Q3 2009 Earnings Call

Company Participants

- Antonio Augusto, Export Director
- Leopoldo Saboya, CEO

Other Participants

- Alan Alanis, Analyst
- Alex Robarts, Analyst
- Joao Santos, Analyst

Presentation

Operator

Welcome to BRF, Brasil Foods S.A., Third Quarter Conference Call. This conference call and the presentation are simultaneously transmitted via webcast in our website at www.brazilfoods.com/ir.

At this time, all participants are in a listen-only mode. And later, we will conduct a question and answer session. Instructions will be given at that time. We would appreciate if each participant made only one question.

(Operator Instructions)

Forward-looking statements related to the Company's businesses, perspectives, projections, results. And the Company's growth potential are provisions based on expectations of the management as to the future of the Company. These expectations are highly dependent on market changes, economic conditions of the country. And the sector and international markets, thus are subject to changes. As a reminder, this conference is being recorded.

I would now like to turn the conference call over to Mr. Leopoldo Saboya, CEO and Investor Relations Officer. Please go ahead, Mr. Saboya.

Leopoldo Saboya {BIO 16137418 <GO>}

Good morning, everyone. Thank you very much for being here in our Third Quarter results. And before entering in the presentation, I would like to make some first remarks. First of all, we are very pleased to present to you for the very first time the consolidated figures of Perdigao and Sadia. Unfortunately, it's been marked by a not good result, by weak operational results. And we are giving details why we are presenting that and why we are doing some changes.

Secondly, I would like to emphasize some things regarding the way we are going to present the results. Firstly, these Third Quarter results show 100% of consolidated figures. But on the other hand, companies and administration remain separate. We will focus on the pro forma analysis. Every figure we will try to show you in a pro forma basis. So making the comparison easier.

When we mention it's going to be corporate law, only -- it means only nine months of Perdigao and three months of Sadia. And from now on, we'll only have these consolidated figures of both companies. So we will not present anymore standalone figures of separated companies.

So starting by page three, this is just an overview of what we did during this year, the transaction that is started by May. And now we are in mid of November. So we went through several issues. And we are very pleased that everything was achieved in a very good -- with a very good success I would say. And there's all the merger of shares, the capitalization of the Company. And the liability management that is pretty much done. So we are now by year end hard working in the integration plans.

So we have several things made by people from the two companies working into detailing synergies, best practices, policies. And profits of every area in the Company. So we are doing that to promote a very smoothly integration and to build up a better and a new Company by beginning of next year when -- after CADE authorization. So we'll be ready to integrate -- to start integration of both companies by beginning of next year.

So on page four, we have the shareholders' composition after all the merger of shares and the follow on. So we have in our shareholder basis 436 million of common shares. And this is the composition. So (at) huge control. And we have approximately 50,000 shareholders.

So going ahead, this is on page six our results, our corporate -- by corporate law results. But I will focus on the next page, which brings the pro forma analysis. We think it's a better way for us to compare the results with the last year and in the year-to-date basis.

So gross sales in the quarter was 4% lower than last year, achieving BRL6.2 billion; net sales 6% lower last year achieving BRL5.3 billion. And the gross margin, there was compression of the gross margin of 50 basis points. So coming from 21.3% to 20.8%; and the EBIT dropping 61% from BRL150 million to BRL58 million; and the net income being boosted by financial gains due to the real appreciation; net income of BRL211 million that we compared to pro forma of a loss of BRL1.6 billion last year; and the EBTIDA margin of 5.5% that compares with the 6% last year pro forma basis and adjusted to the new Brazilian accounting rules.

And we can give some more details because if you just add the fast information of each company regarding Q3 last year, it won't match with this figure. It's going to be higher.

But this is the way we should present adequately to the law 11.638.

In the year-to-date basis, we have the revenues of nine months of both companies gross sales BRL18 billion. It's 1% higher than last year; net sales 1% lower; and the gross margin 180 basis points lower than last year. So in here the compression of margin. And the further compression of margin regarding operating expenses that resulted in the EBITDA margin dropping from 8.2% to 5.5% this year to date and the adjusted net income of BRL354 million that compares with the BRL1.1 billion losses last year. These BRL354 million excludes the absorption of tax losses relative to the incorporation of Perdigao (Agua Industrial) that took place in the First Quarter this year.

One other thing that I'd like to emphasize here is that although we had a weak operating result that pretty much compares with the Second Quarter, we had a better operating expenses comparing the Third Quarter to the Second Quarter this year. So we reduced the expenses related to the net sales of 100 basis points. So if you remember, we told last quarter that we were in the inflection point of our expenses. And now as we are running closer to our more optimized capacity of our production and tradition systems, we are now getting operating expenses relative to net sales better than it was in the Second Quarter.

But as we are going to understand looking into more detail, each market, domestic and export market, we're going to see that all the efforts to increase prices in the export market during these two quarters, it was pretty much offset by appreciation of the real.

So going forward, we have here the breakdown of net sales. This is corporate law. So it's nine months is Perdigao and three months is Sadia. What would change basically here is we have -- we were able to put nine months of both companies. It would be the change of the dairy participation on top of -- on the total. Instead of being this approximately 16%, it will be something like 10% to 12% the dairy business compared to the other businesses. And by market, the figure won't change that much. It will be something like 56% domestic market and 44% export market.

So now let's jump to page ten, where we have the panorama of costs and prices regarding our main input costs and some of our prices of meat. Here, the very first view of that shows a very volatile scenario with a lot of changes in relative prices, especially after September last year. So starting by the chart on the top left, we have the export prices of pork and chicken in Brazil that shows that prices after a recovery that is started by the beginning of this year, prices are not sustaining at that level. So it's been difficult to move forward and this passing on prices in dollar terms and in international market.

In terms of grains, we are seeing both comparing last year -- Third Quarter this year with Third Quarter last year -- or comparing with the Second Quarter, we're seeing declining prices. But in reals, if we consider the prices we pay here in Brazil, we are having the both analysis -- if we compare Third Quarter this year with Third Quarter last year or if we compare the year to date this year with year to date last year, we have pretty much what -- the drop in corn is being affected by the increase of soybean meal.

So and pretty much in 19% to 20% was the drop in corn prices in both analyses. And the soy meal, it increased the same amount, something like 20% increase in the both Third Quarter analysis or year-to-date analysis, showing that our -- the majority of our cost of live animals, it's pretty flat compared to last year, not compensating the drop of international prices. That's why we are having a big squeeze in our gross profit in the export market.

So looking to the sales of the Third Quarter, domestic market from page 11, I would like to emphasize first of all our mainstream business in the domestic market, which is the elaborated and processed meat. So in terms of volumes, it was 6% higher and 6% higher of revenues, showing flat prices. When we look in a year-to-date analysis of this segment, it's showing a 5% growth in volumes and an 8% growth in prices, showing that we were able to pass through prices in the domestic market.

And now the marginal prices tend to be flat, not considering the seasonality of Christmas time product, which is by the way -- is performing very well. So we are very positive regarding the year end, both New Year's Eve and Christmas time. We are very positive for sales in the last month of this time of the year, which will help to compensate the weak results of the export market still to be seen during the Fourth Quarter.

Dairy products, just to give some color on this, it's -- on the quarter basis, it's dropping 15% in volumes. But it's increasing 13% average prices. So emphasizing here that we are really focusing on the profitability of this business, which is quite good during all the year. And the perspective's still good for next year.

If we look on a year-to-date basis for these dairy products, it would show a 9% drop in volumes and a 6% higher prices in a year-to-date basis.

So moving to the export market. So we have here the Third Quarter figures showing on the total volumes a drop of 13% in volume terms and a drop of 19% in revenues. This is how we start to understand the impact we suffered not only during the quarter but also during the year in our profitability of this market because we have this big haircut in our revenues but not the same reduction in our cost of goods sold and as well in our operating expenses because the majority of those costs of the structure, they are not that variable in a short period of time.

In the dollar -- if you look to the dollar -- in dollar terms, the prices in the quarter basis dropped 17%. And we compare with the FX movement of 12% higher because we're -- during this Third Quarter, FX in Brazil was higher than recorded last year, which was -- we were in the beginning of the crisis. So the FX at that moment was very low. But even though this 12% increase of the FX not compensated 17% drop in dollar term prices, let's now make the same picture of the year.

In a year-to-date, we are working with 8% lower volumes on total volumes and 22% lower prices in dollar terms, showing here the big impact we are having in the export market. Another important analysis to understand why we didn't change the picture compared to the Second Quarter remains here. When we compare the pro forma figures of Third Quarter '09 compared to Second Quarter '09, volumes, export volumes, was 3% lower. So not a big issue here. Average prices in dollar terms, it was 11% higher. So it was a good movement in terms of recovery of dollar terms prices. But the real appreciated 10%. So at the end of the day, we had a slightly improved in our gross profit.

It was not enough to change the picture compared to the Second Quarter. So that's why we didn't show the recovery that we were expecting back in the three months ago.

Taking a look on the export by region. So this is again by corporate law. So it's nine months Perdigao and three months of Sadia. But it's not different if we could have had the figures on a pro forma basis. So Middle East accounts for 31% year to date '09 to date is the largest market in terms of net sales. And the Middle East was the main focus of the majority of the exporters, not only Brazilian ones. But also other exporters, which is creating a little difficulty to go further in price increases right now.

But the performance is fairly good in this market. Far East, we are talking here about Japan basically. Japan is showing or is proving to be this year a very volatile market, (tough) negotiations, very difficult to close deals in that sense.

Europe, where lies a lot of issues, especially regarding bread, meat. And both chicken and turkey meats. So we are seeing declining inventories. But it's still in the very high level to justify for decrease of prices. So prices are increasing very slightly but not changing losses in that market.

In Eurasia, as you can see, it was a big drop in the relative participation, pretty much because of two things. It was changing the quota system and also the economic, the further impact of the economic downturn of the Russia economy. But we are seeing for the First Quarter next year a gradual recovery on sales of pork in that market. In other countries, here we remark that the positive scenario in Africa.

Now going to the page 14, here is a chart that helps us to understand what is going on in the international market and why it's been tougher to pass through prices in international markets. So looking first in the chicken, as you can see in the bar in orange, we were seeing a very steady growth of both chicken meat production and the chicken trade. And prices internationally were following that movement. So after 2008, what we are seeing is that if we take the two years, 2010 to 2008, we are seeing a flat place but an increasing production of approximately 3%. So in that context, it's much tougher to promote solid increase in prices.

On the pork side, it's pretty much the same figure. And as you can see, production picked up during '08 and is expected to pick up toward 2010 by 3.4%, whereas the trade has been expected to drop 8.8%, although recovering slightly from 2009. So in that sense, we are doing several, several things to change the picture of the international market. But this is going to have -- this is going to happen in a very gradual and slow basis. It's not going to be a rebound of the market as we could expect it.

So now let's talk about the debt and investments. So on page 16, we have the CapEx pro forma year to date of approximately BRL670 million. The expectation for the year is for

BRL800 million of CapEx plus approximately BRL400 million in breeding. And as you can see, the majority of the investment is being made on productivity and optimization projects. And this is going to be the trend for next year as well. We have especially at Sadia that made a lot of Greenfield investments.

We now -- we've created new capacity that is being matured this year and next year that will pretty much accommodate the growth for the two next years with a very small new investment. So that's why the (fox) will be next year also in the productivity to optimize costs and to reduce costs at the end of the day.

So next page, 17, we have the debt profile. So the gross debt, BRL9 billion and the net debt at BRL4.5 billion. So the ratio to EBITDA, it's -- in the pro forma basis, it's coming from 4.9% last quarter to 2.7% this quarter. So we did all the liability management during last quarter. And we have now a figure that we consider to be optimal. So we are keeping in both companies the very best debt profile, the very best debt lines. And a good balance of debt in terms -- in currency terms as also in maturity. So 46% is local current debt, total debt. And 54% is foreign. And 68% is long term. And 32% is short-term debt.

The next page, just showing you how we are trading in terms of volume, monthly traded volume. So in the Third Quarter, we registered almost -- we doubled our daily liquidity to approximately $60 million per day and emphasizing the very good performance of the ADRs.

So by saying this, I'd like to finalize this presentation, telling you what we are doing right now. In fact, we started a very strong program of rationalization of expenses throughout the Company to make our operation more in line while we are getting from our sales especially in the export market.

The second thing, we established a program to promote a real reduction in our costs, especially in the chicken and pork chain, which means to reduce the real cost of both inputs of our industry because we have in front of us two challenges, the real appreciating and the just amount to pass on prices. So that's why we'll focus on the reduction of our COGS. And on top of that, fixing main issues in the export market regarding, as we mentioned, Europe, both chicken and especially turkey. And in Russia, the pork market.

So having said that, I turn to the operator. And we'll be here to the Q&A session. And I'd like to tell that I have here with me Mr. Antonio Augusto, our Export Director, that will help us in the Q&A session. Thank you very much.

Questions And Answers

Operator

Ladies and gentlemen. we will now begin the question and answer session. (Operator Instructions) Our first question comes from Mr. Alexandre Pizano with Merrill Lynch.

Q - Joao Santos {BIO 6691499 <GO>}

Hi. Good morning, everyone. Actually, this is Joao Santos. I just jumped on Alex's line. So actually, my question is regarding the exports market recovery. You have mentioned in the Portuguese conference call that you do have some oversupply on a global scale given the USDA numbers and the levels of (inaudible).

When do you see the start of that recovery? What is the magnitude of that recovery? It is throughout 2010. But should we already start seeing some of that in the beginning of the year because it seems at this point that the industry trend is not changing. So is it clear for you whenever prices are going to start to get back to more reasonably levels, given this over supply that we're seeing at this point? Thank you.

A - Antonio Augusto {BIO 4333817 <GO>}

Well. Good morning. This is Antonio Augusto speaking. Well we are seeing recovery of the market since the beginning of the year. What happened to the market since October last year, the market exchange rate suddenly changes in Brazil from 1.60 to 1.90 toward September 2008. Then it went up, even up. And the prices started to go down because of the credibility of the importers in the market. So we came to the prices down until February.

After February, we started to increase the prices on the market. And we are recovering the prices. For example, in the last quarter we're talking about, the Third Quarter, we recovered the prices by 11% in dollars. Okay? So to recover prices by 11% in three months, it's a lot. It's not easy. Okay? What we have to do is to keep recovering prices during the Fourth Quarter. And I believe to reach a normal situation, we go until maybe March or April next year, still recovering prices to normal levels or levels that we can cover the closer that we have today and also to face the new exchange rates that we have in Brazil.

The demand on the market, it's okay. We don't have a big problem on demand. We are (possibly) good on the market. But also, our importers, they need some time to repass those new prices to their markets. So this is a situation.

We sell, for example, to Middle East the goods. They have to negotiate with the supermarkets again. And they have contracts for that. They have long-term contracts for three months, four months, six months. And they have to convince those local players to give new prices to the consumers. So this is the situation. That's something that we have to do step by step, market by market. Then we can reach by let's say my opinion by end of First Quarter next year to a normal level of profitability.

Q - Joao Santos {BIO 6691499 <GO>}

Okay, Antonio. Thank you very much for the answer.

Operator

Excuse me. Our next question comes from Mr. Alex Robarts with Santander.

Q - Alex Robarts {BIO 1499637 <GO>}

Hi, everybody. Thanks. I'd like to go back to the exports, please. You talk about your interest in moving up the dollar pricing to get into kind of a stable year-on-year situation by 2Q next year. But I'm just wondering when I look at what you've done in the Third Quarter, you've gone up 11% quarter on quarter in your export price. But you've also seen 5% lower volumes quarter on quarter in your exports.

And I'm wondering whether -- are you pushing the pricing too hard because it seems like the volumes, when they get to these negative levels, I mean, 15% down year on year in that raw poultry number.

You start to generate these negative export EBITDA margins, which has this obvious negative operating leverage effect in the whole business. And does it make sense as you look into the Fourth Quarter and early next year to maybe just take the foot off the pedal vis-a-vis pricing and try to get the volumes up over the next couple of quarters particularly in Europe and Japan.

And so if you could comment on how you're looking at really this kind of product mix versus pricing balance that you're trying to do in the next six months and if -- can we assume that -- and this is the kind of second part of the question. Can we assume that the export EBITDA margins become positive once you achieve that year-on-year price stability, like in Second Quarter 2010? Or do you think the export EBITDA margins can turn positive before 2Q 2010? Thank you very much.

A - Leopoldo Saboya {BIO 16137418 <GO>}

Thank you, Alex, for your question. I will start from your second part and then back to the beginning of your question. Yes. We expect that to happen. Also, we will be able to continually increase prices and having the cost stabilizing. I'll give you this rationale. Considering that the FX is flat from now on, just as an assumption for us to understand, we'll gradually have a declining COGS in dollar terms, right, because we have a declining scenario for grains in Brazil. And so cost is coming down in reals. And of course, it's going to happen the same in dollar if the FX is stable from now on.

On the other hand, this slightly improvement of prices market by market, as Antonio Augusto mentioned, being done in a very smoothly way -- it will provide us this to close the gap of our gross profit in the export market. We may return earlier to the positive EBITDA scenario for the export market, even before that if we can be able to get further reduction in the cost. So this is the main leverage for us to really speed up this margin expansion in the export market.

Back into your first point, this volume price balance -- I would say it's a kind of a game, first of all. You cannot work only with one thing. Of course, if you really want to push prices very high, we'll hurt our volumes. Then we'll just postpone the problem to the next quarter. So we need to deal with both.

But of course, thinking as Brazil is the leading export of poultry and is the price (setter), it's fair enough to consider that we'll be able to reestablish our profitability. The issue is that as the currency keep appreciating, we just postpone it quarter by quarter in the stabilization. So when the FX stabilizes and then you are going to have the positive impact of your cost to the next quarter, we can start to work on a positive trend regarding the margins but never giving up of volumes.

The picture you mention, in fact, it's 3% lower volumes Q3 compared to Q2 this year. So it's slightly lower. And this is what we are doing. Sometimes, we just make some strategic inventories. And sometimes we don't. So this is -- as I mentioned before, this is again we need to (play). But it won't be -- the price increases won't be get by sacrificing volumes.

Q - Alex Robarts {BIO 1499637 <GO>}

Okay. That's helpful. Thank you. And just the very last thing, you talk about demand not being a problem in your export markets. Okay? And -- but you refer to two specific things. It would be great if you could give us some more color here. You talk about in Europe some issues with breast meat. And I wonder if -- I mean, are we seeing increased competition from the United States? I know that ammonia-free chicken from the United States has kind of been increasingly entering the import market there on the poultry side.

And secondly, you talk about kind of just the difficulty in closing deals in Japan. Is this a competitive issue? Is it a financial credit issue? And if you could give us any sense in these two key markets, EU and Japan, as to when do you think we get into more of a normalized market situation, that would be helpful. Thank you.

A - Leopoldo Saboya {BIO 16137418 <GO>}

Okay. I will start. And probably Antonio Augusto can add something as well. In Europe, we are not having competition from other countries, though from the local production especially. So of course, Europe, it was one of the regions most effected by the crisis. And the consumption, as you know, they react much more -- much faster than other regions. And the recovery of the market is (inaudible). So what we have in that market is a very gradual recovery in the import volumes and prices.

This is something that we are in the middle of a negative cycle, a downward cycle in the business, as I mentioned. And the white meat business in Europe that is taking place throughout this year and a part of next year. But there is no issue regarding competition. It's specifically in Europe.

In Japan, also, is not an issue of further competition from Thais or from Americans because pretty much it's a market for -- where Brazilians dominate the raw chicken market. And the Thais, they dominate the cooked market. What is happening there? First of all, a very -- economy that has suffered from this turmoil. But on the other hand, inventories still -- seems to be still high, not helping to boost prices in the short term. So this is -- you probably remember that we had this situation in other quarters back in 1, 2, or three years ago. This is what happens from time to time in the Japanese market. But this is not an issue that should remain for next year.

A - Antonio Augusto {BIO 4333817 <GO>}

Yes, I believe Leopold said everything about this. But I just could add that today the markets, for example, we don't have very high stocks in the market. If you go to Middle East or to Japan or even to Europe, the stocks are (inaudible) normal levels. So this is not a big issue. What is happening to Brazil is that we are being limited in Russia by (inaudible). So this is the problem that Leopold mentioned before about the limitation we have today in poultry in Russia.

And for this, we are looking for new markets. We are (inaudible) new markets. We are going for Eastern Europe, for example. And developing markets that previously we are not giving any special attention to this. So we need some time to develop some of those markets, to develop the (inaudible). Then of course, with the power of competition that we have in Brazil, we're going to recover the volumes and the margins to the normal levels.

Q - Alex Robarts {BIO 1499637 <GO>}

Okay. Thank you.

Operator

Excuse me. Our next question comes from Mr. Alan Alanis with JPMorgan.

Q - Alan Alanis {BIO 15998010 <GO>}

Hi. Thank you. Thank you for taking my call, my question. I want to follow up on this last comment regarding the Russian exports. I mean, I'm seeing in your press release that year to date in 2008 your exports to Asia pretty much represented 15% of total. Now they're at 10% of total. And we know that the quotas on Russia will continue increasing. So where do you see the Russian exports as a percentage of your total going into 2010? That would be my first question.

A - Antonio Augusto {BIO 4333817 <GO>}

Well in Russia, we have three or four proteins. I don't believe, for example, for the beef Russia will limit to the imports in the future because they don't have much capacity for growing beef in Russia. So I believe Brazil will be predominant in this market in the future. In turkey, turkey still has more business in Russia. But we are not depending on that. We are focused on selling out turkey, for example, in other markets, like Europe.

Then chicken, we are quite limited by the quotas in Russia. The Brazilian quota today is a very small quota. But we have a lot of options, for example. The potential of selling the legs in Africa or selling the legs in Middle East or even in Americas, for example, is quite good. So we can diversify those markets and to escape from Russian markets.

What is really a trouble for us is the limitation in the pork quotas in Russia because Brazil is selling something like 40% to 50% of the Brazilian pork exports to Russia. Then we are being limited by quotas and also the extra quarter volumes is paying a higher import taxes. So this is the problem that we have today. And that's why we commented before that we are looking for new markets and diversifying the client portfolio in our forecast for this quarter and for beginning next year.

Q - Alan Alanis {BIO 15998010 <GO>}

Is it fair to assume that with these quotas increasing that the price increases, particularly in chicken, that you have implemented so far cannot go much higher in dollar terms in obviously the Fourth Quarter but coming into 2010? In other words, you don't see much higher prices in poultry as the ones that you reported in Third Quarter in 2010.

A - Antonio Augusto {BIO 4333817 <GO>}

Well I believe the biggest increase we can get in prices is in the pork prices. Okay? And chicken prices, we still can get increase on the prices. We are still working in lower levels that we have worked last year. But in chicken, as Leopold has commented, the biggest part of the recovery of the margins, we're expecting (by post). So it's a combination of levels. Okay? We have in some proteins, we have to recover much more the prices.

On other proteins, we have to recover a little bit. Then we have also to recover by the reduction of the cost. So this is a combination of many things that we have to do. And also, we have another policy, like developing new clients, developing new portfolio. It's a very tough and a very long, very organized job that we are doing for recovering to get it to the normal levels again.

Q - Alan Alanis {BIO 15998010 <GO>}

That is useful. Now just a couple of very quick questions for Leopold -- in the domestic market, are you continuing to see the similar trends? Or are you seeing any change now that we're halfway through the Fourth Quarter in Brazil throughout your different business units?

A - Leopoldo Saboya {BIO 16137418 <GO>}

The Fourth Quarter is historically our very best quarter regarding the domestic market because we have a much richer portfolio due to the Christmas time products. And especially this year, we are quite positive for the Christmas time. So we hope to have a better year compared to last year Christmas time products. So this is something that we are on track regarding sales prices.

The good thing is that we don't need to pass on prices because of food inflation, different than the scenario of last year. We had a very important increase on cost of the Christmas time products last year that we needed to pass on the trade. And this year, we don't. So that's why we hope to increase both volumes and having costs more adequate. We can keep prices and have even more profitability in the domestic market for those products.

Q - Alan Alanis {BIO 15998010 <GO>}

With that in mind in terms of that increased profitability, what are your expectations in terms of EBITDA margins for the full year '09 and full year 2010, Leopold?

A - Leopoldo Saboya {BIO 16137418 <GO>}

We don't have expectations for next year. We're still dealing with our business plan. And for this Fourth Quarter, a lot of -- the results will largely depend on the way it's going to perform prices in the international market and, of course, the FX. What I can tell you is that because of the export market, it's not going to be a traditional Fourth Quarter of the industry. So margins stay below what we -- what both companies were used to have in the Fourth Quarter. This is all I can tell you.

Q - Alan Alanis {BIO 15998010 <GO>}

I got you. Now last question, when can we get full pro forma quarterly financials for the combined entity so we can create the new models?

A - Leopoldo Saboya {BIO 16137418 <GO>}

We will work on that, Alan. And from the both companies, we will provide you kind of from this to that. And this is on a pro forma basis and preparing you for the Fourth Quarter what's the pro forma results we are going to compare to and to help you to modeling. In fact, the modeling issue is not a big issue in the first hand because companies are pretty much equal. So this is why they are not different. But of course, we will be here to help you to understand the little differences.

And we also compound your understanding that we have limited figures of Sadia. We have only the corporate law. So we don't have all the details regarding results. But of course, we'll be absolutely available and open to discuss with every of you to help in your modeling to understand the pro forma and future -- and the combined results in the future. Okay?

Q - Alan Alanis {BIO 15998010 <GO>}

I hear you. It would be -- I mean, it would be extremely useful if you could at least give us the reconciliation and a description of this law 11.638 that you refer to.

A - Leopoldo Saboya {BIO 16137418 <GO>}

Okay.

Q - Alan Alanis {BIO 15998010 <GO>}

I had the same believe that the combined numbers would not look very different. But if we look the Third Quarter results of last year, the EBITDA, the way the two companies reported and we see the numbers this year, the decline is more like 50%. Yet with the adjustment that you did in the law, the decline only looks like 14%. So I think that the difference is very material. So if we cannot reconcile that law 11.638, it's very, very hard for us to make proper projections going forward.

A - Leopoldo Saboya {BIO 16137418 <GO>}

Sure.

Q - Alan Alanis {BIO 15998010 <GO>}

And get that valuation.

A - Leopoldo Saboya {BIO 16137418 <GO>}

But first of all, the adjustments were just made in Sadia for the pro forma basis. We did the pro forma to help you. We didn't do the performance to present a different result. Our corporate results are those that you can find at the CDM. We haven't changed. We just did this to help you to analyze. Of course, when you present a pro forma basis analysis, we need to follow rules. But we recognize that there are some difficulties to understand the reconciliation. And we are going to present as soon as possible this reconciliation while the changes we needed to do in the pro forma of '08 to compare with this quarter. Okay?

Q - Alan Alanis {BIO 15998010 <GO>}

Fair enough. As long as we have clear the kind of changes that you did in order to help us, which is the question that I had, that would be highly appreciated. Thank you.

A - Leopoldo Saboya {BIO 16137418 <GO>}

Okay. Thank you.

Operator

This concludes today's question and answer session. I would like to pass the floor to Mr. Saboya for his final statements. Thank you.

A - Leopoldo Saboya {BIO 16137418 <GO>}

Thank you. And I'd like to reinforce all that we mentioned in the Portuguese conference call, which is confidence, confidence that we have for the future of this company, what we are creating, what we are getting to be a tremendous company. We are now fully focused on the integration plan as well on these recovery plans to show a much better picture to back to what used to be both companies on a standalone basis.

We recognize we are under a tough moment of the industry and also with a lot of adjustments after a very serious crisis that took place last year but affected all the chains. We have -- it's important to remember we have a long chain that we have a very big lead time from the impact we suffered until the fully recovery. And I'd like to thank you and hope to see you on the next conference call next year. And I'd like to wish for you a very good Christmas time and happy New Year. Thank you very much.

Operator

The BRF, Brasil Foods S.A., audio conference call is over for today. Thank you very much for your participation. Have a good day. And thank you for using Chorus Call.