

## Q2 2021 Earnings Call

### Company Participants

- Carlos Alberto Bezerra de Moura, Chief Financial and Investor Relations Officer
- Lorival Nogueira Luz, Junior Global Chief Executive Officer
- Patricio Rohner, Vice President
- Sidney Rogerio Manzano, Vice-President of Brazil Market

### Other Participants

- Gustavo Triana, Analyst
- Isabella Simonato, Analyst
- Lucas Ferreira, Analyst
- Thiago Bortoluci, Analyst
- Thiago Duarte, Analyst

### Presentation

#### Operator

(Starts Abruptly) being recorded, and then all participants will be connected in listen-only mode during the company's presentation. The floor will then be open for questions when further instructions will be provided. (Operator Instructions)

Before we proceed, we'd like to clarify that any forward-looking statement made during this call, with regard to the company's operational and financial targets are beliefs and premises of BRF's management, as well as information currently available to the company. These are not guarantee of performance. They involve risks, uncertainties and assumptions seeing as they relate to future events and therefore depend on circumstances that may or may not materialize. Investors must understand that general economic conditions, the state of the industry and other operating factors may affect BRF's future earnings and could cause results to be significantly different from those expressed in such forward-looking statements.

Now I'd like to turn the conference over to Mr. Lorival Luz, Global CEO of BRF, who will begin the presentation. Mr. Luz, you may proceed.

#### Lorival Nogueira Luz {BIO 16180455 <GO>}

Good morning, everyone, and thank you for being here with us in our earnings release for the second quarter of 2021. As you can see, this release is an attempt for us to make something that's absolutely transparent and adequate to share our information with all of

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you. I'd like to start by talking to you and asking you to take a look at the company's results, the results that the company are delivering for this second quarter of 2021. And I'd like to give you a little bit of context and also ask everyone to think and to look at these results the same way we are, the same way I am optimistically seeing the company moving forward. We have grown our revenues and gross margins, as well as our adjusted EBITDA, as all of you can see in our presentation.

Well, let me paint you some of the context. Last year, coming into this year, we have perhaps one of the most striking increases in costs we've ever seen. We saw an increase of nearly 100%, which is almost a 100% of costs for corn, for example, which took them to a new level. We also saw a lot of inflation in our costs with packaging, maritime freight, meal, which was also converted into nearly 70% increase. That is an absolutely adverse environment from the standpoint of cost structure to any company. That being said, I'd like to call your attention to everything that we have been doing, and all of -- all that we have been talking about in our previous releases. This was a great effort in terms of efficiency and trade efforts.

A fantastic and very efficient work in terms of logistics. Implementing the SCO, which you have heard about in our operations bringing greater efficiency, and absolutely appropriate, adequate management of our inventories. It is because that we did all of that, our gross result came to 12%. And if we look at the same period last year, the margin was 21.7%. Yes, this is a decrease, but look at the inflation in the costs that we have to bear, in some cases, 50% or even 100%. All of this goes to show the management that we've had over all that we have control over. And everything that we are able to manage, because the adverse external scenario is there and we have to manage as best as we can. But what I'd like to say is, I'm very pleased with the work that BRF has been doing to manage, so that we're able to cope and grow our EBITDA and our gross margin over the course of one year. Meanwhile, or at the same time that we were able to minimize the impact on our margins as all of you can see. So that's what I would like to call your attention to, and call you to think that had we not made all of that we have done, where would we be right now.

So with these new levels that we have currently and the headway that we are about to do, think of everything that we'll be able to deliver moving forward. But it's not only that, there is another absolutely important aspect that we have to talk about. The company's consistency, and its earnings. The volatility that we were able to avoid because of changes in the exchange rate and things of that sort. We have been able to sustain our operational margins and our EBITDA margins adjusting to these changes in our costs, but in a very efficient way, growing both our gross margin and our EBITDA margin in 12% and 23%. This also goes to show everything that we've talked about in terms of our Vision 2030, the fact that we intend to be increasingly more a brand of value added products, which will bring us increasingly further to a more stable level of margins as a company of products or high value-added products.

So, now I'd like to reinforce what I've said before. If you look at this chart, what happened to our -- to the production index released by Embrapa. The increases we've had and the impact that BRF have to deal with. This shows all the effort that we've put into adjusting our sales price. So we're still competitive in the market and we still see room to move

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back to our prices considering the costs of our raw material. And I'd like to invite you to look at what happened in the United States for example. As corn prices increased, and what happened to pork and poultry prices, they were able to adjust in good time something that hasn't occurred here in Brazil. Raw material costs have gone up, but consumer product prices have not gone up the same way, but that's something that we are about to see in the near future.

Now considering what we planned, what we determined as a focus, which is to take care of our image and to take care of our customers the best way possible. We want to serve them the best way. So you'll see that our inventories have increased for finished products, that's true. And that's, so that we can serve our customers better. We are also managing that, so that increasingly more our clients will prefer us and be loyal to us. Here in Brazil, we have over 290,000 active customers. This is something we are sharply focused on and really take care of, which is consumer sentiment about our brands and their preference for our brands. That is what I understand as loyalty, And today, we have the two top brands; Sadia with 27.8, Perdigao with 15.3, and Qualy with over 52% preference, in all categories, we see similar trends as well. And this is something we want to have more and more, so that we become increasingly more this high value-added products brand, bringing convenience to all our consumers. And that will come from the way we plan and communicate with you.

The market share of these high value-added products in Brazil has increased 10 points, since 2018. 84% of everything that we sell in Brazil, these are high value-added products. And this reflects the strategy that we have adopted and our focus on listening our customers, and being attuned to their demands. And this shows how much the products that come from our innovation is having in the market, that came to 7.2% this quarter. And there is more in the pipeline. Here you see our new line of products Livre&Lev, and that is combined with an efficient work, great management, high value-added products, new launches, innovation, steady results with no surprises.

And all of this at a time where we are poised to see little economic growth, and a number of challenges ahead. But the foundation where our products are being built, still relying on a lot of productivity. When we look at the relationship between cost and prices for fourth quarter cuts and whole chicken and pork carcass, we see the competitiveness of these types of protein, that as you can see is nearly 12% more expensive in the case of four quarter and whole chicken and also pork carcass 9%, higher. And all of that in an economy that will continue and will rebound, and this should continue after we overcome the COVID-19 pandemic, and this will bring more competitive edge bearing in mind that per capita sales in Brazil in the first quarter for chicken has gone over 45 kilograms per citizen, in that pork is also exceeded that. And this shows the trend that we're following and what the scenario has showed.

In exports, we have also made headway and grown in foreign markets going into new markets and inaugurating new plants. Overseas, we are bringing the same things that we have been working with here in Brazil, greater innovation, high value-added products, as well as growth and new product launches. And I'd like to point out a trend that we are already seeing in Japan. We have suffered with our inventories in the past few years, as inventories were too high and now they are going lower because of the hike in prices. The

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Halal DDP market in Saudi Arabia as well. And there we have an important operation in foodservices, enjoying the rise in tourism, especially religious tourism, which is growing. And also Turkey with a lot of growth in our exports. So this is what I see as a very positive scenario in the international market, where prices are already going up compared to the trend we're seeing in Brazil.

Now I think it's important to talk about how solid the company's gross are right now. We have just released a 2.73 point leverage. So, within what we committed to in terms of financial management, that is adequate and efficient, which is below three times. That commitment is something that pervades our decisions in both investment decisions and practical decisions, in terms of cuts that we may need to do. In that case, we're always looking at our debt profile simultaneously. And as you can see, the average maturity is high with 9.5 years, but I'd like to call your attention to when it is, how much is maturing in 2021, to BRL489 million in 2021, BRL2.1 billion in 2022. So the company is at no risk and sees no challenge in terms of liquidity to continue investing the way it plan to. There is nothing in the way of us moving forward with our 2030 strategy.

Our report has a lot more details, but I'd like to continue talking about this. As you can see, our debt has been well managed going down to BRL14.791 billion. Obviously, impacted by derivatives and also the financial cash, all of which has caused an impact because of the management of our bottom line and our hedge management, which has brought our debt to BRL14.800 billion [ph]. And obviously this had an impact in our cash flow. And here we split and broke down what is our actual free cash flow, which is a result of everything that we had planned. There is nothing here that's different from what we had thought out and planed even within our Vision 2030, with a financial and cash impact that is a result of the execution of our derivatives, which as I said had an impact on our debt line as well.

Now very quickly, we have also taken a commitment in the next few months to become a net zero company in greenhouse gas emissions. And this is also something that pervades the entire company. And it's very much in line to the attitude, and to the way we do everything that we do. We have done a lot, as you can see in this slide, a number of actual initiatives. And here we're not just talking about financial investments or financial costs, but also in our attitude and in every decision that we make. And there is more to come, things that we will be communicating to you in the near term, things that we have already done and initiatives that are already in the pipeline that will show this commitment, involving not only sustainability, but also inclusion in diversity.

Now very quickly, I'd like to talk about the headway we've made in pet foods, we have advanced in our partnerships. We have Veg&Tal and several events is there, as well as Mercado Sadia and Mercado em Casa, which has been extremely successful with our customers. We also have the store in store service, which now encompasses over 500 stores, also a significant advance in pet food. Two acquisitions that we are very proud of, two fantastic companies, regarding their products and human capital; Hercosul and Mogiana. Both of them having approval of the CADE. Mogiana is at the later stages of closing. Both of them bringing BRF into a relevant market position with approximately 10% of the market share, becoming one of the three major players in share value in the

segment that we are focusing on. So in conclusion, I would like to call your attention once again to our strategy and the consistency of what we are doing.

We are consistent in our actions and we want to drive our actions, but always maintaining financial sustainability, always carrying out our strategic plan. Moving forward, despite the challenges having productivity gains, and you've noticed that even if we have at first cost scenario, we continue to deliver results in a scenario that perhaps had never seen before, in terms of facing the rising of costs. So that shows the strides that we are making in terms of management and the scenario will improve, and will have the basis to grow faster and in a more agile fashion. We are absolutely confident in the resumption of business, the fostering of the economy.

With that, I'd like to close my presentation. I thank you all for your being here, and I open for the questions-and-answers session.

## Questions And Answers

### Operator

We are now going to start the Q&A session, and we ask the remaining executives to join Mr. Lorival. (Operator Instructions) Our first question is from Isabella Simonato from Bank of America. Your line is open. You may go ahead.

**Q - Isabella Simonato** {BIO 16693071 <GO>}

The SG&A [ph] dynamic for Brazil. Thank you.

**A - Lorival Nogueira Luz** {BIO 16180455 <GO>}

Sorry. Unfortunately, due to some technical difficulties, I wasn't able to listen to your question. I'm going to apologize, but if you can repeat that, I would thank you very much.

**Q - Isabella Simonato** {BIO 16693071 <GO>}

Can you hear me now?

**A - Lorival Nogueira Luz** {BIO 16180455 <GO>}

Yes. Perfectly now, Isabella. Thank you.

**Q - Isabella Simonato** {BIO 16693071 <GO>}

My question, the first one, I have a little bit of echo, but is in terms of processed. When we look at the breakdown in terms of revenue and volume, there was an increase in the price of processed. And I would like to understand the dynamics of this category throughout the quarter, and the increase in prices? And regarding SG&A in Brazil, we see an acceleration in the percentage of revenue for this semester. So, I'd like to understand what that's all about? Is it clear now?

## **A - Lorival Nogueira Luz {BIO 16180455 <GO>}**

Isabella, thank you very much for your question. It's very clear. I'm going to quickly address this, and then I'll let Carlos and Sidney, talk a little bit about SG&A, those shares and process segment. So talking about SG&A, looking at the context as a whole, it is growing. It's going to grow. This is the environment that we have, but what we are looking at is a more efficient management of our expenses. And we are looking at that quarter-by-quarter and throughout the year. And we have been doing that very efficiently. Regarding processed products, I think we are very dynamic. We are very confident and very satisfied with what has been going on. But I'm going to ask, Sidney, to talk about process products and Carlos, can talk a little bit more about SG&A.

## **A - Sidney Rogerio Manzano {BIO 17678250 <GO>}**

Hi, Isabella. Thank you very much for your question. It's important for us to understand the context of what we are facing. There has been an increase in terms of costs and acceleration in terms of costs. And as Lorival has commented, in the first quarter, we had high inventory in the global market, which ended up putting pressure in the prices here in Brazil. Understanding this scenario, the speed of costs and leading to higher speed without compromising our entire chain. So what we saw was a first quarter that was suffering pressure from the market pressure to downgrade the prices. In the second quarter, we are being able to fit our strategies, in order to have a recovery of those prices, step by step. And that has led our results and processed products to have a positive result and a growth growing in terms of volume and comparison to the previous quarter and in comparison to the previous year. So what I envision for next year is a more equalized market with inventories back to normal, so that we can pass down the effect of cost and re-establish our historical margins in terms of strategy. I think the worst-case scenario is in the past. And now we have an equation of profitability that it's going to be resumed.

## **A - Carlos Alberto Bezerra de Moura {BIO 16675187 <GO>}**

Good morning, everyone. Isabella, it's a pleasure to talk to you. Just adding my sense. There are some things that I'd like to remind us ourselves. We have more inventories in the Brazilian market, and naturally we have more costs in terms of warehousing.

The second point, there was an increase in diesel prices, which also increased our cost of transportation. We have built a table that you can see in our business reporter detailing of the COVID cost per segment, which led us to employ every effort to protect our workforce, so that they were minimally impacted by COVID. And so there was an increase in costs. But as Lorival, said, the matrix, cost management has been working well, and we have been able to keep a global SG&A very much in line with what we committed to do.

It's important to have a relative outlook in terms of these results. The context was challenging, but if we were a lot of eyes everything. Due to the strength of our brands and our capabilities in take of distribution and the optimizing of the chain, we ended up delivering results that were higher than the average for the sector that shows our strategy, our resilience, that led to greater results than the average results for this segment.

## **A - Lorival Nogueira Luz {BIO 16180455 <GO>}**

Thank you, Isabella. Next question.

**Q - Lucas Ferreira** {BIO 16552031 <GO>}

I am Lucas Ferreira from JP Morgan.

**Operator**

Your line is open. You can proceed.

**Q - Lucas Ferreira** {BIO 16552031 <GO>}

Good morning, everyone. Thank you for the question. My first question is for Sidney. You said that the prices, do you believe that there is space?

**A - Sidney Rogerio Manzano** {BIO 17678250 <GO>}

I'm sorry, I can't understand what he is saying.

**Q - Lucas Ferreira** {BIO 16552031 <GO>}

The growing margin? And my second question would be for Patricio. Patricio, could you tell us a little bit about, Halal? Positive margin. In addition, to what in your opinion caused the margin to go back to figures. Perhaps something related to the exchange, I want to understand how sustainable that is? In the second semester, the level of profitability that you intend to deliver in the third quarter.

**A - Lorival Nogueira Luz** {BIO 16180455 <GO>}

Let me tell you a little bit about the general context, and then I'll let Sidney, Patricio speak. This is valid in terms of our global perspective, and what happened with the prices of commodities and the final price of product. If you look at the external market, this adequating of prices was faster in the United States, faster and more efficient that happened there. But in Brazil, we are not there yet. We still need more leveling to have the balance reestablish. So we believe that this is going to happen in all scenario, in all geographies, where we have business. And so now I'm going to let Sidney, tell us a little bit about Brazil, and then Patricio can talk about the Halal market in Turkey.

**A - Sidney Rogerio Manzano** {BIO 17678250 <GO>}

Thank you for your question. I'm very optimistic about the second half of the year for BRF. It's my understanding that many of the points that we made in previous meetings were confirmed. So first of all, the speed in terms of inflation for grain and inputs was higher than the historical curve. And within the chain where you have a bigger lag, this ends up leading to more time to level up the chain without compromising the chain. So we have major responsibility and trying to equate the margin. We cannot compromise the entire chain, and we try to avoid generating long-term impacts. I think we did that very well. And from the -- for the second half of the year, this adequate price versus cost is going to be better. But it's important for us to consider some things for the second half of the year.

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First of all, what Lorival said, when he talks about per capita consumption regarding poultry and pork continues to grow. These products continue to grow and the consumption of meat is going down. There hasn't been a trade down in our categories. That's the point that for a long time, we had here, but we didn't have trade down in categories such as cold cuts, margarines, ready meals, They are still showing growth, and are still higher in terms of level before COVID. So that's a new habit in terms of consumption, who look for convenience.

We have a strategy of profitability through the growth of added-value, added-value growth. As Lorival showed in his presentation, in two years we grew 10 percentage points from 74 to 84,, and that makes us less volatile and less in line with the characteristics of a commodity. We went from 2% innovation to over 7% innovation, and that has allowed us to add value and to deliver products that are more desired by different types of consumers, and this is adding value to our results. Also our brands at a moment where you have pressured income, the consumers go for what is certain to them. So now we have a growth in preference both Sadia, Perdigao and Qualy, making it more comfortable and more in line with the choice of the consumer. All of that leads us to go into the second half of the year more confident, because of all this hypothesis have been confirmed in terms of our categories and this equation of the inflation cost and inputs. We are going to have an improvement in that equation for the second half of the year.

#### **A - Patricio Rohner {BIO 19686996 <GO>}**

Good morning, Lucas. Thank you for the question. Well, now talking a little bit about Halal as a whole, you asked a little more about Turkey, but going to talk about both. In Turkey, certainly we have the pressure of the exchange, but of course, pressure in terms of costs. So the prices have been picking up. We have been working at the different, and talking at the different quarters about this. And what we have now is a much improved penetration of our brands, of our company, particularly in retail, something that we've worked a lot. Particularly last year, we have a resumption of foodservice. You know there is a lot of restrictions in Europe, and a lot of consumers could not go to Europe that they could go to Turkey, Halal consumers. So that has had a major impact. And we saw that from May and June on. It's amazing, the resumption of tourism and foodservice. And particularly, due to the devaluing of the Turkish coin, it's a more competitive market in terms of exports. We are looking for more credentials, having a better mix, leveraging the investments to have this mix, put into the Middle East, but also other markets. So, Turkey has an entire combination of costs that will allow us to raise prices. We have the mix. We have the confidence of the consumer, who is consuming more and we have tourist malls.

So, in terms of the Gulf countries, the second part that is stronger in terms of Halal market. You know that we have the same variables. We have the brand. We have a mix of products. We have a lot of focus on added-value products. We are launching a lot of products in the past three or four semesters. So we are accelerating the pipeline of launches in our market share, in retail is growing and resumption with vaccination, with foodservice, the opening of countries for tourism, for leisure business tourism and religious tourism in Saudi Arabia. It's all in line with our strategy. Our focus of launching new products of focusing on our channels, and being one step ahead of this is growing, opening of the channels and gaining the consumer trust.



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**A - Lorival Nogueira Luz** {BIO 16180455 <GO>}

That was perfect, Patricio. And just seguing on what Patricio, has said, this is scenario that we have been seeing, and that I was telling you about. The international scenario is starting to resume in terms of movement, recovery and re-adequation [ph] of prices. So this is what we see. And this is also going to happen in Brazil, and what's happening in the international market is a good proxy of what's going to happen in the next periods in Brazil.

**Q - Lucas Ferreira** {BIO 16552031 <GO>}

That was great. Thank you.

**A - Lorival Nogueira Luz** {BIO 16180455 <GO>}

Thank you.

**Operator**

Our next question comes from Thiago Duarte from BTG Pactual. Thiago, your line is open. Please proceed.

**Q - Thiago Duarte** {BIO 16541921 <GO>}

Good morning, everyone, and thank you for the opportunity. I'd like to ask one question to Patricio and two to Sidney. The first one, you gave us very interesting insights in terms of price and volumes. And I'd like you, Patricio to talk a little bit about the new dynamics for costs? And that because when we look at the cost per ton in Halal, it is growing about 13%, whereas in all other divisions we saw growth nearing 30%. So my question is, whether that is connected to, I mean thinking that you have direct productions. I would like to know whether this discrepancy could be explained by the issuance or anything like that?

And the questions I have for Sidney are, that these. First of all, we've seen in your releases very significant increases in a few aspects. The costs for town hall is growing below the other. So my question is, where should we expect these improvements in revenue management impact, your financial earnings? Should we expect an increase in share, because we've seen a decrease in share. Do you see that as a longer trend, or as you said in your previous answer, should we think of a more robust rebound going on moving forward to the future.

And also and the release you called attention to the increase in finished the -- inventory for finished products. And we're seeing this especially in BRF's controller, which shows that, that is particularly true for Brazil. So how should we look at this increase in the inventory for finished products? I think that one way of seeing is, is that there was not that much demand. There was production, but demand was not enough to absorb all of that production. And another way of seeing is, you're extremely optimistic about the demand for the next few months. So you want to have a large inventory to meet that demand. So, if you could give us a little more color in terms of how we should read those results? That would be great. Thank you.

## A - Lorival Nogueira Luz {BIO 16180455 <GO>}

Thank you, Thiago. First, Patricio and then Sidney, please.

## A - Patricio Rohner {BIO 19686996 <GO>}

Thank you, Thiago. You talked in your question about the difference between the distribution and production models, and you're absolutely right. So when you look at direct exports to Asia, the cost is virtually all for the product that you're offering. Now when you're talking about Halal, you know that Turkey has a huge market share. And in Turkey, we have a number of fixed costs both in US dollars and when you convert that to Brazilian Reais as well. And then you look at distribution costs and merchandising costs and primary distribution costs, so one thing is comparable to the other. So you have different impacts and sort of more volatile impact, especially when you talk about costs. And so that's where that difference shows the most. Halal, is a lot more steady in terms of costs and

Our exports to Asia, have costs that change across the chain.

## A - Sidney Rogerio Manzano {BIO 17678250 <GO>}

Thank you for your question, Thiago. Now your question as nearly provided the answer. So our KPIs are helping us to support our results. And if you've been looking at our results for a long time, you're seeing that profitability has grown significantly over time in Brazil, and that is because of a number of different factors. We talked to you about our raising costs with raw material, and the efficiency we have increased in our plans, but also our mix of channels and mix of regions, and all of that has contributed to us having better results. This was a quarter where we face a number of challenges because of an unprecedented impact on our costs considering the inflation in grain prices, for example.

Now, why were we able to deliver better results, better earnings than our competition. Why were our earnings better than the average of the competition, because we have preference, because we have good distribution. We have 290,000 direct customers, at a time like this, where the rebound in foodservices and food retailer, we are already above our pre-COVID levels. And in times like ours, this -- we are the first company to capture those results. So, where are we seeing these results? You're seeing them when you compare BRF's results to the rest of the market and ours are higher. And that shows that the initiatives that we're adopting are effective in our delivering better results.

Now, why do we have better or larger inventory? As you said, because we want not only to meet our customers demand, but also improve our services to our customers. And having larger inventories is critical, so that we can provide better services to our customers, which is why we have come from under 70, and we are now over 85, going to 90, because we expect to win the game with our services, not only providing them when the customer wants, but also in the amount that they want. And that's because the trend in foodservices and Food Retail link that is already occurring overseas, is starting to occur here at home.

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And we are very close to having a scenario that's a lot closer to normal than what we had in the first half of the year. And we have to be ready to meet that demand, not only considering we're having in mind this more optimistic scenario for -- in terms of consumer spending, but also we are preparing for a market share that's over 85% going into the end of the year. So, improvements are showing because we are investing in what we believe. As I said in my previous answer to Lucas, we grew 85% in added-value.

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**A - Lorival Nogueira Luz** {BIO 16180455 <GO>}

Sorry, we can't hear, the translation can't hear the speaker.

**Q - Thiago Duarte** {BIO 16541921 <GO>}

(Technical Difficulty) I'm sorry, I missed the end of your answer. I think your microphone stopped working.

**A - Sidney Rogerio Manzano** {BIO 17678250 <GO>}

Sorry, Thiago, How far did you -- could you hear me?

**Q - Thiago Duarte** {BIO 16541921 <GO>}

It's just your last couple of sentences.

**A - Sidney Rogerio Manzano** {BIO 17678250 <GO>}

Well, we are just saying that we are very confident for the rebound in retail and foodservices, and also about all our other initiatives, which are cost-cutting, increase in innovation, increase in our share of value-added products. So the combination of these factors make us more optimistic about the second half of the year.

**Q - Thiago Duarte** {BIO 16541921 <GO>}

Thank you very much, Sidney and Patricio.

**Operator**

Our next question comes from Thiago Bortoluci from Goldman Sachs. Thiago, your line is open. Please proceed.

**Q - Thiago Bortoluci** {BIO 20909105 <GO>}

Hi, guys. Hello, everyone. Thank you for taking my questions. My first one is for Sidney. We have the breakdown, but even qualitatively, if you could talk a little bit about this price increase in ready-made products in Brazil? And also considering the product mix and the new prices, at what level you are in terms of price adjustment? And Lorival, if you could give us a little more detail in terms of what we could expect in terms of delivery in our Vision 2030, in the second half of the year. What could we expect in terms of CapEx at that period of time?

## **A - Lorival Nogueira Luz {BIO 16180455 <GO>}**

Thank you. With regard to our Vision 2030, we have made a very significant headway. In terms of pet food, it was a very significant -- we've made very significant strides. Here we acquired two very important companies focused on the South and Southeast of Brazil. So, just to make it very clear to you, our focus right now is to integrate these new assets, these new lines of business. We want to consolidate the best practices of these two new assets. This is a time of integrating and identifying the best practices, so that we can make good use of those synergies and find the best opportunities to grow in sale and margins and efficiencies with the best mix of products that are as best positioned as possible in our -- all of our channels.

Bearing in mind that we have a technical channel, a specialized channel, and niche channel. And so now we have to have these brands both in premium and super premium natural. We need to know how to best position them in terms of price, and each one of these channels. So for the time being, we do not plan any other movement, and any other move in terms of acquiring new companies. But remember that we are trying to be consistent and balanced and financially disciplined in everything that we do. And we are sticking to that strategy, because we have designed it. We have designed a 10-year strategy. And as I have been saying, in this 10-year plan, we have some margin to accelerate or slow down according to how the market develops. So we have no plan for new acquisitions in the second half of this year, but we are still attuned. We are looking around at opportunities, so that we are always ready for any shift, or any new movement that may come about.

Now with regard to your other question, your first question, I will turn the floor back over to Sidney.

## **A - Sidney Rogerio Manzano {BIO 17678250 <GO>}**

Hi, Thiago. Thank you, again. So the price driver remains the same. Our margins and profitability will be balanced according to an equation that makes it effective. I can't tell you how much we are working with in terms of real prices, but I can assure you that we're working to develop the objective margins that we have planned. And this is one equation where we have kept a lot of discipline. Even when this unprecedented scenario -- even though this scenario might affect our bottom line, our discipline remains the same and our plan will be employed always the best way possible. So that this equation is always as balanced as possible, in terms of prices and costs, so that we can actually achieve the margins we have planned.

## **Q - Thiago Bortoluci {BIO 20909105 <GO>}**

That was great. Thank you guys.

## **Operator**

Our next question comes from Gustavo Triana from Itau BBA. Gustavo, your line is open. Please proceed.

FINAL

## Q - Gustavo Triana

Hi, good morning, everyone, and thank you for the opportunity. My question is with regard to Agua [ph]. The balance between price and volumes in Korea and South Korea and China shows there is a decrease in inventories in these two countries. I'd like to know whether you will be more focused on the margins in these two regions. And more specifically, I'd like you to talk about the level of productivity in Japan and Korea, and comparing that to the profitability in China, that would be great, if you could paint us that picture, please?

## A - Lorival Nogueira Luz {BIO 16180455 <GO>}

Patricio, that one is with you.

## A - Patricio Rohner {BIO 19686996 <GO>}

Thank you, Gustavo. So, Japan and Korea, but Japan particularly. One of the KPIs we really look at is inventory levels. In Japan, we have local production, and we have imports, because both Japan and Korea really like chicken legs. So whatever they raise locally chickens all of these have the legs and the chest, but chicken is always also very much supplied to all different service types. And in Japan is where we look at inventories more in particular. So over the course of last year, Japanese inventories with foodservices being shut down, and a lot of pressure over consumers to go out and purchase.

Just to give you an idea about how this works, consumers tend not to cook the chicken. When they buy the chicken, when they're going back home on the subway, usually in the stations they have these stands that sell these little trays [ph] of seasoned parts. So they go home and they prepare the rice and they sell it before consuming it. So now that they are working at home. They're not going out on the street or going to work. That had a huge impact not only in purchases over these channels, but also affected our inventories. And that led prices to go down.

Now when we look at prices in Japan, there was about 20% decline and they are now back to pre-COVID levels. Now as consumer confidence picks up, and as it gives greater flexibility for people to go out and buy food or go to restaurants, we expect these consumer habits to go back to what they used to be. So this is and generally speaking the situation in Japan. So it's a situation that's easy to forecast moving forward, because we can see very clearly how our inventories have begun to decrease rapidly. And this inventory that remains after production and sales and exports is very important to look at. And in Korea, we see a very similar trend, even though this is a much smaller trend, a much smaller market. And we talk about Japan and Korea because we have the same team for both countries, but what affects the results of the most is Japan. Thank you.

## Q - Gustavo Triana

Thank you, Patricio. This made it very clear.

## Operator

With no further questions, we turn the floor back to Mr. Lorival Luz for his final remarks.

FINAL

## A - Lorival Nogueira Luz {BIO 16180455 <GO>}

Well, guys, thank you for joining us today. This was a very special time for us to release and talk about our earnings and to reinforce that we are absolutely confident about what's coming in the future about the rebound of the economy as vaccination efforts move forward and with the return of prices to normal as has occurred in overseas. So we're very confident we have the proper structure. The price structure based on all our operational efficiency and the efficiency of all the efforts that we have employed, and we expect our second half of the year that includes a number of holidays and celebrations. I believe we'll be very positive for all of us.

So I'd like to wrap up, thanking everyone for their support, our stakeholders, our Board of Directors, as well as the commitment of all our over 100,000 employees, especially the team that worked here in this event. And I'd like to leave you here on the screen, the coupon, so that you can enjoy our products from Mercado em Casa. This is a channel, where you can receive our products at home. So this is a 20% discount valid until next Sunday, August the 15th. So, please enjoy the coupon and the quality of that we are offering you through and through. So, thank you all very much and have a great day.

## Operator

I'd like to thank everyone for joining. Have a great day.

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