

Q1 2021 Earnings Call

Company Participants

- Carlos Alberto Bezerra De Moura, Chief Financial And Investor Relations Officer
- Lorival Luz, Global Chief Executive Officer
- Patricio Rohner, Vice President, International Markets
- Patricio Santiago Rohner, Vice President
- Sidney Rogerio Manzano, Vice-President Of Commercial Brazil Market

Other Participants

- Andre Saleme Hachem
- Isabella Simonato
- Leandro Fontanesi
- Lucas Ferreira
- Thiago Duarte
- Victor Saragiotto
- Victor Tanaka

Presentation

Operator

Good morning, ladies and gentlemen. Welcome to BRF's Q1 2021 Earnings Video Conference. We'd like to inform everyone that this conference is being webcast at www.brf/br.com/ri where the presentation is also available. At this moment, all participants are connected in a listen-only mode. Following the speech, we will have a Q&A session when instructions to participate will be provided. (Operator Instructions)

The statements made during this conference about the company's perspective business projections and potential growth are merely forecasts based on management's expectations regarding the future of the company. These expectations are highly dependent on market trends and the general economic performance of the country, the industry, and international markets, and are therefore subject to change.

Please note that this conference is being recorded. This video conference will be presented by BRF's Global CEO, Mr. Lorival Luz. The Vice Presidents of the company are also present. We will now turn the floor over to Mr. Lorival Luz who will start the conference. Mr. Lorival Luz, you may proceed.

Lorival Luz {BIO 16180455 <GO>}

Good morning, everyone. Thank you. Thank you for once again being here with us and our earnings video conference. I'm at the office, but because I'm in an environment with adequate distancing, I will take off my mask so that everyone can hear me with more clarity.

I'd like to start by talking about our results and the competitive advantage of BRF. I think it's important for us to think about Q1 2021 when despite the absolutely challenging environment, an environment where we still have COVID, and we're still dealing with a number of restrictions particularly in regards to food services, not only in Brazil but outside of the country, we proved to be absolutely resilient.

We showed strong margins with a result of BRL1.2 billion. And we were able to reverse last year's losses into BRL22 million result. It's also very important to mention, our positive cash generation of BRL700 million, despite once again, this being a quarter throughout with challenges in our stock management and also with aligning our strategy since last year with regard to management and the search of excellence. And we've proven that we were able to do that with incredible excellence.

Our net leverage was below 3 -- 2.96x, despite a BRL5.70 foreign exchange. Once again, our debt maturity is extremely long, which ensures financial stability for us to continue making investments and to advance in our 2030 vision. When we look at both our gross debt and our EBITDA, we see that even this year when we had about BRL80 billion impacting our EBITDA because of COVID, we continue to deliver BRL\$1.2 billion EBITDA, which is the same as we had for this period last year when we were still not feeling the effects of COVID and also not feeling the effects of the rise in commodity prices, particularly grain prices, which I will talk in more detail later on.

So, despite all of these challenges, we were able to adequately manage, ensuring profitability and financial balance for the group as a whole. I'd also like to stress and call your attention to everything that's going on and the effects that those are having on the industry at large. We've been talking about this since last year when we decided to manage our raw materials and going from 2020 to 2021 with the highest level of raw materials especially corn and soybeans, which are at the basis of our costs that ensured that we had an absolutely efficient first quarter and that we continue to see costs below market, which will also have impacts for the second quarter of this year.

But I'd also like to stress the margin, our producers both pork farmers and poultry farmers have had had that's in the lowest level on record since 2014. Now, why is that? The market data all of you have access to you already show that corn prices have virtually increased twofold since last year. Also, soybean oils and soybean meals have also increased by as much as 5%. The same thing has occurred with packaging, both rigid and flexible as well as corrugated board, all of which are raw material for our production.

Every company has suffered with this significant increase in costs, which we can see on the increased index -- production index found by Embrapa. This has been going up since 2019 and consumer prices haven't been matched yet. They're not -- they do not reflect the increase in these costs yet. Nevertheless, we continue to manage our production so as to

can continue to maintain our margins, but this clearly shows the need to rebalance our company in financial and economic terms so that we can re-establish the economic sustainability of our food production both with poultry and pork products.

So, as I said, this scenario of increased costs is not yet being seen in our consumer prices, but that's something we're likely to see in Q2. In addition to that, we have been working a lot on what we talked about last year, advancing our high value-added products. Our added value went from 52% to about 74%. Now what that means is a better mix of products, a better assortment, innovation, new products being put on the market.

As you can see a significant share of our revenue in the Brazilian market comes from new products. And this is a guideline we have at the company. We want to be increasingly more a food company that provides high value-added products to our consumers, as well as a better mix in terms of profitability that we have been doing in tandem with maintaining preference among consumers.

With the rate of preference, the new products, and our positioning in their preference, our products with Sadia, Perdigao, Qualy, and even internationally with Banvit, we've seen an increase in preference, as you can see in this slide. Another factor, it's important for us to stress is the resilience of our portfolio. Even though per capita income is still low in Brazil, and although the prospects are that it'll increase in the next few months, pork quarter cuts and whole chicken prices are still higher than their pork counterparts.

As you can see, it goes up to 8x the price, which shows that this scenario moving forward gives us the prospect that the down trade for consumers may benefit both pork and chicken processes or products because consumers want more for the same money. So, our growth prospects and sales volume prospects for Brazil are absolutely encouraging, considering this scenario we're describing and demonstrating with our figures, as well as the competitiveness of our products.

Another important factor that has an impact especially in the international market, but which also reflects or reverberates in Brazil, which is the African swine flu is shown in this chart. As you can see, prices continue to reflect the challenge that we see in this industry to re-establish the same level of productivity we had back in 2020. As we said some time ago, this is not something for this year and not for next year probably, it should take at least two years for us to resume that same level. So, what we understand is, we will still see a ride scenario in terms of Brazil's and BRF's stability to continue exporting and to still have a booming market, especially with the Chinese demand.

Another factor I think is important to talk about and this is something you've heard over the last few weeks are the measures taken by the SFDA in Saudi Arabia. They lifted imports from 11 cold houses in Brazil, this was some time ago, BRF was not impacted. We continue to be the main exporter and our cold storage houses continue to export to Saudi Arabia, that's something worth noting.

A second thing worth noting is that Saudi Arabia notified WTO about changing or about a change in their understanding of the shelf life of our frozen chicken products from 12

months to 3 months. That absolutely has an impact and could have a greater impact on our exports considering the time lag between production and outbound shipments and distribution of products.

How does that product -- what does that process look like? We have been working closely with the competent agencies here in Brazil and other countries that are also producing and exporting to Saudi Arabia, while also have to look into that such as France and Argentina. What is that conversation going to lead you? And in the next few weeks, we expect to have a position from Saudi Arabia.

We expect to establish a conversation with their government and we expect to reach a compromise even because there is still a need from Saudi Arabia to import heavy chicken for these Shawarma, chicken breast, and other chicken products and their local industry itself and food services locally also need a longer-term than three months. But this is something that took place last weekend and they have a national holiday this week, so I thought it was pertinent to explain all of this to you or to mention it at least.

Now, with regard to our capital structure, starting with our cash flow. We had a positive cash flow in Q1, which was especially because of our operational cash generation especially in the operations themselves, which is to say, our operations generated about BRL2.4 billion, which was enough for us to conclude all the CapEx we had projected. This includes concluding our sausage factory and other lines of products, which are also being expanded to meet the demand from the market.

We're also keeping our leverage below 3x with a debt maturity that's exceedingly extended. And now, I'd like to call your attention to our cash position, which is about BRL9 billion, plus the credit facility, and the very low short-term maturities for 2021, which is below BRL700 million, which is to say the company is absolutely prepared and robust and with enough financial liquidity to allow us to go through Q2, despite the increase in costs with grains that we had. So, our focus will remain on profitability and on a sustainable management of our operations.

Also, with regard to ESG, and I'd like to specifically mention facts that are already in place and initiatives that are already in place. We have already signed the first contracts within the partnership we announced in December last year that include the sustainability issue and the production of solar panels for our outgrowers. This is something that's already underway. These panels are already being installed in our outgrowers' farms. And once again, our purpose is for every one of them to be self-sufficient in their energy production.

Another thing I'd like to underscore is that also in Q1, the company announced a new program, a new initiative to donate another BRL50 million realize just as we did last year. Our position is unfortunately the pandemic is still underway and for as long as that lasts, the company will stand behind the community and will stand beside society to help them with whatever we can and whatever is necessary.

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I'd also like to stress that investigations both with the SEC and the U.S. DoJ have been concluded all investigations involving BRF still within the realm of Trapaca and Carne Fraca operations in Brazil have been concluded, but no charges have been imposed. We face that with complete transparency and no penalty was imposed, which shows the transparency and integrity with which we have conducted and run the company in everything that we do.

In the next slide, you can see also other initiatives we have been conducting within the company. These initiatives are absolutely manageable and they will have an impact on all directors, on all their variable compensation, including myself. This will include a 100% traceability of the grains we acquired until 2024 by 2025. We will also reduce water consumption by over 13%.

We will promote education and awareness-raising to reduce food waste, which is extremely important. At a time, when food is scarce for a lot of people, there's also a lot of waste and we need to work together with society to reduce that and to minimize that. We also plan to have 30% of the company's leadership positions being secured and being held by women by 2025. And also by 2025, we want to have a 100% of our packages being recyclable, reusable, or biodegradable, ensuring the sustainability of all of our products.

In conclusion, the company continues to advance with our 2030 vision, releasing and focusing on new products whether they're ready meals or pork products. We've released stable shelf-life products, which did not require freezing or cooling. We also launched the specialty line of products. So, we continue to work in different segments in different market niches and we continue to launch products within our Veg&Tal line with chicken strips and also all of our products.

I was asked to stop for a moment. I apologize, I was told I had a connection problem, but I will continue to talk about our 2030 vision. We're also launching new products within our pet line and we're also launching the new good products, which should come to the market very soon. We're also advancing in our omnichannel, advancing our delivery platform, and also opening new stores with Sadia markets.

So, our company is still focused on our long-term view with very important measures being taken in terms of ensuring the continuity of our vision and delivering our 2030 vision naturally, not failing to deliver on our short-term results, such as we are about to see in Q2. So, again, we're launching new high value-added products with excellent management of our production costs and innovating both in Brazil and outside Brazil.

On that note, I will turn the floor back to our operator, so that we can start our Q&A session. But before that, all of you have the opportunity to know our Mercado and Casa, our sales -- online sales platform. We have a QR code that you can use to access. And with this coupon, that we're handing out, you will also have a 20% discount for your first purchase, which is valid until the end of 2021 that will be on the screen for all of you. And so, I now turn the floor back to the operator to start our Q&A session. Thank you.

Questions And Answers

Operator

(Question And Answer)

Ladies and gentlemen, we are now going to start the Q&A session. (Operator Instructions) Our first question comes from Ms. Isabella Simonato with Bank of America. You may proceed.

Q - Isabella Simonato {BIO 16693071 <GO>}

Good morning, Lorival. Good morning everyone. I have two questions to ask. The first one is related to costs, we can see that you have been talking about grains prices moving up, but not only that other inputs as well packaging, fuel. If you could provide some more details about it and how you are addressing those cost pressures so that we can understand how you're handling the packaging agreements?

And how can we estimate the impact on costs and also in relation to the cost line, we have been seeing that the margins have been squeezed, and if products are out of stock, what are your estimate when you look at the second half of the year or even when you look at the period of the beginning of next year?

My next question is in relation to the international market. We can see an acceleration in dollar price. Could you provide some information on how you are addressing all those price hikes? And what can we expect for the future?

A - Lorival Luz {BIO 16180455 <GO>}

Thank you, Isabella. Okay, here we go. First, let's talk about costs when we talk about grains and packaging and how we are managing all this. Isabella, in fact, the company has been and we believe we are very competitive in the way we define the strategy since last year. And this ensured us a lot of competitiveness in the first half of the year, and this is something that is going to happen in the quarters to come, but it is very important to be very transparent and make it clear to all of you that the average cost of our inventories of grains or the average cost of other inputs and raw materials that we require and you mentioned so precisely, the packagings are going to continue growing and moving up. And, we have a lot of competitiveness as for outsourcing areas into manage all the costs.

And the for the second of the year the costs will impact our results and they will be on the cost basis of all industries and this is something that you can already see considering the production cost issued by Embrapa and we can see this the reflection of the price hike. What we can see in terms of difference when we compare Embrapa's cost and our cost shows the efficiency of how BRF has managing this cost. And the grains that we have is at the level of BRL100 and we have challenges presented by the future crops and in general the production cost as we can see in the producer margin can affect all industries, all companies and this will lead to the need for the company to rebalance in a sustainable way all our operation and this is something that is going to be done because we have the

responsibility and the commitment to make the sustainable management of the company in order to ensure a grow and ensure profitable growth of the company.

And speaking of the international markets, of course, the international markets have been responding in a quicker way, as to the price adjustments when we compare that to Brazil. Price adjustment is made globally, because the basis of the input would impact all producers across the world. Corn is not only more expensive here but across the world due to international factors so that base of the production cost has moved to a different level and therefore we have to rebalance and make all the price adjustments for the market and for the sales prices as we have seen in international markets. And then I will pass the floor to Patricio, he can provide us with more details as to how this change and this variation has behaved internationally. Patricio, if you could provide us with more details.

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

Good morning, Isabella. Thank you, Lorival. In line with what Lorival was saying, the grains have increased at the global level and the markets especially the producers considering those who are exporters of animal proteins, Saudi Arabia, Japan et cetera. They also import grain. So we have seen this scenario close to October last year, and then we started to include those in our price list and then we were defining the way so that the local producers and the distributors as well and all the clients and the customers could prepare for such an increase and what made it a bit stronger. And, we are going to see this in a more material way in the next half of the year when we present the next results is that as to demand some markets have been filling the effect of the vaccines and the people has -- will start going to restaurants and everything.

So there is an increase in the costs, but there's also an increase in the consumption, not only at home, but also out. But the same time, large number of producers in most countries are small producers, so they cannot have a high inventories of grains for many months so they have to be very quick in their response, sometimes they wait for us, they wait for leading companies such as BRF, where we are leaders in most markets where we operate, they wait for us to show the way. And there is -- there will be an increase in the demand in those specific markets. Thank you.

Q - Isabella Simonato {BIO 16693071 <GO>}

Thank you. Thank you, Patricio.

Operator

Our next question comes from Leandro Fontanesi with Bradesco BBI. You may proceed sir.

Q - Leandro Fontanesi {BIO 20270610 <GO>}

Good morning, everyone. I have two questions. The first, is related to the market share data in Brazil. You show that there has been a reduction in the latest data quarterly data, if you could make some comments on what are the effect? And the second question is

related to the leverage, which is within the target that you had established, which is below 3x and the CapEx was a little bit low, the expectation is -- and I understand that, I would like to understand whether that means that the growth plan will be delayed a little bit, the growth plan for 10 years or if you can accelerate this investment pace in the medium or long terms.

A - Lorival Luz {BIO 16180455 <GO>}

Good morning, Leonardo. Thank you very much for raising those two points. In relation to the market share, I'm going to pass the floor to Sidney to provide you with more details. But it's also important to say that we did this and you have been following the gradual growth of the cost basis and as a consequence we needed to make adjustments to the prices of our product and this is something that was done in the beginning of the year. And every time that we do something like this, when we make a step ahead in terms of price, there is impact on the market share because the company increases the prices and the market response. And then we have without a question a negative impact on the market share always at first when we make those changes.

And since costs are increasing, as you can see, and we understand that this is not something that happened only in the first quarter. This is something that is likely to happen throughout the year, cost increase with sales price is increasing and therefore you will have specific impacts on the market share up to the moment, when again this is going to level off and go back to normal conditions. So I believe that this is an impact that is happened in the macro way in a specific moment.

Before moving on to Sydney, talking about leverage, we understand that there is room to make the correct management of this leverage. We are now going to be favored in the second quarter with a lower foreign currency and even with the cash generation, the operational cash generation that we have been experiencing. We are going to continue with our growth perspectives and following with our priorities for our Vision 2030. But we always say that we have the responsibility and the financial discipline, and also have the management, focus on accelerating or reducing the speed of our actions. But up to the moment, considering the results that we have been posting, we are going to follow on with our plans according to expectations considering all the results that we have disclosed.

Now, I'm going to pass the floor to Sydney so that he can provide us with more details in relation to the market share. And obviously, the impact that we've had in the first quarter.

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

Thank you, Lorival. Thank you. Thank you for the question. Just to add., the market share reflects 50%, the other 50% are not covered by Nielsen, which is related two specific parts of the market share. As Lorival mentioned, we are always trying to find a balance in terms of cost and we have to make the adjustments to the consumer and considering our market position, since we are absolute leaders, what at least process is to have this happen recurrently. And in the first moment, the volume of sales and market share will be affected on a temporary basis due to two items.

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In terms of volume, we need to make a correction in inventory levels. And before a price hike, companies tend to increase their inventory levels and this is something that happens. And considering that this causes for all the companies and not only for BRF, we understand that this is something a behavior that happens, and this is behavior that we will be felt in two or three months. But our strategy in terms of profitability is very disciplined. And by means of our brand and execution quality, we strike this market balance. And, we never forget what it has been established in our strategic plan. We grew in terms of added value and in a very difficult moment, in tough times, we have been able to protect our market share and in a scenario like this we have been able to follow our strategy.

Q - Leandro Fontanesi {BIO 20270610 <GO>}

Okay. Great. We had some connection problems but most of it I was able to understand. Could I ask another question? When you talk about the temporary effect of the price increases which is normal when you implement something of the sort, you said this is more related to the retail market and the resistance that is usually felt, is it only related to inventory adjustments or the competitors that takes some time to adjust prices?

A - Lorival Luz {BIO 16180455 <GO>}

Leandro, I think it's a combination of both. There are two things that we have to consider. I do not see that there is a resistance in the retail market. I don't see it like this, because I see that all those who are operating in the market understand this fact that the prices have increased. What I see is a natural behavior when we consider larger clients, they usually have a higher, they make a higher inventory before the increase, and then they have to make up for the inventory levels that when they come down, they have to make an adjustment, because there is inventory turnover, which is according to what we expected.

So, there is a correction of the inventory levels. On the other hand, this is something you recurrent. All the movement that we have seen in Brazil, especially in the past years. So, this is something that we have felt 2x or 3x in relation to the main competitors, this is a natural process that we have seen. Of course that every time it happens at a higher speed. We see the associated effect since we are absolute leaders in all categories, we see this movement. I don't know if I quite answered your question.

Q - Leandro Fontanesi {BIO 20270610 <GO>}

Yes, you did. It was clear, thank you.

Operator

Our next question comes from Lucas Ferreira with J.P. Morgan. You may proceed, sir.

Q - Lucas Ferreira {BIO 16552031 <GO>}

Good morning everyone. My first question is probably directed to Sidney. Sidney, I would like to understand this margin recomposition process, do you think it's going to be necessary to increase prices even further? Do you have anything already planned? Anything in your mind? Does it make any sense to think about and offer restriction? So

that we can see an acceleration of the prices in the domestic market. Would you like to reduce offer. If I may -- could I ask a second question. Maybe this for Lorival, Patricio.

Lorival, you said the points of Saudi Arabia of 60 days and wait for their final decision. And you do not know exactly the impact. If you could share with us the numbers, how much you have imported to them? What's your volume? And what would be in an extreme case of Plan B and where you would allocate all the business in considering your portfolio? Thank you.

A - Lorival Luz {BIO 16180455 <GO>}

Thank you, Leandro. I'm going to ask Sydney to answer your question and then Patricio will also contribute. And there's something that I'd like to mention, the company understand the responsibility we have to continue producing food. And provide services to the population. So the company will continue being responsible, so that no food will be in need. So we are going to do this in a responsible manner. We are going to be responsible so that we can ensure the sustainability the financial sustainability, so that the company and all of us, the industry can sustain the growth of the demand that will be felt for proteins both in Brazil and in the world as a whole.

It's very important to say that the world population continues growing and will continue to grow, it will continue to need food and we need to ensure the financial condition, so they can be appropriate, so that we can continue making investments and meeting this demand in a sustainable manner. This is what we are going to continue to do. We are going to rebalance and make all the necessary adjustments, so that the premises, and although assumptions can be complied with. So I'm going to pass the floor to Sidney, if he wants to add anything in relation to your question, in relation to price increases in Brazil. And then Patricio will talk about Saudi Arabia a little bit more.

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

Before the scenario of cost increase. We understand that we need to make adjustments to price. And we understand that the second half of the year will have the impact of the adjustments that we have already made, so that we can make a balance of this price equation. This is inevitable. Considering the cost increases that we have seen.

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

Can I talk about Saudi Arabia?

Q - Lucas Ferreira {BIO 16552031 <GO>}

Yes, please.

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

Thank you. Good morning, Lucas. Saudi Arabia can feel the impact considering all the scenarios. Not only affecting the exporters, which Lorival, as Lorival mentioned during his presentation, there are the countries such as Argentina and smaller countries and it also affects the local producers because they would kind of freeze part of their production

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10%, 20% of the broiler they produce to make the adjustments of offer and demand and also to provide to food service clients they need to have safety stocks. And everything that is produced at the local level that adds value, such as nuggets and hamburgers are frozen food. And this dynamic is highly affected and the main part of Saudi Arabia, (inaudible) which is about 1,000 kilometers and other cities are also more than 1,000 kilometers far, so the distribution of the produced -- products to local producers and imported products, they need to make a -- to be adjusted to this new standard.

So we still have not the results of the impact we're still analyzing the situation we've been talking to our local partners, those local producers that produce in Saudi Arabia and also local producers that we have a conversation in relation to the industry everyone is waiting a little bit to understand how this is going to evolve. As Lorival mentioned, we cannot grow so much as you said smaller chicken have a very high impact. And there is an increasing need for the consumption of protein, so we are always having this trade-off, so that we can produce -- we can serve the other countries. So that we can sell the parts and other parts in other markets that are also growing a lot.

When we see the world projection in terms of consumption, we understand the broilers will be needed and there are options, but we have a commitment with some markets where we already have a relevant brand to buy in Turkey and we have to continue developing products and investing in them and providing innovations. So this is why when we send a communication we said that we're still analyzing the impact because it's much broader than only considering them as exporter company -- countries.

Q - Lucas Ferreira {BIO 16552031 <GO>}

Okay. Thank you.

Operator

Our next question comes from Mr. Victor Tanaka with Morgan Stanley. You may proceed sir.

Q - Victor Tanaka {BIO 20836029 <GO>}

Good morning. Good morning everyone. Thank you very much for taking my question. My question is related to processed food in Brazil. Would like to know if the drop in volume of 5% whereas according to your plan of last year or did you have any problems in relation to stock distribution and price differences were higher than expected? And the other questions in relation to the mixes, and what's going -- what is for us to expect in the future? And in terms of processed food, how do you understand the mix for this year, margins for example, how do you see a possible down trade in processed food? Thank you.

A - Lorival Luz {BIO 16180455 <GO>}

Thank you, Victor. I'm going to ask Sidney to answer your question so that he can provide the details about the impact in relation to processed food. But I would like to remind you, that our strategy as we have shown in the presentation is to improve ever more and make

adaptations to the mix providing more and more products with added value products as we have been doing in the quarters passed.

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

Good morning, thank you for the question. We have a very diverse portfolio that can meet the needs of different markets and different consumers and we make adaptations considering the seasonal aspect in the first quarter. We had impact and two factors are have to be considered. First is the prices of the competitors, we had an impact in relation to market share which was affected. And second we had to make some adjustments to the retail market to the level of inventories considering the situation.

So I do not see down trade characterized in this process. So we can see that there is a ever-growing demand for added value products. And this was a quick process. We understand of course that there is initial impact, but adaptations will be made considering all the efforts that we have been made, I do not see a down trade movement. I see that the volumes have been increasing in terms of pre-COVID period.

A - Lorival Luz {BIO 16180455 <GO>}

Thank you, Sidney. Next.

Operator

Thank you. Our next question comes from Mr.Victor with Credit Suisse. You may proceed sir.

Q - Victor Saragiotto {BIO 19504427 <GO>}

Good morning, everyone. I believe that one of the points that we saw in the results was the margin dynamics. You explained the Japan with the higher stock level. This would take one year and year-and-a-half, so it's a long-term. Would you see the impact as a long-term the impact? M&A is the second point. There has been some discussion in relation to M&A and everything so I would like to know whether or not you have a timeline in your minds? So these would be my two questions. Thank you.

A - Lorival Luz {BIO 16180455 <GO>}

Thank you, Victor. I'm going to answer the second question first, and then I'll pass the floor to Patricio, so that he can talk about Asia. In relation to M&A, everything follows according to 2030 plan. The company has priorities, which have already been defined as we have mentioned. And we continue with a discipline, the financial discipline, evaluating all the opportunities up to the moment there is no change in relation to what we have planned before and all the programming that we have disclosed on BRF Day. I'm going to pass the floor to Patricio to talk about Asia dynamics and the impact on Japan.

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

Perfect. Thank you, Lorival. Thank you, Victor. Speaking of Asia in general terms, first, China is the main market or Asia as a whole the region has a lot of demand. We have a

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demand of nearly 40% higher than we can provide in terms of products that we have as to availability and volume. As to prices when you think about China, specifically the prices that we had reached in the market last year in the hardest times of swine flu. They went down a little bit because of because of the exports from the United States and all the expectations to have a recovery in the local production everything else, but the prices are still very high and the income and the volumes are very high as well.

When we consider the past months, we can see changes because cost increases and if we consider the information of February, March, we can see that there is a variation every month in an upward trend and this was caused also to the United States, who want to import less because of domestic consumption and all the vaccine effect and life going back to normal. And rumors of a second wave of swine flu, where the production is not as expected and economy is growing as you can see.

As we can see in general numbers, China continues producing and exporting. So China is a market that we estimated that would have a normality in terms of prices in the future. When we see other markets such as Korea, still talking about positive aspect. The stocks were very high, but the reduction of imports and the impact on the avian flu internally have made prices to be affected. When we think about Japan, we see a different case. Japan was promoting to the local consumers. They were encouraging people to go to restaurants and everything else, but because of increase of prices and also the Olympic games, they gave us a step behind but we have seen some recovering prices during a part of the quarter and also in the next months.

So we believe that this is something that is going to happen in one year or year-and-a-half, so we are going to have a transition and also -- will happen also as part of the third quarter. I don't know if it was clear but thank you.

Q - Victor Saragiotto {BIO 19504427 <GO>}

Yes it was clear. Thank you.

Operator

Our next question comes from Andre Hachem with Itau. You may proceed sir.

Q - Andre Saleme Hachem {BIO 20209966 <GO>}

Thank you. I'm going to ask just one question. I would like to understand a little bit little bit more and how you see the investments for the end of the year. You said you can make four major investments for the year that would accelerate quite a lot for the rest of the year. How do you see this? Are you going to revisit this numbers are going to lower those numbers considering the more challenging scenario for the second half of the year?

A - Lorival Luz {BIO 16180455 <GO>}

Good morning. As I said, I'm going to turn the floor to Carlos. He will provide more details about the CapEx for the year, and up to the moment we follow our planning with all the initiatives that we have shared. But, we always have the capacity to manage the

speed and to accelerate any investments. But we continue with all the regular disciplined in relation to the planning that we have in terms of capacity increase and all the initiatives up to 2030. I'll turn the floor to Carlos.

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

Thank you, Lorival. Good morning. The company has the principle of maintaining its financial discipline which is represented by the maximal level of leverage which is 3x the EBITDA. We're going to continue with this principle adapting our CapEx and our initiatives, so that we can observe this limit which is the commitment that we have made. So this is the materialization of our financial discipline.

Q - Andre Saleme Hachem {BIO 20209966 <GO>}

Perfect. Let me understand. When we think about the second half, are you going to continue maintaining this target of billing or?

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

Yes, it is possible to do that if our leverage level allows us to do that.

Q - Andre Saleme Hachem {BIO 20209966 <GO>}

Okay perfect. It was so clear. Thank you.

Operator

Our next question comes from Thiago Duarte with BTG Pactual. You may proceed, sir.

Q - Thiago Duarte {BIO 16541921 <GO>}

Hello, good morning, everyone. Thank you for the opportunity to ask questions. I would like to touch upon three points. First, in relation to the expense reduction for this quarter. G&A was able to absorb the gross margin. So I would like you to describe this, talk about this, which was focus on sales expenses, and it's a discretionary line, I would like to understand from your side, how this was different? How's this going to be different along the year, so that you're going to go back to the levels of last year for the next quarters? Or could we understand this to be a recurring level, considering the revenues? So this is my first question.

The second question is that I would like to go back to Asia topic and the question is directed to Patricio, it's not very cleared to me, you suggested in your answer that are some things happening in Japan and in China, you will -- I would like to know that this accommodation of margins in Asia that we have seen since last year, they were very high and they were kept very high and they started dropping and they dropped even further and you understand that this can be reverted or do you believe that this cost pressure is going to prevail. I want to understand how do you see the Asia related margins for the rest of the year?

And lastly, in your release, I had a feeling, correct me if I'm wrong please. You are much more cautious as I felt it. When you talk about macroeconomics in Brazil, at least it seems to be a bit different from the discussions in terms of domestic market when you provide the results of the previous quarter? And Sydney has just mentioned that it he does see no, he says no trade down, he doesn't seem any relevant changes and he sees that there's going to be a growth for processed food. So if you could provide some more color on this demand perception? And also the macroeconomic situation as compared to last year, which was very typical in terms of demand in comparison to this year? Thank you.

A - Lorival Luz {BIO 16180455 <GO>}

Thank you, Thiago. Let me talk a little bit about the current moment the today, we need to be cautious. We need to have a very precise management of the actions of the company. You can see it's clear, it's transparent that the costs have increased. And the prospectus in terms of agricultural commodities. And considering the levels that they are at and we have to consider the perspectives in relation to prices. So we have to be cautious so that we can rebalance the situation in a proper manner.

Another factor is that the last year, we have a perspective that we would start 2021 with the pandemic as a thing of the past. But unfortunately, this will live the first quarter as the worst moment ever for the pandemic. It's common that it's expected that we should have this concern and therefore, we are going to do the management in a sustainable and balanced way as we have done so far. But as for the long term, it remains that is the demand will and will continue to grow, population will continue to grow. And evermore all value-added products that would provide convenience to all consumers will continue to grow as well as we have seen so far and this has been mentioned by Sidney, and this is something that is going to happen along the year.

So it's very important to look at the structural situation and consider all the situation of the moment. So, we are very confident on the perspectives and on the future planning of our industry and of the company. But at this time, we have to manage very carefully, very cautiously, and I'll turn the floor to Carlos. So that he can talk about SG&A. So we have the (inaudible) management for our costs, and I think Carlos can talk about it and then I will turn the floor to Patricio so that he can provide more details about Asia.

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

Thank you, Lorival. It's a pleasure to talk to you Thiago. This is part of a process that we have here to manage our expenses involving 18 packages and 18 packages have included all the errors of the company. Strictly aligned with the purchase areas. Even with all the challenges that we have been facing at the macroeconomic level, about 70% of what we have sold in this quarter is caused by economies in facilities, information technology, legal, savings and we had an important action of provisions where we had reduced costs. And also indirect people we have been optimizing our processes and this 30%, 35% will be used according to the moment that we are facing each quarter and we are going to continue doing this. Thanks to the methodology that we have adopted and we are going to continue with increasing the maturity level, and we are going to capture not only the possibilities of reducing expenses of the company, and also we are going to have ever more mature processes so as to ensure competitive advantage for our business. Patricio?

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A - Patricio Rohner {BIO 19686996 <GO>}

So, Thiago, good morning to reinforce what I've said. I am going to explain what I've said. I see an improvement in prices in Asia. First is related to the price because the cost would affect everyone. The demand is very high. And the third factor is that there is a balance of the inventories, both of exporters and local producers, especially smaller producers as we can see in the case of Asia with where they feel the -- when there is a pressure of cost and they cannot include this in prizes, they face problems. And this is something that we have been filling in the first quarter, and we have been selling this now. And, we understand if there is a perspective of better prices in Asia, this is a fact, yes.

Q - Thiago Duarte {BIO 16541921 <GO>}

Thank you. Okay, excellent, Patricio. And if I could take advantage and ask another question, this margin in Asia. Could you share with us how were China and Japan would stand in those numbers that were communicated China is better than the figures and Japan lower than the figures?

A - Lorival Luz {BIO 16180455 <GO>}

China to increase and Japan in the process of recovery and all the other countries are in the process of recovery as I explained in the previous question. I cannot specify the margin for the second quarter but 50% of the period has already been experienced.

Q - Thiago Duarte {BIO 16541921 <GO>}

Okay, excellent. Thank you, Patricio, Carlos and Lorival.

A - Lorival Luz {BIO 16180455 <GO>}

Thank you.

Operator

We have come to an end with our Q&A session. Mr.Lorival you may proceed with a final considerations.

A - Lorival Luz {BIO 16180455 <GO>}

Thank you. Thank you everyone. Unfortunately, we had some technical problems in the transmission in our broadcast and unfortunately some of you could not hear so clearly. So I would like to apologize that was not the purpose of our company, but we are going to provide this available on the website, the recording without any cuts or without any interruptions that you have experienced and we would like to reinforce the company's commitment to our planning in the future. As to sustainability, ESG topics on which we have worked with balance and sustain our margins and our growth and always working with the cash generation so that we can sustain all the planning and the 2030 vision as we have presented. Thank you, everyone.

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

Have a good day, everyone.

Operator

The conference call of BRF is over. We'd like to thank you for taking part in it and have a good day, everyone.

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