we give some color on each one of those business units in each quarter and in our institutional presentation. So starting with JBS Mercosul, which is primarily Brazil, but it involves operations in Paraguay, in Uruguay and in Argentina as well, we had BRL5.4 billion in revenue -- in net revenue in the Second Quarter. It was up 25.5% against the same period in 2012.

We also had an increase of more than 14% in the number of animals that we processed in South America in the same period. Just to remind everybody we are ramping up some of our facilities in Brazil. We're still the ramp-up process. Many of these facilities were opened late 2011 and 2012. And so we're still finalizing the ramp-up phase, which obviously means we are not at an ideal point in terms of efficiency, in terms of capacity utilization.

We had very strong growth in our fresh meat exports out of South America in this quarter. They were up 63%. A 63% increase in exports when compared with the same quarter last year. That's really quite substantial and obviously part of it is attributable will to the devaluation of the real.

EBITDA was BRL543.5 million within EBITDA margin of 10%. That's all of South America. If we isolate Brazil, EBITDA margin was 11.2%. Somewhat of a challenging environment in Uruguay in the Second Quarter and Argentina, we've mentioned this in the past. Argentina is a country where we've reduced our participation in that market and where we are working on maintaining our numbers at a breakeven level.

So we can see over the last five quarters how we've performed in double-digit margins, although a slight decline in the last quarter.

Moving on to JBS USA and to our beef division at JBS USA, and that includes Australia and Canada, our Canadian operation that we started late last year. So net revenues there were $4.8 billion, that's up 12.6% in relation to the second order in 2012. We saw increase in sales in both the domestic and export markets and obviously we are ramping up the facility in Canada, so there is a higher capacity utilization in the Canadian operation.

EBITDA went from a negative $9 million in the Second Quarter of last year, negative $25 million First Quarter of this year to a positive $161.7 million. So a big turnaround in our JBS USA beef operation in this quarter. Much better balance in terms of supply capacity and demand.

A couple of highlights perhaps to mention. Most of the restrictions that existed in terms of exports of US beef to the Japanese market were lifted in the First Quarter of this year, so we began to see some substantial improvement in our exports out of the US to Japan in the Second Quarter. They were up 40%, that's a trend we believe will continue going forward.

Then something else which is worth highlighting out of Australia. We've seen good traction in our exports out of Australia as well. And one of the highlights would be how Australia has increased its exports on a very, very consistent basis into the Chinese market. Just a couple of numbers on that. If we take the first half of 2013 and compare it with the first half of 2012, our Australian exports to China are up more than 250%. That's beef and lamb, more than 250%. And even if we take the Second Quarter of 2013 comparing it with the First Quarter, exports were up 22%. So the trend continues through the first half of 2013. The Australian exports to the Chinese market.

US pork very consistent in terms of revenues and also in terms of margin. $868.5 million in revenues in the period that was up just 3% year on year. We've seen some increases in prices again both in the domestic and the export market.

EBITDA was $50.7 million, that's an EBITDA margin of 5.8%. And we can see that has been quite consistent, actually exactly the same number as in the Second Quarter of last year, or the same margin -- EBITDA margin of 5.8%.

In terms of our poultry business, the other business unit that we break out, which is Pilgrim's Pride Corporation, which we control. Pilgrim's Pride already reported their numbers on the 1st of August this year and those numbers were very, very strong, almost $2.2 billion in revenues. That was up more than 10% in relation to the same quarter last year. We saw an 8.2% increase in the US market and a very strong 32.5% increase in the Mexican market.

We saw a lot of activity in the retail sector and also in the QSR in the food service sector in the Second Quarter. And so that's boosted consumption and demand quite a bit internally in the US.

EBITDA very strong at 12.1% margin, $265 million. And that regardless of the fact that input costs continue strong, though declining, particularly corn prices are still strong historically but looking much more favorable going forward.

I think it's worthwhile mentioning that we had -- we continue to see efficiencies from within the Company. At Pilgrim's Pride we saw further decrease in SG&A in relation to as a percentage of the total sales down 3.5%. And with a focus on key customers and a demonstration of its ability -- of Pilgrim's Pride's ability to adapt to conditions and to work to have a more balanced business across all the strategic channels and improve its sales mix.

Moving on to page 11 in the presentation and to talk about our consolidated exports. We had quite an increase also in our exports, almost $3 billion in exports in the Second Quarter of 2013, $2.975 billion. That's up 26.8% in relation to the same quarter last year. So a lot of growth.

I mentioned China out of Australia, but China has become a strong buyer of product, not only out of Australia but out of our other production platforms as well, representing more than 27% of all our sales. Mexico is also very strong and a very traditional market of ours. Africa and the Middle East, also Russia is a very relevant market for us.

And as we can see there is a lot of consistency and there's a lot of emerging market growth in our exports, which makes us believe that they will be very consistent and that there is still a lot of growth potential going forward in our exports.

Now, before we hand it over for Q&A I just wanted to talk a little bit about our debt profile here. On pages 13 and 14 of our presentation we have a little bit about our debt profile, about our leverage. Again, Wesley mentioned our leverage, it's declined from more than 4 times Second Quarter in 2012 down to very, very close to 3 times. Breaking it out in terms of in reals, 3.28 times leverage, but if we convert our cash generation and a revenues into reals, at the same exchange rate over the last 12 months. And if we exclude the portion of the Seara debt, which we anticipated in the quarter, we would have our leverage down to 3 times leverage, so using the same exchange rate and excluding the portion of the debt that's coming from Seara.

In terms of currency breakdown, 20% in reals, 80% is in US dollars. Average cost in reals of 8% and average cost in US dollars under 7%, 6.95%.

A cash position of BRL7.2 billion as Wesley mentioned. BRL7.2 billion. But we also have available lines that -- committed lines in the US available and fully available in committed lines of $1.2 billion. So the sum of which makes us very comfortable that we have a strong liquidity position.

Almost 60% of our debt is at the parent company, just over 40% in our subsidiaries and 44% is in bonds and the rest is other types of debt, such as pre-export finance and working capital lines and such.

Before we finalize here, just a little bit about recent events we've mentioned. And I'm sure most of you are aware of the fact that we announced the acquisition of Seara Brazil about two months ago. That's an ongoing process. We are waiting for the anti-trust approval in Brazil and we expect to have that in the second half o 2013.

We've also made a voluntary public tender for shareholders at Vigor, which is a sister company, to exchange their shares for shares at JBS. We published a material fact on the 24th of July 2013 to explain the details of that and I just wanted to make reference to that.

Also make reference to the fact that Pilgrim's Pride mentioned in its earnings call that it has amended its exit facility. A big portion of its debt has been extended from maturing next year in 2014 to maturing in 2018, $700 million with more advantageous terms and covenants and also with a reduction in the cost of the debt.

We also earlier this week in fact, we announced the appointment of Miguel Gularte as the President of our South American operations. And again, there is a press release on our webpage with the details of that. I just wanted to make reference to that briefly.

Wesley mentioned the fact that we've been working on branded products quite a lot. We've been doing a -- for those of you who are not in Brazil, we've been doing a campaign to disclose our Friboi brand in Brazil. It's been extremely successful over the last six months and it's caught the eye of the public quite a lot and it's become, if I may say, a reference campaign in terms of adding brand value to our business over the last six months.

Finally, on our stock performance, our share price on the Bovespa stock exchange has outperformed the exchange by quite a bit, as can be seen on page 18 of her presentation. We've seen quite a substantial gap between the performance of the exchange rate and the performance of our stock. Quite a big volume of daily trade, BRL36.4 million daily trade during the quarter. A market cap of BRL22 billion.

Then finally on Pilgrim's Pride, on page 19 of the presentation, a demonstration of how Pilgrim's Pride has performed against the S&P 500 and it has outperformed it substantially.

Just to mention in closing that JBS stake in Pilgrim's Pride increased by BRL6 billion over the last 12 months. BRL6 billion. If we convert this into the share price at JBS, which would represent two reals of incremental value in JBS shares just by the increase in the value of Pilgrim's Pride over the last 12 months.

With that, we close our presentation here and we hand it over for Q&A. Thank you very much.

Questions And Answers

Operator

(Operator Instructions) Farha Aslam, Stephens Inc.

Q - Farha Aslam {BIO 6151888 <GO>}

With your recent purchase of Seara and your interest in chicken, would you ever consider repurchasing the remaining 25% or so of Pilgrim's that you do not currently own?

A - Wesley Batista {BIO 15243148 <GO>}

This is Wesley. Look, we like the fact that here is a public listed Company and we intend to keep Pilgrim's as a public listed Company, so we don't have plans to buy the remain because by the fact that we like to have PPC as a publicly listed company.

Q - Farha Aslam {BIO 6151888 <GO>}

Then just a quick note on US beef. Clearly that business has recovered quite strongly. Could you just, Wesley, provide us some -- your thoughts as we go over the next 12 months as to the cattle supply versus processing capacity in the US?

A - Wesley Batista {BIO 15243148 <GO>}

Farha, basically our view is that the industry now has a better balance in terms of capacity and capital availability. We believe with the footprint that the industry has today, the industry can keep running the beef business in North America. Seeing margins and seeing good results, so we don't see a reason to believe that we -- the industry has any unbalanced situation that will jeopardize or hurt margin going forward.

So our view is that margin can be sustainable for beef, can be profitable in this coming quarter, then in this coming year.

Operator

Wesley Brooks, Morgan Stanley.

Q - Wesley Brooks {BIO 16407564 <GO>}

A couple of questions from me. Also on the US beef side, can you just give us some insights into sort of where US margins were versus your margins in Canada and in Australia roughly?

A - Wesley Batista {BIO 15243148 <GO>}

Wesley, we don't disclose the margins, we report the margins together, Canada, Australia and US. But Australia is in a positive moment, is doing really well. Canada, as you know, we acquired Canada in the end of last year. So we're still improving our operation in Canada. So margin in Canada for our business is still opportunity to improve. And I can tell you that it is behind in terms of where we believe margin in Canada can be for our business.

So this is the two markets, Canada and Australia, that are part of our US based business.

Q - Wesley Brooks {BIO 16407564 <GO>}

Then on Pilgrim's, if we look at spot chicken margins in Q3 versus Q2, they look dramatically better. And what we've seen now is we're starting to see excess increase in the last couple of months and Sanderson increasing production. So I just want to get your thoughts on what is sort of how sustainable is that level in Q3 and sort of what could go wrong from there?

A - Wesley Batista {BIO 15243148 <GO>}

Well basically in our view, the chicken industry in the US is set to see good margins going forward in these coming quarters. And we don't see any risk in middle term that something can happen that can jeopardize margin.

To remind you, the grain price that we still see in all our business in the Second Quarter, and it's during the Third Quarter that the old crop that we are using to feed the chickens, we are still using grain at high level in terms of price. And especially in the Fourth Quarter, with grain price in the level that it is today and the level that the future has marked as it is today, can be very positive for the industry, especially in the Fourth Quarter.

So we are very optimistic and in our view, Wesley, we are confident that we will be able to deliver a better earnings in this second half of 2013 compared to the first half of this year. So we did almost $1 per share in the first six months and we believe we can do more than $1 per share in the second half of this year.

A - Jeremiah O'Callaghan

Wesley, just to add there, when you look at egg sets and you compare egg sets year on year, don't forget that egg sets were down substantially this time last year. This was at the time when corn prices were peaking. So that comparison is a little bit deceptive because of the big decline we had for a period of time and the corresponding weeks in 2012.

Q - Wesley Brooks {BIO 16407564 <GO>}

Agreed. So just one last question is I think there was talk that you guys were talking with banks on renegotiating all of the debt that you are assuming from Marfrig. Is there any update on that?

A - Wesley Batista {BIO 15243148 <GO>}

Yes, basically we are 95% done in terms of our discussion with the Brazilian banks. Of course we are waiting for the anti-trust agents to approve the transaction for us to finalize the debt assumption with the Brazilian banks. But what I can tell you that we'll see a good reduction in terms of the debt cost. So around 200 basis points reduction in the cost. And the maturity of this debt will be extended to a maturity that will be between three to five years. So we have been in very good discussion and 95% is already approved by the banks and is waiting for the approval of the anti-trust agent.

Operator

Alan Alanis, J.P. Morgan.

Q - Alan Alanis {BIO 15998010 <GO>}

My question is a bit more long-term, in the same line of your opening remarks, Wesley, regarding this last five or six years since your IPO. I think that JBS has done many things that are indeed quite remarkable in terms of its size and how you mention revenues and so forth. However, I mean the stock price is still below the level of that IPO and my question is specifically regarding three parts. I mean what lessons have you learned in the last six years by running the business? That would be the first one.

And the second one would be, I mean what do you think we analysts and investors are missing or have been missing or we're still not fully understanding about JBS?

And I think the last part of the question, which is I think is the most important one, is what do you think you will be doing different? What will JBS be doing different in the next five or six years based on those lessons learned? A very strategic long-term question just in the same line as your opening remarks.

A - Wesley Batista {BIO 15243148 <GO>}

Alan, basically your question is a good one. Of course we have been learning many, many things. And we are still learning every day more and more. We are a Company that we strongly believe in people and this every day we increase our belief that people makes difference in business. So you can be better or not based on the team that you have. And we have been able, in my view, to build a very strong team and I'm very proud about the team that we have in our business today.

And of course, we learned that some markets, not actually -- fortunately we went in markets that is market that we feel very comfortable to operate. But we have few experiences in some markets that we face more difficult to operate and I think there's a big learning for us where we feel confident that we can make a difference and we can run business in a comfortable way, you know what I mean.

So this is a big -- if I can mention -- and point for many, many lessons that we got in these past years, this is one that we feel that we have a very clear view as an international player where we should keep investing and should keep growing our business.

So moving to the other part of your question, we -- look, it's hard to say what the market is me seeing a lot -- what about the share price. And you are right, the share price is in the level that -- almost in the same level compared to when we did the IPO. Of course we have our view. I think it's a process, Alan. JBS is a Company that from 2007 when we did the IPO until now we increased the size of our business in a very big way.

And I think the market was -- every day I think the market is getting more confident about our ability to integrate this business, to turn this business around. If you look at our history, Alan, the majority of the acquisitions that we did, we acquired business that was not performing well, so like many I can mention. But when you buy business that is not performing well, it's normal that you create an expectation from the market to wait to see if you are able to turn the business around and to make the business profitable.

And look, I think we demonstrate our ability to integrate this business. We demonstrate our ability to run this business, improve margin. And I think we have been able now to demonstrate to the market our ability to generate cash and to deleverage our balance sheet.

In my view, Alan, I think I have mentioned this before, JBS is well seated today to collect fruit from all these expansions that we did in this many years. And I think the market will recognize this and the market to you will recognize what we are doing. I think the share price will reflect these things that we are doing.

And going forward, Alan, we are investing in our business to create branded products, to expand value added products, to have a more stable margin business. And I think we are in the right track direction to be able to increase further process capability and to build more branded products in our portfolio. And I think we will keep being able to improve margins. And again, I think the share price will reflect what we are doing in JBS today.

Q - Alan Alanis {BIO 15998010 <GO>}

That's very clear. And very helpful. In fact I think that many in the market will also note the acquisition of Pilgrim's Pride. I was doing some work with my team this morning and it's pretty amazing. I mean when you acquired Toledo Group, the market cap was a little bit over $400 million. Today it's more than $4.5 billion, so I mean a ten-fold increase in the market capital of that business in that period of time.

I'm not saying that your Seara and your other acquisitions will end up being like that, but I mean there are some components of big, big successes there. But again, I think the understanding and the communication of the lessons learned during this journey as you mentioned it and what things will be done differently I think will be helpful and the way you answered them was very clear. Thank you, Wesley.

Operator

Daniel Sensel, JPMorgan.

Q - Daniel Sensel {BIO 16854713 <GO>}

I have a question on the debt side. Here when you're calculating that leverage you're assuming only a little bit over BRL300 million from (inaudible) and Seara. Interestingly, Marfrig, it's basically -- when it calculates net leverage they are deducting BRL2 billion. So can you explain a little bit what's the difference? Or have they transferred more debt during July?

A - Wesley Batista {BIO 15243148 <GO>}

Yes, basically that debt was transferred and by the end of the Second Quarter was BRL320 million-some. And in our purchase agreement, contemplate that we were going to transfer up to BRL1 billion. So when we did the difference, this BRL1 billion in the Third Quarter, so we complete the assumption of this difference to complete the BRL1 billion. So almost BRL800 million, but was in the Third Quarter.

So I cannot say and I cannot mention, what Marfrig reported. I think my -- I will mention here my impression, I think Marfrig, what they did, they did a segregation in the business that is discontinued or that will be discontinued and Seara has that in Seara's balance sheet that Marfrig -- my impression that they already took the results of the calculation because there's a non-continuing business. I don't know if it's clear to you.

Q - Daniel Sensel {BIO 16854713 <GO>}

It's very clear. Appreciate it. Thank you.

Operator

Carla Casella, JPMorgan.

Q - Paul Simenauer {BIO 19925303 <GO>}

Paul Simenauer on the line for Carla Casella. You answered most of my questions, I just have one question for your guys. What percent of the cattle you buy have been given Zilmax and do you see the Zilmax issue enough to further tighten cattle supplies?

A - Wesley Batista {BIO 15243148 <GO>}

Andre, I will hand it to you.

A - Andre Nogueira {BIO 19941317 <GO>}

Wesley, we believe that around 80% of the cattle, (inaudible) US today is (inaudible) animals. And probably the (inaudible) has 53%, so 50 is Optaflexx on 50 is Zilmax. So that's the data that I can report how the industry is.

I don't think we should take only Zilmax out. It has a big impact even if you just want (inaudible) the thing that impacted you is very small. So probably most of the producers will change from Zilmax to Optaflexx without the impact to the amount of meat that will be available.

Operator

Excuse me. This concludes today's question and answer session. I would like to turn the call over to Mr. Wesley Batista to proceed with his closing statements. Please go ahead.

A - Wesley Batista {BIO 15243148 <GO>}

So thank you all for being with us today in this conference call. To summarize, we are very optimistic about our business and where we are going. And I believe we will see in a consolidated base, better second half of this year compared to the first half of 2013. So we're still very committed to keep improving our business, to keep improving margins, to keep deleveraging and generating cash.

So with that, thank you all, and have a good day.

Operator

That does conclude JBS audio conference for today. Thank you very much for your participation. Have a good day and thank you for using Chorus Call.