Q1 2010 Earnings Call

Company Participants

- José Antonio do Prado Fay, Chief Executive Officer
- Leopoldo Viriato Saboya, Chief Financial Officer and Investor Relations Officer

Other Participants

- Alan Alanis
- Denis Parisien
- Eduardo Vieira
- Jorge Mauro
- José Yordan
- Paul Birchenough

Presentation

Operator

Good morning and welcome to BRF Brasil Foods SA's First Quarter 2010 Conference Call. This conference call and the presentation are simultaneously transmitted via webcast in our website, www.brasilfoods.com/ir.

At this time all participants are in a listen-only mode and later we will conduct a question and answer session. Instructions will be given at that time. We would like to -- we appreciate if each participant made only one question. [Operator Instructions]

Forward-looking statements related to the company's businesses, perspectives, projections, results and the company's growth potential are provisions based on the expectation of the management as to the future of the company. These expectations are highly dependent on market change, economic conditions of the country and the sector and international markets, thus are subject to change.

As a reminder, this conference is being recorded.

At this conference are Mr. José Antonio Fay, Chief Executive Officer and Mr. Leopoldo Saboya, Chief Financial Officer and Investor Relations Officer.

I would now like to turn the conference over to Mr. Fay. Please sir, go ahead.

José Antonio do Prado Fay

Good morning to everybody. First of all I would like to thank everybody that is following our call. We will report the first quarter of company's results saying that they are on line with our expectation of a gradual recuperation, recovery of our results.

According to our findings, we are now having more normal environment of business and mostly of our improvement in results are coming from the recovery of some export selected markets, mostly in Asia and Eurasia that are performing good. We still have some problems in price for Middle East and North of Africa, and we have a positive trend in domestic market, we see the domestic market growing and with sustainable volumes and prices, and then perhaps the main point is the lower cost due to some -- we have small operation costs and we too are having grain cost smaller this year. This is the affect we -- in one hand we have less income regarding to FX, on the other hand we have less costs regarding to grain costs.

This makes a gradual improvement of our margin. We too have during this period concluded our project regarding to the best practices, linked to our merge procedure. We have finished all the planning of this process and now we are waiting for the antitrust authority's approval.

So we expect that this, today the process in the instruction to the -- at CI, which is the government department in charge of the instruction of the process, and it's already one year that they are doing this job. We believe that although this is a complex job, while we are improving a lot of categories, almost 60 categories that we used to operate, we expect that this process is in the ending procedure, it should be.

We expect that this instruction in procedure, should after one year it's in the end. After that we have 60 days in the antitrust department, authority department, which we expect being concluded on time, 60 days, which means that although we are talking about difficult to predict some of the terms they are always very difficult to predict, we expect to have this approval till the beginning of next semester.

But till there we will keep on working, we are not stopping, waiting for this approval. We are working on -- in separate companies where we have to do inside the boundaries of the agreement that we signed with the government. But we are working and we are free to go in external market, we are already working together, we are free to go in supply, in purchase department, we already merged this, and in commodity products as cuts and whole -- in internal market.

So we will keep on working hard, looking for our results and seeking for the approval but we'll not allow that the -- we'll not stay waiting for the approval without doing nothing. So we are working inside our -- the boundaries that we have.

All you know we are reporting a quarter that we consider a good result, mostly due to, that is still online with our expectations, since last year we are -- you can see this recovery in the market mostly in external market that suffer a lot last year.

Now I will call Mr. Leopoldo, the CFO to get into details regarding through the results.

Leopoldo Viriato Saboya {BIO 16137418 <GO>}

Good morning everyone. So let's go straight to the results of the first quarter. Highlights of the results on page five, where you can see that the company in this quarter had a pretty much flat gross sales; a little decrease, 1% lower gross revenues and flat net sales. And in the domestic market it was 4% higher, but in the export 8% lower. And basically, as we understand deeply, it's due to volumes in the export market.

The gross profit has a considerable increase and the gross margin 50-80 basis points grow compared to last quarter that shows the company's recovery of the majority of the markets, but mainly in the export market as we are going to see in the sales. So the EBIT was R$ 271 million compared to 61 loses last year. And the net income of the company R$ 53 million compared to R$ 465 million of loses of last year. And the EBITDA of R$ 447 million compared to 180 last year and the increase of 530 basis points of margin and this 8.9% of EBITDA margin is a quite normalized margin for such a quarter.

Just a more light on the expenses and financial results, we have also in terms of operating expenses, 50 basis points lower this quarter compared last quarter. And the financial result of negative R$ 165 million due to its broken down into 50 million based on FX fluctuation, on the ending -- since the ending of the year to the ending of March, over our net short accounting exposure of -- in dollar terms of around $1.2 billion and plus R$ 80 million of interest rates, during this period. This is basically a seven something percent of interest rate and non-interest rate over a net debt at around R$ 4.2 billion during this period and some other expenses like bond issuance expenses and other expenses, banking expenses and the like.

On top of that we have also the other results, negative of R$ 66 million, which is basically the cost of idle capacity due to pre-operational expenses.

So by saying that, let's move to the next page that shows that we had no major changes on our breakdown of sales. Just a point here on the breakdown between domestic and export market because of these reduction of net sales in the export market, the export division now is 41% of the total sales compared to 42% of last year.

Going forward, now little more color about our performance. And now starting to understand where we got this better result compared to last quarter and also compared to the immediately last quarter, which is the fourth last year.

First of all, when we compare to the first quarter of '09 in meat, we had 3.3 higher gross sales, major due to volumes, because it was flat prices; but a very good enhancement of our operational performance and taking into consideration that last year we had to sell much more in natura products in the domestic market. So there is also a mix enhancement here and also issue of overall performance due to a much more normalized mix of sales in the domestic market.

I would like just to highlight the processed food segment, which encompasses meat and non-meat products that grew 6.1% in volumes and 4.6% in revenues. So we can see a little reduction of prices quarter-over-quarter, but not -- but despite of that we had a much better operating result because of costs and also much more lined up SG&A and operating expenses because we are having a much more accurate distribution or much more normalized business environment in this quarter compared to last year.

In the dairy segment on the other hand, we got a 6.3% increase in revenues, 2.7 being volume and 3.6 prices. Although we got this increase in revenues, we are facing a challenging supply scenario, there is higher revenues but a lower profitability compared to last year. It's lower then last year, but it's pretty much inline with historical first quarter levels. It's lower than last year, because last year we had a much more positive scenario, especially in the UHT segment, but we are positive going forward.

Now let's focus on the export market, despite the fact that we had 7.8 lower revenues, we could draw prices almost 20% in dollar terms, showing the great recovery of the international market. So as we face it, 28% of U.S. dollar devaluation, the prices in reais terms reduced 6.6%, plus a 1.1% reduction in volume resulted in this almost 8% lower revenue.

But again, the majority of this bad performance let's say in terms of volumes was due to the negative impact of January, which was the month that we stayed very far away from our plan of our budget but we are now ending this quarter pretty much inline with our budget and we are now catching up both volumes and prices in the majority of the markets. I will give more details what's performing well and what's not. But in terms of EBIT result of the export market, we are back to the positive side compared to a very negative scenario last year where the first quarter was probably the most dramatic quarter of the year to the export division.

So going forward here on page eight just this sum up of, the very important reduction on costs and expenses and this is pretty much inline with what we have been saying to you that after this pretty much stable FX scenario we have been able to absorb in our cost structure the benefits of this low FX in our COGS, now being really priced in.

It's important to highlight here that out of this 580 bps of reduction there is a 170 bps due to the new accounting rules of the depreciation. So you need to take into consideration because in the first quarter last year we didn't have such a rule. Basically there is a better, a result when you compare to the past, a better gross margin, a better EBIT margin, but a neutral effect on the EBITDA margin. So the EBITDA margin reflects in the comparison with last year, the full recovery when you compare quarters, okay.

And on top of that, also the 70 bps of better operating expenses due to several things, but in summary because we are having a much more normalized supply chain of the company after a disruption of the system last quarter.

Now taking a look of the evolution of our results, it is again inline, absolutely inline with -- we have been saying to you. This is a gradual but consistent recovery of our performance. We are satisfied with the current performance, EBITDA performance, but as you know it is still away from our aims and are still away from the potential that this company can give after all the gains with the merger and other potentials that we have going forward.

Now moving to the company's performance by market, let's first take a look of the scenario of our main input costs and FX. So first of all in the top left we have the protein prices exported by Brazil and we can see clearly that the chicken market is pretty much flat compared to the fourth quarter, but 19% higher than the first quarter '09 and these flat prices being because of basically one market which is the Middle East, where we are not being able to increase prices and the other selected countries we, on the other hand, we have been able to pass on prices.

Look to the pork market, it's a little different. We had a little lower recovery compared to last year, but important recovery compared to the fourth quarter because the market, the Brazilian exporters could get 9% higher prices driven by the Russian market.

Below on the left we have the grains. They are performing quite stable in dollar terms but of course in real terms in the domestic market they are quite below last year levels. In average, if we take corn and soybean average we are running basically 20% lower corn and soybean prices compared to last year.

The scenario is quite positive; we are seeing the USDA just released the first perspectives for 2010-11 crops in the world, which is pretty much positive in terms of supply and everything. Brazilian harvesting is being very good, South America in the whole, but dramatically Brazil is harvesting the biggest corn crop ever, so the supply scenario for the near term is quite positive for the industry.

Looking to the milk, on top right, seasonal -- traditional seasonal movement, but this year begin a little earlier as you can see there is a sharp increase on prices, on prices paid to producers which is, as it's happening little earlier than more traditional, normalized years, it's pressuring our margins in the fluid milk market. But we are entering now in quarters more positive like the second and third quarter for the mid division.

U.S. dollar, as I mentioned before, after this big volatility we are at least seeing a more stable scenario and the dollar is ranging, letting around this range of 170 in Q1, 85, 183, which is positive for us to plan better our business.

So let's move forward, I will skip this slide here to others because we've already mentioned about the performance of sales and revenues. So let's move forward on the 13. And here is just a comment about the domestic market. So those are the main categories that we operate through fully processed and branded products in the domestic market. So you can take a look of the relevance of each market and the performance of those market had compared to '08.

In summary, the majority of them grew in terms of size of market and we as a company Brasil Foods, considering all the brands we have in all the categories, we had in some categories a little increase of market share in some other a little decrease of market share, so nothing different for the trend that we have been seeing.

I would like just here to comment that the frozen meat, which is the, it's a big market, it's R$ 2.3 billion, but of course if we compare this type of convenience foods with other countries, the size of this market is still very small and can keep growing inline with the Brazilian recovery of real wages, the better environment that is in front of us for the next couple of years. And this the very last Nielsen figures show a recovery of the frozen meat market and we are positive about this segment, which is important to bring or to help in our profitability in the domestic market.

So this is the message, would like to last year of the market size. And then on the Q&A session we can discuss some more points about that.

In terms of our exports by region, no big changes compared to last year in terms of relevance of each market, I would just give a brief comment on each market, so starting by the Middle East it's still tough this quarter. It was tough fourth quarter last year and basically because of oversupply. There is no issue of demand, no issue of costs, nothing, but basically the supply and this will take some more months to be fully normalized. It's important, this normalization to boost our margins going forward as we foresee.

The Far-East market and here, when we talk Far-East, we are basically talking about Japan market, here is a very important news, which is that prices basically returned to historical levels and we are having normalized demand. This is a very important market that demand a very important volume of dark meat and helps to balance all of our portfolio to the export market.

In the European market, we are seeing a smooth recovery of prices and a pretty stable volume. Despite the crisis or despite the more concentrated crisis in those so called big markets, we are not seeing that this surge crisis of Europe will change this trend of recovery.

Again it's not fully back, but it's much better than last year. Throughout the year it was a very bad year for Europe, now it's giving signals of enhancement. But on the other hand we could see, there is expectation that due to this crisis products and proteins like chicken could benefit in that scenario. And on top of that there is expectation of higher grain costs in Europe compared to '09, which is the totally different story of ourselves.

In Eurasia, here recovery of the pork meat market, as we indicated last call, that due to the refresh of quota system and the recovery of the economy itself we are seeing good prices of pork, but in chicken limited volumes and no recovery based on the U.S. ban and we -- as Brazil pretty much didn't got any new quota size because of that.

Other countries, as you can see have been growing quarter-over-quarter, now accounts for 16% of our net revenues in the export market and we are growing in those other regions that are giving very good results and news for us. And I would like to emphasize also here, which is Africa, Africa has good demand, good perspective. We are launching a new sales office over there to take care of the sub-Saharan African region.

We are quite positive of that market for the mid to long term. We strongly believe that it will keep bringing us good news.

China growing volumes, although the base volume last year is quite small but we had new approved plants that may open new export flows to the region. But china is always a specific or a very interesting issue because China, the potential is absolutely far away from this very limited business we have now-a-days with the region and we strongly believe that China will be a net importer of protein in the whole and Brazil will definitely play a remarkable role in that sense.

So moving forward on slide 15 this is just to bring again this message to you that although we are getting more and more confident with the recovery of the international market, we still have this slowdown of world meat trade after several, at least a decade of non-stop growing of the overall meat trade in the world, which benefits Brazil by far compared to other countries.

So we are -- as such we are returning in 2010 to the levels we had in 2008. So that's just a point here for us to be aware that markets are still balancing supply-demand for us to fully back to a normalized or more balanced scenario of supply and demand. But for the future, we continue to see a positive trend for Brazil as a main player of that and there is a big space for the trade compared to what's consumed in the world of those slowing.

Now taking a look of the Brazilian exports, no big change compared to last USD figures but slightly higher pork figures in terms of exports, and pork is the one that we, as we have been saying for several years but we have a gut feeling that we're getting closer to a positive news on the pork. But I would like to stay here on this positive to wait and see what's next. But we are quite, we're seeing movements in international barriers or new agreements that will allow Brazil to start to export to new countries in the near future.

Now let's move to the final section of our presentation which is the debt and investment of the company. So in terms of investments, we had a total investment, which is the traditional CapEx plus the investment in breeding stock, summing R$170 million in this quarter. It is in a lower pace taking that we plan to invest R$1 billion this year for this concept, but all the investment is being driven through the productivity and optimization projects, because in terms of capacity we have still idle capacity to be utilized in both Perdigão, but remarkably in Sadia system.

So moving forward to the debt position. Here also, again a message of a very robust -- robust statement regarding our debt position. In terms of net debt, we had R$4.3 billion of net debt compared to R$10 billion pro forma last year, and 2.9 leverage to EBITDA and decreasing. As far as we are getting cash generation and as far as we are having a very optimized investment plan, this is trend -- to a negative trend, which means it is a positive thing, but negative in terms of leverage, till the end of the year.

And in terms of our profile, the profile of the gross debt, we finished the quarter with a 74% long-term debt basically due to the bond issuance in the beginning of the year and a balance of 41% local currency and 59% foreign currency denominated debt, which is a quite good balance. So, in terms of our balance sheet only good things.

Moving to the shareholders' composition and no change, but the Tarpon, with 5% here that must be released because it reached the trigger of relevant investors. But another change is the number of common shares, it's doubled than last because of the split of shares that all of you are aware of, but no other changes, relevant changes in terms of our diffused control type of company.

In terms of our monthly traded volumes on page 21, we've doubled our liquidity compared to last throughout market which is quite positive and look to the ADR volume we are pretty satisfied with the liquidity. Days these days we are trading some days more than $20 million per day only in ADRs, so being now compared to world class company in terms of liquidity.

And the final mapping, now with the more green -- yellow colors reminds of Brazil reminds of the World Cup and it's natural as the Brazilian company as the Brazil company that takes Brazil's name to support the soccer team, the national soccer team and also to have campaigns both in Perdigão and Sadia brand campaign. So, we hope that next quarter when we'll be releasing the second quarter results, we'll bring not only good news regarding the Brasil Foods results, but maybe good news regarding Brazil as a soccer team.

Thank you very much and let's move to the Q&A session. Thank you.

Questions And Answers

Operator

Thank you. Ladies and gentlemen we will now begin the question and answer session. [Operator Instructions]. Our first question comes from the Mr. Eduardo Vieira from Credit Suisse.

Q - Eduardo Vieira {BIO 3087009 <GO>}

Hi, good morning and thanks for the call. Can you give us any guidance that you can give about what level of normalized EBITDA margin you should be achieving once you are fully integrated in the next year or two? And also you commented little bit on growth appetite for acquisitions and also if you have a target of net leverage in the short term. Thank you very much.

A - Leopoldo Viriato Saboya {BIO 16137418 <GO>}

Okay, Eduardo, thank you for your question. First of all in terms of what we call as normalized margins for Brasil Foods is our historical EBITDA margin pro forma of around 11.5%. It is a good level for what we call normalized margin. So we expect to be in that shape by year end or maybe, depending on market conditions, by ending of the third quarter right. So this is and for the next year we intend to have such more normalized margins and plus some synergy gains that we need to of course after the cut approval to understand how fast it is going to happen.

I will jump straight to the leverage that you mentioned then we together with Fay, we really can't comment about acquisition trend or expectation or our intentions. But in terms of our leverage target, it is below two times net debt to EBITDA. It is what we consider to be an optimum level.

Q - Eduardo Vieira {BIO 3087009 <GO>}

And how high would you go temporarily in the event that you like have a higher CapEx for a period to do an acquisition? I know you have been saying two times run rate level, but would you, if there is an opportunity, how much would you be willing to take your leverage temporarily...

A - Leopoldo Viriato Saboya {BIO 16137418 <GO>}

Okay, I got your question. We are a very conservative company regarding leverage, so we will never jeopardize our operations leveraging excessively the system because of that. I would say that for a small business that we can go temporarily to three times if we are in absolutely normalized environment, okay.

But as you can see just taking a look in our track record, all the movements that we made we called for new capital in the system. So this is the philosophy of the company, if it's something big in the later of course it will call for a new capital injection.

So one point change in the very short term could be accepted, but looking to our track record it never happened, okay?

Q - Eduardo Vieira {BIO 3087009 <GO>}

Okay and -- go ahead.

A - Leopoldo Viriato Saboya {BIO 16137418 <GO>}

Okay. Your other point regarding the acquisition, I will just give you our view. The company has the strategy of organic growth and also growth the internationalization of the company and basically it has to do with what we call a more further step on the markets that we already are very well established, meaning that we may be looking in the future for food processing and distribution to complement our export flow from Brazil.

Opportunities are in the market, we know that but everything has to be in line with our strategy which is to have this very well managed growth abroad and has to be in regarding brand names to do some also on the main markets.

A - José Antonio do Prado Fay

And anyway we are now in time to have our strategic planning process, we used to run in five years base. So we should have this till the end of this year and then we can go more straight to this kind of issue. But of course if some opportunities came we will analyze it.

Q - Eduardo Vieira {BIO 3087009 <GO>}

Okay. That's great, thank you very much.

A - José Antonio do Prado Fay

You're welcome.

Operator

Our next question comes from Mr. Alan Alanis from JP Morgan.

Q - Alan Alanis {BIO 15998010 <GO>}

Yes hi, good day everyone, congrats for the good results. I have a couple of questions. One, regarding working capital. We saw a slight deterioration here quarter-over-quarter, particularly on days receivables. So, the specific question is what should we expect going forward in terms of working capital? And what would be the size of the opportunity, specifically in terms of working capital once the two companies are integrated?

A - Leopoldo Viriato Saboya {BIO 16137418 <GO>}

Okay. This deterioration compared to last quarter, there is a thing regarding inventories. And basically because we take advantage of the scenarios to increase our grains position. So, there is one part of this answer is because of that, as we were very short by year-end. So, now we are, in any of the quarter, we are longer.

In terms of receivables, there is no deterioration but just a issue of quarter regarding --

Q - Alan Alanis {BIO 15998010 <GO>}

Seasonality.

A - Leopoldo Viriato Saboya {BIO 16137418 <GO>}

Yes, seasonality, that's right. But the opportunity, to your point is quite good. As we have a very healthy working capital, it's in the size, we just if you just make the calculation through our balance sheet, you are going to take a penny on your methodology, but around the R$4 billion of working capital invested. So there are several, several opportunities for us to reduce debt in order to be more efficient, in terms of return on cash flow. You are probably right. We have something method, but of course only with a full merger of the two companies, we'll be able to put into practices those enhancements.

Q - Alan Alanis {BIO 15998010 <GO>}

I hear you, but you do see it decreasing from the 4 billion level in a material way once the integration starts and it's completed, correct?

A - Leopoldo Viriato Saboya {BIO 16137418 <GO>}

Before integration I can tell that it will stay pretty much stable with the opportunities to slightly reduction because of this scenario of grain cost reduction. Okay? So, all this is working capital we'd likely reduce because of that.

Q - Alan Alanis {BIO 15998010 <GO>}

Got you. That's very useful. And if I may ask another question to the CEO, I know it's a - I mean the answer to this question can be very long, but if you could summarize it. You've been now coordinating procurement the exports of Sadia for quite a while and it's a question about cultures of the two companies of Sadia and Perdigão. And what would be the winning or the prevailing culture observation going forward?

Specifically how would you describe in a few words the cultures of these two very large organizations? And what would be the main characteristics of the culture a year, two years from now, if you may, please.

A - José Antonio do Prado Fay

Okay. In that point I think that we are finding a very good environment to do this merger. First of all we are talking about a merger procedure and not an acquisition procedure, which means that we are mixing the cultures. And when we did a poll to check about what the expectation of our employees and the expectation of the managers and so on regarding to the merger and the main finding that although we had a very competitive time during the last year, the people are quite similar, the cultures of the people are quite similar. The companies come from the same area, people used to stay for a long time in the company, so which is good for this moment.

I would say that I am very comfortable regarding to the culture that we are assembling together. Of course it's we are talking about a new company, not a bigger Sadia or a bigger Perdigão; but it is a bigger and a different company, more international company, more international driven business and with a strong brand and so on. I am very comfortable regarding to that.

One thing that is good in this period that we are waiting for approval is that we are having time to planning and to check and going carefully regarding to people, since one of the main issues of our merger is that it is a kind of merge where there are a lot of people involved. We are talking about more than 100,000 employees and so we have to be very careful regarding to that.

And another good point is that as we have a very strong growing niche for the future, the company has to grow, has to be internationalized and so on, and as Sadia has already a few management capacity since a lot of people left Sadia during the crisis, we are having a merger, a kind of merger that is not related to cut jobs, that normally the other moments that I was involved with this kind of moment, it was regarding to cut a lot of jobs but the synergies come from this.

And in our merger, it's different from others, the synergies are coming from the purchase together the spend that we are talking about a total spend about $21 billion if we include wages and so on. When you talk about direct and indirect costs we are talking about R$12 billion, which means that this is the main point and the main driver of our merge procedure. In summarizing, the merger is going very, very well regarding to cultural issues.

Q - Alan Alanis {BIO 15998010 <GO>}

Thank you, that is actually very, very useful. Appreciate it.

A - José Antonio do Prado Fay

Okay.

Operator

Excuse me. Ladies and gentlemen as a reminder, please restrict your questions to one at a time. Our next question comes from Mr. Paul Birchenough from Nevsky Capital.

Q - Paul Birchenough {BIO 17249517 <GO>}

Good morning. I was wondering if you could give us some guidance on tax. Obviously this quarter you had the help from tax losses carryforward; but will that be happening in the next few quarters? I was wondering if you could give us the effective tax rate.

A - Leopoldo Viriato Saboya {BIO 16137418 <GO>}

You are asking regarding the FX losses, right?

Q - Paul Birchenough {BIO 17249517 <GO>}

No, I am sorry, the tax.

A - Leopoldo Viriato Saboya {BIO 16137418 <GO>}

Our tax?

Q - Paul Birchenough {BIO 17249517 <GO>}

Yes.

A - Leopoldo Viriato Saboya {BIO 16137418 <GO>}

Okay. The tax that we got here in this quarter is the effective. There is an important point regarding the tax rate, when you look quarter-over-quarter sometimes it is a little difficult to have a precise view of that. But when you look to the year-to-date to a full year figure, it is much easier for you to understand and our effective tax rate for this company as we are organized in our local operation and international operation is in the line of 18 to 20% of tax rate.

When you look to one specific quarter, if it has a very important real appreciation or devaluation, or if the export market has a very strong result or on the other hand bad result it will influence heavily in that quarter effective tax rate. But when you look to the long-term on a full year, you should consider this 18 to 20% of effective tax rate as a good guidance.

Q - Paul Birchenough {BIO 17249517 <GO>}

Thank you.

A - Leopoldo Viriato Saboya {BIO 16137418 <GO>}

Okay.

Operator

Excuse me. Our next question comes from Mr. Denis Parisien from Santander.

Q - Denis Parisien {BIO 20333702 <GO>}

Good morning. Thanks so much for the call. Looking at the sales tax data for the Brazilian external trade data. And it looks to me that the numbers for April show a bit of a downturn in poultry. Could you please comment on that? And if I might ask also some information on your capacity utilization by segment this quarter versus the previous quarters. Thanks.

A - Leopoldo Viriato Saboya {BIO 16137418 <GO>}

These sales tax figures, I am afraid it doesn't give the real trend of what's going on especially because when we look month-over-month on the sales tax, sometime it has a lag between what really happens in the industry or in a company like ourselves. So, you should take care of analyzing these trends month-over-month.

A - José Antonio do Prado Fay

And you have to consider that is a lot of internal trade that's registered there. So that it's difficult to analyze this totally, have to see that as a trend and in the long-term.

A - Leopoldo Viriato Saboya {BIO 16137418 <GO>}

And your second question was regarding, sorry, the.

Q - Denis Parisien {BIO 20333702 <GO>}

Capacity utilization figures.

A - Leopoldo Viriato Saboya {BIO 16137418 <GO>}

We don't have it in the breakdown of this and that. But I can tell you in a rough figures that we are now working near to 80% of capacity utilization in the Brasil Foods System, little higher utilization in Perdigão and a little lower in Sadia, because in Sadia is just entering new capacity because of new plans, new investments.

So this is a rough figure, it's a very complex thing, because you have several bottlenecks which is not only in the slaughtering capacity, but also in the farming system, slaughtering and processing.

A - José Antonio do Prado Fay

And anyway still we have some boundaries to respect regarding to the antitrust approval that we signed it. So we do not have all the information that we need to get the total figures. But that's what Leopoldo talked, I think this is the rough figure that we are talking about, 20% to 25% in idle capacity.

Q - Denis Parisien {BIO 20333702 <GO>}

And using roughly 80% and I understand these figures are never precise. But using that as a general range for first the quarter could you give us a bit of color what that looked like in the fourth quarter of 2009 and what it looked like in the first quarter of 2009 if you could just for this figure comparison.

A - Leopoldo Viriato Saboya {BIO 16137418 <GO>}

It's not that different, because as you could see we are working in pretty much the same volumes that we had in the first quarter last year. So this ramp-up will start to happen right now. So we have enough capacity according our plan for this year and for the part of 2011. So as Fay said we have limited perception of these accuracies regarding what type of capacity we can grow here and there but, as a general sense, there is capacity to utilize in the system for several quarters ahead.

A - José Antonio do Prado Fay

And we believe that after the approval we could put some plans working in different ways. So there is a lot to do, we expect to have good news there but, we still do not have all the clues.

Q - Denis Parisien {BIO 20333702 <GO>}

And the first quarter of last year can you give me a rough idea what capacity utilization looked like in the worst of the crisis?

A - Leopoldo Viriato Saboya {BIO 16137418 <GO>}

In that moment, it was lower because we reduced capacity in 20%, so roughly and that was just the export market, so you can take 10%, maybe we were 10% utilization lower. If it's 80 now we were 70.

Q - Denis Parisien {BIO 20333702 <GO>}

70.

A - Leopoldo Viriato Saboya {BIO 16137418 <GO>}

Okay.

Q - Denis Parisien {BIO 20333702 <GO>}

Thanks very much and on the exports, I take what you mean by one quarter doesn't make a trend and in fact looking at it on a three months moving average it looks actually quite positive. But can you confirm to us what you have seen here in late April and early May, the recovery in export market in chicken and pork continues and the prospects remain solid there?

A - José Antonio do Prado Fay

We believe that the external market keep on showing a good trend. As we said before, we still have some price issues in Middle East, North of Africa area, Japan is quite stable, Europe has some issues to clarify. We keep on having volumes stable there and Americas are performing good. So we see a good trend till now.

Operator

Excuse me. Our next question comes from Mr. José Yordan from Deutsche Bank.

Q - José Yordan

Hi good morning everyone. My question is about domestic sales. I guess based on what we have seen from other consumer companies that have reported so far this quarter, as you probably know there are many of them reporting extremely high sales growth. And I was just curious why your growth was only in the low single-digits in the domestic market and if you could review what your guidance, if your guidance remains at double-digit growth in the domestic market for the entire year.

A - Leopoldo Viriato Saboya {BIO 16137418 <GO>}

Well, we have to divide the answer. We have some categories, big categories that are more stable, that are more related to the growing breaks of categories like sausage, ham, and they are not very much impacted by that, are more stable because they are high-penetration categories. So that is one reason not to do not have this double digit that you expect. On the other hand the new categories that we are getting to, in frozen, experimenting a very, very strong growth in volume. We are expecting two digit growth in volume and less of that in dollar wise due to the price oriented market that these categories may have been in some times of the year, mostly in dairy.

Q - José Yordan

But you are still maintaining your guidance for 10% or 11% capacity of sales overall or is that something that...

A - Leopoldo Viriato Saboya {BIO 16137418 <GO>}

We gave our estimate that 8 to 10% growth in volumes is possible and it is still possible, but bear in mind that this is how we prepared ourselves since last year to grow this year in terms of capacity utilization, lines of products and the like.

It doesn't mean that we will largely depend on the performance of each category and every year we work in two ways. First of all taking care of our market share, our penetration in the market; and at the same time looking to our profitability. So as I said we are having much better profitability in the domestic market, despite the fact that we are not growing at such a pace, but we are having a much better profitability because of this management of our performance. But we keep the same as we mentioned before, okay?

Q - José Yordan

All right, thanks a lot.

Operator

Excuse me. Our next question comes from Mr. Jorge Mauro from Legg Mason.

Q - Jorge Mauro {BIO 15232286 <GO>}

Hello, good afternoon, thanks for taking my question. It's just on the poultry volumes in the domestic market, if you could give us more color on the 20% decline, the reason and if you are actually shipping that poultry to the export market or if you are processing that. Why that decline was so big?

A - Leopoldo Viriato Saboya {BIO 16137418 <GO>}

Okay, perfect. This was very important, this reduction for us, because last year we had to shift these volumes from the export to the domestic market because of the crisis, because of the disruption of the export flow. So we had to sell in the very cheap levels in the domestic market.

Now this size of intura or raw chicken products in the domestic market is at pretty normalized volumes. So that is why we could enhance our profitability because of this mix enhancement, right? So it is not an issue, but though a better performance regarding last year of those more, let's say [Technical Difficulty]

A - José Antonio do Prado Fay

Having this gradual recovery of our results. Thank you everybody.

Operator

Thank you. That does conclude our BRF Brasil Foods S.A.'s conference call. Thank you very much for your participation and have a good day.