Y 2021 Earnings Call

Company Participants

- Carlos Alberto Bezerra De Moura, Chief Financial And Investor Relations Officer
- Igor Marti, Director, Finance & Chief Financial Officer
- Lorival Luz, Global Chief Executive Officer
- Sidney Rogerio Manzaro, Vice-President Of Brazil Market

Other Participants

- Gustavo Troyano
- Isabella Simonato
- Lucas Ferreira
- Ricardo Alves
- Rodrigo Almeida
- Thiago Bortoluci
- Thiago Duarte
- Victor Saragiotto

Presentation

Lorival Luz {BIO 16180455 <GO>}

Thank you, and good morning, everyone. Once again, I'd like to thank all of you for joining us in another of BRF's Earnings Release. This time, talking about Q4 and the year 2021 in general.

Starting with Slide 1, I'd like to tell you about the performance we had both in Q4 and in 2021 as a whole. We recorded substantial increase in our net revenue, up by 19.6% over the quarter and by 22.5% over the year, reaching BRL48.3 billion. Likewise, we grew substantially both in this quarter's EBITDA, as compared to the same quarter of the previous year and grew our EBITDA over the year by 7.2% and it reached BRL5.5 billion. It's also important to bear in mind that this was an extremely challenging year from the standpoint of high costs, especially in production and even shortage of a few types of raw material and services, which had a significant impact on the challenges in our opportunities to perform over the course of the year. Therefore, this was a very robust and resilient result for the company.

We also ended this challenging year with a net profit of about BRL500 billion with almost BRL1 billion in Q4 , and an operational cash flow, which was also trending up and was very robust in the last quarter of the year. And it's also important to highlight our results from the standpoint of our leverage. As we discussed in our last or earnings conference, we said back then that our net debt EBITDA was about three times, which had increased this year because of the adverse situation we were facing. And now, after the company's follow-on offering which we concluded successfully in the first quarter of the year, we show you a pro-forma result which was essentially bringing the BRL5.6 billion that came into the company's cash flow this pro-forma result, which would bring our leverage from the end of last year to this current position.

So, from 5x to about 2.17x, which allows the company as we've said back when we structured our follow-on, that we will continue to make the necessary investments in the company and at the same time, continue to capture and benefit from a significant decline in our financial costs considering the scenario that we're seeing in 2022.

Now, looking at how the result developed over the year. It's always very important to highlight how resilient our earnings were in 2021 as a whole, and especially when we look at Q4, we see an increase over the previous year of nearly BRL300 million in our gross profit and about BRL100 million in EBITDA versus the previous quarter. This only goes to show how disciplined the company's management has been despite the adverse scenario -- the adversarial scenario that we found and faced over the past year in which, we still were able to achieve BRL1.5 billion -- BRL1.7 billion EBITDA actually.

So, what exactly are we talking about? We've been showing this time and time again over the past quarters. Since the second quarter of 2020, we've had a very material increase in production costs as you can see with the blue curve, which uses production cost from Embrapa. You see a very sharp increase, which, when you look at the table or at the chart below, reflects on producers' margins. So, the company at large is still facing a very aggressive environment when it comes to margins. The industry is still hurting with the perhaps lowest producer margins of the last five years, and that has been the case for even over a year. And we at BRF, have been able to -- have an absolutely streamlined management of our production costs and on every front in such a way that we have been able to pass along costs at the same level to preserve our margins. And that shows in the yellow and red -- yellow and orange curves, which reflects exactly what we've just shown, which is the resilience of our quarterly results. So, this shows a very efficient management on a month-by-month basis.

Moving forward, we have never stopped taking care of our brands. And what we mean by taking care of them is we continue to monitor and follow the preference for our brands, because brand preference just as NPS is a very well-rounded indicator. Because it shows the quality of our product, the quality of our service and the adjustment or adaptation of our products and services to customers' needs. It's not just about a price adjustment, which you can quickly transform in market share by adjusting prices. We are constantly analyzing and making our decisions looking at this context in general. And our brands have increased in people's preference, always staying on the lead both on the food industry with Sadia and Qualy and also another factor that's very much in line with our strategy, we continue to innovate and launch new products with a very important work in the -- in increasing per capita consumption of pork.

We've continued to launch new products over the course of 2021, which is a very relevant information and something we will continue to work on moving forward. And when we look at this strategy overtime, we clearly see the effects of that in Brazil.

Our share of value-added products from 74% to nearly 85% and the revenue from innovation, which went from 3% to nearly 7%, with a wide range of products that bring convenience and meets the demand and the profile of our customers. Be that with the Bio line, with the Livre&Lev line and a host of other products we have been launching not only in Brazil, but abroad as well. And talking about our operations abroad, the volume of processed products that we put out has increased in our operations in the Emirates and in Turkey. That's something we've done with a number of new products being put on the market, bringing more quality and better serving the demands of our customers. So much so, that our value-added portfolio now accounts for 20% of our entire portfolio, which is in line with our 2030 vision, which is to be increasingly more a company of high value-added products and also providing added value to our customers and collaborators.

Now, despite the hostile macroeconomic scenario in Turkey with the currency devaluation, we have been making headway and we were quick enough to direct 20% of production to exports, which also benefited our results. It's the same strategy we continue to adopt in Brazil moving forward in the preference of our brands. And Banvit has reached a 50% preference rate in Turkey and this is something that's really significant and gives us the opportunity to continue to move forward, preparing to the expansion and investments we began to make last year. So, once again, perfectly in keeping with our strategy and we'll be able to capture the gains of that strategy.

Now, among the many things we've been doing in the international market. I'd like to stress what we've done in Gulf countries. Our market share has increased with Sadia in achieving 38.1% market share in the region, which is extremely relevant and which makes us even more confident about the path that we're charting with the MoU that we submitted with PIF to make another investment in Saudi Arabia. And yes, continue to meet the demand of that population with our products and producing in Saudi's soil.

Another important thing to underscore which again, is in line with our strategy. Our Ingredients business continues to move forward and bringing extremely positive returns. 2021 accounted for about 8% of the company's entire EBITDA. This comes from the result of value generation of making the most of our sub-products and the business we are already working in both in the aromas segments and in food for fish and other pets and animals that we supply both in Brazil and overseas with our exports. Down here, we supply a number of customers that recognize BRF's ability to innovate and technology in its products' nutritional capacity. So, this was a very significant development and I'd like to congratulate and commend our team for the fantastic results that we achieved this year.

Still in the Pet Food strategy, we continued our fast pace of integration with the business we already had in BRF, joining Mogiana and the Hercosul. We've had the first meetings and the first sales conventions to align the entire strategy with our portfolio, our channels, and our brands with the optimum position of these portfolios, including the launch of new products. This is something we will continue to do with these investments so that we can serve our pets with the same level of quality that we've always had when serving our human clients. So, we'll continue to innovate and meet the demands of our customers as both human and animal.

Also, importantly, balance is always number three in dry food for pets, which goes to show that our strategy was very much appropriate in all of our distribution and sales channels for pet food.

Now, a little bit more about our 2030 vision and the investments we've been making. We've moved -- made headway in value-added pork with new products and we've grown increasingly more in both consumption and sales of our products. We've also made headway in ready-made dishes. We've expanded our platform with the Livre&Lev new line and a host of new products also in keeping with our ready deals -- ready meals strategy. And we've also continue to invest heavily in digital transformation both within the company, within the business, within our sales channels, Be Digital and Go Digital, all of which were critical in terms of investments.

Now, I'd like to take some time to talk about our omni-channel strategy. We've opened over seven new stores last year, so that our customers have access to all our products at a single point of sale. That can bring more convenience to our services combined with Mercato em Casa. Now, Mercato and Sadia together with Mercato em Casa and other platforms showed new advances. We had partnerships with Magalu and Memphis, and as we talked about BEES, the platform we are now running tests on with the first orders and has been doing terrifically well. That's something we've worked on over the course of January. We already have customers being served by BEES. We have invoiced them, we have delivered products to them, which gives us very, very great prospects. Prospects that are bright in terms of increasing our customer base.

In Brazil, we have about 290,000 active customers and what we expect, is to make headway in our base of active customers with over 300,000 thousand active customers and also, increase the intensity and the frequency of these orders as well as the number of items per order. So that's something we are moving forward on and this year, the platform will be rolled out to other areas to reach the entire Brazilian territory with BEES which is doing very well.

Sidney Rogerio Manzaro {BIO 17678250 <GO>}

And all of that has been done without leaving our ESG commitments aside. We have kept our Net Zero commitment. We have advanced in actions with the BRF Institute. We capped our positioning with easy on B3. And we are the first margarine to offset 100% of the packaging in Brazil through recycling. These are actions that are present throughout the whole company. All of the initiatives or whenever we make a new investment or we implement a new action, ESG is part of our assessment. This is in the scorecard of all of the executives and this is important and relevant in all the decisions we make at our company.

Now, moving on to the last part of my presentation. I'd like to share with you a bit about our leverage in recent quarters and our cash position. So, now, we took the freedom of creating this pro forma with simulations that include the follow-on results that we completed in the first quarter. With those follow-on offering, our cash position would reach BRL16 billion. So, with great liquidity, we will be able to face the year of 2021 with increased expenses and higher interest rates and continue advancing, moving on and making investments to adjust our industry with the digital platforms, omni-channel and all of the investments we've been making in our lines to meet the demands of our consumers and to adjust the consumption profile of those consumers.

Now, if we look at the chart on the left-hand side, leverage. This is pro-forma incorporating our follow-on offering. We would be at 17x, which is quite appropriate for the market conditions in our industry and this is a number, I mean the company reported a similar number before 2016. So, it's been some time and the company has been -- was actually operating with higher leverage numbers.

Now, our net debt is below BRL12 billion now. And why is that important? With a significant increase that we've been seeing of the interest rates in Brazil, the silic[ph] rate in Brazil and prospects of real interests of around 6% according to projections, this cash reinforcement will greatly benefit us by reducing our financial costs and expenses, and this is extremely important in a year like this. With such reduction we're going to see in terms of interests and financial expenses and those savings can be invested in our businesses in the adjustments of our lines, and improving the performance of our lines and in innovating in new products. That was an extremely correct decision in my point of view to have this follow-on offering at this point. This is going to bring us many benefits in the better capital structure in order to serve the demands and face the challenges of 2022.

When I talk about challenges, it is paramount to make clear what these challenges are and why we have made changes for 2022. If we look at the prospects and this is the focus survey data, so previous prospects for Brazil showed an IPCA forecasted for 2022, which was double what was forecasted a year ago. A GDP growth that was much smaller for 2022, they were first forecasting 2.5% and now they are around 0%, 0.33% GDP growth. So, inflation increases interest rates at around 10%, small growth and a much higher silic rate at around 11.5%. The forecasts in the beginning of 2021 was around 4.5%, so this is a completely different scenario. And the challenge can be seen in many other indicators like Turkish line, global freight, increase in grains, inflation of cost throughout different areas of our company. And of course, we need to monitor risks regarding protectionist measures and possible sanctions that may be put in place around the globe, not only because of the events in Ukraine and Russia, but other events happening around the world.

So this is a challenging year.

The month of January has already has already proven to be very challenging. Considering what we got last year, the month of January started with a sales volume that was already a bit below our projections. So, we now have a challenge to adjust in order to go back on track. And the scenario we currently have, is a flow growth, high inflation and a reduction in the purchasing power of our consumers. Consumers will feel that impact in their pockets and in their purchasing power. That is happening in many different sectors including ours, but we have the capacity, the agility, and the flexibility to adjust, because we have the most affordable proteins like poultry and pork, and we have the versatility and flexibility to adjust our portfolio to meet the current demand.

So, in spite of the month of January that started with that challenge, because of the current situation, we have the agility, the flexibility and the capacity to go back on track throughout the rest of the year. And why is that? Because we have plenty of opportunities and I want to close by telling you that yes, we have challenges, but we also have many opportunities throughout 2022. With the reinforcement of our capital structure, there is no question that we are going to save in our financial expenses, which will enable us to advance inner strategy and in improving our growth performance.

We are also moving on in our geographical footprint with new agreements, and our portfolio keeps on growing. We're launching value-added products that are increasingly having positive participation in our product mix. And now, the digital movements are also going to be felt in 2022. This is a major investment we've made. And also, expanding our customer base with the BEES that also going to be made in 2022.

So, I want to close now by telling you that we are very confident and certain that the decisions that have been made were correct, so that our company can move on and continue with our strategy, so that we can capture benefits throughout the year in spite of this more adverse economic scenario that we are currently facing.

So, thank you once again for joining us today and as we usually do, we will make our QR code available, so that you can test it and make the most of our Mercato em Casa with a 30% discount available for you up until next Saturday. Enjoy it.

So, now, I will close my part of the presentation and we can move on to our conversation session. We are going to have our executives now available to answer all of your questions. Thank you once again.

Thank you, Mr.Lorival Luz for your presentation. We're now going to start our questions-and-answers session. But before that, we're going to share the tutorial video once again, giving you further information about how this is going to happen.

(Foreign language) (Audio-Video Presentation)

(Operator Instructions) Okay. Let's now start our Q&A session for the fourth quarter 2021 BRF's earnings conference call. I would like to invite, Mr.Lorival Luz, the Global CEO of BRF back on stage and our executive's team on the screen. The questions will be first sent to Mr.Lorival for him to give us some background information and then forward the question to the executive of the area.

Questions And Answers

Operator

(Question And Answer)

The first question is by Isabella Simonato from Bank of America. Isabella, you have the floor.

Q - Isabella Simonato {BIO 16693071 <GO>}

Thank you. Good morning, everyone. Good morning, Lorival. I have two questions. The first one about Brazil, I think it would be interesting, if you could tell us a bit more about this year-end contacts, which seems to be a bit more challenging. Can you tell us about the categories or channels that are performing better or also give us some more flavor in terms of the consumer behavior right now and the changes you were seen? So that's the first question.

The second question about the external market, we see that Asia is feeling a lot of pressure, but we have direct exports and Halal. So for 2022, can you give us further information about what you see in each one of the markets? China and the Middle East, can you please give us some further information about volume and prices in those regions? Thank you very much.

A - Lorival Luz {BIO 16180455 <GO>}

Thank you, Isabella for your question. That was a very relevant question both the domestic and the external market are facing different challenges and different scenarios. So, let me give you some information and then I'll give the floor to Sidney, McKelly [ph] and Igor, so that they can add to my answer.

In Brazil, you know the results of the retail market in recent quarters and the scenario is definitely challenging. The year-end scenario already presented us with challenges, but we had a celebration campaign that was quite positive, below what we would like it to be, but it was still positive and that brought impacts for the first quarter of 2022, and more specifically the month of January. When you see our customers selling less with higher stock, of course, there will be an impact in the industry in the month of January, because they need to adjust their stock levels, their inventory levels, and then there would be a reduction, and they are purchasing from us. So that's one of the scenarios that we can see.

This first quarter is very challenging and very complex. That's going to require us to adapt, to adjust to be flexible and versatile in order to incorporate all of these effects and also thus different demand that we might have considering that the corporation might have a smaller revenue. We cannot ignore what's happening in the market with higher inflation rates, higher interest rates and lower growth. So, these are scenarios and the company must adapt to it, because that will impact all of our consumers in different regions and different social classes. So, that's a fact that will require us to adapt.

Now about the prospects regarding the external market, you said it well Isabella, while we do have a very challenging scenario in China. I agree with you there is a volume and the demand in China that we do not expect to grow, but actually do stabilized but we have extremely positive, expectations for the whole Halal market with the increased demand that we can see in the food service market and we increased in business, leisure -- tourism with events that's happening in the region with the World Cup in Qatar this year. In addition to new licenses that we are getting right now. So we have a very positive expectation regarding Mexico as well. You can see the current price of chicken breast in the U.S. that's going up. And as a result, the countries that exported to them might have a demand that we can address, and therefore sell to those markets. Likewise, I'm also optimistic about the UK.

So I think it's all a matter of balancing out those demands, and it's really important to diversify our products and our footprint in order to reach that balance. I don't know if maybe Sidney, McKelly or Igor would like to add to my answer.

A - Sidney Rogerio Manzaro {BIO 17678250 <GO>}

Yes. Good morning, Isabella. Thank you for your question. Let me just add and give you a few other perspectives about categories and channel. We are working with what we call an hourglass effect. On the one hand, there's no question that the macroeconomics and the income will have an impact on our business, but it's also important to highlight that the food market has proven to be very resilient. Now when we look at the proteins, we noticed that indeed poultry and pork has been growing -- have been growing and they have reached historical levels in the markets here in Brazil both poultry and pork have increased their market share in Brazilian plates, Brazilian dishes.

Now the hourglass effect, yes, on the one hand, you have this growing demand for more affordable products, but on the other hand, you also have a growing demand for more convenient products and that makes the consumption at home to gain space. So, I'm not necessarily comparing this to the other products in supermarkets, but comparing to the price of restaurant dishes or take out dishes in which you can have a better comparison with flavor, high quality at a more affordable price. So, yes, there is a higher demand for more affordable products. But we also have a growing demand for more convenient high quality products. So that's an important effect.

Now a little bit about channels, what we can clearly see is that this food service is recovering, significantly in our business. With the consumption outside the homes, going back to previous levels and we have seen this growth then meals away from home, compared to the last two years. And retail has been feeling this aspect of the sales fluctuations, but the fact that that's happening there, doesn't mean that there is a generalized drop in sales, because we have different performances in different categories. So overall, in Brazil, we have at concern [ph] with dropping levels of income, but there is a it's a great opportunity for companies that have brands like ours, that reflect consumer trusts, when there is a lack of money consumers don't want to take a bat. They will go and choose the brands that they prefer. So, brand preference is really important here.

Now our ability to innovate is also very important and the swine or pork segments we launched 17 SKUs, ready meals, 16 SKUs, so brands and the ability to adapt to the new scenarios are very important factors. That's probably a great explanation of the resilience of our products in spite of the adverse scenario.

A - Igor Marti {BIO 21761361 <GO>}

Hello, Isabella. I just wanted to talk a little bit about the Halal market. There are a couple of very simple points we can go over. First of all, when you look at our performance in the Halal market, you see that there's an increase in crisis admittedly and there's really this brand that's pushing our performance. And one second point, I would mention is, we have a very resilient business. And that is really making a huge difference for us. So that performance is likely to continue moving on in 2022.

A - Sidney Rogerio Manzaro {BIO 17678250 <GO>}

Okay. Thank you. Isabella, just wanted to add to what Lorival, talked, I think In China is actually important and it's important to acknowledge that in 2021, we saw a substantial upturn in our domestic output which grew virtually 45%. Obviously that's had its reverberations on our results and that combined with an upturn in sales and the fact that China has a zero-tolerance policy with COVID, which affected their rebound in general. So, in the first half of the year, we believe these conditions will remain unchanged, but starting in May, when our focus will be to boost growth and progress we believe that in the second half of the year, the conditions we face will be slightly more favorable. If we look at imports of pork last year, we have seen a decrease in about 30%. So, we believe that is a reasonable basis for comparison when we look at 2022.

Also adding to what Lorival said about other opportunities, always referring to pork products we also believe we will have opportunities in other places around the world, such as Russia over the course of 2022. That obviously will be very significant in order for us to balance out our accounts.

Operator

Next question comes from Mr.Thiago Duarte from BTG Pactual. Mr.Duarte?

Q - Thiago Duarte {BIO 16541921 <GO>}

Good morning. I hope you can hear you well. I like to go back to the discussion about the Brazilian market from two different perspectives. First of all, in the last two years, you were able to reach a very significant level of pass-throughs, and I wanted to hear from you, whether you understand that the more pressured consumer and the lower demand at the beginning of the year. Will that translate into a trend for the rest of the year and will it be more restrained or is there room to adjust your margins, which remain pressured, we're at least remain below when you compared 2021 to 2020?

And my second question would be, when we look at warehousing levels, which would point to your production of both pork and poultry, we also saw a downturn since last year even with cooperatives. I think, the pressured margins were true for the industry at large and I wanted to hear from you whether you see that trend that way as well. And is there some sort of recovery in the company, in the industry's margins, over the course of the year on the horizon. And also, you've consistently shared about the consistency of your brand. And I wanted to hear how that 45% preference that we see between Sadia and Perdigao. How does that compare with your market share levels? I know you're not sharing your market share levels again, but I wouldn't -- you to understand whether your preference levels are performing better or outperforming your market share levels or not? Thank you.

A - Lorival Luz {BIO 16180455 <GO>}

Well, thank you Thiago, and I'd like to apologize and ask my colleagues to be shorter and our answers, because we have a long list of analysts who have questions for us. So we are a bit short in time. So trying to answer your question in a very short way with regard to the room for recovery in Brazil. It's very challenging, because again consumers purchasing power has shrunk, but we have to look at it in a comparative way. And the point is what other app options do consumers have? So, just as our price went up, the prices of our competitors have also gone up, but we have what we call the entry proteins. And as Sidney mentioned, sales of that type of protein has increase in terms of capital consumption. So we have a very versatile portfolio, which allows us to adapt to the mix in terms of demand.

And whatever pass through, whatever level of price we have to pass along we will do that, because you've seen how the economy has been has sustained itself and how we have sustained or itself, because we will never subject ourselves to selling at a lower price than what we need to produce. So we will do whatever we -- as much as we can to adjust, but the truth is, we will work with the production that we have and the products that we have to meet the demands of our customers.

With regard to warehousing, there has been a decrease, but not enough. So to adjust to the current situation. So those levels should already be at a certain level and should continue to decrease. So that we have the balance, I mentioned in a presentation when it comes to producer margins. It's a very simple equation. If the store has more, it has to sell more and producing margins go down. And when you narrow producer margins for a longer period of time, there's a reduced possibility for him to store products at his warehouse. So, in my opinion, that is going to go down further and has to, because you reduce producer's capacity for a long period of time with very narrow and depressed margins for a long period of time. So, I do believe we still have this prospect for production based on the assumption I just talked about.

Now, about preference and market share. Honestly, I think these are two different beasts. What we want ultimately is to have people's preference, because honestly with regard to market share, we could just say -- just drop the price by 10% and will gain a lot of market share, but is that what we want really? What we want is to really have our customers really in love with our products and our service, because our market share reflects mostly one factor, one main factor, which is if I change my margins and my price range to a lower one than my competitors will gain market share, but when it comes to preference, that's a completely different story, because it involves many factors includes quality, service, specifications, packaging. So we are working on all of that, that's our main focus precisely, so that we can generate customers desire and demand for our brand specifically.

Operator

Our next question comes from Mr.Rodrigo Almeida from Bank Santander.

Q - Rodrigo Almeida {BIO 20698362 <GO>}

Good morning, Lorival and Carlos, the entire BRF team that's on the call. I'd like to address this sort of post follow-on period. You've talked a little bit about your financials, but I wanted to understand a bit better what your plans are with regard to management, and what's strategy do you guys have in mind to reduce your gross debt and your financial debt as well? How do you plan to tackle that?

You showed your pro forma performance and pro forma leverage. And in that sense, I wanted to understand a little bit better, how you guys are working a metrics per perspective with your leverage for this year. What looking forward? What do you guys see? Especially, considering the more challenging situation as we've mentioned earlier, even in terms of cash generation this year.

Also, I wanted to hear a little bit more about your capital allocation considering that you've had this influx of cash. How can we think about that moving forward? Especially, in terms of organic growth? And also more on what you said about Saudi Arabia, and be -- what were the next steps that we could think about? And what should be the next steps in terms of both organic and inorganic growth moving forward? Thank you.

A - Lorival Luz {BIO 16180455 <GO>}

That was perfect, Rodrigo. I'll start with your second question, and then I'll turn the floor over the Carlos, because we've talked a lot about that during call on our follow on offering. First of all, I think that the scenario this year and Carlos could talk a little bit more about our prospects in terms of that, and we should work with investment of about BRL4 billion this year, that's what working with currently. But again, we will constantly be looking at the opportunities that are presenting itself -- presenting themselves to us, and the market that's presenting itself to us, so that we can really advance or slow down according to the situation, considering the current balance that we're working with.

The MoU that we signed is a document that states that together with BRF, we establish a society 70%, 30% in Saudi soil 70% BRF and 30% PIF, so that we can be increasingly more embedded in the Saudi industry with local production and also the great distribution and warehousing that we have in the country. So these tests are moving forward over the course of this first quarter. And we plan to really make headway in that transition and that transaction. And with that, I'll turn it over to Carlos, who will give you a little bit more of a detailed explanation.

A - Carlos Alberto Bezerra De Moura {BIO 16675187 <GO>}

Good morning, Rodrigo. I hope you're all healthy and well at Bradesco. Well as Lori said our priority is to reduce our gross debt. And you've monitored how this has developed and how much this administration has been concerned about how inflation and the interest rate curve has affected our debt. So, we went to the market and made the most of the increase in interest. We're trying to reduce our exposure to foreign exchange. We have our derivatives that are becoming increasingly more expensive, because of the hike in interest rates. So, we are working on really shrinking that system of derivatives. We are also working on bilateral systems in Brazil. And according to how the market performs, we'll be able to analyze how the market does considering our -- and analyze the tender offer considering the bonuses we will have, one maturing in the next few months and another maturing next year. So that's essentially the structure.

We had a lot of people who ran numbers during the course of our transaction, which came to 600 million being deducted from our financial debt. But I'd like to say that we have a significant not to have a cash effect on this financial gain, because of taxes, which translated into having a few tax credits. Now, in terms of our leverage in 2022, obviously, will not go into details here, but it will all come down to the currency effect, and how we will dose this cash flow as Lorival said, which comes down to having a coherent CapEx, a CapEx that's in line with our strategy and also a sort of alleviate -- more alleviated cash flow. That in addition to the monetization of tax credits, which is something that we've done and has already generated over BRL1 million last year, and we expect to navigate between 2x and 2.5x in terms of leverage, that's probably what we will have, obviously, depending on how our CapEx and our investments over see progress.

Operator

Our next question comes from Victor Saragiotto from Credit Suisse. Mr.Saragiotto, you have the floor.

Q - Victor Saragiotto {BIO 19504427 <GO>}

Good morning, guys. Lorival said that the year has started on pretty much challenging terms as well and that new adjustment should still or are still expected to occur. And over time, we've seen that those adjustments take some time. And one thing caught our eye, which was the trend in pork prices in the fourth quarter of the year. We talked with a few players in Elk Grovers obviously they're buying pork at prices slightly lower. And we even heard from some of them there's been a negative pressure on processed goods. So, I wanted to understand how you guys are looking at this trend in processed food prices. And is there a tendency of downward trend in these prices moving forward?

A - Lorival Luz {BIO 16180455 <GO>}

Good morning. Thank you for your question, Victor. And you're absolutely right. And the point you're making. What happened last year, especially in the last quarter of the year, you have market prices that you can look at is a little bit of that effect. So the industry and producers were ready and prepare for a larger volume, especially for experts to China mostly, and is what we always say. If you don't export the local market, especially, smaller players, including cooperatives will absorb that in the local market. And when it comes to the local market that has an impact on prices. But plays into what I tried to say with regard to warehousing, you need adjustments, you need to adjust your supply to the existing demand. So you have a temporary imbalance, which is what we saw and now you're trying to equalize that and balance that out considering the reality that you have with the demand.

So obviously a few of these products that require a lot of raw material have also been pressured, because the market uses them as a place to dump this pork raw material. So obviously, this is something that's -- short period of time that will need for adjustment, but obviously, that adjustment will take place. And again, this is part of what I mentioned early on, when I talked about the challenges that we're facing, because we will need to make that adjustment.

Operator

Our next question comes from Mr.Lucas Ferreira from JP Morgan. Mr.Ferreira? Mr.Lucas Ferreira, can you hear us? We have had a connection problem with Mr.Lucas, our next question is from Mr.Ricardo Alves with Morgan Stanley.

Q - Ricardo Alves {BIO 16840901 <GO>}

Good morning Lorival, Carlos and the whole BRF team. I hope you can hear me. Thank you for this call and your availability to answer questions. Now I have two quick questions related to previous questions that were asked. First, about processed goods. We are talking about this more challenging scenario. But when we look at the competition, maybe Q4 was a quarter that was a bit more aggressive in terms of prices or more discounts being offered? Or is this also something that is happening in January, because of the inventory levels. So, what is your performance in terms of processed goods, also considering the whole competitive environment?

And now my second question about CapEx, Lorival mentioned BRL4 billion for 2022. So, I just want to and understand, after your follow on offering. I believe you close 2021 close to BRL4.7 billion and I would imagine a more aggressive CapEx scenario now. So, after the follow-on offering did you postponed any project or is there a chance that you will speed up the implementation of any project in 2022? Thank you.

A - Lorival Luz {BIO 16180455 <GO>}

Thank you, Ricardo. I just heard a pat barking in the background one of our consumers. Please buy our products for your pat. Now about your CapEx question 4.7, yes, that's pretty much right, but in this 4.7, we are including the M&A, the M&A of pet foods that we performed. If we exclude that and focus on organic, that's very much in line with those BRL4 billion. So there is nothing that has been postponed or anything like that, it's all going according to plan. So, we are making the adjustments that are aligned with our strategic plan. Now, I think, Sidney can give you a bit more color on the market regarding processed goods.

A - Sidney Rogerio Manzaro {BIO 17678250 <GO>}

Hello, Ricardo. Thank you for your question. I just want to add a comment to Lorival's answer. We have swine products in this whole scenario that he talked about, which impacts processed goods, especially sausages, there's our products where the market is more spread and there is a larger number of players taking part in that market. So, yes, there is an impact because of the pork context for processed goods, especially so for sausages, which creates this price pressure, because of the excess offer, the excess supply that is still being felt in January, but we probably go back to previous levels from now on.

Operator

Now, let's go back to Mr.Lucas Ferreira from JP Morgan.

Q - Lucas Ferreira {BIO 16552031 <GO>}

Good morning, everyone. I have two questions. Good morning, Lorival. First about the cost scenario, excluding grains. Can you tell us about freight, power, what are your expectations for the first and second quarter of 2021? Do you see some relief in the pressure on those two lines? And now Carlos, the Turkish lira has devaluated 60%. So, 60% depreciation have you taken that into account, I think it was like a 40% depreciation of the Turkish lira from one quarter to another. So, are you having that, do you take that into account on your results?

A - Lorival Luz {BIO 16180455 <GO>}

Thank you, Lucas. I'll turn the floor over to Carlos and he can talk a bit more about those two subjects. Now, when it comes to costs, when you see this, when we say there is been a slow down. It's not a job in places you're running on a certain level, but there is no significant drop in prices. It's not like we're going back to price as like they were a few years ago, but let me turn the floor over to Carlos. He's going to talk about the Turkish lira and costs.

A - Carlos Alberto Bezerra De Moura {BIO 16675187 <GO>}

Okay. Good morning, everyone. Well when it comes to costs no, we don't see downturn. We continue with this critical process with our supply chain and product offers in the domestic and international markets, which exert pressure on our margins. We thought the main impact would be on the costs that came from commodities, but that's not so, it's coming and continuing because of the ex-grain costs. So what have we been doing? The supply area working together with the product area, industrial area, category area, they are doing process reengineering, product value reengineering in order to capture benefits and specifications, and that is associated, of course, to the scale of the company, which benefits from the volumes acquired.

We have a preference in procurement and we can negotiate and we have a great storage capacity compared to other companies in the sector. So that has shown our resilience. But I want to emphasize that we're working on costs as well as expenses in our matrix -- management matrix. So, these expenses have had a nominal decrease, and they reached the lowest historical level in the share of revenue, because we are very strict in managing our costs and expenses and this is not married to one specific area. This is a culture we have at our company to have our costs under control. This makes all the difference for us to be competitive and flexible. Sidney, Mckelly and Igor when conducting national businesses.

Now about the international businesses in the Turkish Lira. Here, our company has receivables of exports in U.S. dollars and we also have accounts payable of acquisition of inputs in U.S. dollars, namely grains. We have no debts in foreign currency, in our businesses in Turkey. So our currency exposure is neutral and the impact on results is very mild. So when we consolidate the business compared to actual numbers, there has been an evaluation of the Brazilian real against the Turkish lira, which has had a mild effect on our balance sheet as you saw and this effect will continue to be mild, there is no hiccups expected from this currency exposure. We control the currency exposure in Turkey, just as we do in other parts of the globe.

Operator

Our next question is by Thiago Bortoluci from Goldman Sachs.

Q - Thiago Bortoluci {BIO 17950069 <GO>}

Good morning, everyone. Lorival, Carlos and the whole BRF team. Thank you for this call and congratulations on your follow-on offering. So I'd like to go back to previous issues that have already been addressed. Can you tell us about the Brazilian demand, we've seen results with negative volumes and a downturn in some of the products. A two digit decline in certain places? And we don't know whether you are ready to make the most of it in 2022. What are your expectations in terms of demands now for the coming year? And related to the capital structure, you gave us some pro forma figures and leverage and you said that this would be a pathway to accelerate the investments. So, within this context, is there like an M&A target you're interested in? These are my questions. Thank you very much.

A - Lorival Luz {BIO 16180455 <GO>}

Thank you, Thiago. So these are two questions that strategically we cannot answer telling you if there is an M&A target. If we have anything in mind is unfortunately, something that I cannot answer, right now. But I can tell you that we do have a strategy and we're constantly evaluating and considering the market conditions. What we have already announced as our agreement with PIF that we're working on. And now about Brazil, before I turn the floor over to Sidney. He cannot give you precise information about our expectations and the strategic plan that we have regarding Natura, Processed and things like that, but he can give you a bit more details about the market.

A - Sidney Rogerio Manzaro {BIO 17678250 <GO>}

Hello, Thiago. Okay. Let me go back to a point, I addressed when answering Isabella's question. This is the hourglass effect that we see in the market. There is demand on both sides and we are increasingly prepared to capture into make the most of that. So, there is some public information we have a plant in Seropedica that is expending with capacity for sausages and we are also advancing in value-added products with poultry, ready meals, and pork. So there is not one single behavior in the market. That's my take home message here. You have different perspectives depending on the context. A consumer may compare poultry and pork and think that is a trade down compared to beef. But compared to restaurants that can be considered actually a trade up. So, it's really important that we have a deep knowledge of the chain and especially of consumers. The more we study and understand the behavior of consumers and consumption situations, the more prepared we are with deal with these situations in here. We have not only this deep knowledge, but we also have brands that talk to all consumers and all consumption situations. And that makes us more and more resilient to market oscillations or fluctuations.

Operator

Okay, this is our last question now. The questions that have not been answered today will be answered by the BRF team later on. So the last question is by Gustavo Troyano from Itau BBA.

Q - Gustavo Troyano {BIO 20089359 <GO>}

Good morning, Lorival, Carlos. Good morning, everyone. My question is more related to the international scenario in the geopolitical tensions that we're seeing, are there opportunities and challenges that may come from possible sanctions that may be put in place? And how can we look at this? In the P&L of the company, especially considering the relevance of Ukraine in the global trade. Ukraine is an important chicken exporter to the Middle East. So have you seen changes in the export flows to those regions and are there opportunities that may arise because of that, especially considering the supply of chicken in these operations where you also operate?

A - Lorival Luz {BIO 16180455 <GO>}

Thank you, Gustavo. That's an excellent point, and a very topical point, something that is unfolding right now, as we speak. So the first thing I'd like to say is that, we hope that this situation doesn't get more severe. We hope that the situation may be resolved with dialog, peacefully without any type of actual conflict. So, although the scenario may bring us and present us with opportunities. I hope that the opportunities will come from a different situation and not from a possible war there. So, this is just my personal wish.

Now, you mentioned something important. Ukraine is a chicken exporter today. And the chicken feed comes from sunflower seed, not necessarily corn. So, yes, there is an impact and there might be other limitations and the flow of transportation. There might be some economic, financial sanctions that are put in place. So, we are keeping an eye on this. We have a team there, McKelly and Igor, they're monitoring this. We have operations in Turkey that are being monitored when it comes to supply and exports. So yes, that's a topical issue. I don't want to say that our company can benefit from this, because that's not what we would like to happen in a situation like this, but, of course, we are monitoring the whole situation with an eye on all of those aspects. One of them is chicken production, that may be affected indeed, and we also have a matter of Russia with sanctions and gas and oil supply. So there is a complex scenario involving these countries. We are monitoring that and we'll try as much as we can to supply the regions affected for any reason. So we're working hard to be able to supply to all of those regions. But we'll see how things unfold, and then we'll be able to give you for the details about that.

Operator

Ladies and gentlemen, thank you very much for all of your questions. I would like to ask Mr.Lorival to give us his final remarks. So that we can close this earnings conference call.

A - Lorival Luz {BIO 16180455 <GO>}

Thank you so much for joining us in our earnings release conference call. I would like to thank our shareholders and our board for all the support, and thank all of our employees for their efforts, their commitments as well as our suppliers and the trust of our consumers and clients. Thank you very much. And we'll see you again when we release our earnings of the first quarter of 2022. Thank you very much.