Q4 2011 Earnings Call

Company Participants

- Leopoldo Saboya, CFO, IR

Other Participants

- Alan Alanis, Analyst
- Consuelo Baraona, Analyst
- Rebecca Fermento, Analyst
- Rob Pflieger, Analyst
- Tim Tiberio, Analyst
- Wesley Brooks, Analyst

Presentation

Operator

Good morning. Welcome to BRF, Brasil Foods S.A. Fourth Quarter 2011 conference call. This conference call and the presentation are simultaneously transmitted via webcast in our website at www.brasilfoods.com/ir. At this time, all participants are in a listen-only mode. Later, we will conduct a question and answer session. (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 change, economic conditions of the country and the sector and international markets. Thus, are subject to changes.

As a reminder, this conference is being recorded. In this conference are Mr. Jose Antonio Fay, Chief Executive Officer and Leopoldo Saboya, Chief Financial and Investor Relations Officer. I would now like to turn the conference over to Mr. Fay. Please, sir, you may now begin.

Leopoldo Saboya {BIO 16137418 <GO>}

It's Leopoldo speaking. First of all, welcome everyone and thank you for being here to participate in our earnings call. So let's get started.

And before we follow the presentation, I'd like to emphasize into some aspects of the year we had. And we are very glad to present to you a year that we considered to be a great year for the Company and not only for the quantitative aspects. But also qualitive aspects regarding everything we did, everything we had. And especially those results we consider to be great despite the challenging scenario we had during -- throughout the year with the different aspects. Some external ones and some internal ones.

I would just point out (someone's) we've been suffering from a bullish scenario for both (inaudible) and other raw material costs as well and labor costs. So upward pressure during pretty much all the year.

Also, our currency, the real, appreciated approximately 5% compared to last year. And we had economic downturns in several economies, especially in Europe. And some other geopolitics turmoil. And in the Middle East the so-called Arabian spring that although it didn't affect the year as a whole. But just a part of the Fourth Quarter has been impacting our results right now. And helps to explain why we had a Fourth Quarter under or below our expectations. Still good. But below our expectations.

So on slide three, we -- it's pretty much what I just said. But now just pointing out some other qualitative good things that we had last year. So the formal merger approval happened only in July. So on top of those external challenges, we've been running the Company under several restrictions pretty much until July having other uncertainties of the final (inaudible) that was positive, as you know. But we could just merge the domestic operations by September on when we had finalized our integration and upgrade of the IT systems, which is crucial for us to build the only one Company to be managed from our (inaudible).

Also, we did and we -- what we said we would do regarding our international expansion. So the -- some selective acquisitions in Argentina, a JV in China and a Greenfield project in Middle East, specifically Abu Dhabi, to -- that is pretty much be -- is we are starting to build and to advance things there. So we are very pleased to show those advancements that we did absolutely in line with our strategy and in line with what we said we would do.

So moving ahead, looking to now the (coupling) our results into the main aspects of the earnings segment, we have here on slide four a good -- or let's say very good growth of top line, representing 13.3% in a year-over-year, which represents BRL3 billion of absolute growth in a year-over-year. It's pretty much based on prices, 11% prices up and 2% volumes. So -- and this volume small growth is pretty much explained by the export market that didn't grow. It was regarding our strategy to focus on the profitability and not on volumes in the export market.

Moving ahead, we have year -- the 2011 results. So when we look all the metrics, they are positive compared to last year. And when we look to expenses, that is not presented here on slide five, we had a saving of 40 (bps) in our SG&A despite the merger expenses that were around (BRL140) million or 60 basis points in all the year. So we could save as well in this line during the year and also help to present such a great result in our bottom line, which I would emphasize the increase in our net income of BRL778 million that we presented as a net income increase compared to last year.

When we put into perspective the results we had last year, into the last five years, we can see as well that it was a great result, both in margins -- EBITDA margin as well the cash margin comparatively to the former years.

Now the earnings per share as well it was very positive, very high, almost the double of last year. So as well we are very pleased. And we distributed as dividends BRL632 million last year in total.

Now, having a look to the Fourth Quarter of the year, there are here two main aspects to be highlighted. First of all is that last year Fourth Quarter was pretty positive. It was a quarter where we were able to anticipate passing of prices during -- throughout the quarter. So we were in advance of -- in our pricing strategy compared to the impact of costs that we would suffer in a couple of months that had that in fact happened throughout the year. But we were able to anticipate and that helps to understand why we had such a great quarter last year. That when we compared to this year in terms of EBITDA, showed these 200 basis points below.

But first of all, looking to the EBIT pool, we pretty much had the same figure or only BRL39 million below last year. And these 200 basis points below last year, it is more or less split in half regarding the gross profit and half regarding the SG&A. And when we look -- according to markets, or the main business that we operate, it is fully explained by the extra market. When we started to suffer a very tough environment in specifically two main markets, which is Middle East and Japan. So we had pretty much by October on. But precisely now the results in November and December a sharp reduction of prices in those two markets that affected our results in the Fourth Quarter.

Just so you have an idea, in terms of cash margin pool, the impact of the export market itself, on the Fourth Quarter it was almost BRL100 million negative comparatively to last year. So when we see this BRL39 million reduction, we can see that the other markets were positively -- contributed positively to the bottom line results on the Fourth Quarter '11. I will get more details when we enter in each segment in each business in the next slides.

Just to put into perspective at this Fourth Quarter, in the last four years we can see here that of course the Q4 '09 is an outlier that we can conceded, as well Q4 '08 was on the highest margins that the Company had. So 13% for us is in the average of our performance of this Fourth Quarter. Again, although below our expectation that we recognize that. But it's a quarter is still positive with a very positive cash generation that it contributed to our cash generation of the full year.

Looking to the -- our financial position, we keep on a very solid balance sheet situation. So when we compare the Fourth Quarter last year to the Fourth Quarter '11, we can see this marginal increase in our average. And it is pretty much explained by our new projects or new acquisitions. We did some more advancement in working capital.

But in the short-term. So from the Q2 '11 to Q4 '11, this increase on the leverage is explained pretty much by the real devaluation that it affects our net debt situation because of the balance between the FX, debt and cash positions. But this is of course all of this has nothing to do with cash expenses or things like that. But only the net debt that is higher due to a higher FX in these six months comparatively. But bottom line is that we are running a Company in a very comfortable situation regarding leverage and regarding the portfolio of the debt.

So now let's move to the business performance. So before we enter into more details on every business, here on slide 12 I would like to emphasize first of all that we are pleased to share with you a more segmented market distribution according to the way we manage the Company. So these four business units, they are the ones that have in a specific VP looking after each one of those. And they are the ones that we understand is the right way to present results and also to manage the business as it is.

So by domestic market here is that -- I would say that a better way to translate it would be the traditional retail in Brazil, right, excluding dairy. The second main market is the export market, excluding what we do in food service and dairy. And the third is the food service itself that it's of course includes Brazil and international market, being Brazil the most relevant part. And dairy includes Brazil and international market. And international market is a trace thing for dairy specifically.

So on the left side of the slide, you can see the breakdown in terms of net sales. So of course, the mainstream -- our export market and domestic market. So no news on that. And but the other categories, dairy and food service, they gained participation in the last few years on the total. And they are the ones that we understand is going to grow faster than the traditional ones.

So now moving to the domestic market, let's take a look of the end (inaudible) results. So we had in our vision, in our view, in our opinion, very good year. So volumes up 5.2% and the price increasing 8.6%. So total revenue raising 14.3%. And the EBIT growing 50 basis points comparatively to last year.

And here, it's important to remember that until July, we were forbidden to merge even procedures or figures between the two teams. But although we had the approval by July last year, we could only start to operate unit five process by September on when we finalized our IT implementation. So that's to say that there is here no gains or no positive inflows regarding the Company itself. The Company operating as a unified Company.

And on top of that, remember that we have been since July working and adjusting the full (inaudible) launches of products and several things preparing the Company and preparing the domestic market for the impact that the TCD will occur in the Company. So the message is that we are working far from our potential.

Just some highlights on the Q4 '11. We had quite a positive Q4, although it was, as I said before, in the domestic market, below our expectations. But they were not below the average or pretty much all the other retailers and industries faced in this Q4 '11 in Brazil. What I'm saying is that the traditional food retailers in Brazil grew 4% year-over-year comparatively to the 9% growth that this segment had in 2010. And this 4% is below inflation.

So as the food as a whole were operating last year in a very high level of prices, we faced some difficulties to move volumes and to increase our profitability in the domestic markets. But bottom line is that we could, despite those -- despite that scenario, we could maintain the same profit pool in terms of EBIT in the quarter. But having a drop in our EBIT margin.

Volumes grew 3.2%. But in profits, volumes grew 5.1%. In terms of prices, we had an increase of 4.2% in overall domestic market. But in the category it's more important that it's process we had a 7.1% growth on a quarter-over-quarter basis.

So talking about our domestic marketing strategy, we bring here on slide 15 just the very same strategies we presented in our last BRF day or earnings call that we -- that the former one, where when we presented the overall strategy for every business. So here is what we are doing. So we are consolidating our current domestic business and taking into account not only the merger of the two portfolios, the two brands and two processes and so on. But also taking into account everything we had to do to mitigate the impact of the TCD execution.

Of course, we are focusing on the share value and also having inside the Company a very robust program of excellence in services. This is something that of course in the Company that is under a merger and is -- and especially under an (inaudible) of ERPs. It's normal for you to keep an eye open on that thing and we must be -- and we have to be the best in service of the market. And we have things that we have opportunities here to go further. And we are advancing not only IT but many aspects regarding what we can do better in that sense.

And innovation as well as a very important lever for the Company looking forward. And we are doing that. I will show you in a while how many new categories or products we launched last year.

So moving ahead, in terms of dairy business. So dairy is another category that we are -- and we had last year as it was in (inaudible) year. But frankly, dairy just started to be fully incorporated in the mainstream of the Company by mid last year. And we are still working on that. Something is still missing regarding the logistics. But we have this implementation of our (inaudible) technology and infrastructure to be able to handle 100% of the full portfolio of the Company, including dairy.

In here it's -- I suppose you remember that this segment used to belong to the former Perdigao and after the merger, we were in the middle of that process. And we pretty much set aside this stake, waiting for the full consolidation of Perdigao and Sadia to put again these on spotlight. And we are doing that and we are very keen on this business and we fully believe that we'll do this turnaround.

When we look at the numbers of the Fourth Quarter and the beginning of this year, it's starting to show a positive trend. Although we still facing challenges in the scenario of high costs of milk and some other pressures in the market. And not to say the structure of this market itself in Brazil, which is negative because it's very fragmented. And also swings a lot, our results in the food milk business, precisely the UHP.

It helps to explain why we reduced volumes in a year-over-year basis, because we are going to a strategy to reduce marginally our volumes on this UHP business. But focusing on more process. And that to explain why we are investing so heavily in the (inaudible) business that we are very bullish and we are very keen on this new -- not new business. But let's say the new -- what is new in there that we are investing heavily and putting the best we have.

So we launched the Sadia and mozzarella and Queijos Prato in Brazil. And it's running and going very, very well. So we must be positive with that going forward.

Moving to the strategies of this business. So the first one is exactly what I just mentioned to you. We understand that this category cheese will be as strong in that and as profitable as ham is or now -- or be nowadays as bologna and sausages -- the sausages itself. So it is a big segment and we understand with this strategy we will be the leader and -- of this category in the next few years.

The second dairy part of things is exactly what I just said. The full synergies with the main distribution is something that we are coming across as something that is now happening in a step-by-step way in this year. But is key and is crucial for us to put the dairy inside -- really inside the Company.

Here just on the slide 19 is just showing to you some new launches and campaigns. So this cheese campaign is exactly what I just said. Now we should move to food service, right?

So on slide 21, we can see this business that used to be a previous time of the Company just a channel. But now we reorganized that as a business having a dedicated people, dedicated sales person. We are building as well a dedicated logistics and a national (inaudible) process to take care of business that we are very optimistic going forward. And also very pleased with the current results.

When we look to 2011 results. So volume grew 14.7% and prices 4.3%. So total sales. So net sales almost 20%, which is more than the average of the market we're going to see in the next slides.

In terms of EBIT, we had also a very robust increase. So just some more highlights on the Q4 '11, that is not a (inaudible) presentation. But I will highlight now. Q4 volumes grew 16.3%, price minus 5.3%. But profitability increasing 160 basis points. So there is a very important mix of facts. Although as I said, we had a drop in prices on a quarter basis, this is pretty much a mix of facts and the profitability went up a lot.

Talking about the strategy of this business, I've already anticipated. So we are building a dedicated supply chain to focus on specific needs that all the clients have. Maybe here it's important if I give the wide, say many for food service for us or say for the market, or how we see what is food service at the end of the day?

So here, a usual way for us to understand what food services stands for is everything that the consumer eats out of home, that is transformed out of home is this business. So the main clients of the food service, they are restaurants, food chains, fast foods. Also catering is in this category. Government acquisitions. So many other small restaurants, small say transformers that they prepare other types of (stuffs) with our products. The so-called pizzeria of the year in Brazil that they are very traditional, they are the type of clients that buy strong from us.

So we must segment our service model because everyone of those type of clients they have different needs. They have different expectations and they really pay for service. And that's why we are investing a lot, not only in the food part of the business. But on the service part of the business.

Here on slide 23 is to show the good potential of this market. This is in (inaudible) growth that shows a CAGR of 15% in the last 10 years. And we are growing as a Company higher than that.

And looking in the low on these, the outside eating, the eating outside home is the share of the overall (inaudible) with food has increased a lot, especially from the period of 2004 until now. So growing at 5% points in this year.

Now export markets. On page 25, we start by our overall look at the international activity. As I said in the beginning of the presentation, overall the year was very positive for export market. But with two main different moments.

First half very positive, Third Quarter still positive. But I would say more neutral. And Fourth Quarter more negative. Is where two out of the three markets we saw definitely a sharp drop on prices that affected our profitability in these segments and also explains fully the results we had in the Fourth Quarter last year. But back into the year itself. So we had a growth in net sales of 12.3% based on price pretty much.

Now looking to the EBIT, we increased in almost 200 basis points our profitability, which is -- that's to say that 2011 results, as a year was very positive, especially when we compared to other years.

But on the Q4 '11, we had a drop of approximately 330 bps comparatively to last year. And it represents more or less BRL100 million of EBIT reduction in the Q4 total EBIT.

Now analyzing every market, we start by Middle East and Far East. So in Middle East, we consider we had a very good performance despite the geopolitical issues that I mentioned in the beginning of the presentation. So we focused pretty much all the year in protecting our profitability. That was pretty much successful until September, October. And when we started to see prices collapsing in a very fast way.

We are now starting to see prices hitting the (inaudible). Market is still over -- even (inaudible). But we understand that having Iran reopening for us and other markets recovering, we expect that the Middle East should be back to a normalized business by mid this year.

Far East, again it was very outstanding growth regarding net sales, 21% of growth. So Japan was very, very positive, very profitable throughout the year. But remarkably going the first nine months of the year and after the main traders and distributors making substantial inventory prices tried to reduce again in pretty much September on. And also contributed to for the negative quarter we had in the export markets.

How we are seeing Japan (inaudible) we are starting to see prices returning little by little. And the only way to correct that is to push down volumes that we did in these two first months of the year. And we understand that by June this year, the inventories there will be fully back to a normal situation and prices (beginning) to normalize as well.

So what I'm saying on -- as a summary is that we are facing an adjustment of the market. And something that is not new, something that happens from time-to-time and something absolutely doesn't change our strategy and our potentiality and everything we are doing. This is the type of volatility that we have in our external business that we know how to handle. And we expect and we fully believe that we will end this correction stronger than what -- how we entered.

And that's exactly what happened in all those types of adjustments that we can back in the past that happened that way. We as a Company ended up benefiting from those adjustments because we are -- we consider to be the best -- to have the best positioning in the market with a local presence, with brand distribution. It's starting to show a differentiation in the way we can protect.

Of course, when we have such a heavy movement like we had in Middle East and Far East, it's natural to be proactive, especially when we compare last year how we were in this First Quarter last year.

Moving ahead, we now see Europe and Eurasia. Although we -- this drop on volumes of almost 18%, it was planned. We are making substantial adjustment in mix and also being very -- limiting our presence into the (global) system. And it's not by chance that it helped to boost our profitability in the European market and despite all the economic downturns we -- the market (inaudible) downturns of say that we faced. It didn't affect our bottom line in this market. In fact, it was the other way around. We had in 2011 better results than what we had in 2010.

So the strategy is that one to keep on moving to more (inaudible), to offer solutions for our main clients in not only (inaudible) chicken breasts and turkey breasts.

Africa is a market to be highlighted. For the growth it is being presented. Tiny growth on volumes but on the other hand, very sound growth on prices and total sales. It's a market that we are focusing on the opening of new markets, new countries and establishing our indirect distribution. And that's absolutely the way we start business.

Study from the basics and going from that point on and what exactly what we are doing. So these results has to do with a better mix as well. So Africa tends to be a market that will have important growth in our future. So this helps to show the short-term results that we are pretty satisfied.

And here LATAM, while LATAM here is pretty much Argentina. And after the acquisition of Danica and Avex of course here the figures grew a lot in terms of both volumes and revenue. But because we did -- we had one quarter, that is the fourth, where we consolidated those new ventures into our results. And they are not in the figures of 2010. So that's why part of this big growth is due to those acquisitions.

So now and into the end of our presentation, it's important to emphasize that on top of everything we did, we kept a total focus on innovation in the Company. And we understand this is a very important lever of growth and profitability going forward, especially in the domestic market where we have already a very dominant position in the marketplace.

So the total launches in the year is almost 300 new products being say 200 or a little less than 200 in the domestic market. So it's something very important to emphasize that the Company is doing a lot of things to be a leader of the market, not only in Brazil but internationally as well.

Here follow some examples of just past of the slides. So on 31, here are some Christmastime products, new launches. Next slide 32 shows the cheese launches through the Sadia brand.

On slide 33 we will have a very successful product under Perdigao brand, which is the so-called Meu Menu, which is My Menu. It's for singles or even for individual portion of pastas. That's -- we are very, very satisfied with such a product. Hot dog and (inaudible) and things like that. Those are just a few examples of everything we're doing.

We've got investments. Our total CapEx was BRL1.2 billion that is split in optimization, productivity and new projects as you can see. So a very important amount was invested in optimization and productivity. Things that we consider to be very positive, not only to the capture of synergies and maintenance of those synergies in our results. But as well to see new gains going forward.

New projects, they are pretty much related to the organic new capacity for us to put up with the coming growth of the Company. And these new projects tend to be -- tend to grow now in 2012.

So on last of the slide you can see here the total CapEx that including the (inaudible) system. So you see also on the bottom of the presentation the CapEx ratio, which is pretty much in line what we did in 2009 that could be considered more normalized year.

And also the BRL260 million in investments in acquisitions. BRL200 million of those, they were external and pretty much BRL60 million in Brazil related to the participation of Heloisa, the cheese company in Mato Grosso do Sul.

So those projects, they are the ones that we announced at the close of the year. They are the ones you have been following. So we are moving. We are moving forward those projects that they are very important for us to consolidate our strategy abroad.

And again, every time we see those swings, this volatility in international markets, it's -- in our vision it proves that we are having the right strategy that is to localize more and more our operations outside Brazil. That's the only way for us not only to protect margins. But also to reduce the volatility that is absolutely in (inaudible) to this business -- to this mid business overall.

And another point on that is that we are seeing not only the volatility is something that is showing different aspects nowadays. They are not being more frequent as they are being more -- they are showing more wide and more sharp movements, not only in -- with cultural commodities. But also other types of commodities. This is the new trends that we understand that they came to say. But for us, we are fully prepared to face this type of volatility and we know how to handle that and we tend to live stronger at this period than the majority of our peers.

In terms of synergies, just to show you exactly what we expected. So talk of synergies or net synergies, they came in BRL562 million. So absolutely according our guidance.

And here I leave a message regarding 2012 as the very last slide of this presentation. Which is to say what are the main priorities? So what we are doing in 2012 moving the Company towards our strategy and the Company that we want to build.

So first of all, we have several paths to consolidate our merger. So we have to execute the TCD and also take into account all the impacts this thing will and is already happening. We had to keep on tract of the synergy gains and also the maintenance of those synergies in our results.

In terms of domestic market, we could here put many things in what we are doing and what we have to do. But we just point out our capacity to folks on the level of service we are working and we understand this is something that for both retail market, full service and dairy business, they are absolutely key for us to play in through our distribution and branding business in Brazil.

In dairy, cheese, as I said before. And we have this work that we are already working on to integrate full integration with the core business of the Company. And the revitalization of

Batavo brands.

International, we have to integrate the business in Argentina. Here it is important to clarify we are doing a merger in there because we will merge pretty much for business (inaudible), which is the (inaudible) existing businesses, the OpEx Danica and the quick food process lines into only one Company. This Argentinean Company will have after this full merger process will have a total turnover at around $600 million by 2012, just for it to have the magnitude of this Company that will be one of the largest Argentinean food makers in a couple of months.

We have to build a new plant in Abu Dhabi. So we're putting all the (inaudible) on that. And also to continue to analyze the opportunities moving forward.

Having said that, I will turn to the operator to listen to your questions. Thank you very much.

Questions And Answers

Operator

(Operator Instructions) Wesley Brooks, Morgan Stanley.

Q - Wesley Brooks {BIO 16407564 <GO>}

So just on the exports, can you give us an idea as to what caused the excess inventories in the Middle East and Japan in terms of was it mostly too much imports from Brazil earlier in the year or have you got -- have you seen new product from like the US or Thailand or anything like that?

Then also, along the lines of China potentially bringing up more -- taking up more volumes, can you give us an idea of how margins and pricing in China of exporting to China would compare to those other regions like the Middle East please? Thank you.

A - Leopoldo Saboya {BIO 16137418 <GO>}

Thank you for your questions. I will try to give the main reasons that we see why it happened. So first of all, let's analyze Japan.

Japan, if you remember, after the -- all the difficult space by the country with the tsunami and the things related to the radiation issue, the Japanese itself, they started to run in a very conservative way. So building inventories. So they aggressively started to buy from Brazil, paying very good prices. It was the scenario through all the first half of the year.

So after normalizing and the consumption pretty much stabilizing, we started to see this over -- not over inventory situation, it was -- it is now but from the pipeline, especially the Brazilian pipeline, was full and comparatively to the situation of the country and the inventories of the main wholesalers and traders at that moment.

So when that happened, it simply changed their behavior to a hand to mouth acquisitions. Like they started to skip months or skip weeks in terms of shipments, which is absolutely bad for a business that is based off a flow as we have. As you know, we have a very long supply chain. So every time you have those interruptions, it's very bad because you have a product that was made -- was tailor made for a specific country that you have very little adjustments in the short-term what to do with them. Of course we did several things. For instance we stopped cutting (inaudible) to (inaudible) to other countries. But itself, it's bad because you are selling a bond lag to a second or third tier market, which are much lower prices.

I wouldn't consider it that what has spoiled the market was American export to other places. It was pretty much the situation of the market combined with the Brazilian exports.

The Middle Eastern situation is pretty comparable with that. But with a different aspect. First of all, the geopolitical problems faced by the Saudis on First Quarter last year they didn't affect right away our volumes. But marginally, what happened was that important markets like Egypt, Syria or Libya, they simply stopped importing. They are not that crucial for us, for Brasil Foods. But they are countries that many players they use as kind of let's say an alternative market.

So when you have those doors closed, what happens that people turn volume to the mainstream of the market, which is KSA, the Kingdom of Saudi Arabia. So this has started to happen, as I said, by from the third to Fourth Quarter. But by middle of Fourth Quarter, it was where a lot of volumes were dropped into the Saudi markets.

And on top of that, if you remember, by September the real big devaluation in the very short period of time and of those volatile but maintaining in the level of 180 or 185 or something like that, which were at that moment much better than the 160 or even below that level that had been the reality so far. It created an important incentive for many players to shift volumes to exports. And what is the easiest way for you to do the griller, which is the whole chicken, is exported to the region.

So when we put everything in the same place, we understand why the market from a pretty short period of time started to be flooded by the volumes coming from Brazil. They came from other regions, yes. But I would say that predominantly came in from Brazil and right away prices suffered and the traders and other wholesalers in the Middle Eastern market started to react and to simply to work on a hand to mouth basis. That's pretty much the scenario and what happened this year.

Q - Wesley Brooks {BIO 16407564 <GO>}

Would you mind commenting on the thought about China too, please? Just how the prices and margins look in China versus the other regions.

A - Leopoldo Saboya {BIO 16137418 <GO>}

Okay, sure. Sorry (multiple speakers). So nowadays China still represents very little in our total exports. It's less than 3% of our total export revenues. And it's still with a very, very simple mix. By that I mean parts, wings and some other stuff that they buy so far. They are starting to buy pork meat. But it's still very limited volumes. But the perspectives are great, looking to -- especially looking to the long-term.

With this JV, we are very positive because we intend to start to move volumes and apart from this very poor mix, let's say. So because this Company has an up and running distribution system. And also can -- we can lever that positioning, putting more products in the market. But of course with the Chinese market we also need to understand and to care that it is a market that is very controlled market. And very controlled by the state government that will of course pay a lot of attention in our movement.

In terms of profitability it's very soon to anticipate what kind of changes can we have. It will largely depend on how fast and how -- and with what type of mix of products we can move within this JV. Because putting apart the JV, the mainstream market, which is -- where it's that very simple product of chicken and very timed quantities of pork so far, again although we are very positive of the future of this trading flow to China, the short-term's going to be very shy or very loaded.

Although something is structural changes and they decide to import a lot from the Company. But make no mistake, we are very keen on the market, we are very positive on the potentiality that the Chinese market will (inaudible) and represents at all for us. And let's say it's a -- actually the type of thing to wait and see before we can give more, let's say, good news on that. And you are positive. But we still don't have facts to show what is happening. But as long as we have, we will be pleased to share with you.

Operator

Alan Alanis, JPMorgan.

Q - Alan Alanis {BIO 15998010 <GO>}

If we make the following assumption, I mean I know it's debatable what's going to happen with the export market. But let's assume for a moment that it remains at the levels that it is right now. Maybe it improves like you're suggesting. Maybe it does not because of Russia increasing its production and other things. But if it stays at this level, how much pricing do you need to take in the domestic market in 2012 in order to at least keep your margins stable year-over-year?

A - Leopoldo Saboya {BIO 16137418 <GO>}

I do understand your question. But I -- unfortunately I think it's -- I cannot answer because it this is -- I will either have to make a map on that. But even think on, in terms of -- practical terms, that's not the way we correct things when we have those volatilities or swings in the market.

The export market must be adjusted or must be fixed into the export market. We have limited capacity to keep on putting prices on the domestic market. So we make up for the international. Although we looked at the Company and we tried to find ways to enhance the profitability in the short-term to compensate that, yes, we do in everywhere, in dairy, in food service, in domestic market, in expenses, everywhere in every corner of the Company. But we cannot seem to put prices on the domestic market to compensate (conjunctural) things. Why is it conjunctural? Just look to the past.

We have those types of swings. They are part of the business and they -- in the First Quarter, the situation will be even worse that at fourth because we will have the full impact of those negative things of the Middle East and Japan in the full of the quarter, right? But now we're looking onwards. We see a third -- a Second Quarter is starting to show the inventory situation. And the second half of the year, although we have limitations on our (inaudible), that will be pretty positive. Especially because after those -- this type of situation, we tend to see the market reacting as -- I wouldn't say as fast as it dropped. But tend to react positively.

Especially if you take into account (inaudible), the total production for the pipeline of the world in chicken is not full. We don't have -- if you look to the figures of Brazil, United States and other markets, if you see the margin now grow in production, it is very, very low. It's a short-term correction in our bill. So as I've said before, we are doing all of the measures to compensate that in the short-term but practically it's -- we cannot do that via prices in the domestic market. We go on the limits that we can.

Operator

Tim Tiberio, Miller Tabak.

Q - Tim Tiberio {BIO 15194568 <GO>}

You've got a lot of moving parts and asset swaps and acquisitions from 2011. When you look out to 2012. And you're doing your budgeting, how would you describe your growth profile between organic growth and sales growth that will be layered on from acquisitions? Can you give us any color of how you are thinking about that, split between organic and acquisitive growth.

A - Leopoldo Saboya {BIO 16137418 <GO>}

For 2012 specifically, we don't have a budget or plan any new acquisitions or new, let's say, business. We keep on searching and analyzing for those that they are in line with our strategy and they have a strategic (inaudible) with the Company and with the moment of the Company. But we don't have anything planned frankly.

In terms of the organic growth of the Company, we expect to have something in the way that we are planning for the next couple of years that we already mentioned to you, which is something in between 12% to 13%. That's the organic top line growth that we expect for the Company in the next four years.

In terms of marginal contribution of acquisitions, the ones we did last year, they will be a minor part of our growth. If we would include the Avex and the Danica business into 2012, they will represent something like, I'll make the math with you something like $250 million. So 1.8, there will be BRL450 million comparatively to only BRL50 million approximately that is of the Q4 '11. So net-net you have -- we're going to have in 2012 BRL400 million extra revenue coming from acquisitions in our total revenue. If I made myself clear.

Q - Tim Tiberio {BIO 15194568 <GO>}

Sure, thanks. And just to drill down on the organic growth part of that, in this environment where it's difficult for you to push through pricing, can you -- do you feel like you can actually move and shift that back more to volume to still hit that type of top line growth?

A - Leopoldo Saboya {BIO 16137418 <GO>}

I would say for some markets, yes. In the export market itself, we -- this year we've budgeted more volumes comparatively to last year. So part of our equation in terms of solving inventories has to do with more sales volumes I'm saying in the domestic market.

Also there is this play. But must more to compensate or to mitigate the execution of the TCD than the overall market that tends to be positive in volumes itself. So this year we have the challenge of absorbing all the difficulties regarding the execution of TCD that will take part of our volumes from one point of the year on, which tend to be June and July, depends on the final arrangements with (inaudible). But finally we will have such impact. So if we are moving and we are doing several launches and the innovation (inaudible) to move our volumes more aggressively that would be in 2011. You are right.

Operator

Rebecca (Fermento), Deutsche Bank.

Q - Rebecca Fermento

If you could give us a little bit of an idea regarding approximately how much higher or lower your grain costs are going to be in 2012 versus 2011, that would be great. And also, how much of your needs are locked in currently?

A - Leopoldo Saboya {BIO 16137418 <GO>}

Thank you for your question. So the grain scenario, we are looking for a pretty flat scenario on average, '12 compared to '11. Both corn and soybean meal. They are starting with a positive correction. But we are very positive, especially with the Brazilian harvest for both corn and soybean meal. So in our assumptions of the budget, we can see either a flat scenario of corn and soybean when compared to last year. And your second question was how much is locked nowadays, right? Of grains.

Q - Rebecca Fermento

Yes.

A - Leopoldo Saboya {BIO 16137418 <GO>}

So for corn, we have now something like two to three months. So it is swinging in this range two months and a half (inaudible) locked. But for soybean meal we are short. We are -- because of this short-term rally on prices, we stay apart and we expect to buy a little cheaper on the next couple of months. So we are very short on say one month.

Operator

Rob Pflieger, Artha Capital.

Q - Rob Pflieger {BIO 3315684 <GO>}

Really I have two questions. I guess first the declines in the export market pricing, have they gotten worse from Q4 to Q1? And so -- and generally what should we be thinking about in terms of export margins through Q1-Q2, first half of 2012?

Then I guess the second question related to that is how should we be thinking about the long-term -- realizing the export margins are going to be more (inaudible) commodity -- more commodity price and therefore won't move around from time to time based on inventory. How should we be thinking about the long-term margins in exports? Over the last two years it looks like they've averaged around 4% or 5%. Is that how we should be thinking about the long-term margins in that business? Thank you.

A - Leopoldo Saboya {BIO 16137418 <GO>}

Yes. We -- when we compare Q1 to Q4, it's going to be worse in terms of exports for two reasons. First, because we have the full impact into the quarter. So it's going to be nearly three months with impacts coming from Middle East and Japan compared to only two months or one month and a half to be more precise, in the Q4. And also, the second reason is because we had some quarter drops from December to January where we hit the bottom of prices. And in some markets we are already seeing some recovery on prices. But bottom line is that prices in dollars, average prices in dollar on Q1 tend to be lower than Q4 last year.

When you asked me about the long-term export margins or expectations that we may have with this market, I'll try to make a comparison with the past and now I'll put into perspective what type of margins we should expect for this business.

So when we make long-term 10-year average of the Company in a pro forma basis, we see that DRF had something like 11.5% of EBITIDA margin in average of these last 10 years. But and also, the export market activity, it was, believe it or not, in pretty much the same average. A little below that, of say closer to 11%. So 11.5% for the overall and 11% for export market. But with a very crucial differentiation. A very crucial change was very volatile. So and it has been so far.

When we look to the last five years in a shorter period of time, this difference between the average and the export market has increased. I would say that this 11% we could say something closer to 9% or a little more than that and the average of the Company were as well below the 11.5%.

What I'm saying is that it's natural for us to see from now on especially after the merger procedures and our potentialities in the domestic market in the both where we are dominant player and we have those levers in the full-service business and the retail business, it is natural to believe that there have been a little -- the couple of margins. And the overall margin of the Company tends to grow. But grow faster in the domestic market comparably to the export market.

But the margins for export looking forward, they will be better than they were in the past because of synergies gains. And because of ordering enhancement we are doing in localizing our operations abroad, in having more profit food and (inaudible) and so. But this is hoping that the timeframe that is something not as fast as it could be in the domestic market.

What I'm saying is that our margins in the export market will be hanging around in average in this 10%, 11%. This is something that we consider to be feasible in average to keep on having. And going forward reducing the volatility and moving up this margin more closely to what's going to be the Company's structural margins. So especially for 2013 on.

Q - Rob Pflieger {BIO 3315684 <GO>}

This is a follow-up. I guess given the, I guess, further deterioration I think you mentioned in Q1 pricing, should we expect the export business to lose money in Q1 on an EBIT basis?

A - Leopoldo Saboya {BIO 16137418 <GO>}

I cannot anticipate such a result. We will be releasing results within one month. I thank you for your understanding.

Operator

Consuelo Baraona, MetLife.

Q - Consuelo Baraona {BIO 20586061 <GO>}

I would like to ask a couple of questions. First one is regarding CapEx. I would like to know what is this year's CapEx plan regarding organic growth and acquisitions. And if you can give us details.

Also, I would like to ask about debt financing plans. Are you expecting to issue some bonds this year or would you refinance some debt with new bonds in the capital markets? What is your expectations about leverage for the end of this year?

And my third question and the last one is if you can make us something like a sum-up of what's going on with the old issue regarding (inaudible)? We know the Company has to divest assets and everything is pretty done. All the cash flows are already received by the Company or do you expect to receive different flows during this year and next one? If you can explain and wrap-up what happened with the (inaudible) issue finally.

A - Leopoldo Saboya {BIO 16137418 <GO>}

First question regarding CapEx. So our CapEx program for the next four years. So including this year, is a range of BRL2 billion to BRL2.5 billion of total caps, including the (inaudible) into that figure. We don't have a precise figure for 2012 because it pretty much depends on the velocity we approve and we build our organic growth, our Brownfields and Greenfields and so on. So this is the CapEx program that we have for the next four years as I mentioned.

And this is only for organic growth. Like you asked me about acquisitions or things like that. We don't have a kind of budget or planned acquisition for the year and not only for the next couple of years. What we have is a strategy to look selectively to acquisitions that will absolutely go in line with our strategy to localize and to move forward in the value chain internationally. What we did in Argentina was we are doing in Middle East and they can be both ways. They can be Greenfield projects or acquisitions. So we don't have a specific figure how much we intend to do that.

What we do have is our leverage restrictions of course. Every time we consider or we think on acquisitions, it must reflect and respect our thresholds of leverage. And the Company has an internal threshold of 2 times net debt to EBITDA. Of course, this is not linked. But this is the ideal threshold. So we should be (hugging) around this figure. It could be a little bit lower as it is today or a little bit higher than that. But shouldn't be that different.

So having said that, I will also explain the second question that you also mentioned the expectation for leverage. We have so far the expectation to maintain the same leverage by year-end that we had last year. So we don't see many differences, considering the organic growth.

In terms of debt financing. So our funding plan we have what we consider the three cornerstones of our funding we will probably use this year as well, which is first of all (BMV) outlines. So this is something, as we are having a CapEx program, we tend to find ourselves with those lines.

We are also looking to some traded related lines as -- in a business as usual. And of course, we can see the capital markets as an opportunity if we have a necessity and also if we have the right cash position to -- that would, let's say, would call for a new issuance. We have important part of our debt overdue this year. And we intend to use these three main, let's say, sources of fundings throughout the year.

In terms of (inaudible), your last question, the (inaudible) tend to be as following. It's going to be a (massive) swap, first of all. And the remaining amount of money that we will receive the BRL350 million, BRL100 million will come in the short-term. So from June to October, (inaudible) will pay us this BRL100 million. And the remaining BRL250 million will come within six years. So being paid (multiple) so the maturity will be three years that we will receive these BRL250 million and of course there's going to be interest on that figure. I think those were your questions, right?

Operator

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

A - Leopoldo Saboya {BIO 16137418 <GO>}

So right. I'd like to thank all of you for being present on our one more earnings call of the Company. So I would like to take advantage also to congratulate all of my colleagues in all of the Brasil Foods team for the results achieved in this year. They frankly don't show in full the potential of this Company going forward.

Also, we recognize that we are facing a challenging period in the export market. That we are absolutely confident that we will go over that and the Company will end this period even stronger than we are starting this quarter. So hope to see you again on next earnings call. Thank you very much.

Operator

That does conclude our BRF Brasil Foods SA conference call. Thank you very much for your participation and have a good day.