Q2 2011 Earnings Call

Company Participants

- Leopoldo Saboya, CFO, IRO

Other Participants

- Alan Alanis, Analyst
- Daniela Bretthauer, Analyst
- Gustavo Oliveira, Analyst
- Jose Yordan, Analyst
- Marcel Moraes, Analyst
- Tim Tiberio, Analyst
- Wesley Brooks, Analyst

Presentation

Operator

Good morning. Welcome to BRF, Brasil Foods S.A. Second Quarter 2011 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. Later, we will conduct a question and answer session. Instructions will be given at that time.

We would 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 expectations 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 changes.

As a reminder, this conference is being recorded. In this conference is Mr. Leopoldo Saboya, Chief Financial, Administrative and Investor Relations Officer. I would now like to turn the call over to Mr. Saboya. Please, sir, go ahead.

Leopoldo Saboya {BIO 16137418 <GO>}

Thank you. Good morning. Good afternoon everyone. Thank you for participating in our Second Quarter 2011 earnings call. We will start on page four in our presentation by emphasizing, first of all, that we are now, of course, the very first results we are presenting, after the CADE approval.

So from now on we'll be, as we said before, we've turned this page. But, it's important to emphasize the importance of this phase in the Company's momentum. Now, we'll have the benefit of working and really integrating all the systems, processes and the people into one single company to achieve our strategic goals toward the future.

Talking about the quarter itself, we understand that we had a very positive operating performance, despite several negative headwinds we faced. We'll give more visibility on the presentation. The continuity of synergies capture especially those already operated by CADE in the time being. And also, we want to emphasize the record EPS we've achieved in this quarter, representing the earnings of the half of the year. And at the same time, a record Second Quarter EBITDA margin.

Having said that, let's start analyzing the top line of our growth which is the net sales we keep on a continuous growth in revenues. In this specific quarter, the growth of 13.8% was pretty much related to prices increase, other than volume. Volume, in a consolidated basis, grew only 0.9% and prices 12.4%. We will analyze and submit in the two main markets -- domestic market and export market.

These revenues of, approximately, BRL6.3 billion were 4.5% higher than the First Quarter '11, this year. And in the first half, we had a 16.4% growth, being more balanced between volumes and prices, representing 5% volume growth and 10.9% in prices. In the quarter -- in the Second Quarter, specifically, I can anticipate that this low growth on volumes. And specifically in the export market, is pretty much related to profitability management and decisions made in that direction.

So on next slide on page six, we have here the analysis of the profitability of our results in which we are very satisfied of the achievements. So looking from the gross profit towards the net income we should maintain a very good performance. Starting by gross profit, where we reached 24.8% of gross margins. That compares with a 24.4% last year Q2. On an EBIT basis, better performance in absolute terms BRL513 million of EBIT in the margin of 8.1%.

The EBITDA also represented a very important evolution of 140 basis points above last year. And in absolute terms, BRL172 million of more cash generation compared to last year. The net income, which is -- its very impressive, bottom line of the Company of BRL498 million and a margin of 7.9% that compares to a 3.1% last year, or BRL171 million.

And the only non-recurring factor in this bottom line here is related to the sale of an asset. In fact it was the former Sadia headquarters here in Sao Paulo city, that was sold and that affected the bottom line in BRL52 million. That's the only non-recurring result of this quarter. The other results are absolutely operational.

So moving forward to the next slide is to point where we are in terms of EBITDA comparing to all other Second Quarters in the recent history of the Company, proving that we've achieved a very high level or historical high level of margins.

On page eight, we breakdown by market, our EBIT and the evolution we can see in both markets. But more dramatic in the export market, as it was in the First Quarter this year. Of course, with little less magnitudes that are again, very positive compared to last year. Here I take advantage to make a point regarding the export market where the 8% of the EBIT margin is a very good level of profitability for the exports business.

I want to compare this with the Q1 2011, in which we achieved 8.3%. In only these two quarters we faced a real appreciation, where the real to dollar FX moved from BRL1.67 to BRL1.59. So this BRL0.8 in only one quarter, would represent approximately, an impact of approximately BRL130 million.

And looking to our absolute EBIT, we didn't face that because our BRL205 million EBIT generated in the export market is BRL5 million above Q1 2011. So it's to say that we were able to offset this real appreciation during the quarter through price evolution, our management of profitability. And the key markets of the globe. In the market's development itself, I'll give some more color on the export market itself.

So next slide on page nine we can see the dramatic increase of our earnings per share that increased 274%, compared to the first half last year. And the amount paid as dividend in the first half of this year is more already than the total EPS paid last year, as a whole. So we are very satisfied to have this very bold dividend and also to pursue the strategy of granting to investors both ways of returns being the value added through the market capital of the Company and also the dividend yield.

So as a summary, on page 10, we have here the earnings of the Company. All the main aspects as I've already touched on. So here, I just want to make a point regarding our effective tax rate of the quarter. Because it was positive on BRL42 million and this is important to understand that there is no different thing here or reversibility of something or things like that.

But though the main aspect here is, first of all that we generated very sound, very bold operational profit before taxes which means, that, as we pay a dividend. And the impact was seen in the quarter regarding the profitability generated in a full half, that's why in this specific Second Quarter the magnitude of this is significant. But if you look to the year-to-date, you can see a more normalized figure. Because as you know, we have the tax shield on the interest on equity, the way we pay a dividend.

So having said that, we turn to page 11 where it's more a graph of what we've already mentioned that despite the very important inflation we've been getting in many input costs, labor COGS and other services that we use in our industry. We were able to have a reduction in the COGS related to net sales. Related to our ability to (attack already) pass on prices and timely do that.

The SG&A to net sales, again, it's a part regarding to our better management, better capacity to put synergies on. But remarkably, due to our sound growth that after a couple of quarters of more restricted growth. So we were able to gain scale and scope in generals and administrative as well.

Moving forward, on page 12, we show here the two main input costs of the Company, which are soybean meal and corn, in fact here, represented by a soybean. We can see that in comparing the Q2 '11 with Q2 '10, we had approximately 26% higher prices for soybean. And 71% higher prices for corn. We made an average of those impacts because they individually, they participate equally in our COGS, we are talking about of 50% of impact only coming from these two main input classes.

And as they, together, represent, they account for approximately 25% of our COGS. We are talking that and only these two items, they made a pressure on our COGS in the amount of 12.5%. So this is just to present to you what we had to do in order to compensate, or to offset, such a pressure we have been facing through the last 12 months, at least.

The perspectives for those main input costs is from now on, we understand that it's marginally positive. So we don't see prices in a bullish scenario, although, it keeps on a very tight scenario internationally, especially for corn, in a global basis. But, remarkably, in US. But the question mark here, is, how the consumption will evolve in the next quarters because of this international crisis, if there is any relief in consumption or ethanol consumption in the United States or some reversal of incentives and things like that. It could slow down demand for ethanol in US and then prices could come down.

But looking to a more mid to long-term price level, let's say 2012, even though we don't see any important pressure for prices to really enter in a bearish movement. Again, because of the very tight scenario we see now and also the growth in supply is not clear to be seen in the main countries that are the main producers of both corn and soybeans.

So what I'm saying is that in the short-term we could see a relief in costs in Brazil for both corn and soybeans due to seasonal, especially for corn, due to the second corn crop harvesting reaching the peak, then this pressure -- downward pressure could benefit us more to the end of the periods. In terms of COGS, we are facing, right now, during the mid of the Third Quarter, the pickup of cycle. Not necessarily a pickup of cycle in our COGS like but not necessarily the pickup cycle in the input (inaudible; technical difficulty) revision has gone.

Now moving to the next page, on page 13, the synergies. We are very pleased to present you the gains on synergies. So BRF synergies, BRL175 million and if we deduct the upfront expenses of BRL28 million. And the income taxes and others of BRL59 million, we have the net impact of BRL88 million. Then on the chart below, you can see the total for the year-to-date synergies, which shows that we are above the curve we planned or we guidance for the year which was BRL250 million of net synergies.

We have already achieved these BRL251 million of net synergies and net, here the concept of net, net of expenses only we achieved in the first half of the year. I take advantage to clarify that those synergies they are pretty much related to the (operated) areas to move before final CADE resolution. And they are pretty much related to cost savings and expense savings.

From now on, the margin now tend to be little -- the pace tend to be a little slower because, now, we are going to enter in the most complex synergies gains and the ones that really depend on the full integration of a company into only one IT system which is to be fully implemented by the beginning of October, this year. So from that time on, we'll be able to implement projects and initiatives, such as distribution, logistics. And also, other things regarding manufacturing. That will trigger other areas of synergies.

Moving forward, on page 14. So this is the conclusion of all this positive performance we have been having throughout the last quarters. So achieving now this leverage of 1.1 time EBITDA. And our net debt of BRL3.5 billion and the cash position of approximately BRL4 billion. So this is more important than the absolute. And the relative term is when you compare it to other peers globally that the majority of them, they are in a absolutely -- in absolutely opposite situation of this we are achieving.

Next page we show investments, on page 15. That shows we've invested, if we add the Breeder stocks and the CapEx itself, it's, approximately BRL350 million. As you know, the pace of investments in the first half was below our plans because we were waiting for the CADE decision. And now we are absolutely free to move forward and to put into practice all the projects that, for any purpose, were put on hold.

So now, entering in the final part of the presentation, which is the market performance on page 17, we can have a little more color on the main markets we operate. So in domestic meat market, we had a more balanced revenue growth through volumes and price or mix enhancements. In terms of dairy, in a quarter basis, the growth was, in volume terms, was very limited. But in terms of price, was important and it was good of 12.4%, pretty much passing all the cost pressure we have been seeing in the dairy market in Brazil.

In the export market, what I want to emphasize is that 25% in dollar terms of price. And if we deduct the 11% impact of FX, we still had 14% of prices in real, higher than last year. Volume -- there is a reduction of 4.2% but it's not a reduction or due to any problem or any difficulties with the peso during the quarter. Although pretty much because the Second Quarter of 2010 was very strong in volume terms.

Because we were, in that time, you should remember, we were pretty much cleaning up inventories. And that time it was very important we did that because we entered in this bullish cycle of food in a very tight situation in the inventories and not only tight. But very adequate inventories, national wide and global wide. So that's why volumes, in that quarter, for the export market was very strong. Here, again, lies our strategy of profitability management. In certain times, we aim to go for profitability on the expense of volumes, of course.

So the next page, on page 18, the breakdown of net sales, no news on the (deal) by product and on the deal by market, domestic and export market. The only change here in one year, is a change of 1.1percentage point as compared to last year. So this year's domestic market of 59.2% compares to 58.1% last year.

Now moving to the next slide on the export by region. Let me give a little update or feel of the export market and what are the main trends we are seeing from now on. So first of all, we have been facing some difficulties, in terms of selected markets which tend to -- let's say we can say that the second half tends to be tougher than the first -- that what was the first half.

Of course, the FX is, let's say, a cornerstone of this movement because, July for instance, was a very difficult month, in terms of FX. Was the lowest FX, in average, we had probably in the history of the Company and of course the history of Brazil. But with this recent surge of real, probably, things will be much better in the quarter regarding our export markets.

Because in the very short-term, the FX played a very important role in defining the profitability, especially, because, our capacity to further move price, further pass on prices is now getting pretty much -- we have achieved a limit. And in some other regions, we have already seen some downward pressure. Some of them, they are absolutely seasonal. They are recurring and normal, as a business usual, for the type of business we run.

Now, what I want to do is just to give some highlights of the main markets we operate. So first of all, Middle East is the market where we are seeing reasonable, downward pressure on prices. And these pressure on prices they are, let's say, for two main reasons. First of all, as we reached historical high levels in dollar terms, at that market, of course, it was very positive for us in terms of profitability and so.

When it ended up opening a gate, or opening an umbrella for other players to become middle or marginally more competitive to enter in this market, such as, Turkey, exporting some or moving some products towards the region and the United States putting some more leg quarter in the region. So things that are not that significant, in terms of volumes. But they ended up causing a behavioral change of the market. We have been seeing some downward pressures on prices.

We understand that after a Ramadan, we still see some negative pressures on prices. But after that, we'll tend to be, again, more positive. The second reason is regarding Brazil itself. Because as Brazil is the major player in the region, Brazil figures of chip placings, these and that, are showing to the market that Brazil is producing a quite significant quantity of poultry. Our main markets tend to react to more casuals regarding prices and new price evolution.

But this is the story for the Middle East. For the Far East, remarkably Japan, a little of this Brazil history is being seen in Japan. It's more to do with the very strong volumes that Japan moved from Brazil in the Second Quarter. So now, we have to care on how we pressure the market. So pretty much what we did was we slowed down our rhythm of negotiations, in order not to negatively pressure prices. But the market itself was still working in a very positive prices and very profitable levels. In Europe. So far, we are not seeing any impact of the crisis. And prices are maintained in very good levels. So positive.

Eurasia, or Russia, let's say so, if I was to say that the band keeps on. And there isn't from now on no real perspective, right now of when and how it will return. Now that the region is approaching the wintertime, where the Russians consume much more meat, maybe this pressure, from the consumption side, could trigger a resolution for this market.

As you know, Russia is a troublesome region. Sometimes other non-trading issues they take places. Political other commercial issues, they grow on top of the trade of meat itself between Brazil and Russia. So that's why the perspective is not clear right now.

So moving forward, performance in the capital markets. There is no meaningful change in shareholder's composition. So we can move to page 22 where we emphasize the return of our shares to a value close, or at least, closer to the level that it was before the first vote of CADE. In terms of liquidity, we are operating in a 64% higher than the last year -- than first half last year. So we're pretty satisfied with the liquidity and the performance of our shares.

And now, I turn the subject and I want to comment on the Middle East where we just announced the investment in the region. I believe that the majority of you, we have been talking to all of you, regarding our international strategy and, also, divisions where we should invest in the following years. So just to recap, we are talking about in our strategic plan, in the emerging markets, mainly Middle East and Latin America. And in Africa and Asia by opportunity if there is something good to move forward.

In the Middle East, we have all the reasons to invest in the region in the processing and adding, locally, value to our products because we are -- the reason is our main region breakdown sales of the (index) market, Brasil Foods is absolutely dominant player in the market. Specifically, in the United Arab Emirates, we account for more than 25% of the region.

Our brands, especially Sadia Brand, is a very strong recognition in the region and is elected as a preferred in many countries. So of course, this was a natural candidate for us to invest. We were, as you know, looking both ways. So greenfield and acquisition. We could not find a target, another great target in the region, to pursue our strategy. So we decided and we just decided in Brasil board approval recently -- that's why we're announcing to invest in the greenfield project in the region.

It's going to be in the United Arab Emirates, we still don't have the final Emirate where we're going to invest. But it's going to be there. We already have commercial offices there. Our own distribution, especially in the Emirate itself. And in Saudi Arabia. And other factors, of course, we already mentioned.

On next page, the location. That's for those that are not aware of the region. And on page 27, you can see here, the layout of the plant. So the capacity is going to be 80,000 tons, to be gradually achieved in the following years. The start-up is planned to occur by the end of next year. Investment -- the total investment is going to be in two phases. But the total investment is budgeted of $120 million. And the products, it's a facility -- it's food processing facility. It's only for processed products, like bread, hamburgers, pizzas, cold cuts, like franks. And marinated.

The next page we have the rational. I believe that most of the things I've already mentioned. Being local or doing this for the processes or the food processing locally will give us much more flexibility and capacity, first of all, to dramatically reduce lead times. To use local seasons, local products and to follow, closely, the market requests and market trends. These are the first very positive things. Of course, it will enable us to access other markets or let's say new markets that we cannot reach exporting from Brazil and to ended up increasing penetration of food services. Of course food services is going to be a key channel for us to achieve our target in the region.

Moving forward, we brought here, at the very end of the presentation, some campaigns and Middle East campaigns and also on Latin America. Here, you can see on the bottom left, there is a campaign of the Ramadan time in the Muslim countries. Our product line all specialized for the time and things like that. Other campaigns in South America, as you can see here on the top right.

On the next page, you can see some campaigns, or some advertisements, in Europe. Those types of products they are -- some of those that this plant in Middle East will be able to produce locally. On the next page you can see the sponsorship of the Brazilian Judo theme, being sponsored by Sadia. We are targeting the Olympic games, of course, of 2016. This is something, just to share with you, what we are doing.

Launches and campaigns, here in Brazil, I want to emphasize here is the cheese under the brand Sadia that we are putting a very good product, with a differentiated packaging. We'll definitely take advantage of our distribution capacity and sales capacity, very capitalized logistic to put the cheese under a very strong brand as Sadia. And to follow the same success we've achieved in ham, for instance.

So by the end, we have here, our new institutional campaign. After two years of Brasil Foods being created, now it's time we're really born. We are now calling our new institutional campaign for Brasil Foods, on page 34 you can see our statement when we feed each Brazilian's twin, we feed the entire country's dream. So people, thank you very much. Having said that, I turn to the operator to listen to your questions, thank you.

Questions And Answers

Operator

(Operator Instructions) Our first question comes from Mr. Gustavo Oliveira from UBS.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Hi Leopoldo, hello everyone. I have a quick question on how you're assessing the market for potential. You comment that there are still, potentially, some short-term risks in the

COGS sign, especially in the Third Quarter. You're mentioning that you are at the peak of COGS but, not necessarily from the input costs perspective.

So the first question would be, if you could give us a little more details on what are the pressures you're seeing in your COGS, besides input costs? If the situation in the international markets, they deteriorate a little bit, in terms of volumes or a little bit of pricing pressures, whether you have enough room in the domestic market to raise prices and to continue to protect your profitability? That would be the question.

A - Leopoldo Saboya {BIO 16137418 <GO>}

Okay thank you, Gustavo. Regarding the COGS, you're right that's the view. This is the cycle pick in our COGS but not necessarily in the input costs that the pick has passed. Other pressures we can pick, labor and packaging but, none of those are important as the main feed items we said for.

The positive thing is that prices in Brazil are now coming down during the harvest time of the second corn crop. We tend to have, marginally, a downward trend for the COGS, looking from now to the end of the year. Right now, we are on the peak of a cycle. Your question was, how can we offset that if we can. In the actual market, as I said, we are facing some pressure on prices in the Middle East.

With this new adjustment of real, I would say that it's fully offset. In the domestic market, is where we understand we have some more room to defend our profitability. But of course, our movement must be very well planned and very well executed. Not only, because, we are still seeing a very positive environment of demand in Brazil. But there are some other signs of caution regarding the momentum of, not only the industry. But the consumption itself. The consumer confidence and things like that. So our velocity and our magnitude of price increases, we must be very selective.

The room exists but it must be used in a very careful way. So what I want to say is that -- and also if we put a new ingredient in that is our preparation for the sale of the so called TCD assets. So putting everything together, we need to understand what are the impacts, positive or negative, in our operations in order to decide how eager we move into either directions, if we go more aggressively for defending the quarter itself profitability or if we look to a more mid to long-term strategy. And pretty much make some only some punctual movements. That's our view on that subject. Okay.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Thank you very much. Thank you, it's very clear.

Operator

Excuse me, our next question comes from Mr. Marcel Moraes from Credit Suisse.

Q - Marcel Moraes {BIO 6696122 <GO>}

Hi. Good afternoon everyone. My question is regarding synergies. Leopoldo, could you give us a sense of what are the gross synergies that were absorbed so far, in the first half? On an annualized basis, what they would be? And in addition to that, what can we expect from this next round of synergies? By integrating the distribution in Brazil, what should we expect?

You have already said, you were going to absorb synergies slowly. But, what is the timeline for that? How radical can they be? Also, if you could us some more details about where these synergies are going to come from? We you know that it's from the logistics business. But, just some more color on that? I would appreciate it, thank you.

A - Leopoldo Saboya {BIO 16137418 <GO>}

Okay Marcel, thank you for your question. So the first part of your question, the gross synergies of the first half was BRL303 million. They were BRL128 million of the First Quarter and BRL175 million of the Second Quarter. Yes. We are ahead of the curve. We've achieved the net synergies in the first half. We've achieved, pretty much, the guidance of the full year of 2011.

Regarding all this visibility and all of this new guidance, we don't have that yet to pass for all of you. We call for your understanding. Now we need to balance, not only the rhythm that we have been capturing in synergies. But also, the full impacts we will have related to execution of the. So-called, assets to be sold to achieve the CADE agreement.

Also, we need to see that, looking to the pace and the momentum of those more structural synergies. And synergies that depend on changes of our way of doing things. And also, related to logistics in investments that must be deducted before we capture those synergies. So what I'm saying, is that, now. So far we have been capturing the hard synergies related to costs and some expenses.

They are in the areas where we were already authorized. So we are now getting the synergies of several initiatives and programs that were made, even last year. So they are recurring. So that's why we are able to marginally increase and to maintain the majority of those that we planned.

From now on, we cannot say that the thing rhythm will keep on the second half of the year. Excelled for that rhythm because the type of synergies will start to be different. And they are in areas where we depend. First of all, to have only one IT system that will be ready by the beginning of October.

Those synergies, to be captured, depend on, not only, changes of operations. But, as well, more investments. Investments that will enable us, for instance, to organize our DC's in single hubs to manage the two former systems in only 1 hub. In order to trigger other areas of synergies in logistics, distribution and also, sales and then so on.

We, as I said in the Portuguese call, we don't want to commit a date where we will turn to all of you to give more visibility and more clarity on synergies. We will do that, for sure.

Again, as I said Marcel, we have to digest more impacts that will come from the sale of the assets we agreed with CADE. Okay?

Q - Marcel Moraes {BIO 6696122 <GO>}

Okay. Thank you very much.

A - Leopoldo Saboya {BIO 16137418 <GO>}

Thank you.

Operator

Excuse me, our next question comes from Mr. Alan Alanis from JPMorgan.

Q - Alan Alanis {BIO 15998010 <GO>}

Thank you. So much for taking my question. Congratulations on the quarter, Leopoldo. I have a couple of questions regarding the deployment of capital and the use of cash going forward. First, I read the announcement of 120 million investment in the Arab Emirates. What's the return that you expect for that investment? What are the expected returns that you get from further -- either greenfields or acquisitions, that you may be doing in the future? That would be the first question. And second question is, how should investors see the future of dividends? What would you evaluate it considering a share buyback program?

A - Leopoldo Saboya {BIO 16137418 <GO>}

Thank you, Alan, for your questions. First of all, regarding our CapEx program and how we see the returns of average volume invested. I want to give clarification of how we manage investments in both the greenfield acquisitions.

For, specifically, greenfield, we have our own (wack) where all the -- for maintenance and for an organic movement they must overcome this (wipe), of course. For new projects, new areas or innovation projects, they must -- the bar is quite above that level. We have three steps of minimal return to approval investments. If it is like this one, an abroad investment, a greenfield, of course, the spread over wack or let's say the real, then the creation expected is higher. So that's the way we manage and we establish our governance investment in that way.

Q - Alan Alanis {BIO 15998010 <GO>}

Could you give us a range of that wack or a broad sense of what level it is?

A - Leopoldo Saboya {BIO 16137418 <GO>}

A very broad sense, because, we understand this is pre-strategic and of use to us. But, in the amount of 500 basis points above wack, we start to discuss a project that we consider to be strategic or related to innovation. If it is a pure innovation process it could be higher than that spread.

Q - Alan Alanis {BIO 15998010 <GO>}

Got it.

A - Leopoldo Saboya {BIO 16137418 <GO>}

Okay?

Q - Alan Alanis {BIO 15998010 <GO>}

Got it but you said wack something like CDI or something --

A - Leopoldo Saboya {BIO 16137418 <GO>}

No, our wack, for this year in real and nominal terms, is at 12.8%.

Q - Alan Alanis {BIO 15998010 <GO>}

Got it, thanks.

A - Leopoldo Saboya {BIO 16137418 <GO>}

Okay --

Q - Alan Alanis {BIO 15998010 <GO>}

Okay, go on, sorry.

A - Leopoldo Saboya {BIO 16137418 <GO>}

The second part is regarding the use of cash and dividends and if we are thinking about share buybacks. Is that the question? Okay. Of course, the dividends, I think, more importantly, it is our policy, which is the dividend (build) is our policy is for 35%. So this is -- we don't intend to change. This we will be maintaining. Throughout the time, in tough periods of cash generation and good periods of cash generation, as we are now.

So your question is very opportunistic, because, it's regarding how we look forward to our use of cash. Of course, we have a CapEx program, very important. Now we will speed up the use of cash towards more greenfields and more organic growth. We have, at the same time, all the programs regarding acquisitions, in the way I previously mentioned. Acquisitions they depend on several things. They depend on the significance of business. They depend on the timing.

We, as a business analogy, we always considered share buyback as a possibility of use of cash. This is a normal analogy we conduct. Of course, we are following, very closely, what other companies are doing in the world. We are seeing several companies taking advantage of pulling those programs right now to defend value or optimize capture structure. So if we are to understand that, in the short-term, we don't have the necessary use of cash, either greenfield or acquisition. Yes. We can use that and not change our dividend policy, for instance.

Q - Alan Alanis {BIO 15998010 <GO>}

Okay.

A - Leopoldo Saboya {BIO 16137418 <GO>}

Okay?

Q - Alan Alanis {BIO 15998010 <GO>}

That's very useful. I appreciate the answer thanks.

A - Leopoldo Saboya {BIO 16137418 <GO>}

You're welcome.

Operator

Excuse me, our next question come from Mr. Jose Yordan from Deutsche Bank.

Q - Jose Yordan {BIO 1496398 <GO>}

Hi. Good morning, Leopoldo. I wanted to go back to the question on the synergies. Let's say, rewinding back to two years ago when you first started, or more than two years ago. I think the synergy figure that was being stated was something like BRL600 million and that was with the understanding that you would have to get rid of the high market share brands, which went a little bit beyond that. But, roughly, the same.

If we capture BRL330 million of those synergies, is it fair to say that we've captured half of that initial guidance that you had given and that what is left is another BRL300 million and something? Or has something changed, in the meantime, that changes that number significantly?

A - Leopoldo Saboya {BIO 16137418 <GO>}

No, just some clarifications. The BRL600 million that we said, is a gross synergy, the net would be BRL500 million. The gross would be the permanent gains. The pre-expenses they are one-shot. So now, looking to our guidance of BRL500 million of net synergies to be fully achieved by 2012, we said that half of that amount we would capture in the year 2011, we have, of course, already achieved that figure by the first half of the year.

Again, it doesn't necessarily mean that we will be very happy to see that. But, it does not necessarily mean that we will see another figure like this as an additional synergy in the second half of the year. So your analogy is correct. To brush up on the gross and net synergies guidance, right?

Q - Jose Yordan {BIO 1496398 <GO>}

Yes.

A - Leopoldo Saboya {BIO 16137418 <GO>}

Okay.

Q - Jose Yordan {BIO 1496398 <GO>}

All right. Thank you.

A - Leopoldo Saboya {BIO 16137418 <GO>}

You're welcome.

Operator

Excuse me, our next question comes from Mr. Wesley Brooks from Morgan Stanley.

Q - Wesley Brooks {BIO 16407564 <GO>}

Hi guys, its Wesley Brooks here, how are you? I just wanted to come back to the Russian embargo. I wanted to understand how much of an impact there was in Q2 and how much more of an impact, incrementally, in Q3? Will Q3 have a much bigger impact than the Second Quarter? Also, will the impact be more in the pork? Or, will it also have a noticeable impact on the poultry side of things? Thank you.

A - Leopoldo Saboya {BIO 16137418 <GO>}

The Russian impact tends to be bigger in Q3 than in Q2. For us, we understand the collateral affects of the Russian banks, sometimes, is more relevant than the corn impact of the brand itself. So by collateral effects, you understand that they are different than the type of breakdown we have and type of portfolio (inaudible) you had. There are many players in small (inaudible) here in Brazil that depend a lot on the Russian markets.

When the Russian market is closed, they don't know what to do with their pork carcasses. So the swine production, in Brazil, is very bad. For the market of pork, in Brazil, it's negative as well. All these volumes they stay here. They shipped back here to Brazil. Although we don't participate, it's a marginal participation of this fresh or raw pork market, in the domestic market. It ended up affecting, for instance, the markets of cold cuts, like franks, sausages. And other related pork products. These are things that we had by the end of Q2. The majority of the impacts will be seen in Q3. Okay?

Q - Wesley Brooks {BIO 16407564 <GO>}

Thank you very much.

A - Leopoldo Saboya {BIO 16137418 <GO>}

You're welcome.

Operator

Excuse me, our next question comes from Mr. Tim Tiberio from Chardan Capital.

Q - Tim Tiberio {BIO 15194568 <GO>}

Good morning, just very quickly a housekeeping question. I missed the effective tax rate that we should be modeling going forward. I guess a broader question, would be, looking at the Japanese markets, how are you looking at that in the second half? How sustainable some of the recent trends that you have seen, extending into the second half, is there any color that maybe your marketing teams might be providing you that you can pass on to us? Thanks.

A - Leopoldo Saboya {BIO 16137418 <GO>}

Again, your second part of the question is regarding Japan?

Q - Tim Tiberio {BIO 15194568 <GO>}

Yes, my question on Japan is, some of the benefit that you have seen from imports demands post-earthquake, how sustainable is that into the second half? Are you receiving any color from your marketing teams and how they think that will develop in the second half?

A - Leopoldo Saboya {BIO 16137418 <GO>}

Okay very clear. We always start with the second question and then back to the first. They are mid-term sustainable. Which means, during the year, we are still benefiting from the collateral effects of the earthquake and all the other problems Japan faced.

Japan is about to open up again for Thailand and for China for some other type of chicken-like raw or immature. This could become a little pressure on the mid-term, I'm talking more like Q4 and into next year. In terms of imports and demand in the market, we still see a very positive scenario. Of course, maybe not sustainable and as good as it was during the first half of this year.

So your first question is regarding our tax benefits and how is the situation going forward. During the Second Quarter itself, as we paid dividends, in the format of interest on equity, here in Brazil we have, the so-called, tax shield on that. It's the same as a fiscal benefit of the debt.

We paid, of course, over the profits generated in the full half of the year. The impact was only on the quarter. Even though we look into the half itself, our effective tax rate of 4.8 is very low. It's not sustainable. Our effective tax rate is more in the range of 15% to 20%. Probably, this year, due to other tax planning. And because of our size, the amount of profit generated in the export market is much bolder than common years. So we tend to have, at the end of this, a lower effective tax rate than we normally get. In the range of 15% to 20%. This is the picture of this year.

But I cannot guarantee that this is sustainable for the very long-term. Or course, we are always working hard to pay less than we can and still following all of the rules in Brazil and outside of Brazil. To be in a more conservative side, using, for the long-term, 15% to 20% range of effective tax rate is more adequate.

Q - Tim Tiberio {BIO 15194568 <GO>}

Okay. Thank you so much.

A - Leopoldo Saboya {BIO 16137418 <GO>}

You're welcome.

Operator

Excuse me, our next question come from Miss Daniela Bretthauer from Raymond James.

Q - Daniela Bretthauer {BIO 13380169 <GO>}

Hello again and congratulations, again, for the results. I just wanted to go over some strategies. You've recently launched the new mozzarella cheese under the Sadia brand. Given the commitment signed with CADE to suspend Perdigao brand for a couple of years, in certain categories, does this limit or prevent BRF, in any way, from launching other products under both Sadia and Perdigao brands? For example, you did cheese in Sadia, could you do yogurt as well? Could you cheese under Perdigao? I was just trying to understand what else you can or can not do as it relates to the agreement with CADE, thank you.

A - Leopoldo Saboya {BIO 16137418 <GO>}

Okay, Danielle, it's a good question. It is going to be an important clarification for all of you. In other categories, not affected or not analyzed, we are absolutely free to launch new categories or enter into new categories with the existing brands, like, as you said, with Sadia in yogurt or Perdigao in cheese or Perdigao, in let's say, margarines. If that's your example. We could enter with different product lines. Regular temperature or frozen items, chilled, it doesn't matter with our existing brands. What we are limited to do is using the brands for the categories itself to change, among the categories, that were part of the agreement.

Q - Daniela Bretthauer {BIO 13380169 <GO>}

Okay. So let take it a step further. And you probably plan to launch a bunch of products, let's say, both under Sadia and Perdigao brand. But, especially, under Sadia brand which was protected, as a result of the agreement. The requirements are only Perdigao brand, right, going forward? So what if, hypothetically speaking of course, next year, since you have to remove Perdigao from several categories, what if the retailers decides, okay, well, I don't have enough product for Perdigao. I really feel like increasing my exposure with Sadia. Let's say that the majority choose to do that. Does that comprise you in any way with CADE? Could they do that? Can you --

A - Leopoldo Saboya {BIO 16137418 <GO>}

No. If the suspended volumes in the Perdigao brands migrate entirely --

Q - Daniela Bretthauer {BIO 13380169 <GO>}

Right.

A - Leopoldo Saboya {BIO 16137418 <GO>}

To Sadia, no problem. If the market shows it that way. If we are able to do that, there is no limitation on the agreement. In fact, this is a kind of free market share that we will jump into the market. The one's that can get the bigger stake, that's it.

Q - Daniela Bretthauer {BIO 13380169 <GO>}

Part of our thesis is that we'll be able to recover some of the market share that you're actually giving up on the Perdigao brand with either Sadia brand or brand extensions. If that's the case, CADE can't do anything about it, as you just confirmed. Right?

A - Leopoldo Saboya {BIO 16137418 <GO>}

Yes. You are right.

Q - Daniela Bretthauer {BIO 13380169 <GO>}

Okay thank you very much.

A - Leopoldo Saboya {BIO 16137418 <GO>}

Okay. You're welcome.

Operator

Excuse me, ladies and gentlemen. this concludes today question and answer session. I would like to pass the floor to Mr. Leopoldo for his final statements. Please sir, go ahead.

A - Leopoldo Saboya {BIO 16137418 <GO>}

Okay guys. So thank you very much for participating in our earning call. I, again, thank you for all of your confidence, through all this period of creation and preparation of Brasil Foods. Now, we hope we have a really new era of development of this company and moving to the place where we understand and that we desire, which is the global food marketplace. We are doing the first steps on that with this investment in Saudi Arabia. We understand. And hopefully in the first of May. Okay. Thank you very much and see you next quarter. Bye.

Operator

Thank you. That does conclude our BRF Brasil Foods S.A. Conference Call. Thank you very much for your participation and have a good day.