Q3 2019 Earnings Call

Company Participants

- Andre Nogueira, Chief Executive Officer of JBS USA
- Gilberto Tomazoni, Chief Executive Officer
- Guilherme Perboyre Cavalcanti, Chief Financial Officer and Investor Relations Officer

Other Participants

- Antonio Hernandez
- Bryan Hunt
- Carla Casella
- Marcel Moraes
- Soummo Mukherjee

Presentation

Operator

Good morning, everyone, and thank you for waiting. Welcome to JBS Third Quarter Results Conference call. With us here today, we have Gilberto Tomazoni, Global CEO of JBS; Guilherme Cavalcanti, Global CFO of JBS; Andr Nogueira, CEO of JBS USA; Wesley Batista Filho, CEO of JBS South America; and Christiane Assis, Investor Relations Director.

This event is being recorded, and all participants will be in a listen-only mode during the company's presentation. After JBS remarks, there will be a question-and-answer session. At that time, further instructions will be given. (Operator Instructions)

Before proceeding, let me mention that forward-looking statements are based on the beliefs and assumptions of JBS' management. They involve risks and uncertainties, because they relate to future events and therefore depend on circumstances that may or may not occur.

Now, I'll turn the conference over to Gilberto Tomazoni, Global CEO of JBS. Mr.Tomazoni, you may begin your presentation.

Gilberto Tomazoni {BIO 2090061 <GO>}

Good morning. And welcome everyone to our third quarter earnings conference call. We are very pleased to announce another quarter of solid results, continuously and consistently in the last nine quarters confirm the solidity of our strategy, which is based on operational excellence, which for us translates into being the best operator in the market.

This mindset of being the best, believing that you can always improve no matter how good you are is being reinforced and expanded with our global benchmark promotion.

Our diversified production and distribution platform by protein types and geography has proven that an important competitive advantage. We have been able to reach all global major markets. Our strategic focus is towards increasing margin and growth that's why we have invested so much in innovation. Construction of innovation center, creation of our global innovation team and adopting new technology, all of these initiatives place our customers and consumers in the center of our decision process.

Our ability to innovate brands and become a real competitive advantage with the many products in brand launch in Brazil, in U.S., in Australia, in Mexico, in UK, in Italy. All of these fit real gain in consumer preference and market penetration. I am always saying that people are the best part of JBS. We have invested heavily in developing our team, resulting in 1,000 of internal promotion.

Just an example to share how we are preparing for growth. The last three retirement of presidents of business unit were suceed by promotion of internal talents. This ensuring the cultural alignment and the continuity in operation.

Now let me sum up the big numbers. Revenue grew 5.6%, reached BRL60.2 billion in the quarter. Reais, we talk about reais. And was in the BRL195 billion in the last 12 months. We reported net income of BRL360 million in the quarter and year-to-date, the net income reached $3.7 billion -- sorry, BRL3.7 billion. Net income for the quarter was strongly impacted by devaluation of real. Guilherme later will comment about that.

EBITDA was a record of BRL5.9 billion, 33% higher than the third quarter last year with a margin of 11.3%, second largest in our history. For the last 12 months, EBITDA was BRL17.6 billion. Operating cash flow was BRL6.1 billion and the free cash flow of BRL3.7 billion, 6.2% higher than the last quarter -- the third quarter last year and BRL8.3 billion for the last 12 months, or $2.1 billion. This is cash generation and debt reduction reduced our leverage ratio to 2.39 times in U.S. dollar.

As announced in the last quarter, we resumed our innvoative growth. We have made an acquisition in geographies, where we are present that will contribute for the expansion in our portfolio in value-added and brand products. We announced an acquisition totaling a revenue of BRL5.3 billion, including Tulip, the leading producer of pork and prepared food with operation in the United Kingdom is done by Pilgrim's. In Italy, Rigamonti, which is a leading brand in bresoala production, acquired Brianza Salumi.

In Brazil, we completed the acquisition of a pork unit in Seberi in Rio Grande do Sul and Seara announced the agreement to acquire Marba, a traditional cold cuts and Bologna company in state of So Paulo. So Paulo. It is -- this acquisition, the last one, Marba is awaiting a decision by the local antitrust authorities.

The market has remained very favorable throughout the year and the future perspective are even better. The increasing population, urbanization and income growth, among other has led to a growing protein consumption globally, especially in Asia. Because of everything I have mentioned so far, production platform, team investment, financial stability and other, JBS is very well prepared to capture the market opportunities.

I will now hand over to Guilherme, who will detail the financial and business results. Guilherme, please.

Guilherme Perboyre Cavalcanti {BIO 2181205 <GO>}

Thank you, Tomazoni. Please let's move to page 4 of the presentation where we can see that our net revenues grew 5.6% and our gross profit grew 17.4%, reaching BRL9 billion or 17.2% of gross margin.

Our EBITDA increased 33.6%, reaching 11.3% of margin and a total of BRL5.9 billion. It's worth to mention that even excluding the IFRS 16 effect, the EBITDA would have been BRL5.5 billion, and also would be a record.

Net income came as BRL357 million, and it was strongly impact by the FX variation on our dollar debt when translated to the reais balance sheet. The FX came from BRL3.83 in the end of the second quarter to BRL4.16 in the end of the third quarter, causing this impact, which is a non-cash impact. It is just an accounting impact.

Now let's move to page 5, where we can see that our operational cash flow increased 40.4%, reaching BRL6.1 billion, higher increase than EBITDA given that this quarter, we continue to release working capital, mainly due to days of payment that was partially offset by high rentals and lower receivables discount. It's worth to mention that our leverage ratio reached very comfortable levels. So our receivables to be discounted, we can be more selective in looking more at the cost side.

Our net financial expenses reduced BRL164 million or $42 million. This decreasing -- this savings in interest expenses means higher free cash flow to the shareholders. Free cash flow of the quarter was BRL3.7 billion. The accumulated in the last 12-months was BRL8.3 billion or $2.1 billion.

Now let's move to page 6, as we can see the decrease in our gross debt from $15.4 billion to $12.7 billion. Net debt came from $12.4 billion to $10.8 billion, reflecting the use of our free cash flow in paying down debt. With that, our leverage came from -- to -- from 3 to 2.39 times. Also worth mentioning that even considering the effects of the IFRS 16, the leverage would still be 2.5 times.

Now looking at the profile of our debt. It's worth mentioning as you look at the Entity Breakdown that in the first quarter, we had around 60% of our debt allocated in the U.S. entity, where now the U.S. entity allocates almost 80% of our debt, which is much more in line with the cash generation by region. This means that the interest expenses of this debt has a higher tax shield. Now the cost of debt that was 5.94% in the second quarter decreased to 5.77% this third quarter, given the pay down debt and the liability management where we exchanged cheaper cost with debt to cheaper debt.

Also, if we get that our average period of our debt that is -- that we came from 5.8 years to 7 years, so we decreased the interest expenses and extended the maturities. These 7 years, if you get our yield curve of our bonds that's negotiated on the secondary market, we can see that we have -- this yield would be below -- slightly below 4%, meaning that we have almost 2% to capture in savings as going forward, we achieve with liability management.

Also worth to mention that we had an upgrade from S&P to BB. And it's also worth mentioning that reading the report of S&P, we can see that by our financial metrics, we would be already be investment grade. We are not the investment grade, yet, given the methodology -- some subjective part of the scorecard of the methodology.

We also mentioned the acquisitions we made, which will increase our net revenues in more than BRL5 billion. Also we paid down the normalization agreement that was maturing in 2021. This was an expensive debt that was over collateralized. So why -- when we paid in this quarter the BRL6 billion, we released almost BRL8 billion in guarantees, and improved our -- the profile of our debt maturities.

As you can see in this chart, on the right-hand, our cash position today plus our revolving facilities is enough to amortize all of our debt up to the middle of 2025. This considering any free cash flow generated, remembering that the last 12 months, we generated more than $2 billion in free cash flow. This means that the company today have zero refinancing risk. And this is recognized by the bond market. As you can see that our bonds that were trading at 7.5% at the beginning of the year, now it's trading at below 5%.

Now let's move to the business unit's performance. We start with Seara on page 9. So EBITDA in the third quarter was BRL705 million or 13.2% margin, which includes BRL157 million related to the adoption of IFRS 16. Excluding this effect, EBITDA was BRL548 million with a 10.2% margin compared to BRL512 million and 10.3% margin over the third quarter last year.

Processed food category for the domestic market recorded increases both in volume and prices of 4.1% and 6.3%, respectively. Seara combined sale of pork and poultry to China increased 46% in dollars terms quarter-over-quarter. Gaining penetration and preference on the consumer and domestic market, given our focus on execution and in innovation with the release of several other category of products. Release of the Incredible Burger, Seara's vegetable protein Burger.

Now let's move to page 10, where we talk about JBS Brazil. Net revenues of BRL8.4 billion in the quarter, which represents an increase of 11.4% in relation to the third quarter '18, with a 10.1% increase in processed volumes. EBITDA for the quarter was BRL719 million, an increase of 1.8% in relation of third quarter last year, and EBITDA margin of 8.5%.

In the domestic market, net revenue was BRL4.3 billion, a 15.5% increase over the last quarter. Beef sales grew by 8.8% in volume and 8.3% in prices in the period. Exports corresponded to 49% of the sales of the unit and reported a growth of 7.4%, reaching BRL4.1 billion. In natura beef increased both in volumes and prices, 10.6% and 2.7%, respectively. Highlight of beef exports to China, which increased U.S. dollar revenues by 70%, representing a growth of 20% in price and 44% in volumes.

Now moving to page 11. We talk about JBS USA Beef. JBS USA beef had an EBITDA of $610 million compared to $446 million reported last year, reflecting a good availability of cattle in the United States and a strong demand for beef meat. EBITDA margin was 10.9%. Highlight of the continuous improvement in the product mix and volumes for the value-added programs. In Australia, the main highlight was the increase in beef and lamb exports directly to China, which grew approximately 70% in sales compared to the third quarter last year.

Now, let's move to JBS USA Pork on page 12. EBITDA margin was 8% compared to 9.9% in the same period last year, mainly explained by the high volatility in hog prices during the third quarter '19. JBS USA Pork announced the intention to eliminate the use of ractopamine from its supply chain as of January 2020, in order to maximize export market opportunities.

Now let's move to Pilgrim's Pride, page 13. Pilgrim's Pride posted net revenues of $2.8 billion and an EBITDA of $258 million, which represents a significant increase of 65% in the period, with a 9.3% margin. In the U.S., demand in the more differentiated segments remained strong with pure commodity products were significantly better year-over-year and weaker less -- although weaker than last quarter, but in line with the normal seasonality. In Mexico, growth in its brand products and prepared foods continues to create a portfolio differentiation in the region.

To finalize on page 14, we presented our global exports of $3.6 billion compared to our last quarter -- in the second quarter was $3.3 billion. Greater China grew its participation from 25% in the second quarter to 28%, and Asia grew from 48% to 49% of our exports.

With that, I would like to open for the question-and-answer session.

Questions And Answers

Operator

(Question And Answer)

(Operator Instructions) Our first question comes from Marcel Moraes, Santander.

Q - Marcel Moraes {BIO 6696122 <GO>}

Good morning, everyone. Congratulations on the results. My first question is related to Pilgrim's and it's a follow-up on another question that was made in the Portuguese conference call. So China has lift the ban on U.S. poultry, which is good news. But my understanding is that despite of growing poultry exports by the U.S. poultry exporters as per your answer in the Portuguese conference call, you would expect the main players in the U.S. Market to be more promotional on selling poultry, is this right? And I'm talking about 2020, right? Does it mean a lower return you think for Pilgrim's in 2020? I would expect returns to be higher just because U.S. will probably be exporting more poultry into China. This is my first question. Thank you. And a second question if you -- sorry.

A - Gilberto Tomazoni {BIO 2090061 <GO>}

Go ahead.

Q - Marcel Moraes {BIO 6696122 <GO>}

The second question is, I think it would be more appropriate for Guilherme and it's related to Seara. So, postproduction in Brazil has been on the rise, probably up mid single-digit. But the growing international demand for poultry may ask for even higher expansion next year. So, in order to expand the production. I would -- I believe that the out-growers would probably need extra funding. However, as far as I'm concerned, the credit lines offered by BNDES and Banco do Brasil to out-growers has been tightening. So, do you think that it's any kind of risk of the out-growers not having enough funding for expanding the production, poultry production and pork production in Brazil? And is there anything you can do to help them gain access to the appropriate funding? Thank you. This will be my two questions.

A - Gilberto Tomazoni {BIO 2090061 <GO>}

Hi Marcel. I'll begin with your question. You're right, the demand increase will require more production. We -- in our chicken business, we have spare capacity to fill more than 20%, and that would require an investment in hatcheries so on and so forth with our growers. You're right, the -- basically, this market was always served by mainly Banco do Brazil, which was, as you mentioned, BNDES lines and other lines from the government. But it is also worth mentioning that now for the first time, the level of interest rates in Brazil you've seen is record low is creating an opportunity that the level of interest rates may be easier and then the growers maybe have a sustainable way to invest given the lower interest rates.

And how we can help on that? It's worth to mention that we paid all the normalization agreements so our lever to expose with banks decreased significantly these open limits, credit limits with the banks to the company. But since we are not needing money. So I don't need to use these credit lines, we can ask the bank to direct these limits, these credit limits both to our suppliers and also to help our growers for them to invest in increasing production.

Q - Marcel Moraes {BIO 6696122 <GO>}

(Multiple Speakers). Thank you.

A - Guilherme Perboyre Cavalcanti {BIO 2181205 <GO>}

Andre, I think this question in terms of Pilgrim's is connected to the answer that you made on the call in Portuguese. I think it's better you to make a comment, please.

A - Andre Nogueira {BIO 19941317 <GO>}

Yeah. So Marcel, thanks for the question. Thanks for the opportunity to clarify my answer. When I talk about promotions, I'm talking about promotion from the food service and the retailers, as I expect, higher exports both in beef and pork. As the price of beef and pork are moving to higher level in U.S. and probably continue to move to higher level in U.S. in 2020, poultry will be much cheaper in a relative way. When you saw that happen in the past, normally, the food serves its new items in chicken and we'll promote much more chicken.

Normally the retailer in the past, when they see higher price of this and higher price of pork they will promote much more chicken. With that, increase the demand for chicken in domestic market. That's what we saw in the past. And that's what I expect for next year means more demand and more consumption for poultry in domestic market. So I expect that the poultry market will be better, be positive. As a consequence of bigger export of beef and pork from outside of the U.S.

Q - Marcel Moraes {BIO 6696122 <GO>}

Very clear, Andre. Thank you very much.

Operator

Our next question comes from Carla Casella, JP Morgan Securities.

Q - Carla Casella {BIO 2215113 <GO>}

Hi. It's Carla Casella. I'm just wondering, if you can tell us on the Australian front, if you're seeing any impact from the fires going on in Australia right now?

A - Guilherme Perboyre Cavalcanti {BIO 2181205 <GO>}

Andre?

A - Andre Nogueira {BIO 19941317 <GO>}

Hi, Carla.

Q - Carla Casella {BIO 2215113 <GO>}

Hi.

A - Andre Nogueira {BIO 19941317 <GO>}

Australia have a situation right now, Carla, that is in some area for Australia, especially the south. We have fantastic growing season, probably the best in the last 20 years. In some other areas and you're talking about some of these areas, especially in the Queensland and New South Wales. It is very, very dry and it's caused some fire.

So there's no impact in the product in the short-term, but I do expect, Carla, that Australia for next year will produce less beef and Australia will export less beef. I expect that China will continue to grow so I think that other traditional markets for Australia, we will see less offer from Australia. That means Japan, Korea and U.S. I think that perception, Carla, is what driving price in the most recent two weeks. I think that Australia performance for us will continue to be very healthy and very good, just because demand is so strong. But I do expect, higher price in cattle and lower production for Australia next year. And as Australia, in my base scenario, we will export less to Japan and Korea. In U.S, we will expect more and that will be healthy for the whole system. But there's no short-term impact. We're only sorry for the population in this area that are seeing the fire in Australia. It's extremely dry in some areas, but other areas in the south, the condition are very positive.

Q - Carla Casella {BIO 2215113 <GO>}

Okay. That's great. And then on the ASF, do you have an estimate of how much of the Chinese pork or hog population has been wiped out by it? I know you've seen so many conflicting reports. Or how much of the worldwide supply of pork has been wiped out by ASF?

A - Gilberto Tomazoni {BIO 2090061 <GO>}

Andr, you answer the China, go, please?

A - Andre Nogueira {BIO 19941317 <GO>}

I don't think that we have a lot of conflicts at this moment. The real -- the reports have been changing and always changing to a higher number. So we start one year ago when most of the reports talk about 10%, around 10%. It's very clear now that this number, it is around 50%. If you just see the official number of production China in the last two months, the production dropped around 35% to 40%.

My expectation that we're going to see a production drop 50% to 60% in this next quarter. And if you look all the people and everyone that have production there, all the analysts everyone else talk about 40% to 50% reduction. And I believe that's probably today is the right number. Maybe in the future we can see a number that's bigger than that. But today, it's anywhere around 40% to 50%. And that's -- it's matched with the official number from China and that's matched with the official from production in China, the most recent numbers.

So I think that probably 40% to 50%. It is the right number at this moment. This number can continue to increase. We don't know if the situation is under control right now. But I think that's fair to say that's 40% to 50%. If it's 40% to 50%, this represents 25% of the total global hog production and that represents 7% -- 6% to 7% of the total global protein production.

Q - Carla Casella {BIO 2215113 <GO>}

That's very helpful. Thank you so much.

Operator

Our next question comes from Bryan Hunt, Wells Fargo.

Q - Bryan Hunt {BIO 1530288 <GO>}

Thank you. Just a couple of questions. Andre=, first one when listening to PPC and other companies in the industry in the United States. They're talking about food service, contracting and retail contracting for 2020 has been somewhat of a standoff between buyers and sellers because the expectations of prices are going higher. I was wondering, if one, you could discuss whether you anticipate capitulation given this announcement on China taking U.S. chicken for the first time since 2015, as well as is the recent spike in trimming prices out of Australia to the United States again driving food service companies that don't want to hedge out cost for 2020?

-

A - Andre Nogueira {BIO 19941317 <GO>}

Thank you, Bryan for the question. Right. As you follow very closely, the price environment has changed a lot in the last weeks. It's very hard to sit here now and trying to predict where will be the price for next year. I don't think that's an issue for PPC in their relationship with their customers. They are great partners, PPC have very few contracts that price are fixed. And PPC and JBS we will continue to increase the partnership with the great customers that we have today and guarantee that they will have the supply. But there's no question that any discussion about the price for next year, it is a very difficult discussion at this moment just because the lack of the visibility that we have.

The spike in the imported lean beef has just start two weeks ago. It's very hard to predict where these will go and what will be the consequence. But as I said my first answer here, I do expect higher price. And I do expect that as a consequence of higher price, food service and retail will try to promote more chicken, will try to create more access to chicken because they'll just be more affordable in the relative base.

For hedging for the food service for beef, I just don't know how to do that. There's no risk that that's possible. I doubt that we would not do any price for next few year longer than the first quarter. So the price will be what the price would be at that point. And there's no clear visibility about how much, as I said before, how much beef Australia will have to export to U.S. or to Japan or to Korea. So we are looking for, I mean, the best of our supply chain to make sure that our customers have the supply and the price will be what the price will be in the future.

Q - Bryan Hunt {BIO 1530288 <GO>}

All right. My second question is, when you look at the strength in beef, pork, and chicken exports literally around the world, can you talk about the premium in pricing that you may be getting from Brazil and Australia by shipping to China? And as well what kind of premiums are you expecting on chicken out of the U.S.? And I meant relative to domestic markets that you're producing in.

A - Andre Nogueira {BIO 19941317 <GO>}

So, I'm talking about -- I'm going to talk about the Australia and U.S first and then Tomazoni comment or Wesley to comment about Brazil. So about Australia brand, at the end of the day, the price we were adjust, right. Australia will export to China, Australia is paying a higher price and the other markets will adjust for that level of price. At the end of the day, in the efficient market. Or you don't support premiums for long-term. The other markets will come to that price and that's what's happening in beef right now.

As New Zealand and Australia, because China was demanding and paying a higher price, ship much more product there. The others markets our needs to move to the safe to the single volume. So, I don't think that you have a sustainable overprice. For chicken, U.S. is usual, but for several items that we sell that we can't sell to China, they don't have a domestic market, they don't have other markets that by that like pork. Are you sell that to China are you don't sell that? So that's a little bit different. That's absolute incremental for the bottom line

when you have the possibility to export pulls and the tip of the wings to China. That's absolute new volume and new help to the cut out of the chicken, because if you sell there, your capital so that the markets are very small. I think the global perspective and the efficient marks the price we will adjust. One might pay for more they will take more volume than the other market we need to adjust from that. Over time, this does not happen in one day, one week, but over time the price will be simpler.

A - Guilherme Perboyre Cavalcanti {BIO 2181205 <GO>}

Yes. So Bryan, with Brazil, it's a very similar thing. I think it's more of a question of which market is leading the price increase and which markets are then being having to follow that price increase. So more than on the -- I think the question is more which one is leading the price increase. So China is one of the leaders in price increase, but the other markets are following that movement.

Q - Bryan Hunt {BIO 1530288 <GO>}

And then my last question is, if you allow. Is the cancellation of the leniency agreement, does that affect the timeline of the IPO in the United States at all? And that's it for me. Thank you for your time.

A - Gilberto Tomazoni {BIO 2090061 <GO>}

Sorry, Bryan. Can you repeat the question? You talk about cancellation of the leniency agreement.

Q - Bryan Hunt {BIO 1530288 <GO>}

Yes. Yes. You all had planned to IPO in the U.S. I think in the first quarter. And I was wondering does the cancellation of the leniency agreement affect the timeline on the IPO at all? Or are those completely two separate issues?

A - Gilberto Tomazoni {BIO 2090061 <GO>}

Those are separate issues. It's worth mentioning that what is under adjustment is the plea bargain. It's not the leniency agreement. And are not related issues.

A - Andre Nogueira {BIO 19941317 <GO>}

I think Bryan, there is a confusion. There is no -- first, no relation things with our republic in U.S. or in the leniency agreement. Leniency agreement was done by J&F, and J&F adhere to the leniency agreement. This is not on judgment because the Minister of Supreme Court in last December, they publish that there is no thing that is in discussion in Supreme Court that is not the leniency agreement. It's the collaboration agreements done by the individuals not by the company. That is because there is not cancellation in the discussion, because I'm so surprised to your question.

Q - Bryan Hunt {BIO 1530288 <GO>}

Thank you, Andre. The translation on Google is probably bad. I appreciate it. Thank you.

A - Andre Nogueira {BIO 19941317 <GO>}

Okay.

Operator

Our next question comes from Antonio Hernndez, Barclays.

Q - Antonio Hernandez {BIO 19255349 <GO>}

Hi, good morning. Thanks for taking my question. Congrats on your results. Actually two questions. The first one is on ractopamine free pork. What are your expectations of how much are you going to grow your exports, because of this decision starting January next year? And the second question is on cattle availability. This has been a tailwind and this is related, I guess, because of the plant of the firing in the plant that your competitor had. Are you expecting this to grow for a quarter or more than a quarter? Thanks.

A - Gilberto Tomazoni {BIO 2090061 <GO>}

Andr, I think it's -- all the two questions is related to U.S.

A - Andre Nogueira {BIO 19941317 <GO>}

Okay. Thank you, Antonio. First, I don't want to comment about the incident that our competitor had. They already published what's their expectation. They are very competent people. There are folks in the right things. So I think that they will deliver what they're saying to the market that they'll deliver in terms of start their plant again. About the ractopamine, starts in January. We are going to have much more hogs available, that fits the market that can be exported, like Europe and China.

As I comment before, I expect that U.S. overall, will have a very relevant growth in export for next year. How much this will be? It's hard to predict at this point. If you just saw what happened last quarter, the growth is already above 50%. And I think that the number for next year is higher than that. How much this will be? It depends on the global demand. Depends if U.S. have a direct agreement with China or not, the kind of the price in our now global base. To-date U.S. is extremely competitive and have a lot of space to grow the export from the U.S., and I fully expect that this growth that already start to happen, this quarter, in the third quarter, and is growing in a pretty strong pace in the fourth quarter, will continue for next year.

Q - Antonio Hernandez {BIO 19255349 <GO>}

Perfect. And just a follow-up in terms of capacity, could you remind us that the capacity of your pork production in the U.S.? Thanks.

A - Andre Nogueira {BIO 19941317 <GO>}

Is that capacity in pork?

Q - Antonio Hernandez {BIO 19255349 <GO>}

Capacities, are you running [ph] how much is capacity?

A - Andre Nogueira {BIO 19941317 <GO>}

We are running the plants pretty full because this is the time of the year that have the highest hog availability and that's the normal time of the year that the plant's running close to the capacity. And I expect that we're going to run next few year in this level or a little bit higher. So now we'll have a seasonality how we run the plant, that's the time, October, November, December is the time that you run plants full. Now it will drop a little bit in the second and the third quarter of the year. I expect with the amount of hogs that we have available now that we believe that are going to have next few year, we are going to run our plants very full for the full-year.

Q - Antonio Hernandez {BIO 19255349 <GO>}

Perfect. Thanks a lot.

Operator

Our next question comes from Soummo Mukherjee, Lucror.

Q - Soummo Mukherjee {BIO 6619902 <GO>}

Hi, good morning. Congratulations on the strong quarter. My question was related to financial policy a bit. Given the target leverages between 2 and 3 times and I believe you have a board mandated leverage maximum, if you could remind me, I believe it's 4.25. Then the bond covenants, I think you have cushion up to about 4.75. So my question is when you think about acquisitions and when you think about your objectives with higher ratings, I mean, how do you balance the two? And what is the likely focus of the acquisitions? I mean, should we expect more bolt-on type acquisitions, which is the one you made? Or could there be something sizable that stretches you over the 4 times limit, for instance? Thank you.

A - Guilherme Perboyre Cavalcanti {BIO 2181205 <GO>}

Okay. Thank you for the question. And just to remind you, the policy states that we should pursue -- be between 2 times and 3 times at EBITDA, which is a level where rating agencies consider investment grade for the sector. And then we have a limit for acquisitions of 4.25. But if we stay two quarter above 3.75, we have to present a contingent plan to the Board. And the covenants are exactly, as you mentioned, 4.75.

However, it was mentioned that we generated in the last 12 months $2.1 billion in free cash flow. So with this level of free cash flow, we can be paying dividends and doing acquisitions on the size that you mentioned before and continue to deleverage, because you're bringing EBITDA from the acquirers. And even a sizable acquisition, I would -- I don't think that it would put the company at risk in terms of financials or increase much leverage because our EBITDA, our last 12 months' EBITDA, it is in the range of almost $5 billion.

So a one-time EBITDA means $5 billion. So we could do an acquisition of $5 billion. And so that even in not bringing the EBITDA of the target, we will -- we talk about 1 times net-debt-to-EBITDA. So we would be -- since we are closing to 2 times, I would say, a $5 billion would take us to 2 to 3 times net-debt-to-EBITDA. So I would say that, we will -- I'd say that, we probably will be going in our path for investment grade regardless of having smaller and even sizable acquisitions.

Q - Soummo Mukherjee {BIO 6619902 <GO>}

Thanks very much.

Operator

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

A - Gilberto Tomazoni {BIO 2090061 <GO>}

I would like to thank each and everyone of you for participating in this conference call. My special thank you to our 230,000 employees who with their daily dedication left this company in a better company every day. Thank you.

Operator

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