Q4 2010 Earnings Call

Company Participants

- Jose Antonio Fay, CEO
- Leopoldo Saboya, CFO, IRO

Other Participants

- Christina Ronak, Analyst
- Fernando Ferreira, Merrill Lynch
- Jorge Mauro, Analyst
- Pedro Leduc, Analyst
- Tim Tiberio, Analyst

Presentation

Operator

Good morning. Welcome to BRF Brasil Foods S.A. Fourth Quarter 2010 Conference Call. This conference call and the presentation are simultaneously transmitted via webcast in our web at www.brasilfoods.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 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 Mr. Leopoldo Saboya, Chief Financial Officer and Investor Relations Officer. I would now like to turn the conference over to Mr. Fay. Please, sir, you may now begin.

Jose Antonio Fay {BIO 15337837 <GO>}

So good morning to you all. Thank you for attend our meeting. I will beginning talking that this year is what we considering a good year. It was -- 2010, it was a good year and we will register it in our records as a good year, a year where we recover results and we take benefit from the market and from our internal management. Let's split the analysis for in two -- the Fourth Quarter of last year and 2010.

Regarding to the Fourth Quarter, what we have -- we want to highlighted -- it's -- we had a better volumes and performance in In-Natura category, which means both -- basically, poultry in internal markets. And we benefited from our best cost due to our positioning in grains. Domestic market performance for -- has a good performance with value-added products improving. Mostly consumers are affording to have more convenient products in households' consumption, which is good for our business and for our brands.

External market has a consistent demand for poultry proteins and our branded product, mostly in branded grill in the Middle East, where we could -- allowing us to improving price, 16% as we forecasted in our last meeting. And it was -- it can, in this way, we mitigate the dollar rate that keep on deteriorating in Brazil. The outstanding and the last. But very important thing is that we have an outstanding performance in our purchase policy -- of grain purchase. The policies of grain purchase, we really have a very good position. We take a long -- we sustained long inventories, which postponed the cost increase during the last semester and most of the last quarter.

As the mix that we sell in last quarter is more based on In-Natura that, as I told before, has a better -- for better performance. And Christmas products, which is turkeys and special poultry, where the grains compound, it's very important. This grain positioning that we had for that moment was very important to achieve the good results of last quarter. Analyzing 2010, 2010 was a year of consistent and grade well -- the recovering of our results, as we said many times during our meetings. We believed that it would happen and we really had this performance.

The results were driven and, due to costs -- good cost and less expenses. So we had a good expense performance and good cost performance. And this driven good results, more than price in internal market. In external market, we keep on having a strict price positioning. Synergies have coming more strongly in the Fourth Quarter.

Although we still face restriction and constraints due to CADE that do not approve yet our operation. We could -- where we are already allowed to go, which is to purchasing and In-Natura business and external market with some constraint, we could reach synergy that makes mostly in the Fourth Quarter. But during the year, BRL74 million, which is good. And we glad to trust that in the future without the CADE constraints, we would improve that. So now let Leopoldo to give some details and to follow the presentation that you have in front of you. Thank you.

Leopoldo Saboya {BIO 16137418 <GO>}

Okay. Thank you, Fay. Good morning, everyone. Let's follow the presentation now on page three, just to emphasize two more points here, that why 2010 was a very important year for us. We reached as the third largest Brazilian exporter, right after Vale and Petrobras. And we were responsible for approximately 20% of total Brazilian trade surplus. So we are very proud of those results achieved and with -- and we finished the year, as we are going to see in the sequence, with a very solid balance sheet, which allows us to think going forward in our strategic growth plan.

Now moving to more details -- the financial details of the Fourth Quarter and the year, first of all, let's clean the IFRS issue of this -- in our financial demonstrations and this on page five is before we advance in the figures itself, it's important to clarify that the impact of the IFRS was minimal in our results, especially when we talk about EBITDA margin. So pretty much no mature impact. But I'd like to take opportunity of this moment -- of this transition moment, to show the facts of the growth margins that they will change before and after IFRS, basically because now the transfer phase, which is basically the one that we transfer from our plans to our (deceased), this cost is now placed on CADE instead of operational expansions.

So which means that you now will see a different gross margins hanging around say 25%, 26% area instead of 28% to 30%, which was the traditional gross margins of Brazil foods. But EBITDA margin, the bottom line, zero impact. EBITDA margin, as we said, no impact. And net income, there is BRL80 million positive impact, basically due to the reversal of deferred assets for preoperational expenses during 2008 and 2009, that we reverted in this transitional balance sheet of IFRS. So basically, this is what happened now. But won't keep happening on the next balances.

So let's move now to the results after clean IFRS subject. Very, very happy with the strong result in the Fourth Quarter. We can say that we pretty much had a traditional and strong Fourth Quarter results after several years of Fourth Quarter not performing that well. Whatever you look at in our results being gross profits or EBITDA margin or net income, we got outstanding results. And on top of that, 21% of net sales growth. And SG&A reduction of approximately 170 basis points in the quarter compared to last quarter last year.

Next slide, slide seven, the same -- pretty much the same story of the Fourth Quarter. But of course, in the Fourth Quarter, that compares on the (delta) margin was more impressive than the year, the full year. But it's still very important results, returning the Company to the traditional margins profile and the profitability we used to have. Before I enter in more details of every business of the Company, I want to emphasize the jump of 600 basis points of our EBITDA.

It's this delta, this change was made pretty much half of that due to the better performance on the export market and half of that on the better performance on the domestic market. But with different dynamics and different factors. And I will give more details on that. The dairy division was the only one that the performance was slightly worse than last year and reason being cost that was not fully passed through prices throughout the year, remarkably on the category of whole milk like UHT milk.

Next slide, slide eight, we can see performance of the top line. For the Fourth Quarter, as said, approximately 21% growth led by both volumes and prices as we're going to see. And in the full year, 8.3%. So now let's first understand the dynamic of the year, which was the first half of the year, pretty much impacted -- still impacted by volumes. And the scenario of low costs that we didn't need to pass on prices.

And the second half of the year, a different dynamic where we saw good volume performance and the move -- the good pricing environment, especially in the export market, where we pretty much passed on prices, all the inflationary process we were seeing, due to both appreciation of the real and also the spike in commodities that is started by July last year. It's important to understand these two different dynamics. But we end the year with a marginal growth much bigger than the full year.

Just some comments about our main -- two of our main input costs, which is soybean meal and corn, both -- if you look on the full year 2010 against 2009, it's not that big difference. In fact, for soybean, it was even lower than last year, than 2009 levels. And in corn, pretty much flat average prices compared to last year. But with two moments of the year, the first half, very -- a bearish market, where we took advantage to build up loan positions as a Fay said. And at mid our cost impact much -- is mostly throughout the second half of the year in order not to affect our results immediately.

For corn, as you can see in this chart on page nine, the Fourth Quarter '10 against the Third Quarter, 34% increase on prices. So showing that the movement was very important for the market. But of course, it was not the same impact that we face because of our policies and also because of the biological lag that we have in our value chain.

So moving forward, in summary, what COGS and SG&A represented to us last year, again, very important reduction on costs, not only because of this movement, predominantly movement of downward trend of corn and soybean in the first half of the year. But also because we pretty much recovered our smoothly operations throughout the year compared to 2009 where we faced a very big restrictions and difficulties, especially during the first half of the year where we faced the majority of the turmoils of the financial crisis.

Also we took advantage of (scale) economies. In terms of SG&A, we could save the 130 basis points year-over-year, even considering the 10 bps growth on G&As, due to upfront integration expenses. Just a comment here, we could even reduce fixed commercial expenses by BRL37 million in absolute terms.

So now the -- so expected chart of synergies breakdown. This is the very first figures -- official figures of the Company, showing what we achieved in last year. First of all, I would like to comment that this accounted BRL187 million of synergies throughout 2010. It's being measured through our PMO, which follow approximately -- more than 200 initiatives of synergies and will -- and we are now adding other important projects of the Company. And is following through every initiative, every project regarding synergies. So we achieved that in the areas where we were clean to operate together, precisely the procurement of all types of items and services that we could do together.

So we registered this on BRL187 million gross savings that we need to the deduct from the upfront expenses and consider the income tax of the subtotal, which gave us net synergies in the bottom line of BRL74 million positive effect on the balance left last year. We just put information below that BRL52 million of already made -- of the expenses that was cash expenses last year. But we -- they were booked as assets last year. So didn't affect our results. But though only transferred to assets. So bottom line of that in terms of cash generation -- it's pretty much BRL22 million that is approximately in line with what we guided since the beginning of last year of a neutral effect of synergies. But we are (happy) to have captured a little above our expectations.

The financial performance on slide 12 I will skip because it's more of the same I've just comment on every figure. On slide 13 is the quarter-over-quarter performance of the Company, proving our -- not only our expenses. But our guidance that we gave in the beginning of 2010, that the year of 2010 would be a year of gradual. But consistent recovery of our performance, general performance. And it was finished with very outstanding margins in the Fourth Quarter, highlighted by the seasonal positive effects on that. This is not, of course, the traditional margins. But though the full year, 11.5%. Yes. This is the traditional margins of the Company without considering synergies in the past.

The cash generation and the goods -- and the optimization of investments led us to a consistent reduction of our leverage, ending the year with 1.4 times net debt to EBITDA, which shows that we are ready to grow and ready to put into practice our five years strategic plan. Just some more colors on our balance sheet here. We ended the year with a gross debt of approximately BRL7.2 billion being 70% long term and 30% short term. And also I would like to emphasize the FX exposure. In fact, we ended the year with a positive exposure of BRL76 million that compares with one year ago of exposure of BRL1 billion -- approximately BRL1 billion.

Its short position in (long) terms. This is -- I would like to emphasize here the very good performance of the financial department that put into practice the hedge accounting, not only for use of hedgings as hedge accounting, as I said. But also financial instruments as pre-export finance, using as hedge accounting. So we are very, very proud of having that -- showing that our accounting exposure pretty much doesn't affect anymore our bottom line on a quarter-to-quarter basis. In terms of earnings per share, after two very tough years, we return to a more, let's say, normalized or even good performance on the earnings per share, BRL0.92 per share.

Investments, on slide 16, we total the year with total investments of a little more than BRL1 billion, including breeder stock and the breakdown is pretty much balanced between optimization, new projects and productivity. Also emphasizing here that, during 2009 and 2010, we took advantage of some idle capacity in the system to optimize the existing idle capacity and investing only in optimization and productivity. And even though growing on a pace of 6% to 7% in these two years. But now looking ahead of us, the investment profile will be above that figure as I will show in awhile.

Now let's give some more color on the business performance, concentrating on domestic and export market to understand the dynamics of each market in terms of bottom line. First of all, on page 18, this is the breakdown of net sales. In fact, no big changes in our profile. But only the slightly reduction on exports participation coming from 42% to 40%, not because we didn't grow. But though because of the real impact on the top line. But didn't impact on our bottom line. In fact, it was the other way around, where the exports -- we had a tremendous increase on margins year over year.

Going to the slide 19, volumes and prices. This is the only slide I will show quarter basis and then I will shift to an annual analysis. On a quarter basis, first of all, domestic market meats. We can see that our outstanding growth of 22% came with both balanced growth of volumes and price. Let's understand this. First of all, volumes is a proof of what we said regarding the good environment of the market, the good demand due to more purchasing power of the population for the demand for more convenient goods and so on. So we could increase, in the quarter-over-quarter basis, 10% volumes.

But also here we need to understand that this 11.4% price increases, it was driven by a tactical movement towards the so-called In-Natura markets where we also grow, in fact, more than the traditional categories, the one that we really focused on, which is the profits and other profits category because we took advantage of a good momentum of the market to boost profitability in the meat categories overall the Company. Because processed itself, the increase of average prices was 6% on a quarter-over-quarter basis.

Talking about domestic market on dairy, apart -- the good price increase of 13.5%, it was not enough to offset the cost increase we had especially in the UHT milk division. So we had, in the quarter, a poor performance pretty much, compared to already poor performance in last year. Exports, very good recovery with 18% of net sales growth driven by prices. It was accelerated prices that we intend to have, that we comment one quarter ago that our quarter-on-quarter basis, we would increase approximately 15% in dollar terms and we did achieve a 16%, comparing Fourth Quarter to Third Quarter last year, which as, as a coincidence, the same increase we had on a year-over-year basis.

So comparing the Fourth Quarter '10 with the Fourth Quarter '09, the same 16.5% increase of prices in dollar terms. But it was reduced a little bit by the FX real appreciation. So quarter was -- that was the breakdown for market. So now let's take a look on a year basis. So performance of the overall domestic market, as we said before, we had this tactical growth In-Natura products and a strategic growth in other processed products. The category that we call internally as a pure convenience, which is a value-added categories. The one that grew 26% on sales year-over-year, looking to the breakdown of volumes and prices. So volumes, we grew 6.6%, concentrated on the second half of the year, as I said. And price, 3.6% below inflation.

Profitability improved a lot, due to our capacity to manage costs release with price management, especially price and mix management because we could increase more categories of convenience, as I said, which is more profitable than the mainstream. Also, we want to emphasize the very strong performance of food service is one business that we are putting a lot of efforts and a lot of, say, management as well, to really became it as a single business of the Company and not only a channel.

That's the way we see -- and this market has been growing faster than the traditional retail and we see a lot of opportunities for the Company going forward. Into dairy, it's only the negative results we had. It was pretty much because of higher costs of dairy paid to producers, not fully passed through prices to retail and other segments, especially in the category of UHT.

In terms -- now on next page in terms of market size, showing the performance of the market of the main categories we operate for specialty meats, frozen meats, pastas, frozen pizzas. And so on, you can see on the bottom here on the green boxes, the growth of 2010 to 2009 growth of the size of those markets. First of all, I would like to mention, the specialty meat that this 22% of growth was due to a change of Nielsen's methodology because Nielsen changed the way it is approaching and auditing the market. So it not -- it doesn't represent the real growth of the market because we grew less than that and we didn't lose market share.

But the other growth -- the growth of other categories like frozen meats, pastas. And frozen pizzas, the ones that we consider as other processed, they are pretty much in line with our 26% sales growth just presented. Other categories also growing and then below we show categories where we are still minor categories. But growing at the same that we saw, for instance, five years ago probably, where pastas and pizzas were categories, very small -- as those ones. But continually growing faster than the mainstream like specialty meats.

On the next slide, we take advantage of this moment to show you our new campaigns. So the Company didn't start on a standalone basis. So on Sadia basis, on Perdigao basis, to do the advertisement -- new campaigns. So here just to show you some of the new ones. There are many others, of course before we enter on the export performance on slide 23.

So this is the summary of the year for us. Again, export market was a very important drive for our full recovery of results because came from a very tough margin profile last year to a more positive and ending the year pretty much back to the traditional export market margins. But here in terms of breaking down the 4.3% of net sales growth, it was 5.9% volume growth, which was even higher than our expectation at the beginning of the year. Prices in dollar, plus mixed FX, 11.6%. But fully offset by FX. But this FX movement -- so the real depreciation didn't affect our profitability. In fact, it was the other way around where we saw our profitability boosting by around 800 basis points on an EBITDA basis year-over-year.

And why was that possible? First of all, because we faced a much more balanced market globally in all the places we operate. We also took advantage of our coordination of the export sales in both terms of go-to-market and also time-to-market. So our capacity and velocity to fast food prices, due to higher prices, higher commodity prices, was much more adequate this time that led us not to lose margins because of these pressures on costs. It was the other way around because as this was a worldwide pressure on costs, we could let prices as prices -- real prices, settlers, especially in the chicken business globally.

We also emphasize that 2010 was an important year for us to advance and start a consolidation of our operation in Saudi Arabia, where we are going forward on the value chain, operating our arm distribution capabilities in that important region where we have mostly branded and value-added products. We also started the realization of synergies, as Fay mentioned in the beginning. So we are following through all the initiatives in the export market.

So now, on the next slide, showing the breakdown of our net sales, there is no big changes. In fact, pretty much in line with last year composition. So I will move to the next one. We stop here to show two markets, individually, which is the Middle East market and Japanese market, pretty much because of the recent development headlines. We -- so far, we are not seeing any significant impact on our results so far.

Secondly, we see opportunities going forward due to different reasons but we are will very positive on both the regions. And one landscape here that we must bear in mind is that both the regions, they depend a lot on Brazilian imports, showing that Brazil has a very consolidated position on those markets and Brazil has a very reliable and very cheap source of protein is taking advantage of this growth of the economy and even in these tough times, we are not seeing any headwinds so far.

So now I will show on the next slide just some campaigns or some displays and tasting in the regions because we say that all the time to you. But sometimes I -- we have to recognize that we don't show to you that much. But now -- from now on we'll start to show you more and more what we are doing in terms of marketing and point of sales activations and so one. So here is just some examples of Russia market. You can see products on the shelves in Moscow.

The next slide is 27, Middle East. So are here just four photos of a lot of examples of activations on display at Carrefour on top left here, of Sadia brand. These are United Emirates here also some displays above the line. Truck distribution with the Perdix brand. And here is not that clear on the bottom right. You can see all those displays in black here, it's displayed the brand Sadia during the Ramadan. So you can see here fully displayed, several, several categories. So pretty much in line with what we do here in Brazil, of course, with not the full fledge of brands and full (force) of products. But we are moving towards that direction.

Here, Latin America. So some activation here in Punta del Este and also Buenos Aires, Argentina. And Asia and Africa, here is a market where we are more -- we are stronger in the wet markets and in wholesalers market. But penetrating more and more in retail and food service. Some initiatives here in those markets.

Having said that, let me give you the outlook, which is the very thing that we gave in the ending of last year of -- for 2011 -- with a net sales of 10% to 12%, top line growth, investments, BRL1.2 billion to BRL1.4 billion, bigger than last year, due to the reasons I just comment. And breeder stock, BRL400 million. And the overall, despite the pressure on costs and some other important aspects, a continued real appreciation, we are -- we continued with a very positive view on the year and we are hard working to have a better year than it was 2010. And we do believe it's possible.

Our performance in the capital markets. So in terms of shareholders composition, no big changes. Next slide, on slide 33% -- on slide 33 sorry. Here is just to show you the performance of the Company, the shares performance of the Company in the last five years. And we picked the year 2006 for two main reasons. First of all, because it was a year where the Company, starting by Perdigao did several M&As, acquisitions, follow-ons. It was three follow-ons, in fact.

So the Company is started very aggressive. But a strategic growth plan through all those years and also diversificated the portfolio entering new categories like margarine and dairy and so on. And at the same time in these last five years, we had very important changes on relative prices. In the main markets we operate, which -- with the energy value being priced totally different than it was in the past. So there was a full inflation in place, especially during 2007 and '08. We had a crisis and after that a very, very good recovery. So it's just showing during this panorama, what happened with the value of the Company.

And now we put another factor here, which is the continuous appreciation of the real through all these periods. You can see from bottom up the S&P 500, a 4% increase in this period. The Industrial Index, 13% increase. The S&P Food and Beverage and Tobacco performing better for -- due to those factors I just mentioned. But growing 44% in the year. And Brasil Foods growing 149%. So it's -- the management sees that as proof that we are in the right direction in our strategy.

Slide 34 is (solid) that what we just mention. But having the comparison with all the food groups and not consolidated as a food and beverage and tobacco. So you can compare Brasil Foods with several other peers, global peers, in fact, showing that we are top pick here, pooling all the largest food companies in the world. Now looking to 2010, pretty much the same story. Just in terms of US dollar performance of our shares, 29%. That compares with the Dow Jones industrial, 11%, only below Tyson, Smithfield. And Hormel performance. But above several food giants. Our monthly trade volume -- 18% higher than 2009, 12 months. And here I will turn to Fay to make the final comments before we change to the Q&A session.

Jose Antonio Fay {BIO 15337837 <GO>}

Just to finish the explanation, I want to call attention that I'm very happy with the results costs. We achieved these results during and having a very complex environment, since we are running one of the biggest mergers in the world for our industry. So I would like to thank our management team from Sadia and from Perdigao that supported the operations and the merge process. And allowing us, at the end of the year, to reach these good results. So let's move to Q&A section.

Questions And Answers

Operator

Thank you, ladies and gentlemen we will now begin the question-and-answer session. Each participant may ask only one question. (Operator Instructions) Our first question comes from Mr. Fernando Ferreira from Merrill Lynch.

Q - Fernando Ferreira {BIO 2389113 <GO>}

Good morning, Fay. Good morning, Leopoldo. Thanks for the presentation and the information and congratulations for the results. I would just like more follow-up on the grain price impact that we should observe in the first half of this year. As I understand, the bulk of the impact still hasn't appeared or flown through your results. And according to some calculations I just did here, it appears to me that you would have to increase your average prices by about 10% or more, still in the first half of the year to maintain sort of the stability in your margins. So I would like to know if that makes sense and if you see room for further price increases, both in the domestic market and also in external markets? I understand that externally, the impact of commodity is more relevant, given that you don't sell as much industrialized and processed. Thank you.

A - Jose Antonio Fay {BIO 15337837 <GO>}

Thank you for the question. Really, in external markets, I told you we export branded (grillers). We are more related to commodity prices since the participation of grain in a (grilled) bigger than in Brazilian and FPP products. The point is that we have a very good purchase policy in the last quarter, even during the year 2010, where we put our long inventories and it allows us to mitigate, to postpone the pricing and the cost increase. You are right when you say that the cost will come to our external market products, stronger than it happens last quarter.

But we already are putting prices. We do not stop this way of working in that we are trying to maintain the prices in front of cost. So we had put new prices in the market in December, in January, since the supply-demand equation, it's allowing us to set prices for external market. And this is not a Brazilian issue. But it's a global issue. If in Brazil we have pressure in price, in cost, in grain prices. And so on, the rest of the world it's much bigger than ours. So we are confident that we can keep on improving prices when needed. We can -- we will lead the price increases of our sector, since 20% of all poultry protein, it's done through the (rest). So we have a challenge to best price. But I'm confident that the supply-demand equation will allow us to keep on doing so.

Q - Fernando Ferreira {BIO 2389113 <GO>}

Okay. Thank you.

Operator

Our next question comes from Mr. Tim Tiberio from Chardan Capital Markets.

Q - Tim Tiberio {BIO 15194568 <GO>}

Good morning. At your analyst day, you kind of indicated that you were expecting some movement on the antitrust approval by early 2011. And it seems like a lot of the discussions around potential divestures or restrictions would be very minimal. And I'm just trying to get a sense of what you think might be holding up the process. And in an inflationary environment, is that something that you think might be slowing down the process?

A - Jose Antonio Fay {BIO 15337837 <GO>}

So the antitrust barriers, now we are based not only in our expectation. But on their expectation to say that we expect to have his judgment until the end of this semester. It was -- they declared that by price last two or three months. So we expect that we, to the end of this semester, we are able to have that. But it's always a question mark because it's a lot of factors involved.

Regarding to divestments or something like that, we are confident that we put a strong argument there to support the idea that we can be completely approved. But of course, this is not us to decide that. We are doing our part of this business, putting a lot of documents and calculations, showing that the efficiency gains are bigger than the elasticity that the barriers are not as big as that and so on. So it's hard to say if CADE would be light or heavy in their hand regarding to that. So I prefer to not to put any guidance on that.

Q - Tim Tiberio {BIO 15194568 <GO>}

Okay. Thank you for your time.

Operator

Our next question comes from Mr. Pedro Leduc from JPMorgan.

Q - Pedro Leduc {BIO 20979981 <GO>}

Hi. This is Pedro Leduc with Alan Alanis team at JPMorgan. And our question is regarding your capital structure. You are currently at 1.4 times net debt to EBITDA and should end the year at around one time according to our expectations. And so what do you think is an optimal leverage level for Brasil Foods? And once this level is reached, what can we expect going forward? Can we expect more dividends, share buybacks or rather more CapEx or M&A? Thank you.

A - Jose Antonio Fay {BIO 15337837 <GO>}

We don't expect to change our policies on dividend payouts or shares buyback. But though to accomplish with our growth plan. So this -- that may be considered a type of a lazy balance sheet, show that we are ready to grow and the two main directions we are planning, which is organic growth in the mainstream of the categories we operate in Brazilian exports. And also some selective and non-organic growth through acquisition, especially abroad Brazil. So our very traditional leverage target is still two times net debt to EBITDA. It's hanging around that threshold. Maybe a little above that if there is, let's say, an acquisition in place or below that if we are preparing to something like we are doing. So there is nothing different than that on or changes of our policies because we have already defined what we are going to do with this, let's say, surplus of leverage to go forward.

Q - Pedro Leduc {BIO 20979981 <GO>}

Great. That's very clear. Thank you very much.

Operator

Our next question comes from Mr. Jorge Mauro from Legg Mason.

Q - Jorge Mauro {BIO 15232286 <GO>}

Hi. Good morning. My question is just to follow-up. You mentioned that EBITDA margin expanded by 800 basis points on the export market. These you were referring to 2010 as a whole or just the Fourth Quarter?

A - Jose Antonio Fay {BIO 15337837 <GO>}

As a whole. The full year 2010 compared to the full year 2009.

Q - Jorge Mauro {BIO 15232286 <GO>}

Okay. Thank you very much.

A - Jose Antonio Fay {BIO 15337837 <GO>}

Okay.

Operator

Our next question comes from Ms. (Christina Ronak) from Macquarie Capital.

Q - Christina Ronak

Hi. Thank you for the call. You said you purchased grain at attractive prices before the rally in commodity prices for corn and soy. I was just wondering how much an inventory, how long can we expect you to have those attractive costs in your inventory. Would that last for another quarter, two quarters? Thank you.

A - Jose Antonio Fay {BIO 15337837 <GO>}

Since we have a crop that is coming in Brazil to -- at this right moment, we do not hold strong inventories because the best position now is to be short and to -- we are analyzing the future because it's not very clear. Brazil is -- will have a bigger crop than announced before to soy and corn. So we expect a very good crop here in Brazil. That can -- to support the Argentinean losses in globally thinking. So you asked it seems to going well. So we do not expect that we have less pressure in commodities for the next 12 months, for the next crops. But it seems that we can -- it's hard to predict at this right moment. But it seems that we have more stable grain prices for the next month. So summarizing, we do not holding a lot of inventories at this right moment.

Q - Christina Ronak

Thank you.

Operator

This concludes today's question-and-answer session. I would like to pass the floor to Mr. Fay, to his final considerations.

A - Jose Antonio Fay {BIO 15337837 <GO>}

So just to finalize, I would like to reinforce that we are a brand and distribution company in Brazil and abroad, where we are focusing in replicate our model all around the world where we have some room to develop our brands. We believe that CADE will judge our process until the end of June according to their expectation. Then we are involved in a global business and believe that we have a strong competitive positioning standing on Brazilian capacities of producing protein.

So we have a structural -- we are in the best place to produce what we produce, since structurally we have land, sun. And fresh water and will continue improve this advantage. At the end, I would like to thank to our stakeholders, our consumer, shareholders, employers -- employees, clients and so on for supporting 2010 that allow us to achieve this outstanding performance. Thank you, all. Thank you, to attend our meeting. Good morning. Good afternoon. Good night.

Operator

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