Q4 2012 Earnings Call

Company Participants

- Antonio Augusto de Toni, VP, Export Market
- Ely David Mizrahi, VP, Food Service
- Jose Antonio do Prado Fay, CEO
- Jose Cabral, VP, Domestic Market
- Leopoldo Saboya, CFO and IRO
- Luiz Henrique Lissoni, VP, Supply Chain
- Reginaldo Alexandre, Chairman, Apimec
- Unidentified Speaker

Other Participants

- Alexander Robarts, Analyst
- Diego de Campos Maia, Analyst
- Enrico Grimaldi, Analyst
- Unidentified Participant, Analyst

Presentation

Operator

Good afternoon. Welcome to the BRF conference call. We would like to say that this conference call and the slides are being transmitted over the Internet on the site www.brasilfoods.com/ri. The presentation is also available to be downloaded in its full version.

All the participants are in a listen-only mode and later we will start our question-and-answer session, when further instructions will be given. We would like to ask all participants to ask only one question. (Operator Instructions)

Forward-looking statements related to the Company's business, prospects, projections, results and the Company's growth potential are forecast based on expectations of the management as to the future of the Company.

These expectations are highly dependent on market changes, economic conditions of the country and the sector and international markets, thus are subject to change. And as a reminder, this conference is being recorded.

At this conference we have with us, Mr. Jose Antonio do Prado Fay, CEO, Mr. Leopoldo Saboya, Chief Financial and Investor Relations Officer, Mr. Jose Cabral, Domestic Market Vice President, Mr. Antonio Augusto de Toni, Export Market Vice President, Mr. Ely David Mizrahi, Food Service Vice President, and Mr. Luiz Henrique Lissoni, Supply Chain Vice President.

I would like now to turn the call over to the Company's management. You may proceed.

Unidentified Speaker

Good afternoon. For those who have not yet taken their seats, please do so. So we may start our meeting with the less interruption possible. Once again, thank you, ladies and gentlemen. And thank you all the participants on the Internet as well.

I wish to remind you, if possible, to switch off your cell phones or at least put them on the silent mode. So we don't have any interference also on the microphones. And thank BR Foods, Brasil Foods for this opportunity. In fact, in the forum Apimec Sao Paulo, this is the 31st meeting. And this is an annual meeting. But obviously, during the year, we have other meetings as we are celebrating 31 years of Apimec.

So thank you for the management, also to all the management for being here, other officers, board members. And being able to count on Apimec Sao Paulo at this important meeting, which opens the year of 2013 as has already been announced by the operator.

BR Foods is part of the Novo Mercado and is part of the sustainability index. I would like to ask Mr. Fay then to start our presentation. Thank you.

Jose Antonio do Prado Fay {BIO 15337837 <GO>}

Good afternoon, everybody. And thank you very much for being here. And I will act like a pianist in a pizza restaurant. Whilst you have your lunch, I will be singing and talking about my Company.

Well first of all in this presentation, we will talk about the Fourth Quarter of last year. And as the end close, talking about the merger process and where we are at the moment. I would like to talk -- talking about the Fourth Quarter and reminding you about our last conversation here at Apimec.

Our last conversation was at the last of the Third Quarter and we were going through a crisis regarding the cost of grain. June and July was really when we had a very high and unexpected peak. We had -- we knew that the costs were going to go up. We had talked about that. But not as much as they did go up and with the speed in which they went up. And this had a very strong impact on the results of our Third Quarter.

But at that moment, we said, well, the Company had started in June a transfer, a price transfer process, always of course very aware and concerned with our consumers, always thinking about the cost elasticity which occurs in the food business. The consumer is much more mobile when they are consuming food. They have more options which are not necessarily the brand of that category. They have more category options. And we have already discussed that at length.

So when we take the Fourth Quarter. And the Fourth Quarter is the first year net of post TCD. The Third Quarter we still have some of that. We delivered the last factory in August. So when we compare the last quarter of 2011 with the last quarter of 2012, this is the first comparative net that we have clear of what was done with the Company after the agreement was honored.

And I remember that in 2011, at the last meeting in 2011, both here and on other occasions as well, I said that the year of 2011 what would be crucial was execution. So the issue was execution, all important for the moment. Because the planning of an operation as this to deliver factories exactly is not simple and in fact was much more difficult than we had imagined.

It lasted longer than we thought. And this brought some upsets to our normal -- our regular work. But it was well carried out. And our Fourth Quarter focused on what we had proposed to do to consolidate a process which had been carried out during several years. We started the process in transition in July of 2011 after the agreement and the focus of the execution was from March until August.

This was what happened and we used the Fourth Quarter to consolidate what we had planned for. In fact, we focused in the Fourth Quarter regarding cost transfers, which we had to transfer to -- because of increases not only of grains. But in other feedstock as well, in other inputs. But we also had the question of the consolidation of all the launches made and all the necessary reconfiguration of portfolio to fulfill our agreement.

So this industrial, commercial, administrative focus was very important. The Company was focused on this consolidation and we were also working on the integration of Sadia, which is a very complex process, which I think we executed extremely well. This was very well done. And we still had the acquisition of Federal Foods and also started consolidating Argentina, as always doing many things at the same time, which is part of our merger process.

I have mentioned that. So besides our daily work, we always have our parallel agenda of the merger. And this will be reduced now regarding actions which must be taken and what we have done during these three years regarding the merger.

After Sadia's integration, this will decrease. And what is important, the Company guarantees one of the things which I think is one of its greatest strengths, which is scale. We have come through with the same scale, although we have left one-third of our business in the domestic business during the year of 2011 and using the tools which we have. In other words, our tools which are marketing and distribution.

So this is the summary which has happened of the Fourth Quarter, which was a very, very important quarter in the life of the Company.

When we talk about the year of 2012, then I am not sure if I say whether 2012 was a good difficult year or a difficult good year. It was a historic year in the merger process, the central. Every time we look at the history of this Company, we look at BRF, we will conclude that 2012 was a very important year and the Company operated well. We had the difficulty over the aggressive environment and it took the shine away, the sparkle away, because our results were slightly below our expectations.

Our expectations at the beginning of the year had been better. But if we take everything which had been done, everything which was achieved, it was a good year for the Company. And it was a year which gave us a sound infrastructure because, as I have said to you, not only are we carrying out the merger. But we are putting in a sound infrastructure which will allow the Company to become more international and to grow ever right through its control systems, integration, BI [ph] and many, many other ongoing processes, which will consolidate during 2013-'14 and then we will see greater details about the operations.

But in July of this year, we truly will have finished and will finish all the integration process of logistics and the commercial side, everything will be done. And the Company will get through some of the obstacles that come with growth.

And besides this aggressive environment, in spite of everything that we have done, at the same time, expenditures did not rocket. We have controlled them and the -- we had 16% then of net sales, which is one of the lowest rates that we have had. Therefore, I think we have to look to 2000 and -- to the years. And although the results are below what we wanted, we think that 2012 was a very good year. The Company was operated and managed extremely well and fulfilled its agenda without losing control of its business and its scale.

In other words, we continue to distribute in the domestic market about 200,000 tonnes of chilled products every month. And this then is one of the differences -- competitive differences of the Company, very difficult to be beaten. And we make a point of not losing this, because in the process of putting two companies to work together it's very important to not lose this focus of the operation because of the long cycle operation. If it runs out of control, the consequences will be disastrous.

I think that it's a summary of 2012 then and we will always consider it as a historic year for 2012. And when we take the EBITDA or the adjusted EBITDA, which is what we publish, we will see that the recovery of the Company as we had forecasted and said that we would do at our last meeting, we will see it's very important. Because even if we de-seasonalize from Christmas about -- we were still 11% of EBITDA, recovering the costs strongly, controlling expenses and forwarding the Company and developing the Company for 2013 much better off than we were in 2012.

Now let's go into further detail and we will talk more about that. I'll ask Leopoldo to continue here with the details of the operations.

Leopoldo Saboya {BIO 16137418 <GO>}

Good afternoon. So to continue to proceed, we will go into the numbers not only of the quarter. But of the year. When we analyze as we see every quarter, we would like to give you the view of building the results of this -- from the third to the Fourth Quarter. As has been said, we had an important change of level, coming very close to the levels of the Company before. We haven't made it internally. But in the foreign market this change of level occurred in this quarter.

We had about 10% increase of price in dollars from one quarter to the other. And in the domestic markets as well, even if we -- even net of this seasonal effect, which is in the BRL125 million of improvement from one season to the next or from one quarter to next. We have a gradual and consistent process of closing the gap of the cost which opened up, first of all in the First Quarter. But continued during the second half of the year, which we will see later on.

When we take the year closed compared to the former year, our performance is below the year before, up to the nine months in September. The market improves from the negative, which was BRL492 million delta in September's position and in the domestic market in the operations -- the domestic operations, BRL243 million negative as we will see later on, basically focused on the In-Natura operations.

So now taking the evolution then of net sales, this is another important thing in which we finished the year in a strong position and pleased with the work delivered. Because this was not the only one. But the main focus of the organization amid all this turbulence in the delivery of assets, to maintain scale and its revenue. And this was done.

When we take on the right hand side of the chart, which shows that the growth from '10,'11,'12, if we did not know, perhaps nobody would notice that there was a bit of a hiccup in the movement of the Company. Only those who experience this know what happened, what was done to hold this position. So a great effort was made to keep the Company generating results.

When we take the quarter after quarter, we also see that the Fourth Quarter we grew almost 15% in revenue with all the impact -- in spite of the impact. And this is totally net of what we had to deliver. If we put all this on the same base, then numbers would be different and we will see the further details later.

Net sales breakdown with all the changes and the assets which were sold, we did not have much change in our business profile. So when we take the results comparing first the short-term, on the left hand side, from the third to the Fourth Quarter and then comparatively the Fourth Quarter of the previous year, we will see certainly an improvement of the gross margin, putting the Company back in the game.

When we look at the quarter of the first year, the bar [ph] is below 170 base points. However, the gross income generated is above last years. When we look at the adjusted EBITDA, it is above the quarter both the margin and the absolute terms and it is also above on absolute terms regarding the previous year. And it is BRL1 billion even having a low margin -- the concept of adjusted EBITDA slightly below last year.

I say that the EBITDA of the Fourth Quarter does not show the potential of the organization. It is a contrast going from a very depressed point of EBITDA, which was practically all the nine months of 2012 until September.

The next shows us the EBIT and net income. It's practically the same interpretation that I have already shown you. And regarding the net income, we had a significant improvement both short term and also regarding the previous year -- regarding the previous year, even if we discounted the effects of the integration of Sadia S.A., both in the Fourth Quarter of last year and a part which was reverted now in the Fourth Quarter of this year. Even so, the net income and the earnings per share is very good in this quarter.

And now looking at time from 2009 till now, from the merger which occurred in 2009 to date, the Company without any doubt had a growing ascending trend and which will be taken up again in 2013. In 2012, we had an exceptional year because of the building and all the adjustment needs that the Company had to go through to. And it was a circumstantially difficult year. So this is why I reinforce that the EBITDA margin that we report to you in this year does not portray the potential of the Company.

Earnings per share, as has already been seen, we had a good earnings per share. But below the previous year when we had a record net income of the Company. Here I think we must mention the question of the cost of goods sold and here we take the information that you can take from what's the average cost of the Company. There is also an alteration of mix that could change the analysis. But it is an analysis which shows the trend and not precisely the numbers individually.

In one year the Company had a pressure cost of 16.6%. But this pressure, if you look on the chart, it happens really from the second to the Third Quarter, which gives us the same 16% since the bar of the Third Quarter, 3.3, is practically the same value as the Fourth Quarter of last year which shows us that as soon as we started to do this work after the main demands of the CADE had been fulfilled and when things came back to normalcy, we started to adjust the gross margin, especially in, well, both the external and domestic market. But the costs continued because we have also the biological effect.

I think most of you understand this that there is a difference. And corn had a change of level from June -- in June and July. And this happened from the third to the fourth and when we started the first half of 2013. And this is very important to understand in what circumstances does the Company start operating in 2013.

To give you an idea, when we have the average price of market of corn 2012 compared to 2011, the increase was 5% in Brazil. But if you take December, which is the peak, they went up 25% vis-a-vis December of 2011. And soy meal went up on average 67% market price, point to point December '12 to December '11, it doubled.

Even if these costs, the two together, are 23% of the Company, we will have an increase that's close to three digits. And this is what has been happening to the Company and the effect is how you can see in this chart in the second term. This is why the Company readied itself for this phenomenon.

And there is still a residual effect for the First Quarter of this year, since the corn especially has continued to go up in Brazil even with favorable prospects for the crops in Latin or South America, which, in the current scenario, probably will be positive throughout the year but will positively impact only the second half of the year I think -- I say potentially because we don't have much certainty.

There is still a lot of crops to come, the Brazilian, the American, the winter crop in Brazil in the second half of the year. So there is still a lot to do. But even if this happens, it will still be just a slight calming down of the current levels and not an abrupt drop of the costs. And we think that this is a good scenario for the Company.

Carrying on, going into the business, this is a chart that Fay already mentioned. We have to focus on the discipline of the Company that even in the year where we knew we would have some transient inefficiencies, some costs that were inherent to all this operations of products and changes, many things that we mentioned and talked to you a lot in the last Apimec meeting, we managed to control our level of expenses regarding our net sales.

I remember taking a kind of commitment with you of not exceeding the barrier of the previous year. And this was the lowest level of the organizations, reminding you that the companies on their own in the past from 2009 on, this level was much closer than 20% than this level of 16.5%. And we still have a lot to do. This number can be better and we hope it will be better. So this is where the synergy is.

Here you can see where the synergy of our merger is. It is clear that when you look at the bottom line it is not entirely there. It's just apart because the gross margin was compressed and that was unprecedented. But this gain has come to stay in the organization.

CapEx was also a year -- well, last year was also a year where the Company had a lot to do to build up its factories, again, its logistic processes. And the growth of this CapEx happened in 2012, BRL12,000 (sic; see slide 17 "BRL2,396 million") invested, biological assets BRL550 million (sic -- see slide 17 "BRL494 million"), which will be more or less the figure which we will continue to have in 2013.

I would like to reinforce our guidance for 2013 is to have a peak of BRL10 billion and we have the possibility of this number being lower than BRL2 billion including -- well, I am talking about our CapEx, which will be below BRL1.5 billion for 2013.

Next, accountability to the markets, basically we are delivering the figures that we have been addressing before, close to BRL700 million net this year. And once again I know I am sounding redundant. I know many of you have already heard about it many times. This number about synergy account only to the approximately 200 projects identified when we immediately put the companies together and look inside the organization.

Obviously, when you check expenses with the merger of BRL31 million this year, this is not even close to the amount of expenses towards the end or circumstantial expenses that led to our balance sheet this year. However, we are loyal to the methodology from the very beginning. These are only expenses related to projects about synergies identified in 2009.

And now for 2013, above all we have the part of full synergy of logistics and commercial operations. Lastly. But as important, we also closed the year with an even better financial position year to date when it comes to debt profile.

Here we can see a circumstance, I don't know if you recall it. But we had a revolving credit operation. It was one of the few operations of that nature in the country. We took a window of opportunity with liquidity without requiring debt. And we also maintained an important proposition of local and foreign debt ratio. And as to debt maturity, we increase in over one year our average term, achieving 4.5 years total debt. And when you look at the maturity schedule for the future, we are very comfortable.

Here you can see a small concentration in 2013. But it gives you an idea of a small figure to our operation. BRL2.4 billion in maturity and we only have BRL1.2 billion as foreign credit, which is almost revolving credit with automatic renewal. And just to give you a forecast, one month at the Company level is about $500 million or only BRL1 billion in order to perform operations in the trade finance market.

In other words, we are very comfortable to renew, extend and maintain the debt at the current levels. And we also have an interesting tripod of sources and the capital markets has become the main funding source over the last three to four years in the organization, getting the Company ready for higher leap and also having international funding. Trade finance is also key to us as well as BNDES and other funding sources in order to maintain significant position.

Lastly, our leverage has showed a slight improvement in the margin, not fully expressed by the cash generation in the Fourth Quarter because a lot of cash is generated in the Fourth Quarter. And it only happens in the First Quarter of the year. So that's a trend to improve this indicator in the First Quarter of the year.

Next, I won't get into details, that's just a transition slide for the first presentation about the domestic market. It shows a brief summary of everything we did over the year when it comes to product launching, new categories and innovation. By the way, we even intended to try to summarize in a single page everything we did in one year about our portfolio. But we had a lot movement, very intense. And the Company starts 2013 at a different pace.

Now, I would like to turn the call over to Cabral to follow or to give the next part of the presentation.

Jose Cabral {BIO 4728436 <GO>}

Good afternoon, everyone. Welcome. I am Cabral. I am in charge of the Domestic Market operation. Let me briefly summarize to you what happening in 2012, a lot was said already. And give you a forecast of what will happen starting or as of 2013.

When we look at our 2012, our scenario -- well, we talk about TCD or performance agreement or the implementation of our duties vis-a-vis CADE, there is a lot of implications to us. First of all, we had a mobile date that was a first date. But during negotiations and transition it was postponed many times and it came back.

Just imagine moving our portfolio with a moving date backwards and forwards depending on the negotiation. We also had the sale of our brands and suspension or discontinuation of categories. We explained in details what the impact would be in our last call. And it really happened, as I said before, we had impact or negative impact in markets, particularly when you had the suspension of Perdigao brand items.

By the way, I even recall that I told you if you cook beans with cured sausage by Perdigao, if you are a loyal consumer of this discontinued product, you can migrate to another brand like Sadia, for instance. But you can also try to use bacon. Like Fay mentioned, we have several alternative categories when it comes to food. And it actually happened.

Many of our markets in the second half of the year ended up by going down. If you check Nielsen data volume wise, at first they dropped, particularly because Perdigao brand was out with a strong impact. What about us? So that's the scenario.

In this scenario we had a complex TCD, a lot of impact on categories and important impacts that happened on markets. And to us, like Fay mentioned, TCD or the pure TCD implementation would mean to lose one-third of the domestic market scale. If we only showed the brands we wanted to sell and discontinued the rest, then we would lose one-third of the scale in the domestic market. And this scale is very important considering all our distribution assets and it will be vital to maintain our scale.

What about the accrualty [ph] sophistication of the year? It was the cost scenario. Don't have to talk more about it. There was a strong increase in such a short time frame. But on top of that, several foreign markets there were also challenge, shut down their operations or their doors to Brazil forcing raw materials into Brazil like pork and poultry to be sold in Brazil because foreign markets closed their doors. And they had export problems.

Just imagine cost going up. But at the same time very strong pressure when it comes to raw material or poultry or pork supplies due to difficulties, not in our market. But the foreign market as a whole targeting Brazil. It generated a strong pressure and it happened with fresh products.

So what was our strategy? That's a very brief summary of the year. And what was our strategy? First thing we needed was to minimize the impact of scale. Scale at the Company and particularly in the domestic market is vital to sustain the operation. But scale and value, in other words, I need top line, I need net sales. Volume alone is not enough. Like I said in a previous meeting, this discussion about transition was not price wise but rather a portfolio discussion. Our goal was to recover our scale value wise.

And the next stop, considering the accrualty [ph] behind all costs and considering the transition plan, we tried to recover our brands. So what was the outcome of this strategy in the domestic market?

This slide or part of the slide I showed you before in our last Apimec, if I am not mistaken, it was in August last year. And it addresses the basic strategies we would use in order to minimize the effect of TCD in our business, in order to rework categories. And I explained at the time that each category had a different strategy, a different impact on brands and scale. And also to review brand performance in a long-term frame.

I said that Perdigao and Sadia over time were closer to the same brand positioning. And we have to start working on uniqueness. At that time, I think the Olympic Games were almost over and I was mentioning the use of the Olympic Games. And now you understand why the sports platform in Sadia is part of a new brand platform that we started just last year. And also to rework our sales team portfolio. So these were key strategies last year and the outcome was this growth in net sales in the domestic market.

So a couple of points on the figures about net sales in the domestic market, the third and Fourth Quarter are the quarters that we were working with CADE and in the Fourth Quarter after delivering our plans. And Celebrations, like we mentioned before, was the last major brand transition. Please bear in mind that we sold Fiesta and all rescinded platform. So the impact TCD on Celebrations in the Fourth Quarter was also big.

Despite of that, we are very happy and proud of our strategy that really worked. We managed to grow by 15.9%, vis-a-vis the previous quarter. But obviously, part of this growth comes from Celebrations. But on a quarterly basis, our growth is 9%.

And like I said, the loss of scale in the domestic market would have been 33% or 33% if nothing had happened. And this effect in the last quarter was 3%, 3% only the effect on volumes offset by price, obviously, due to all the cost impacts. And we had to put pressure on price.

That's another interesting chart to compare the first to the second half of the year. I am sorry, correcting myself, the Second Quarter of 2011 and '12. So virtually, all the affect of CADE going up 8.3% in our market share in net sales growth.

Now the other chart is also remarkable in the domestic market. If you compare the second half of 2012 and remove from the base all of the brands that were sold or suspended, the second half of 2011 compared to the second half of 2012 what was in our hands grew by 50%. And that's how we managed to recover our scale. In other words, by using our weapons, which are brand, innovation, distribution, sales team, training, systems, profitability, these are our market weapons. We are proud to say that we grew by 33% in the volume and 17% price/mix. So our operation changed our mix profile after TCD.

Many of the brands were sold and these were entry brands in the categories with a lower price margin ratio, which is also to our benefit. Not everything is price but also mix improvement as well.

Summarizing, a summary of the market results in the domestic market, we have already addressed in blue -- in the blue bar net revenue for -- or growing 9%, which is a combination of 3% minus for volume and 2% plus for price. And the Fourth Quarter compared to the Third Quarter with the Celebration effect, 15% in total, 3.6% volume, 11.9% price/mix.

EBIT, next to it, shows our recovery efforts conducted in the second half. And in mid or the middle of the last quarter, we were beginning to start up our operation bringing back to normal profitability.

I remember somebody asked me about price increases. I said they would happen, they had to be done. They were done within our limits, considering the elasticity of our consumers. But you also asked, what about the margins of the Fourth Quarter? Will they be normal? I said, no, they will be improved. But we won't have time enough to settle them all. And that's exactly what happened. They have been greatly improved but have not achieved yet our desired level.

Now, something we really like to see and to know is that this recovery happened based on solid fundamentals. It was not a funny game about price. As to innovations, I remember I also showed you a chart with over 500 projects. And I mentioned projects that in order to swap products between plans it was not a new SKU in the market. But it took a new project. So we had over 500 projects Company-wide. And in the domestic market we will launch 99 new items that were shown by Leopoldo, Fay.

Another important point is that the items launched after CADE's decision over 18 months, within the year of 2012 accounted for 12% of our sales for these new items alone. But over 2012 other items were launched, sometimes in mid year, were not the -- only the effect of each and every one of them. But within a year or 18 months they accounted for 12% of our sales.

Another important pillar to us was productivity and sales synergy. In other words, we built an operation based on innovation, category, strategy, productivity, sales synergy, brand development, profitability and fresh products.

For synergy and profitability, a redistribution of portfolio, reallocation of sales team, implementation and harmonization of systems. This is not over yet. This will be detailed later. As to brands developed last year, Sadia started with a platform of the Olympic games in order to develop a new positioning. But it also had very -- a lot of tactics, like the promotion we had with Luciano Huck. And at that time, the purpose was to try and capture part of the volume that was being lost.

As to Perdigao, it was lower in our agenda. Our effort was stronger in Sadia last year in order to recover part of the volume that we had to maintain. Perdigao was on air with some product campaigns, for instance, with this video with Malu Madar [ph] the actress. And this was a commercial to explain consumers about Apimec's time, what the transition was in order to allow consumers to understand why out of the blue products would no longer be at the supermarket shelf.

Another important pillar has to do with fresh product or In-Natura profitability. It was not a good year for In-Natura. But we have two different things here. Ever since last year, like I said, we had a very high volume for In-Natura. It was not an option. It was out of need in order to unload our inventory. The market was very much compressed.

We have a cyclic market and these things do happen. What we managed to do as of the last quarter of the year is to implement what I said something before. It was a model to make the In-Natura operation more profitable. In other words, start a new innovation product to add value to In-Natura products.

And over the year you will see how many co-activities we can do in order to add value to an In-Natura product. I know it sounds a little bit absurd. But you can add a lot to chicken or poultry. As to change the distribution network or chain or try to have distribution capillarity, it does add profit to our business.

And we can also change the price ratio, no longer trying to work on the net aspects. But come to a profitable model. These four pillars were critical. So we could work on the transition and now start the year, like Fay mentioned, with very solid fundamentals in our operations.

So what can we expect in the future? The future is not dark. Can we show the next slide, please? The scenario in 2013 -- well, first let me address our expectation when it comes to markets. The markets were affected by two reasons in the second half of last year. I already mentioned the first reason, which was the exit of Perdigao brand, particularly this transition affected different markets. The second reason is that our markets are very much elastic and we were forced to have price rises. So the markets were also affected by this increase in prices.

What do we expect for 2013? We expect a more solid growth, unless there is another big tragedy in crops or anything like it. We hope not. But theoretically, the operation is in the right place. It shouldn't be a year of a lot of price moves.

And if you look at the second bullet, cost potentially will go down. I mention 'potentially'. Well first of all, once they will have to go down. Nobody can have an all time high of growing costs for such a long time frame. So they will inevitably go down. They are expected to go down. It's not easy to tell precisely when that will happen. But potentially they will go down unless there is another crop problem or something that is not on our radar as something predictable.

Theoretically, markets are expected to be more accommodated and start having a more normal growth. However, early this year stemming from all these increase effects, things are very slow. So we don't have a brightened beginning of the year when it comes to market growth. But we expect it to be better than last year. Last year it was negative in many times.

Another key factor is that we expect to have more balance in the market. Surplus raw material supply, for instance, due to effects of the foreign market on the domestic market, this effect is more balanced now. We will no longer have the mess we had before. Markets are beginning to be all more accommodated and we have a new competition scenario now. And we expect the market not to be so turbulent compared to last year.

So the trend is to have a good market, becoming progressively better over the year, cost potentially going down, more balance and domestically speaking, as you will see in Lissoni's presentation, we still have some steps to perform. We had integration already. By the way, when it comes to systems integration, everything is right. Sometime fine-tuning with some customers, no serious problem. But we still have new distribution centers, automation, system standardization. So until mid year, we expect to see important things to happen. So that's the scenario for 2013.

In this scenario -- this is exactly a supplementary material to the previous slide, addressing the effect of 2012. But also our directions in the future. In the future, we need to have a new company, like Fay mentioned. It is a new step. With expansion and value generation, how are we going to face this new step?

We have a couple of pillars. The first one is based on expansion. In other words, once we come to the end of our change in systems, we have a very good chance -- well, I always use the same example. Nobody prevents us from having a Perdigao lettuce, we are not getting into the lettuce market.

But just to give an example, we have CADE restrictions related to markets with a high concentration level and they were under discussion. But not for other markets. And our brands can be expanded to other markets. So why didn't we do that together in the past? How many variables can you control considering our complexity?

We have projects we started in December and in January. We are testing Perdigao mayonnaise and there is a wide range of opportunities, progressively and slowly. We are not getting in all of them at the same time. We will be establishing priorities for investments one by one with profitable growth. But there is a lot of opportunities.

And in our current markets -- that's for new categories. But in our current markets now we have to lead the market and expand them all and expand this market considering several facts of growth, several trends of significant growth, think about health ability or convenience. These are just examples. And we recently launched -- by the way, I suggest that you try it. No, no, no, it is in Rio. But once it comes to Sao Paulo, we have (inaudible), individual meals and they are highly balanced. This is frozen and ready to eat food.

For instance, a delicious whole grain risotto. And it delivers the convenience of a frozen dinner in individual portions and they are extremely healthy. So that's one of the trends, health ability, convenience, upgraded items of more added value so we can develop more items or added value in the several categories and at higher levels or higher market segments.

That's all part of our plan in the future, prioritize adequately because we don't know -- we don't want to do everything at the same time. We have been focusing on some things that will be part of our expansion in the domestic market.

And the bottom part of this slide is also very important, brand development. Starting this year there will be an increasing importance of Perdigao stake in our communication. There is a reason behind it. Last year we needed to use Sadia brand in order to favor our transition. But as of this year, the Perdigao brand has to be very visible in the mindset and hearts of consumers so much so that -- well, Perdigao was out temporarily and in two years, 2-1/2 years will come back, we will be coming back with some categories.

So the Perdigao brand is here. We will work on new positioning. Sadia will go to one side of balance. And that's the rationale behind our sport platform. Balance which means healthy meal, eating everything with a sporty balanced life. That's the motto of Sadia with an iconic brand. Perdigao seeks a different platform. I won't address it now because we are just starting. But perhaps you saw one commercial. We are sponsors of the Brazil Perdigao Cup in 2013.

So that's just a tiny seed of what we mean development into a new platform for Perdigao. And obviously, another critical issue to us is to continue optimizing our synergy and productivity. We expect that at the second half of the year after we merge all the DCs and once we have all the routes being jointly delivered to our customers, we expect to improve our synergy and distribution cost and also expand our custom base and standardize our commercial investments.

So in summary, in the future -- well, in the first half of the year, we will be concluding the last transition phase and get into a great new phase in order to improve profitability, generate value for BRF in Brazil. I will be happy to take your questions later. Thank you very much.

Unidentified Speaker

Now I would like to call Guto [ph], who is responsible for the export market.

Antonio Augusto de Toni {BIO 15337840 <GO>}

So I would like to talk a bit about the export market. 2012 was a difficult year for us and we will focus on 2013 so you can understand what we are doing so BRF exports become better, more stable.

2012 in fact was, as I have said, a difficult year. We knew that the first half of the year would be very complicated because we came from the Fourth Quarter of 2011 where we had very big inventories from the Middle East and Japan and the ban from the Russian market. So this made a very difficult quarter. We knew the First Quarter of 2012 would be difficult and we hoped that the second half would be good.

This happened. We managed to get through the first half -- and good inventories. And the middle of the year, we were hit by the question of the grains, as Fay has said, those were hit by the price, the prices of the soy, bean and the drought in the United States. And this consumed all the profitability in the export markets, which we expect it in the Third Quarter. So we had to go out to the market and do a big price transfer for Fourth Quarter. And we had in the year only just one quarter instead of the expectation of having two good quarters.

Now a little bit about the Fourth Quarter. We had an important repositioning of prices in the Fourth Quarter. When we compare this to the Fourth Quarter of 2011, we had net sales 24% above. This Fourth Quarter was not good. And there were important recovery of the EBIT, which was practically zero in the Third Quarter, with 4.6% in the Fourth Quarter, the regular profitability. I am talking about Fourth Quarter 2012.

Now talking a little bit about the markets, the Middle East we have been improving our distribution more of 20% of our distribution, that is our own distribution, our own Company in Saudi Arabia. But Federal Foods has also been bought by ourselves now. And we have had an improvement of revenues in the fourth -- for the Fourth Quarter '11 to Fourth Quarter '12 of 53% and a revenue very similar between the Third Quarter and the Fourth Quarter.

In Europe, we had an increase of net sales from the Fourth Quarter -- or the Third Quarter to the Fourth Quarter was about 11% and also an improvement in volume also in Europe. And much more than that. The increase of the portfolio that we have in Europe, selling less In-Natura products and more readymade products in Holland and the UK. We introduced a new line of breaded products in Holland and also we launched some important beef products to complement our portfolio.

In Eurasia, we had a -- during 2012 stable demand. But expansion to markets, alternative markets such as Ukraine. So that we didn't depend so much on Russia. And an improvement of revenue of 8% from the third to the Fourth Quarter. So making up the prices and offsetting the price of grain.

In the Far East, more adjusted inventories. 2012 inventories in Japan were above 140,000 tonnes. These are local inventories in Japan that importers maintain. And the ideal stock in Japan should be between 90,000 tonnes and 100,000 tonnes, three months of consumption. And this gives us a good flow and good prices. But 2012 started with inventories well above that and the Fourth Quarter started about 110,000 tons in Japan, already allowing us to have a good price transfer to the Japanese market.

And in the same business since May of 2012, we started our business in China, the Rising Star. We have a partner in Hong Kong that distributes the BRF products in China. And this also gives us a better penetration and executes the Company strategy growing in portfolio and in channels.

And to conclude 2012, talking about LATAM, we had an increase in volume and net sales with the integration of Quickfood. And we are expanding our processed products in Argentina, launching some of the Sadia products. And we will be positioning this as the premium product in the Argentine market using the distribution that we have in Argentina because we bought Danica. And for the Third Quarter to the Fourth Quarter in LATAM, we had an increase of about 42%, which is very good.

In Africa, we have a strategy of gradually enhancing the portfolio, less volume. From the Fourth Quarter of 2011, we had a lot of volume in Africa because of the banning of Russia. So we came back to the normal African levels and enhancing the portfolio and improving the supply. And a good price transfer in Africa. There are 52 countries, BRF is present in more than 20. And some of them -- Mozambique, for example, we have a very good market share.

Now a little bit about 2013, which I think is very important to put the market in context. We are starting off with more balanced inventories compared to the stocks that we had in the beginning of 2012. Middle East is okay. Japan, okay, lower stocks. And in Eurasia we had to sell off some. But we don't have this problems anywhere.

Middle East is okay, the inventory is okay. In Japan the inventory is about 100,000 tonnes. So after a year and a half, we have adequate inventories there. That's very important. And Eurasia also the situation is much better today. There is a better demand for pork. We have two factories enabled for Russia, which gives us a constant flow and without profitability problems for that market.

Now talking a little bit about Japan, many people ask about Japan, what's happening there? Japan took a long time to have an impact on costs because of this grain network that we had problems with. But it only started to have an impact around October, because they had a lot of hedge in the market and also because the animal feed was subsidized in Japan. But in October the government in Japan couldn't keep the subsidy. They had to import more grain at prices at world levels. And also they tried to put into the food rice husk. Therefore, the productivity of chicken dropped in the Japanese market.

And besides that, they had a drop in the national production and the market had to import more. And also as Cabral and Leopoldo have said, potentially the costs will start to drop. We hope that the costs of the grains will start to drop as from the Third Quarter and more in the second half of the year. So this sense [ph] should be the scenario for this year, which will give us a certain recover of the profitability that the foreign market should have.

One of the problems is the uncertainty of the foreign exchange. Our budget, however, is conservative and so if it is lower than our budget, it will be not so much and we will be able to deal with the situation and also transfer this to the markets.

But we think that this year is one of price challenge. There is a question of the foreign exchange, the question of the grain price. It is a year that we will always have to be thinking prices at good level. At the moment, we have a good level of price and we have to keep these levels. And this is going to be the point of the year, to keep these levels steady so we can have the desired profitability for the foreign market again.

And finally, I would like to talk a little bit about strategy, because I think it is very important to say what the export market is trying to do, trying to replicate what we have in Brazil. In Brazil we have brands, we have portfolio. And the same -- this is what we want to do in the export market as well.

In 2013, 30% of the volumes, of the international operations volumes will be sold and distributed through our own distribution. This means it's our own operation in Argentina, in Saudi Arabia. It's the acquisition in the Emirates. It's an operation which we have in Europe, which also imports Brazilian products and resells to the European markets, the food service retail. So we are growing in the distribution market not only through our own distribution. But having as an aim always to grow in the food service and retail abroad and selling less volumes in the B2B or the wholesales, to great -- to large resellers.

And another very important pillar is the improvement of the portfolio. It's not only a question of selling more processed foods and less In-Natura. We can enhance the portfolio, selling more In-Natura products but better sort of present it. So the food will be presented with the brand, with the Sadia brand and Perdigao at the end consumer.

And another very important pillar is our production abroad. We said that we implemented --- we have a new line in Holland for breaded products, high quality. And we also have a factory in Abu Dhabi. The first Greenfields built by BR in another country. And which will start working in the Fourth Quarter of this year. This is another strategy which adds to what we are doing today, because we will be taking raw material from Brazil to be processed abroad to serve the foreign markets. And there are also advantages for the ready-food market. You can develop the products much more quickly. So we can grow more quickly also along these strategic lines.

Another important factor is the consolidation of business in Argentina. We have the two brands, Danica and a very good distribution and numbers, which is good for Nelso [ph], the CEO of the company. He can develop the company, grow the company to replicate the success in Brazil.

And finally, I would like to talk of the relaunch of the Sadia brand. We carried out a long study in 17 countries with 17,000 consumers and choose the Sadia brand to be the international brand of the BRF and we repositioned the brand. These packages that you can see here on the slides. There is an older one that's more yellow. The whiter ones are the new packages of Sadia, which we are launching now in the First Quarter in Africa, in the second half of the year in the Middle East and in the Third Quarter in America, Asia and Europe. This then is the new face of Sadia abroad.

And what is very important is that the boxes all have the same theme. So when you see a Sadia box anywhere in the world, you will know that that is a Sadia product. And the customization of the product for the market is done where you can see the photo, in Asia. You can put a (inaudible) or a special -- in Argentina you do a higher product because they like their meat like that. So you customize the picture on the box. But you maintain a theme in the world. So 2013 will be a period of transformation for the foreign market.

Thank you very much and I will be pleased to answer your questions later on. Now Ely, Vice President for Food Service, will proceed.

Unidentified Speaker

Good afternoon, everybody. Ely is responsible for Food Service, Brasil Foods.

Ely David Mizrahi {BIO 16428831 <GO>}

I will talk about or give you a view about what happened in 2012 and tell you what it is that we think will happen in 2013 to lead us to sustainable results. 2012 was a very challenging year and after many years, we saw a slowdown of the market, a slower pace which had a strong impact in terms of costs, also because of a drop in profitability and a question of protein and the migration among proteins. And also of the question of the challenge of the TCD, which has impacted us and absorbed a lot of focus and energy of the team.

And somehow or the other also impacted our service level because of an important change that we have had. And the details of this will be given later by Lissoni of the post merger scenario.

But even with all these problems, we have had good results. Especially in the second half of the year, we managed to keep growth in line with the projections of the market. This pace once again place us in a strong position, with a margin which is in line of the one that we have been building up. And all the innovation movement that Cabral has shown also was very important to mitigate part of what we had lost, especially with the suspension of the Perdigao brand. But also with the sale off of some assets.

In numbers, the summary of this situation, we may observe an important recovery of the business profitability in the second half of the year and practically going back to the levels of the last quarter of 2011 with a margin of about 14% of EBIT, however, with an important consequence in our volumes due to the speed and the dynamics which characterize the foodservice market.

But looking on, looking forward, what do we see for 2013? I think this is important to share with you. The market will continue to support market growth with all the changes, with all the economic and demographic changes, et cetera. We think that these will continue throughout the year. The market will become more fragmented and complex. And this is going to demand from us granular strategies both regarding execution and also the way we execute the strategies, a more competitive scenario.

The foodservices market today has received a greater visibility and attracting new market players. Today the foodservices market is on the radar of many companies, which in the past did not focus on this business. And also we know that the market is becoming much more professional, especially with new entrants and different chains that have announced that they will be new players. Last week we had some examples like the Red Lobster and others. All this brings to the market professionalization, which is great for our business. But at the same time calls for new product solutions and services from the BRF.

Now a little bit about our business post merger. Our focus for 2013 is to bring -- to seek synergies, efficiency and productivity in all our processes to involve and study different markets and to develop new competitive advantages to reinforce our value proposition and to be consistent with our margins.

As Guto has said, the Company's aim is globalization. And we have an expertise and this should be shared in the Company in the different places where it is going to work locally and a very strong work developing of service levels, which is essential to our business to maintain the confidence of our consumers and their loyalty.

This leads us then to seek -- to share some of our initiatives and what we are going to focus on continuing with our growth process to increase our net sales and our margin. We will focus greatly on innovation, a much broader innovation, having in mind not only the development of our direct service model. But also have a portfolio for the professional universe, helping our clients to improve their processes and their capacity to sustain businesses, which is important for our own business.

And to seek new business models to create multichannel platform. So that we can work in a universe of more than 1 million points of sale in Brazil. And to capture value in the different segments of our market where we can create new competitive advantages and a coordination within this movement of internationalization and coordination, especially in the global accounts. And secondly, the objective of taking this management expertise to the operations which we are implementing outside the country.

So concluding here, we believe that BRF is able to continue in its process of consolidating foodservices and become a relevant player in the Brazilian market and seeking to share this knowledge, generating value in the same way as our international operation.

Thank you very much and I would like Lissoni now to take the floor.

Luiz Henrique Lissoni {BIO 17588445 <GO>}

Good afternoon, ladies and gentlemen. I would like to talk about Dairy products. In 2012, we entered a very interesting phase of Dairy products. We started here with the review of the fundamentals. And these products are integrated in BRF. We have the same planning processes, logistics, et cetera. So according -- well, the second half of the year the last quarter saw a price repositioning, price/mix and channel. But the very important repositioning of prices, which was important.

We worked a lot on coverage and positivation and channel selection. We selected which the channels and users would be more profitable -- you will see this in a minute -- and a review to optimize the portfolio. There are many items which we decided to give up and others which we will encourage. And we went through an important phase of operating synergy, integrating meats, dairies and other products and also expand -- a greater efficiency of our industrial localization.

All of this connected by very clear drivers, which is our strategy. For example, in cheese, to pursue market leadership in Brazil. Cheese is very important and sometimes it is very much more important, for example, than hams. And here we can certainly become absolute leaders. We usually say that now cheese has a name and a very strong name. And there are Chilled products to reinforce brand equity and operational synergies. It is a very profitable category.

In Milk and powdered, choose the right size. Here the game is to get the right size so as not to expose the Company to categories that in themselves are very volatile. And grocery products, all the dry products you find the right product at the right price, and much more than that, develop a dry distribution platform for a possible expansion of the BRF in the domestic market --and innovation platform for moisturizers, health functional.

We have a clear public here, elderly people, athletic people. So summarizing all of this, when talk about milk, it's the right size. We certainly -- we will find the right size and all the growth in this cluster will be profitable.

In Cheese and Chilled products to grow innovate. And these are very profitable and an interesting way to go. Regarding milk, we really have a redesign of price and images. We manage to work very much in regions and channels and prices and volumes. Today, we have a leadership in the independent pricing of regular brands, which are the simple milks. We have changed our price platform and today we are absolute leaders. The Company is much more less exposed to a category which normally is volatile. You will see here in the chart. We had 47% of the mix and now we have about 39percentage points in the carton milk.

In innovation, you can see here in Sao Paulo, we have started the sales of products which we called Batavo Hidra. In fact, it is development of juice, because it has less calories, more protein. It's an easily digested product. It's much more nutritious and it is a juice which has a milk way. It is very good. It is growing and it's a battle arena.

We have big names here. But the launch was very good. The product is good. And I challenge you to try it. It will be here in Sao Paulo soon and soon throughout Brazil. It is doing well and we are very satisfied with the sales of this new item. And this clearly shows that vis-a-vis price here compared to the Fourth Quarter of '11 and '12, we have a huge change of prices. The price/mix has changed, because non-profitable volumes have been left aside. So we have had a reduction of volumes. But on the other hand, we had a growth of net price. So with this, the EBIT, which was red, is now almost breakeven with very good prospects for 2012. We think that we have found the way for the dairy products.

Moving now to 2013, management will be very straightforward. As to carton milk, we will be addressing size, profitability, milk region or producing region management. We are one of the greatest sourcers of milk. So management of these regions and prices are important. Raw or carton milk are important sources of raw material to very profitable products. So managing the right size for carton milk with a proper price is a very important tool for 2013.

As to Chilled products, a very simple formula. The products are in the market, top quality, we have to grow in numeric distribution or having more clients and growing our volumes. For groceries, we will keep on optimizing our line seeking innovation and profitability, putting -- or as a critical path. So results are very promising and we will soon disclose them all to you.

So that concludes our Dairy chapter. And now we will be addressing supply chain. I just like to remind you that our growth, Guto, Cabral and Ely showed this growth, that requires very solid infrastructure. We have more than 50 plants, more than 80 DCs, a fleet of over 7,500 vehicles, more than 15,000 employees. Our product movement is approximately 2 million tonnes per month or approximately 3 million tonnes per month if we add grain. And we are the most important in the country. So we have a solid foundation to withstand the Company's growth.

After the impact of TCD, we had a very interesting journey. We had more than 40 physical interventions in our DCs in 2012 and are all running now. DCs in Sao Paulo, for instance, with more than 80 million inhabitants in the country with a strong intervention with expansion and operations. Our delivery was eight DCs, 10 plants, construction of six additional centers in Belo Horizonte, Rio, Salvador, Cuiaba e Belem and Curitiba, withstanding the Company's growth.

For this year, we already are concluding more than 15 intervention or shutting down or opening of small units so we can consolidate a very strong network. And the top goal is to have synergy, lead level of services and also in the industry as a whole.

And now we highlight a distribution center in Salvador. I believe it is a landmark when it comes to product movement, with a lot of capillary teachings. And we had a very strong automation block. All the internal DC handling will be done automatically. We will reduce our labor reliance. But more than that we will have lower costs and top quality. It already includes operations in October and is scheduled to be concluded between May and June. It will be a landmark in our distribution infrastructure in the country.

Now it is very important to understand the journey when it comes to the creation of a global and integrated company. Of these initiatives related to products or segmentation, they all go through a critical path known as integration platform. We started in the First Quarter of 2012 doing what we know as the organization of our client base. Sadia had one base, Perdigao and Batavo had other bases. And we consolidated them all creating a unique client base.

Next, we began to segment our clients. In other words, create specific segments for foodservice, domestic market or dairy product markets, creating blocks of similar clients. Then we defined service packages. For every group you have a different service package specific.

That's a great journey with thousands of clients with very specific needs. And between March and April, we concluded the basic segmentation. And that was required to have our guest visit packages. Please remember we have several sales teams for foodservice, dairy products, Sadia, Perdigao. And we started to have our visit plans for May and June. That's all for the planning field.

And in May and June, once we stopped the last SAP phase, we can have a single platform at BRF. And this should allow us to integrate the DCs. In other words, all the DCs can work with all brands. All sales people can be changed equally, each one with their sales force. So that as of July and August we are going to have a BRF for supply chain and sales fully integrated. And then we can have a very important phase to capture or to conclude our synergy phase.

In terms of internal operations, you saw our growth plans outside the country are very aggressive and we have a global sourcing platform. From worldwide we buy to supply worldwide. We already have procurement offices in the Middle East, Argentina, Europe and China and over 50 global suppliers already approved and almost hundreds of processes under way, Pakistan, for instance, or packaging from China, vitamins from Africa. So we search globally and we send the most important items to every country considering quality and cost.

These are slow products. Brazilian red tape is very strong. And we have to approve processes, suppliers and everything. But that's a vital operation. So we can have a fully integrated operation. And it should be replicated in all our operations. And that's all supported by a program, a review of a service package that is very well defined. Once we have the whole consolidation of our network, systems, sales forces once and for all, we decided to acknowledge all the processes that are critical. We revisited all critical processes when it comes to serving well for a lower cost.

We run a coordinated improvement operation in order to define, separate different minimum lots for a whole big operation here and we created operations that are sustainable and continuously sustainable. We work with very solid processes. We make use of information, IT, as our base tool. We don't improve what we don't measure. But we work with a lot of technology. And our execution rule is very clear and that's all supported by excellent people. And that will withstand the whole growth of BRF inside the country, outside the country, always seeking service excellence.

That's all I had to say. Thank you very much for your attention. And I would like to invite Fay again.

Jose Antonio do Prado Fay {BIO 15337837 <GO>}

I will conclude the show fast. I know it was long. But that was the end of the year.

Next, about 2013, well, that was discussed at length. I won't get into details now. But basically, the bulk of our growth in 2013 stems from a rise in prices, improved mix and not volume. I am not saying volume is not important. It is very important. It is critical to the scale of the Company and BRF has to maintain that. I am not saying that we don't have volume on our radar. But the bulk of our results or the top line stems mainly from the price/mix.

Now the Company has five important (inaudible) this year, things that we will be paying a lot of attention. One of them has to do with the four trees that are related to the variable compensation of all the Company's officers. Quality is always here. It is critical. We have food producers, quality is always coming first.

The second point Lissoni already mentioned, the project known as MANDOU BEM, which is the Company's level of service project. Actually, in October and November we had a couple of problems particularly in a very sensitive category, which is hams. And with hams we stuck to the Sadia brand alone because Perdigao was three years away and will remain out for two additional years.

And because that's an iconic product in our portfolio, there was a lot of speculation and the Company was not serving the market well. Actually, I don't think it was a question of service. It was something more transient. Behind it there is a need to improve our service structure. So we focused that at the Company level and that's in the benefit of the whole Company from sales planning or accurate production and it applies to all the officers that are qualified to variable bonus or compensation.

So quality, MANDOU BEM, which is the service project, health, environment and safety, another point that is critical to us and we are growing a lot. It is a general program at the Company level. And lastly, we also have the use of capital, which is something that also relates to the four trees of value generation.

And what you can see on the slide shows our fifth largest priority at the Company, which is culture. From the very beginning of the merger, as I said before, we are not creating a great Perdigao or a great Sadia, we are creating a new different Company with a different potential. And when we work on this evolution, for instance, in 2009, Perdigao becoming BRF, BRF, Sadia working together. But still with a lot of restrictions because we had to follow an APRO that we signed with CADE.

In other words, until mid last year we had a lot of restrictions in terms of execution for the future and now there is a great opportunity to us. In other words, we are changing the corporate brand. In order to change a Company's culture you have to convey a very clear message, very clear icons and these icons carry our values we claim to be the Company's values.

And as a result, we had to change internal batches, a lot of move. We talked to everyone. And that's a critical process. Sometimes we tend to believe that, well, this will be solved very quickly. If we didn't change the culture at the Company level, well, any culture will apply and that it will be very challenging and painful. And the right timing for us to do this move in the logo was right now. And that's why we are starting this new process. So very briefly let me show you a video explaining very briefly this logo and its purpose. Let's watch the video.

(Video playing)

"At BRF we produce foods in a very special manner. We put together ideas in order to find new possibilities and opportunities. And it all starts on the field. We work with thousands of partners and a chain that is constantly connected. That's our starting point to produce foods in several areas in the world. When we put together this will and knowledge, we multiply our sustainable practices and have an impact on the communities we act in a very positive manner.

Here, we put together different looks and tastes and then we find new product possibilities that connect people to a universe of flavors. Our team has a young spirit, a vocation for entrepreneurship, people who were committed and open to establish dialog delivering their best results with a lot of energy.

We are all driven by the mission to be a global food Company with trends that are admired, innovative, delivering their promise. The great challenge like this is what really drives us ahead. We increasingly want to be invoked in the lives and the world of people. That's how we achieve our purpose, producing foods and providing services that make people closer, sharing experience and promoting new discoveries. BRF more than producing foods, we put lives together."

So that was just a brief content behind the new logo that we are just launching now. Now a couple of words on the merger process, when you look at the figures that we are showing today, maybe you can understand why I am always so concerned in not losing control of the operation. These are huge figures and we are quite complex. But we don't have to be complicated. These are different things. And one thing was being discussed at length is that complication is something and complexity in another thing.

So processes can remove complexity. And when we add these things together, things really work. And I would like to remind you that we started the merger in May 2009, approximately on May 19th and we have an emblematic photo. Obviously, it is at a law US firm and they were euphoric. The lawyers, obvious, they were so happy. And there is this guy who is happy but not euphoric. That was me. Because I had a very clear vision that what we were creating at that time was an operation with a pure vocation to be a global key player. But that will be very challenging.

And I was right at that time, it is a process that gives a lot of work. But at least in the creation of quite an interesting Company. So very briefly, we had an integration plan that lasted nine months. The follow-on phase, we had to pay $2.5 billion debt that came from derivatives. We launched a new organization chart to maintain and retain targets. We had BRF15, an important guideline.

So all this group of officers need some directions and BRF15 are exactly these directions. In other words, we know where we are heading to in order not to lose our Company direction during the merger and not waiting for something to plan ahead. Then we have the internationalization and the CADE agreement. Well I have been losing a lot of hair and I have a lot of white here as you can see now.

And after that we entered a new phase, a phase of execution. And the Company shows very well the execution and planning capacity to recover revenues. Like I said, we keep on creating infrastructure for growth and to getting to the better structure of the Company, we maintain our level of investment and on top of that we maintain at 136% our return to shareholders. So a lot of work. But we also have significant response by the market understanding our actions.

So now I would like to make some comparisons. I don't like to do that actually. But these are comparisons of different companies. But to some extent we are compelled [ph] to do that because comparisons and mergers are inevitable. First of all, I would like to remind you that 60% of mergers destroy value to shareholders. If you check the literature on mergers, you see the bulk of mergers don't add value. And when we compare successful mergers there are many striking differences. I am just showing this comparison in order to justify our 150,000 employees.

So when we have an overview, look at the global picture -- and by the way, this is Perdigao in May 19, 2009 and December 31st, 2012. And all the operations from the moment they happened until December 31st, 2012. As you can see, the merger has been generating results to shareholders, given a good return to shareholders, it was BRL20 at that time.

And when you bring that to the same base, which is the base of three years and six months, we can also see these comparisons. Well I know there are different speeds, different sectors. But they show that we are on the right track and things are happening as expected. And we still have a long way to go. The chapter is not over yet. But we are making a lot of headway.

Finally, I would like to thank everyone here. I would like to thank our consumers, who can follow us in our changes in portfolio. Thank you, our shareholders that are with us with the most critical times, CADE. And the hundreds of thousands of employees that have been embarking in our journey delivering not only their talent. But all their dedication so we can meet the double agenda of running their lives and going through a merger.

Thank you very much.

Unidentified Speaker

Thank you, all. I would like to thank the Company's management, thank you for your presentations. We could perceive the huge amount of information available so we can check and come to this brilliant outcome.

Now, please know that you have an assessment sheet and it's very important to fill it out and give it back to us, not only allowing us to correct our actions. But that's also part of a chart at Apimec Sao Paulo to select the best meeting of the year 2013. So please fill out your forms.

And to acknowledge our 31st annual meeting and also reminding you that we had more than 40 meetings all together, I would like to give the Apimec 31 year attendance or diligence seal. And a couple of meetings ago and what I was sharing at BRF table, we mentioned the charts. So here we have all the efforts, visibility and transparency taken in this merger process acknowledged, assessed by the market and also priced by the market.

So Apimec Sao Paulo Forum has contributed a lot lately to bring analysts and technicians and investment professionals together. So we are all gathered here today to foster this integration and to make it happen as best possible. And that is translated through analysts' report from the sell and buy side. And investors should also know how to tell the difference and acknowledge a great job. So I would like to take this opportunity to invite our Chairman, Reginaldo Alexandre [ph], from National APIMEC to deliver the seal.

Reginaldo Alexandre {BIO 19896818 <GO>}

It is clear that there was a lot of integration involving the whole Company. Manufacturing relies on sales, distribution, finance, everyone. So in-house relations allow us to have a good flow in our operations. So to all the Investor Relations team (inaudible) congratulations. All the Company's managers and officers, thank you for this opportunity.

So now very briefly let's move straight ahead into the Q&A session. If you want to ask questions, please introduce yourselves and be very straightforward in your question for the sake of time. Thank you.

Questions And Answers

Operator

(Operator Instructions)

Q - Unidentified Participant

So how will the results of 2013 impact the results of the market in the future? I would like to better understand the spread? Grain prices in Brazil have major discounts compared to abroad, soy and corn in the domestic market. So I would like to understand if you benefit from that and if you are increasing your grain inventory or try to be different? And what about this increase in spread, any impact in your distribution?

A - Unidentified Speaker

Trade and grain are very much connected. That's an interesting topic. When we analyze BRF, we have to consider all the territory. In other words, obviously, the grain we use locally is to our benefit. Quality wise it is very beneficial. On the other hand, freight costs -- and by beating the whole operation. So our move of trucks and cargo. Certainly, BRF is one of the companies that is more active in the freight market. Maybe it is the greatest when it comes to exports.

Now when we look at the map, we have to consider where the grain is, where consumption is. And when we think about long and short, the same principle applies. Harvest of crops are just beginning in the South. Rio Grande do Sul starts in March. Parana has started a little. Santa Catarina is not relevant.

But usually our policy is to be short and then we start getting longer. In the Midwest our position is already longer. But at first, there is a trend to have a longer position. But we are still prudent. As you can see, grains are maintaining a level about $145 per bushel and they have been sustaining a certain level. And we have to check where these levels will be accommodated.

There are lot of speculation and the Brazilian crop absolutely it is very good. There is no further room for surprises. Then we also have the second crop or harvest, corn. And then we start speculation in the Midwest. But trend wise, I would say it is the time to have a longer position now.

Regarding the market, I have some remarks to make. Last year the market -- the first half was stronger for the domestic market, second was the exit of Perdigao and the effects of the TCD. It went down. But now we are recovering. The First Quarter of this year compared to last year, we have had a slow movement, right. But the recovery is there.

And first of all, this movement is slow but it was expected. It was not a surprise in our forecast. The second, during the year you will see how this market is growing. Well we don't think that there will be great price increases this year. So things have settled down. Second, the market players, the market is settling down to all the transitions and consumption slowly grows. So this is quarter-to-quarter comparison. So probably from the second to the third, we won't see much of an improvement. But this is what we have planned. So it's no surprise.

Operator

Enrico Grimaldi, BTG Pactual.

Q - Enrico Grimaldi {BIO 17277738 <GO>}

My first question is about your price increase. The average price was relevant from quarter-to-quarter and from year-to-year. I would like to understand so what has happened during the second half of the year, what happened. And compared to the average -- the end of the quarter compared to the half of the year and how it is today? How much would it be? And that's my first question.

My second question, I want to understand a little bit more about what was important for the improvement of your export margin this Fourth Quarter? And I understand that global inventories were reduced. This would be one factor. And another factor perhaps the increase of global prices and more efficient producers. But of these two factors, what was the weight of each one of them?

A - Unidentified Speaker

Let me start and then Cabral and Guto will finish. The domestic market price, I have already said last time, our concern is with the consumer, how the consumer accommodates to the new price reality. When we take the categories that we sell, many of them are convenience categories. It's a consumer option. Up to a certain price he is willing to pay for this convenience and he will accept price differences among categories.

After this, he begins to migrate and will be more elastic. And we had a price increase first supported by tools that we have, brand. We have publicity brand, strong brands like Sadia, Perdigao, Qualy, Batavo. These are important ones. Distribution, which is also a very important leverage when you are increasing price, because you are well spread out and good penetration. And the third point is the launch of products, of good products.

So on average, this put our price up during the period. Then Guto will talk about the export market. Nevertheless, it's a similar equation but it's a question there of international prices. The costs we support in Brazil are high. But outside Brazil they are even higher. So this forces the market to the appetite to transfer price that's not the Brazilian appetite until it was in the first half or the First Quarter of this year, where we had the dollar low. Then it is Brazil transferring price, which is different from the world, under a huge pressure, cost pressure having to operate at higher prices.

A - Antonio Augusto de Toni {BIO 15337840 <GO>}

Well I don't really have much to say. This is Guto. But perhaps the net price is -- the price of the point of December is higher than the average of the quarter --- the end of December. And even if you exclude the Celebration affects, there the end of December price is higher than the average of the quarter. Is that what you wanted to know, right? Okay.

The result improved in the Third Quarter, because we had been transferring price, reducing inventories in the Third Quarter -- first and Third Quarter -- and transferring price, allowing the price to improve in the Third Quarter. It didn't happen because of the grains. So we had to transfer price to a higher level of grains, not to BRF. But to the planet. All our competitors had to make the same kind of transfer. And BRF has another advantage. The advantage that it has plants located, the greatest concentration -- production concentration is in places where the corn is a little bit more competitive. So we transferred all the -- all the competitors had to as well. So we improved our profitability vis-a-vis other groups.

Q - Unidentified Participant

Good afternoon. This is Difenso [ph], an associate of Apimec and member of the board. My question has a bias of the international market. Regarding Russia and the embargo, are you overcoming these differences? And there is also some sort of an argument called (inaudible) so what is being done about this?

A - Unidentified Speaker

Russia is an interesting case. They made a huge effort to enter the international trade organization and I think now they are slightly sorry about this, because I think this is going to complicate the volatile processes that Russia uses.

Brazil in the pork market doesn't have important access to Japan, Korea, et cetera. So they are very dependent on Russia. This is a structural question which has to be solved. We have been talking to the government a lot about this. Brazilian culture cannot be so dependent on Russia, because Russia has -- it is all self sufficient and its strategy -- and Russia comes in and out according to its needs.

Now there is a crisis there. The cost of pork is low because there is pork leftover. And this impacts Brazil and all the chain. Because when it is exported, then it is exported at a very low price or else it is leftover here and leads to a price question. So this is a question that has to be addressed. And the solution, we will have to deal with it otherwise we have to go to Russia and meet their needs.

As far as your other questions, we know that --- we produced more fat than meat when you remove the substance. That is not what people want. What we want is more meat than fat. But it is the demand that they make for imports and BRF has adapted to the sites that are released for such.

Operator

Diego de Campos Maia, HSBC.

Q - Diego de Campos Maia {BIO 16478658 <GO>}

I have a question for Leopoldo. Could you elaborate on the improvement --- I am sorry, I can't understand. And Guto, Argentina, what about the integration. Have you had any problems and interference from the government?

A - Leopoldo Saboya {BIO 16137418 <GO>}

Argentina is beginning to bear important fruits. We to integrate five companies there. But as I have said, we have very good bases in Argentina. We have two leader brands. Sadia has a good market recall. It's well known. Basita [ph], which is the turkey, a slightly smaller turkey, has a very important market share. It's practically the only seasonal Christmas product there.

And with the Sadia brand -- so this gives us a good basis to grow in Argentina. And the price control exists. There is price control. They are controlling our prices. They are controlling everybody's. But there is a certain agreement with the local authorities. So that in April we would have a price adjustment, which is essential in Argentina because of the location inflation, which is very high. But the operation is starting and we think that it will take a year or a year and a half. We will be able to show important results for Argentina.

Your first question, SG&A, there's a lot of discussion internally that we try and compare this to the past international accounts. One has to take very much care, because on these lines sometimes we do not compare the lines that are in there. And even in Brazil, we say at the end of the day, it is sometimes difficult to control because of opportunities on another lines.

We have potential to improve, certainly. And I am not going to tell you what level it should be at. I think this year this will improve. And we are in the final phase of projects and harmonizing our distribution centers, which will improve our logistics and distribution and expenses. But we have the marketing account. As a percentage of sales it is not an account that has been going up much and it is an investment of the Company, especially in the domestic and export markets.

You can see we can use this as an investment, increasing expenditure here. But having in mind an increase of the gross margin, which will pay-off in the EBIT. So one has to be careful with this metric. You have to look at everything. But the Company is growing. But now more harmoniously with less expenses and transitory expenses. We will have continuous improvements, which is the pure operation, where there are many fixed costs which will be more diluted with the growth.

A - Unidentified Speaker

Are there any questions from the Internet? No, nothing? We do. So we will go on to the operator then.

Operator

Alexander Robarts, Citibank.

Q - Alexander Robarts {BIO 1499637 <GO>}

The first question is about the foreign market, the export market. Guto, talked about 2013 as being a year of transformation, of change. So I would like to understand more about the objective of the re-launching of the Sadia brand. You were talking about 17 countries and starting now in the First Quarter. So is the objective to improve the average price abroad or is the objective to increase volume or to develop the own brand project? Can you elaborate on how we should think about the re-launching of this brand regarding volume price in the export market?

And my second question is about page 64, where you say that an important focus of the new cycle is the optimization of capital. And we talked about CapEx. We are seeing that almost 50% --- 45% of CapEx last year was for expansion. And when we think of this number of BRL2 billion for 2013, can you say what are the advantages, what will remain being allocated to expansion and how much would we think 2014, '15 of the level that Brasil Foods will have of CapEx? Thank you.

A - Antonio Augusto de Toni {BIO 15337840 <GO>}

Well Robarts [ph], this is Guto [ph]. Talking about the re-launching of Sadia abroad, we had two problems. The first was Perdigao [ph], which was the international brand which was competing with Sadia. And so we repositioned both of them. Sadia is the premium high brand and Perdigao, which is the mainstream brand. And in some markets we needed to re-launch Sadia also because it had a portfolio and the packaging was no longer modern.

So a lot of work was done about 18 months. And we could talk about 30 minutes about this, an in-depth work done with Ipsis [ph], which is a very good company, an international company, another company in New York. So advertising agency. So we could re-launch and create a visual identity of this brand in the world. And we also had a market which was familiar with the yellow and the white colors, like in the Middle East. So this was unified.

And so from now on we will have a visual unit throughout the world. Another important thing is that we also allowed to invest more in the brand and investing more in the brand, we can improve the brand awareness. And having a better brand awareness, we have more profitability for the Company.

Also, when I say we are creating an infrastructure for globalization, et cetera, this to -- we are choosing a way of bringing the brand closer. We have a theme among the masses. But we have a certain regional freedom, because as we work in markets sometimes we have important religious impediments, et cetera. Sadia in China and Middle East and Africa, you will see that you can recognize that that is Sadia because it has a kind of box that has a similar theme. But there is always a local space so that you can use these regional needs.

So when we say we are creating an infrastructure, this is part of this infrastructure. We create a global brand and then with time, closing the gap, to have a global brand the same everywhere.

A - Unidentified Speaker

So Alex, your second question was about the CapEx. We in fact work with these two leverages, fixed and working capital. And also the turnover of this capital in our organization. This number shows us a lot of opportunity as an additional leverage profitability to put the Company on another operational level. And now it is time to do this work more intensely.

We have been working with working capital in 2012. This was not a year where we had the best working capital. But was in fact --- but we finished the year already in a much better situation in terms of financial cycle. We go from the end of 2011, where the cycle was already deteriorating with 67 days to 57 days in December. 11 days of improvement in the cycle, knowing that it will improve in 2013 and the Company has to work in incremental but sustainable cycles.

Another indicator, if we take the working capital by the net revenue, we finished the year with this indicator 25% of the net revenue, which is not a little. We have a very long chain -- and, for example, this indicator has already been about 30% in 2011 and was almost 40% in 2009 when our businesses were somewhat repressed by the results.

The capital employed also, we also had the capital to rebuild our capacity. We can be much more effective and better use the capital that is already in the organization. So this is part of what Fay said, the value tree which has several branches and this also includes the capital and this is also the focus of our business.

Are there anymore questions from the Internet?

Q - Unidentified Participant

Good morning, everyone. Harnoldo [ph] from Santander. Could you elaborate on the performance in the domestic market, more specifically in the First Quarter? Any difference in Carnival because it was in advance this year and what about sales performance in January? Any figures for February? What about performance? Thank you.

A - Unidentified Speaker

I don't know if we can address exactly what the performance was. But may be give you an overview, sell in or sell out or maybe the retail scenario.

By and large -- forget our categories for a moment, contact with retail. But retail started a little bit lighter than expected. So what will happen is that we are running with a slightly lower volume than we expected. But our operations will be back on track.

The trend, like I said in the beginning, well, the anticipated Carnival does generate some differences in February and March and the same will happen in Easter time. But we already knew when Carnival would happen. We had taken that into account. That's a characteristic of the month of the year and the calendar for the fiscal year. So volumes are expected to be slightly higher but profitability will go back to normal levels.

On behalf of Apimec Sao Paulo, I would like to thank Brasil Foods very much for this opportunity. Thank you for making all your officers available to us. Thank you for your time so we could listen to you and also interact and discuss the main assumptions and expectations. On behalf of (inaudible), thank you so much.

We just like to thank you again for being with us and confirm the Company is focused in what it knows to do to run its operation, solve problems. And we are very bullish when it comes to the year. The foreign market, we are slightly more concerned due to foreign exchange and accommodation. But by and large, these are the assumptions we mentioned there. We are very bullish. Thank you very much. See you next time.

Operator

BRF conference call is closed now. Thank you very much for joining us. Have a great afternoon.