Q1 2013 Earnings Call

Company Participants

- Andre Nogueira, Chief Executive Officer USA
- Jeremiah O Callaghan, Director of Investor Relations
- Wesley Mendonca Batista, President and Chief Executive Officer

Other Participants

- Alan Alanis, Analyst
- Brian Hunt, Analyst
- Carla Casella, Analyst
- Farha Aslam, Analyst
- Wesley Brooks, Analyst

Presentation

Operator

Good morning, everyone, and welcome to JBS SA's Conference Call. During this call, we will present and analyze the results for the First Quarter of 2013. As requested by JBS, this event is being recorded. The recording will be available to listeners this afternoon and can be accessed by following the instructions posted on the company's website at www.jbs.com.br/ir.

Taking part in this call we have Mr. Wesley Batista, President and CEO of JBS SA; Mr. Andre Nogueira, CEO of JBS USA; Mr. Eliseo Fernandez, Administer Chief Director; and Mr. Jeremiah O'Callaghan, Director of Investor Relations.

I will turn the call to Mr. Wesley Batista. Mr. Batista?

Wesley Mendonca Batista {BIO 15243148 <GO>}

Good morning, everybody who is with us at today's conference. We will analyze our results for the first quarter of 2013. Let me start by thanking our management team for their enhanced dedication and commitment to all our business. This dedication and commitment has been contribute towards a constant improvement and sustainable progress in the results of our business. I also like to extend our welcome to the members of our Fiscal Council and our Board of Directors. Those there who are re-elected and also newly elected members, so welcome.

Our first quarter results some highlights here and I will pass to Jere O'Callaghan to go and to discuss more detail of each one of our segments and business units. But some highlights here, our net income was R$19.5 an increase of R$3.5 billion compared to the first quarter of 2012 or 22% growth comparing this quarter to the first quarter in 2012.

So our EBITDA was R$879 million an increase of 26.3% over the first quarter in 2012. So our adjusted net income for the first quarter was R$374 million that also is an increase of 55% over the first quarter in 2012. So we generate R$58.6 million in cash from operation achieved, we have some highlights in terms of the closing the acquisitions and the close of the acquisition that we did in Canada XL and plenty in U.S. We also are expanding our chicken business in Brazil, so we did an acquisition of a quarterly by the name of Agroveneto and also we rent another chicken plant in Brazil from a company by the name Tramonto. So Jerry will discuss in a more detail about of our Segments and about all the highlights on this quarter and also what's going on after this quarter.

So I will pass to Jerry and I will be back with you after Jerry's presentation. Thank you. Jerry?

Jeremiah O Callaghan {BIO 1452729 <GO>}

Wesley, thank you very much. Thank you. Good morning everybody, it's a pleasure to be with you again. We filed a press release last night just after the market closed with our [ph] numbers and we put on our web page this morning, the presentation and I will follow that presentation as we talk about our business this morning. So, I recommend those of you who are listening, if you haven't downloaded the presentation, I think it would help us as I will make reference to the pages, as we go through the presentation.

And starting, just a quick disclaimer on page three of our presentation. I recommend that all of you who are listening to us this morning, please read the disclaimer which explains the risks involves in this presentation.

Wesley has gone through the highlights, the main highlights of our business. And if you look at our presentation, those highlights are on page four. So I'm going to repeat the same highlights again, I'll go immediately to page five in our presentation, where we look at each one of these numbers, so that we can analyze them a little bit more graphically and a little bit more detail.

Wesley mentioned net revenue, we had R$16 billion, net that revenue in the first quarter of 2012 that reached R$19.5 billion and the first quarter of this year. So R$3.5 billion and I emphasize R$3.5 billion 22% increase in revenues in comparable period.

EBITDA in this -- comparing the same period went from just on the R$700 million to R$818 million. So again an increase their of 26% in EBITDA. Our EBITDA margin in the first quarter went from on a consolidated basis 4.4% last year, 4.5% this year. So remembering the seasonality of our business, there was an improvement in the first quarter of this year in comparison with last year.

Net income and here we mentioned adjusted net income, because we need to make a provision for income tax in accordance with regulation, but effectively that income tax is not payable, so we make a point of highlighting our adjusted net income. It went from R$240 million first quarter of last year, and we reached a R$375 million, that's over 50% increase there year-on-year in terms of adjusted net income. Separately, we have reported net income and income per share for your analysis also.

On page fix of our presentation, we have a look at our business over the last five quarters. Just to see how the trend is, and I emphasize the seasonality of the business. The beginning of the year is always in terms of revenue and cash generation the weakest quarter. But we've seen our revenues go from R$16 billion, the beginning of last year was highest almost R$22 billion the last quarter of last year, and we're getting started this year with the revenue of north of R$19.5 billion.

EBITDA, we see the same curve, the same seasonal curve, going from just under R$700 million the beginning of last year peaking at R$1.38 billion and starting this year at R$880 million. And so, I mean the expectation is that the trend would be similar year-on-year.

We divide our business up into four business units, and so we have the analysis of these business units in our presentation. And I will go through those analysis one by one, keeping at as short as possible so that we can get back to our CEO's comments and to your questions. So we break it down, JBS Mercosul.

Our beef business in North America, which includes Australia, our pork business in the U.S., and our chicken business in North America, which is basically a North America and Mexico Pilgrim's Pride Corporation for many of you. Looking at each one of these businesses individually, starting with our Mercosul business, we have an analysis on page eight of our presentation. Firstly, just to remind you, this represents 26% of our revenue base, our South American business is 26% of our revenue base. It's more substantial in terms of cash generation, but in terms of revenue 26%. We've seen revenues expand quite a lot in this business, because of the acquisitions we've made the leases that we have announced to the market in the past. So we went from R$3.8 billion at the beginning of last year, we peaked at north of R$5 billion at the end of the year. And at the beginning of this year, we started the first quarter with R$5 billion in revenue. As you can see, that's 30% increase, when we take first quarter of last year against first quarter of this year quite substantial.

And in terms of EBITDA, we've seen some oscillation but within a range, double-digit range going from EBITDA margin from 11.3 to 14 -- north of 14% in the last five quarters. In terms of real EBITDA from R$508 million at the beginning of last year to R$562 million first quarter of this year. So some expansion and maintenance of the EBITDA margin within a double-digit range, which we have generally been expecting and which we've discussed that many of you in individual meetings.

Our U.S. beef business is next is on page nine of our presentation, it represents 44% of our revenue base, just to put that in perspective 44%. We've had some increase in revenues of 6% increase in revenues when we compare first quarter last year with first quarter of this year, but we can see that was quite some substantial growth through last year and we would -- the expectation would be that the curve would be similar in 2013.

EBITDA in this business was negative $25 million, an improvement on the first quarter of last year, which was negative $45 million. So an improvement, but still an environment where we would expect some improvement through the year in this business unit.

Then going to our pork business, which is again it's a U.S. business, it's just under 10% of our revenue base. That business demonstrates very constant trend over the last five quarters. We see a very little variation in terms of revenues, and also very little variation in terms of EBITDA and on EBITDA margin. Basically our comment is always we expect margins to be between 5% and 7% range and pretty much they've been within that range of EBITDA margin, as well as he is reminding me here. So within that range, that's what we've seen and later will make some comments about this business going forward.

Our chicken business, which is Pilgrim's Pride Corporation, basically the U.S., Mexico, and one facility in Puerto Rico. We've seen this business growth from $1.9 billion in revenues in the first quarter of last year to North of $2 billion first quarter of this year. We've seen some very robust cash generation regardless of grain prices. We had an EBITDA of just over $100 million first quarter of last year that was up to $118 million first quarter of this year with an emphasis on the fact that we had an incremental cost of $141 million, due to grain prices when we compare to same period. So the performance of this business has been a highlight.

And then moving forward in our presentation and going to talking a little bit about exports, which we always talk a little bit about, because it is quite relevant to our business. We had $2.6 billion in exports in the first quarter of 2013. So as we analyze that we look at a number north of $10 billion in meat exports in 2013 that's a very substantial number.

And if we look at the destinations, which our main destinations number one is China and China's neighbors Hong Kong and Vietnam. Number two is Mexico and comes Japan, then Africa and the Middle East then South America, Venezuela, Russia, South Korea. There is a big emerging market component to our exports and we think that is important because we see good potential growth in our businesses to those markets as those markets continue to emerge and continue to grow $2.6 billion in the first quarter of the year.

Then we have some analysis in the next couple of slides about exports generally. So we have overall export numbers by each protein, but each meat, these are USDA numbers estimated there were recently updated.

And what we like to demonstrate here is the fact that JBS is in the countries that provides the biggest volume of exports. If you look at beef exports excluding India, which is mostly a buffalo meat business to which neighbors it's Brazil, Australia, the U.S. and the other South American countries where we are present, that are the real drivers behind beef export. This is where most of the exports come from Brazil leading with just over 18%, Australia quite substantial 17%, the U.S. just north of 13% of global exports coming out of these countries.

And so from a strategic point of view, we're not forgetting Canada also one of the 10 largest beef producers is also a relevant exporter. When it comes to our pork exports again, we see there is a degree of concentration in exports out of the U.S. and Europe, and we see U.S. exports have grown well, European exports have become somewhat less competitive on the global market and that is a trend we see going forward. So, 1/3 of all pork exports globally come out of the U.S. And then when it comes to chicken, chicken exports that really concentrated in the two countries where we are active in the U.S. and in Brazil, 70% coming out of these two countries. That gives us an idea of how strategically important it is to be in these countries, and to expand exports as we see those emerging markets improving diets and eating more meats.

And then there's a little bit about prices on pages 14, 15 and 16 just for us to see where prices have been going and where volumes have been improving. If we look particularly at beef on page 14, we've had a relevant expansion of Brazilian beef exports first quarter of this year, 34% up on the first quarter of last year.

A little bit of price decline, but nothing substantial in relation to the devaluation of the real and really relevant here is the volume that Brazil has put into the international market when compared with this same quarter at the beginning of last year. And we've seen in the U.S., some stability in volumes, but we've seen some price improvement, which is a constant over the last number of years, the last number of quarters, U.S. exports have been improving in volume except for 2012, but increasing price wise as well.

So the reconcurring of the markets that the U.S. had prior to be see in 2004, we are back to 2004 numbers, basically. And then if we look at Australia, Australia has been very stable and constant in terms of its exports over the last number of years, but we've seen an uptick at the beginning of this year. Volume is up almost 7% and prices are up about 2% that's quite relevant and that's particularly to Asia and to China, which has become a major destination for Ausralian beef exports.

On the chicken fronts looking at prices, interesting to see what's happened out of Brazil. Volume is down a little bit, production volume in Brazil is down, but through last year, there was a decline in production, but prices have improved quite a bit. Prices are up 12% first quarter of 2013 compared with first quarter 2012, volumes are down 7.5%. But those are healthy numbers from the point of view of the business and the profitability of the business.

And if we look at the U.S. chicken exports prices have been improving. Volumes have been improving. Margin improvement in volumes first quarter of this year, but prices are up as well and that is a constant out of the US.

And finally on pork, a big decline in U.S. pork exports, first quarter of this year, down 18.5 % and prices flat basically. And we've seen on Brazil, which is not very relevant because of this lack of market, price increase of price increase of 3% and volumes, just about flat, comparing first quarter 2012 to first quarter 2013.

Moving on to page 17 in our presentation. Just to mention a couple of events subsequent to the closure of the first quarter, which we think are relevant to bring to the attention of those who are listening to us today. We did a recap of that bonds that we issued in January, a 500 million bond we issued in January, we did a recap at a more competitive yield in April. So, that started off with 500 million with the recap, and $775 million and the yields that went from 6 in the quarters, 6.5%.

Very relevant to our Brazilian business, we had an approval, an unanimous approval by the Brazilian anti-trust authorities of all the acquisitions and leases and rentals we did over the last four years. So there is a clean sheet in that regard and there are no pending issues regarding the activities we've had in Brazil over the last four years. That came out in April, and we think it's quite relevant to the valuation and the profitability of our business.

We recently announced also and we did press release at the time. The acquisition of the port facility in the south of Brazil, which we bought from BRF for R$200 million and we've detailed that business. It's not only the production facility itself, but it's also the genetics and the live hogs around that business almost 500,000 live hogs coming with the business, and that we completed, that we announced and we are waiting for regulatory approval for that business we announced in last month.

And then also subsequent to the closure of the first quarter, we also announced the finalization of the acquisition of the U.S. facilities of XL Foods, the Canadian company XL Foods. Where the facility, a slaughter facility in Omaha, Nebraska, another one in Nampa, in Idaho, so one in Nampa, Idaho, the one in Omaha operating.

Moving on to the next stage in our presentation. Very briefly in Brazil, we've been doing a groundbreaking advertising campaign for our beef business under our most famous local brand, the Three Boys Brand. We've been emphasizing the quality of our products, the quality of the processes where we produce our products and also the whole supply chain and the sustainability around the supply chain of our products in Brazil.

This campaign has been on the air since mid-March. It's still on the air and it's substantially improved our relationship, with consumers, with retailers, with food service, it's really been a groundbreaking campaign in Brazil and we would like to highlight that to all the investors. Talking a little bit about our debt profile now, just two pages on our debt profile before I hand it back to Mr. Batista here.

Our leverage remained flat quarter-on-quarter, last quarter 2012, first quarter 2013, regardless of the startup of some of those businesses, I've just mentioned then the working capital requirements is start up towards those businesses. So we see that as an achievement, maintaining leverage at 3.4 time's net debt-to-EBITDA.

I mentioned the $500 million that we captured in January at 6/5% per annum. And I think it's also very important to mention the fact that we have R$5.5 billion in cash or cash equivalents, plus we have $1.2 billion in pledged and committed lines in the U.S. unused at the moment. Without summing those pledge line in the U.S. our cash and cash equivalent position represents almost 94% of our short-term debt requirements. So we think that's a very healthy relationship there, almost 94%.

And on page 21, so little a bit of details around the cost of our debt. 78% of our consolidated debt in the currency, the U.S. dollar currency. It has an average cost of under 7% per annum and an average maturity of just under five years. The other 22% of our consolidated debt is in local currency in reals but an average cost of 8% and an average maturity of 3.6 years. So we've got the breakdown of our debt by company JBS SA and subsidiaries, bonds and others and the breakdown by currencies and cost per currency demonstrated in that presentation.

So with that and we finalized this presentation. I'll hand you back to Mr. Batista and he's going to further elaborate on our ongoing business. Thank you very much.

Wesley Mendonca Batista {BIO 15243148 <GO>}

Thank you, Jerry. So when we look our consolidated numbers, I think we are making very strong progress. So our top line growth was 22% comparing to the same quarter last year. So our EBITDA went up 26% that is also a meaningful improvement comparing quarter-by-quarter and our net income went up also 56%. So overall, when we look and when our management analyze our internal numbers, we believe that we are making good progress in many different fronts of our business. And we believe considering the such a knowledge of our business that we are going to have a very strong 2013.

So go in a little more detail about each part of our business, so talking about the beef business in Brazil, like Jerry mentioned, we have some important events in this last 3, 4 months in the beginning of this year. So we got all the acquisitions that we did in the last four years approved by the CADE or by the Anti-trust Department in Brazil that for us this is an important thing that we put this behind us. So we don't have any deal that has been on our life of death being higher. That is been analyzing by them by trust department. So this is something that is behind us.

So the campaign that we are doing on the three boy brands is also something is very, very important. Then we believe that we are just starting changing the mentality of the Brazilian consumers when they buy beef.

We are seeing a lot the interest from retailers, from end users to be close to our brands and buying more products from us. So our distribution network is growing Brazil in a big way. So we are very satisfied about the campaign that we are doing.

Export is another important point to mention here. Our Brazilian export, the Brazilian beef export went up to 33% comparing this quarter to the first quarter in 2012. So it's a big change. The other thing that we are seeing that is a positive thing for the Brazilian beef business, is that though we always getting a little weaker, so this of course help a lot export. We believe that going forward in middle and long term, the dollar we'll get is strong comparing to the emerging economy currency.

So these is a positive thing of for all Brazilian, Uruguay and Paraguay, and Australian business. So we are in a positive cycle in the beef business in Brazil seeing the business performing very strong and we believe this business will keep running in a double used type both margin. So we are confident about what this business can deliver through JBS and through our company going forward and through this year. Some other business that is part also of our Mercosul business that is the hides and leather, that is a very, very important business in our portfolio.

We are the largest hides and leather processor around the world. This business have been performing very strong and last year was strong and this year is too very strong, running in a double-digit type of margin. So we are also very optimistic about the outlook for the hides and leather business going forward.

The chicken business as you know, regarding the chicken business in Brazil, in the mid of last year and we have being expanded this business through the Agroveneto acquisition and through the Tramonto lease. Our business model, the chicken business in Brazil, we believe that is the appropriated model for JBS. We are seeing the strong numbers coming from this business. And we believe, grain price is declining not only in Brazil, but also in U.S. so we believe this business will perform strongly through this year.

Moving from Brazil to U.S. I'd like to go through the pork business first and the pork business like Jerry mentioned. Our pork business is very stable operation. We believe this is very competitive business, well running business and we have been seeing margin through the way between 5 to 7% in our EBITDA.

So we are confident that this business will keep being stable through this year even though export decline, pork export decline in U.S., but we believe in our ability to keep running this business will leave the same kind of margin that we have been seeing in the previous quarters.

In the beef business in U.S. moving to beef now. The beef business in U.S., so 2012, the first quarter was a weak quarter and this year also not a good quarter. Some things that have change that happened in U.S., some plant that shutdown and also the Japan. The change in Japan in terms of export, we really didn't see this in the first quarter. So this happened more through the middle of the first quarter and in the end of the first quarter.

So we are starting to see an improvement margin is better now in the beef business and we believe we will be able to deliver our budget in the beef business for 2013. We believe we can run our beef business and in 2013, we believe we can deliver a 3% margin is about. So, this is our cohorted beef business, even though the first quarter was not opposed this quarter. So our outlook is a positive outlook, we think the business is getting better. And I think the industry is getting more balance in terms of supply and demand and also export, we believe we will help the U.S. beef business through this year.

We -- despite of our beef business in U.S. is our Australian business. I think I should highlight here that our Australian business, we are making a lot of progress, we are improving our performance in Australia, the business in Australia is in a positive moment. Cattle cycle in Australia is positive, so we are seeing cattle available actually cattle price has decline in Australia dollars term through last month. And exchange rate also is getting weak in Australia. So that these helps our margin in Australia. So we are very positive about the Australian operation and we believe will be a very good year for all our Australian operation.

So regarding Canada, through the acquisition that we did in XL, I think it's important to mention that the acquisition that we did XL the Canadian plant plus the U.S. beef plant in Omaha, plus Agroveneto acquisition in Brazil, plus Tramonto, these -- we paid around R$271 million for those acquisitions and now so we increased our need of working capital because were ramping up our volumes on this place, on this business that we acquired.

So we have a positive view about the what the Canada can also deliver for JBS. So finally here in terms of our segments, Pilgrim's Pride, the publically listed company in U.S. you already saw that Pilgrim's Pride results. So we're seeing grain price in U.S. what's going on. We believe the grain market will be favored for the chicken business in U.S., we believe we will see a much less -- much less cost in terms of feed cost in U.S., this will help result and also not only feed price that we will help our chicken business in U.S. but also our way that we -- our improvements that we are making and doing in Pilgrim's Pride. So we are improving our business in a very, very meaningful way. We are getting better in cost, we are getting better in yields, out pledge is running more efficient. So we have a very, very strong view for this business this year.

I think we'll be surprised what this business -- the results that this business will deliver going forward in the second, third and fourth quarter. So we are very positive and very excited about the results, the Pilgrim's Pride we will deliver to us.

So again, overall, we are very optimistic, we believe that more than ever. We are well set -- we have a very strong 2013 and we believe we will see a very strong free cash flow generation in the second, third and fourth quarter.

We -- are in terms of working capital, we don't see increased or -- increase in terms of working capital needs in this coming quarter. So we will see a stabilization and in the other hand, we believe we will see a strong free cash flow generation in this quarter.

So we still committed and we're still confident that through the free cash flow generation, we will keep leveraging our balance sheet, our target is to be below three times leverage by the end of '13 between 2.5 and 3. This is our target and we are confident that we will see this number.

Like Jerry mentioned, we reached about $500 million, we did a recap [ph] last month of $275 million, 10 years bonds and 6.5 and 6 in a quarter. So we think it's very important move for JBS. Again, we are totally confident about our structure, about our team. I'm very happy where we are and I think we have a very, very well set structure and team to deliver strong numbers in this coming quarters.

So with that, I'll stop here and we will open to Q&A. Please operator open to Q&A. Thank you.

Questions And Answers

Operator

Thank you, ladies and gentlemen. We will now begin the question-and-answer session. (Operator Instructions). The first question comes from Alan Alanis with JPMorgan.

A - Wesley Mendonca Batista {BIO 15243148 <GO>}

Hi Alan.

Q - Alan Alanis {BIO 15998010 <GO>}

Hi Wesley. Hi everyone. Hi Jerry. Thanks for taking the call. I have a quite of a strategic question and you has to do with the uses of cash, capital deployment and the level of leverage. In the first quarter of the year, you indicated that you were expecting to reach 2.5 times net debt to EBITDA by the end of 2013, and now you're saying it's between below three times correct. So, then that's fine, I mean things change and so on.

And I think the part of the thing that changes this opportunity for acquisitions, we know that the working there was a working capital need at the XL, I mean, which you got a very good price. But you have to invest in working capital and then I think you were very clear that there will not be more increase in working capital in the short term from those operations.

But my question is, if there were more opportunities to arise and my friend yesterday said that they would be selling some assets. And I think that some of those assets particularly in the poultry side in Brazil you might be interested. So how should investors and analyst see JBS, Wesley and Jerry in the sense of this balance between further acquisitions and opportunities that might come and the priority of reaching down this new target of three times net debt to EBITDA by the end of the year? That would be my question?

A - Wesley Mendonca Batista {BIO 15243148 <GO>}

So Alan, let me tell you one thing. So first of all we should tell that we didn't change our target, so our target is two to be at around 2.5 and I mentioned three to have a range. But I'm confident I didn't change anything in my view that we will be able to be much close to 2.5 then to three.

So I wanted to make sure that it's clear. So we still confident that we will see a very strong free cash flow generation in this coming quarters. Our business in the way that is going, we already best month and a half in this quarter, so are seeing what's going on we are very positive in terms of the ability to the EBITDA to generate cash and to be much closer to 2.5 and to 3. So this is one of thing. The second thing about the companies that you mentioned names. So I will apologize but will pause in your question, because your mentioned about some of the competitors. Here I don't know what they will sell, I don't what kind of assets they are going to sell or if they will sell, if they really will sell any business. So because these I will not speculate about maybe what they will be interest to divest or this kind of thing. So apologize.

Q - Alan Alanis {BIO 15998010 <GO>}

No, no that's okay, I mean forgetting about that specific company. I mean, just in general on what's depending on you. I mean, if you have to say what I'm going to prioritize more reducing gross debt not only net debt but growth debt this year or I'm going to keep exploring and if there is some more opportunities in the market coming, regardless of who is the seller.

I mean should we continue, I mean JBS seeing doing acquisitions on a case-by-case basis and if they are right by opportunities that would be all, it doesn't matter who's the seller as you said. But just trying to understand and give certainty in terms of saying. Yeah, I mean, the company will continue to do acquisitions if there is more opportunities or now this time, we're going to be a bit more focused on reducing gross that -- I mean that would be -- if just -- is there any change right now in that or there will be a continuation of what we've seen in recent years that we saw or in recent quarters like we saw with XL and like we say with other and I guess I just want to understand you're thinking? That's all.

A - Wesley Mendonca Batista {BIO 15243148 <GO>}

Okay, Alan, so let me tell you one thing, it's very high to say because you never know what is available and who will be for say you are not or what the opportunity that can be from tough. So it's hard to speculate these. We have been running our business 2011, 2012 and looking to reduce our leverage and we have been able to reduce our leverage and we will not think that we will compromise, JBS as a whole. So as we have been doing always in a prudent way our business, we will keep running our business, looking to grow our business organically that we have been growing in a big way, growing our business organically. And we know we are in the market than we see opportunities. But we still are very much looking and if we are not confident about our ability to generate cash, we will not do anything that will compromise our business.

Q - Alan Alanis {BIO 15998010 <GO>}

That's very clear. Thank you so much, Wesley.

A - Wesley Mendonca Batista {BIO 15243148 <GO>}

Thank you Alan.

A - Jeremiah O Callaghan {BIO 1452729 <GO>}

Thank you.

Operator

The next question comes from Wesley Brooks with Morgan Stanley.

Q - Wesley Brooks {BIO 16407564 <GO>}

Hi, Wesley, Jerry.

A - Wesley Mendonca Batista {BIO 15243148 <GO>}

Hi, Wesley.

A - Jeremiah O Callaghan {BIO 1452729 <GO>}

Hi, Wesley. How are you?

Q - Wesley Brooks {BIO 16407564 <GO>}

So, good. Just trying to understand a little bit deeper the Mercosul results. Can you give us an idea please of how Brazilian chicken margins progress in Q1, as one of your competitors saw a bit of a margin squeeze in their exports. And also how much of a margin impact there was from non-recurring things like the plant startups and the acquisitions and things like that. Just trying to get a feel for where margins could be in Q2 or Q3 ex, seasonality?

A - Wesley Mendonca Batista {BIO 15243148 <GO>}

Wesley, basically we -- our chicken business in Brazil, we have seeing very strong results actually higher than some players in the market. I believe that is because our cost structure. We have a very, very lean operation. Very competitive operation and we are seeing a strong margin when I compare our numbers to all the players in the market.

So we believe we have a well running chicken business in Brazil. I believe look, our business is performing double-digits to margin, so well above some of the Brazilian chicken players. And I believe our chicken business we will keep running a very -- delivering very strong margins.

And you know double-digits to margin through this year, I don't see a change on the outlook for our chicken business Brazil.

Above this, you are right. We are incurring in some cost in terms of startup cost, we start -- we re-open or reopen or reopened four new plants in the last six months and of course, when you reopen a new plant, you incurring new costs and a ramp-up cost in training people. We used is not the same.

So the place is not efficient compared to -- this place is not efficient in the same magnitude that the other plants that we are running for five, ten, 15 years is efficient. So we are seeing some impact in our EBITDA margin in the beef business because the ramp-up of these plants and what you can think about our margin should be moving through this year becomes this plants, we will be getting better and we will be seeing less impact on this operation.

So look we have a positive view about the beef business in Brazil. We believe we are in a positive cycle. We believe that the currency in Brazil, we believe that the chances to get a little more week then to be stronger, so this for sure will help margins, so we have a positive view.

Q - Wesley Brooks {BIO 16407564 <GO>}

Okay. So do you think it's possible to get near last year's margins in that mix of business and sort of Q3?

A - Wesley Mendonca Batista {BIO 15243148 <GO>}

I think so as I think the markets can expect and I will be not surprised to see margins backing to '13, '14 and moving -- moving around these levels. So change in of course quarter-by-quarter because -- but I think this is possible.

Q - Wesley Brooks {BIO 16407564 <GO>}

Excellent. Thank you. My second question was just around the U.S. beef business. I mean to reach that 3% EBITDA margin like you're saying, it seems like spot margins have just turned positive in the last week or two, so presumably Q2 is still going to be in the 1% or 2% range. So does that suggest, you think you can do a good 4% or 5% margin in Q3 for the U.S. beef business?

A - Wesley Mendonca Batista {BIO 15243148 <GO>}

Wesley, I think look, combining remember that we report in a combined base for our Australian business. I think is possible. I think we can see margins peaking up, okay, second quarter balance, third, even better and fourth. So I think from year to the end of this year, I'm confident that the beef business will pick up and I think we will see a gradual improving margin, and also to be fully disclosed year. Also our Australian business should help and we will help in our beef margin in a consolidated base.

Q - Wesley Brooks {BIO 16407564 <GO>}

Excellent. Sounds good. Thank you very much.

A - Wesley Mendonca Batista {BIO 15243148 <GO>}

Thank you, Wesley.

A - Jeremiah O Callaghan {BIO 1452729 <GO>}

Thank you.

Operator

The next question comes from Farha Aslam with Stephens, Inc.

Q - Farha Aslam {BIO 6151888 <GO>}

Hi, good morning.

A - Wesley Mendonca Batista {BIO 15243148 <GO>}

Hi, Farha, good morning.

A - Jeremiah O Callaghan {BIO 1452729 <GO>}

Hi, Farah.

Q - Farha Aslam {BIO 6151888 <GO>}

Hi. Do you always have a gray kind of global view on exports given your numerous locations. And Wesley, with China and Russia putting restrictions on U.S. beef and pork exports regarding ractopamine, is that why you're so confident about your Australian business and did you see a benefit to your Brazilian beef exports, as a result of those restrictions?

A - Wesley Mendonca Batista {BIO 15243148 <GO>}

Oh yes, I think this is something look, we have been saying in a lot of occasions that we believe we have a very well diversified operation in terms of geographical location. We operate in Australia, in Brazil, Uruguay, Paraguay, Argentine, U.S., Mexico, Canada.

So, I think it is proving to be benefit for JBS or benefit for JBS because look the marketing is globally, is that global market, if China is buying less beef from U.S. they will buy from somewhere. They are buying a lot of products for Australia.

And I think this will benefit Australia and also Brazil, we are selling more products through around Asia through all their margins Vietnam and Hong Kong. So this will benefit some markets and I think China in some point, we will -- they will be buying more pork. And I think look, if you look the Pork competiveness, U.S. is the counter that can produce hogs cheaper than anyone else. If you compare hog price in US is more competitive than any country around the world. So I think U.S., even though the ractopamine issue and some pushback on these markets, but I think these markets will be back buying products -- hogs pork meat from U.S.

Q - Farha Aslam {BIO 6151888 <GO>}

Okay. And then one follow-up to that. Your Australian business is benefiting from exports and but the U.S. is importing record amounts of Australian meat. Do you think that that additional Australian meat is pressuring U.S. beef profitability, but it's okay because you have operations in both spaces. Is that why you're generally constructive overall on your U.S. plus Australian beef margins?

A - Jeremiah O Callaghan {BIO 1452729 <GO>}

Okay. Jerry here for Farha. I think regarding Australian exports to the U.S., we saw a quite a big decline in late 2011, 2012. I think what we see now is a more normalized volume getting back to free that drop. So I don't think that is anything which kind of indicates a trend in terms of Australian beef causing any margin concern in the U.S. It's just back to normality.

A - Wesley Mendonca Batista {BIO 15243148 <GO>}

And I think Farha, this is Wesley. One thing that is important, on -- that is in the call can elaborate a little more attributable a more, a better view about the volume that is going from Australia to China. So it's huge, I would say what, China is buying more beefs in Australia than ever, so I don't know Jerry, if you can give for us some idea our, not our but the Australian growth in China in this sector?

A - Jeremiah O Callaghan {BIO 1452729 <GO>}

Two comments here Wesley. First one is, in fact if you look this year the first part of this year, U.S. import must more beef from New Zealand and this for a very specific reason New Zealand had a drop there that probably some liquidation they heard and U.S. bring a lot of (inaudible) from New Zealand to U.S. that now probably is going back to the normal life. So, we decline a lot just got the normal fees in New Zealand that's the time that they produce much less. And the drop is not so severe loss gone two months ago.

But the fact the growth in terms of import from New Zealand. Australian in fact in terms of the total pound that they export U.S. this year the little bit less on last year. Why? Because China is buying much more in a very strong price. So bit more sense for Australia to export to China than export to U.S. As Wesley said, China become from almost zero two of three years ago, so now the third largest market to Australia beef.

So the first one continue to be Japan, the second one is U.S. and China is now the third largest market for Australian beef. So the big grow for Australia this year, is China by far.

Q - Farha Aslam {BIO 6151888 <GO>}

Great. Thanks for the added color.

A - Jeremiah O Callaghan {BIO 1452729 <GO>}

Thank you, Farha.

A - Wesley Mendonca Batista {BIO 15243148 <GO>}

Thank you.

Operator

The next question comes from Brian Hunt with Wells Fargo.

Q - Brian Hunt {BIO 16724112 <GO>}

Good morning.

A - Wesley Mendonca Batista {BIO 15243148 <GO>}

Good morning, Brian.

A - Jeremiah O Callaghan {BIO 1452729 <GO>}

Hi, Brian.

Q - Brian Hunt {BIO 16724112 <GO>}

I was wondering, when you talk about your outlook, it being 2.5 tons level across the total business and a very strong financing markets in the United States. What's your outlook for refinancing the high coupon that had Pilgrim's Pride as well as the short-dated bond at JBS USA?

A - Wesley Mendonca Batista {BIO 15243148 <GO>}

I will give you a part or the answer, but Jerry also can jump Brian and talk more about this. But look Pilgrim's Pride I think to be short in our answer, we think we'll generate the most cash to pay a lot of that now without a need to refinance anything in Pilgrim's Pride. So, JBS, Andre, you can mention about our bond in -- the 2014 bond.

A - Andre Nogueira {BIO 19941317 <GO>}

So, we purchase our initial stock that we continue to look the market opportunity and we continue to look the mode of cash that expected to generate during this year just at the right moment and the right five of the transaction that they expect. And of course is always possibility that we use some of the liquid from zero to pay down that. So we are not measured to do something, we continue to look the market, we continue to look the expectation, lot of cash generation for the next nine months of the year to decide what the right moment to take the movement.

Q - Brian Hunt {BIO 16724112 <GO>}

And then my next question is, when you look at the North American market overall across all your proteins. Could you talk about growth of foodservice versus retail, there is definitely a lot have mention that there's been a mix shift away from beef to poultry and there is a lot of promotion of poultry at retail just, if I can get your qualitative comments would be great, I appreciate it?

A - Wesley Mendonca Batista {BIO 15243148 <GO>}

Andre.

A - Andre Nogueira {BIO 19941317 <GO>}

We don't see this kind of shift that it was talked about food service and to retail, I think that in our sales, we continue to grow the food service area of course cheaper demand have been very strong and production is in the low levels. So it's compared the production of chicken per day, the average of production of chicken in the last five years, we are on the lower level. And chicken demand and beef demand in my perspective, we are producing all those the same amount that we produced last year.

We're selling more beef because we produce almost the same amount than last year. We are importing earlier with more, so the net availability in U.S. the little bit higher and we are selling this for a higher price. So I cannot see that demand can be weak and that's an area that was sell the same amount in the higher price.

Q - Brian Hunt {BIO 16724112 <GO>}

And then my last question, out of the U.S. you did make some comments early on the opportunity in Japan is sizable. Can you just talk about where your outlook is in terms of volumes growth into Japan from the United States on beef exports for 2013 versus what you did in 2012?

A - Wesley Mendonca Batista {BIO 15243148 <GO>}

Andre.

A - Andre Nogueira {BIO 19941317 <GO>}

If you see what's happened in March that the export from U.S. to Japan was 70% higher. I think that this give the perspective of the book-to-bill in terms of the Japanese market. So continue to be very strong in April. So our expectation of Japan, we go back in terms of the level of export from the U.S. I mean that even if all this growth, we see much more than what before to follow them those five. So U.S continue to export around 50% the amount that use to export before. I'm not sure if you can go back to the full level that was before, but I think that March, indicate a good number in terms of the positive business for U.S. export from U.S. to Japan.

Q - Brian Hunt {BIO 16724112 <GO>}

Thank you for your time.

A - Wesley Mendonca Batista {BIO 15243148 <GO>}

Thank you.

Operator

The next question comes from Carla Casella with JP Morgan.

Q - Carla Casella {BIO 2215113 <GO>}

Hi.

A - Wesley Mendonca Batista {BIO 15243148 <GO>}

Hi Carla.

Q - Carla Casella {BIO 2215113 <GO>}

How are you.

A - Wesley Mendonca Batista {BIO 15243148 <GO>}

Good.

Q - Carla Casella {BIO 2215113 <GO>}

You talked about your brief margins for the year in the U.S. gets a 3% margin. Why would you say the more normalized beef margin and has that change is given I guess, all normalized margin over the next few years, while this supply is little bit tighter?

A - Wesley Mendonca Batista {BIO 15243148 <GO>}

Andre.

A - Andre Nogueira {BIO 19941317 <GO>}

I think that's Carla, the supply is a little tighter is not as tight as we project at the end of last year. If you look -- if you divide the U.S. market through the (inaudible) and the cows, cows have been much higher than our used original expectation, just because of direct business have been much better than they used to do. So they got season at pretty good level to be honest. That we have one plant the shut in Canada at the end of last year.

So we're seeing much more dairy cost come from Canada to U.S. help the supply size in the U.S. and other plant that was shut. So I think that if you look the reduction in the amount of available that's less them our reasonable expectation, because of the cows and the loop was reduction the capacity in the U.S. and in Canada, that helped U.S. I think that can expect that beef margins we will back to the normal sparkle level and now even you more reached up and reopened to asset bring another perspective even increase the value that we can realize for the whole factors.

Q - Carla Casella {BIO 2215113 <GO>}

Okay. And no normal -- that more like from the 3 to 5 a 4 to 6% range.

A - Andre Nogueira {BIO 19941317 <GO>}

I think it's between 3.5 to 5.5 that the historical normal level. I believe that we are moving the direction to go back to that level.

Q - Carla Casella {BIO 2215113 <GO>}

Okay, great. And you've done a good job raising debt to pay down some of your short-term debt. Can you give us an idea what the average savings or what the interest on the short-term debt is that you will be paying down, so you can project the cash flow savings?

A - Wesley Mendonca Batista {BIO 15243148 <GO>}

Well, basically it's not a lot of saving in terms of total borrows. The improvement is more in mature because when you look the best that we are, the short-term that we are paying here in Brazil is not a lot -- is not a meaningful difference when you look the yields that we issued this bond that we issue in U.S. $0.065 and $0.0625, so it's not a lot of -- I don't think that is a meaningful number to be considered, but is of course is a big improvement in terms of the maturity of the debt.

Q - Carla Casella {BIO 2215113 <GO>}

Okay, great. And just one quick one on XL Foods. Have you said would you expect that to contribute to EBITDA revenue for 2013?

A - Andre Nogueira {BIO 19941317 <GO>}

Sorry, I couldn't hear the question?

Q - Carla Casella {BIO 2215113 <GO>}

Can you say how much XL Food should contribute to revenue or EBITDA for 2013?

A - Andre Nogueira {BIO 19941317 <GO>}

Well in terms of revenue is over $2 billion. In terms of EBITDA, we have two operations, we have cow plants in U.S. and (inaudible) and cow plants in Canada. I think that is we can consider that in the U.S. level are a little bit higher. But we are just starting Canada; I think that is too early for us to give our full perspective on that.

Q - Carla Casella {BIO 2215113 <GO>}

Okay. Great. Thanks a lot.

A - Wesley Mendonca Batista {BIO 15243148 <GO>}

Thank you.

A - Jeremiah O Callaghan {BIO 1452729 <GO>}

Thank you, Carla.

Operator

Excuse me. That concludes today's question-and-answer session. I would like to invite Mr. Wesley Batista to proceed with his closing statements. Please go ahead, sir.

A - Wesley Mendonca Batista {BIO 15243148 <GO>}

I'd like to thank you all to participate in our conference call earnings conference call. I'd like to thank you for the confidence on our company and the interest on our company. Like I mentioned before, we are very confident, I can say that we are more confident than ever that we are moving, have strong results and improving our business and generating substantial amount of cash. So again, thank you everybody and have a good day.

Operator

That does conclude the JBS audio conference for today. Thank you very much for your participation and have a good day.