

Q3 2021 Earnings Call

Company Participants

- Carlos de Moura, Chief Financial and Investor Relations Officer
- Lorival Luz, Global Chief Executive Officer
- Patricio Rohner, Vice President
- Sidney Manzano, Vice President of Brazil Market

Other Participants

- Isabella Simonato, Analyst
- Lucas Ferreira, Analyst
- Rodrigo Almeida, Analyst
- Thiago Duarte, Analyst

Presentation

Operator

(Video Presentation)

(Starts abruptly) this company projections and operational and financial goals are just beliefs and premises of BRF Board of Directors as well as information available to the company. Future considerations are not guarantee of the performance. They involve risks, uncertainties and premises since they are referring to future events and depend on circumstances that may or not occur.

Investors should understand that general economic conditions and industry conditions and other factors, operational factors may affect results in the future for the company and may lead to results that differ those expressed and for future considerations. Now I would like to pass the floor to our Global CEO BRF, Lorival Nogueira Luz. He will conduct the presentation of the company. Mr. Lorival Nogueira Luz has the floor.

Lorival Luz {BIO 16180455 <GO>}

Good morning to all and thank you very much for being here during our Earnings Release for Third Quarter 2021 of BRF. Now I'm going to give you some highlights through some slides for 15 minutes and after that all Executive Board members and me will be here to answer your questions and clarify any point with regards to third quarter 2021.

Our third quarter, as you might see here on the screen, has been a very challenging moment. However, we were able to obtain results as the result of the implementation of

a series of initiatives we provide you a very solid result, a very solid result that shows our growth and also our net revenues and our gross profit and I would just term adjusted to 1.4 million approximately.

During the same quarter, we also had an adjustment with regards to (inaudible) that we have here in Banvit in Turkey that caused a financial impact that was relevant that brought our company to this 271 million loss. Now I nevertheless would like to highlight the strength of our operational result. Likewise, it is important to highlight our capital structure and I will be talking about that further down this presentation in which we reached our limit of the financial leveraging of actually three times more or so with the impact of the exchange rate and also their position in our pet business.

But the scenario is along lasting profile that allows us an adequate management for this in the coming year. I would like now to talk a little about the following. I would like to mention these results, and I would like to ask you, please, that along with me, understand and analyze what has been for us our last three semesters with regards to the management of this company.

In the last 12 months, our market all in all had an inflation and an increase in cost that was unprecedented. In the long lasting cycle, this sector will move from standard so PAT in 2017-2018 and one a second one it was 30,35 and now we are much beyond 100 rials, likewise cost such as freight, seafreight, packing, flexible rigid packaging. There was an increase more than 30% or 40% cost in many cases.

And what do I mean by that and what would like to share with you today. If we analyze this context comparing to other events in the past, and if we analyze the results of this company for 2016, '17, '18 with the EBITDA in which we had diversities and cost increase during those times and also our results were less than BRL3 billion and in 2021 with all those challenges that add complexity in our chain management. The way it is integrated and we, after nine months, achieved almost BRL4 billion as I result.

And I would like to add that last year -- from last year to this year, we had an increase of 12% in our earnings and EBITDA 4% increase. We also kept our gross margins above 20% and EBITDA above 12%. That shows that everything that we have mentioned with regards to a long lasting view management by implementing structural processes in our agribusiness, in our industry, in our logistics, in our commercial and trade relationship, in our services to our consumers in a very effective way bringing them quality, faithfulness has produced results and those are perceived and seen here with no initiatives such as those results might have been very similar to previous scenarios, which were not in such a challenging environment as today's.

Same way, we are absolutely firm and we believe that once we have stability and our cost plateaus and there will not be such a hike in price as we lived in the last 12 months and we do believe in stabilization for the next cycle. Our company shows to be absolutely already, solid with processes that are implemented to be able to capped, yes, those earnings that are embedded in those current results.

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They were somehow impacted by the management of course due to this absolutely strong and hike in price that we had in our basal cost. So I'll reiterate that the acknowledgment of our operation and the trust in the processes that have been implemented and also the certainty of getting those earnings considering the scenario in the future, allow us to see that and I would like to share that with you what happened since 2019 with regards to our BRF costs and likewise the indicators of our production costs from Embrapa.

With regards to poultry and swine and pork and what happened to the margins from the producer's point of view. If we consider that the cost of production moved from 100, 183, 179, our cost went to 144 without management. So that shows the efficiency and this implicit gain that is shown in our results so that we would keep those results in such levels as I mentioned. And that provides us certainty that this will be positive from now on that we won't have such a hike in cost such a very steep curve and there will be stabilization of those levels of cost. As I mentioned that in the past, we were talking about 30-50. Now, we are now talking about 80-100 level value.

So this is the new patent that -- or standard that we are talking about in terms of cost. Now moving away from that and talking about reinforcing our brand process. We still work in absolutely precise manner with quality and also with a lot of passion with what we do and we have 50 years of like track. We are celebrating 50 years and of course our brand that it is beloved by all of us reinforced our brands and I'm acknowledging that our consumers (inaudible) and love us and this is what we work for, because our consumer is there and they want our products. That is why we want to deliver quality sympathy and the form of contacting them and also communicating with them. Yes. In a very efficient way and very full of details in what we believe to be the right thing to capture all this wonderful results. And we keep the preference from our consumers to our products with regards to Sadia, Perdigao and Qualy.

We have already increased to 83% the product base with value-added and improving the mix of our products, and all of this is a result of a strategy that has been very strong. That has been also focused on innovation and launches of new products, that bring in very positive experience to our consumers, products that can also be practical and that consumers can receive, use those products on their everyday lives.

This growth of innovation also happens abroad. Here we have a scenario. I'm going to try to give you a summary of what we have been experiencing for the next cycle that is happening abroad. Turkey has been making good headway. Banvit is the leader in the market share in Turkey and the preference of consumers.

We have recovered margin even in an environment in which the FX variation is weak. Now the recovery of tourism for leisure and for business tourism. They have all increased the demand and reinforced our position in that region both in the retail market as well as in the food service channel. It's a market where we have seen this evolution and we have seen a positive scenario in relation to this. Japan has resumed its consumption and also the volume and prices in a very positive manner.

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Direct exports have made good headway with new qualifications, new units that have been approved, moved to operate in different countries, and this focus continues for the year to come. We hope that for next year we are also going to have new opportunities by opening new markets that can be relevant to the company.

China is a point of attention and we have to look at it very cautiously and with a lot of dedication in order to understand the movements that are going on and they can come to have effects in the next year. We have the scenario of swine related to the slaughter of breeders that low aptitude that has made the prices drop, decreasing also the exports and they bring in effect that in addition to the price that would make sense for us to export to China, but rather allocate the products to different buckets and different products.

Another factor that we also have to monitor is in relation to what happened recently in relation to provide meat where the country has restrictions in relation to Brazil and its export to China. We have to monitor the impact and the consequences that can be felt considering the scenario. So this is a point that deserves our management, but what I would like to say is that the company has capacity, has brands and production so that we can rebalance the allocation of this raw material to products to other countries and also to processed products with added value also inside Brazil and in other regions as well.

When we look at our business of ingredients and pet business, ingredients, this year of high value-added had very good performance. Margins above 20%, as you saw with EBITDA, accounting for more than BRL100 million and we have been working on a very efficient manner. So it's a business that is doing really well. We are working with specific market for animal nutrition, human nutrition, for mechanicals and other areas, bringing in great advantage in our competition.

In terms of pet business, we have been reporting in the first month. The first month of the consolidation of Hercosul and Mogiana. We have been working intensively with the teams. I have visited the facilities of Mogiana in Campinas, Hercosul and (inaudible) in Paraguay, and I can say that I'm totally confident that this integration, this work is going to bring about important gains, important opportunities in order to provide better services to our pets.

So the capture of this result will bring and will happen in the next year and in the years to come. Now speaking quickly about capital structure, it's important to say that our management of leverage is at those level of three times we -- this quarter, we have surpassed to our limit potential limit, obviously, we have the effect of the foreign exchange rate. And we are reevaluating our debt that today it has more than 70% in strong currency for the half of the year.

And also, this is also related to the reimbursement that was allocated to the new assets. And as we said to the Vision 2030, we are going to maintain our discipline. We are going to do the management in an absolutely cautious way. M&A's, acquisitions, all of them that can be on the radar are going to be put in the burner so that we can look at them and make the necessary adjustments to the leverage so that we can resume the growth.

And this is something that has been playing as of the beginning and that's why we have this 10-year planning. We know where we want to get that, and we have the management in order to speed up all this process and be very cautious in this equation. It's important to say that the company does not have any risk related to liquidity, refinancing need at least in the next five or six years.

If you look at the management that has been done, you will see the expansion of our debt. The maturity period over nine years and the capital structure which is very strong, even considering this increase in interest rates. I would like to invite you to look at the company at the period where we used to have a leverage, which was much higher than the one that we have today, and the debt had a period lower than three years. This scenario is absolutely positive and brings about a lot of confidence so that we can move ahead in capturing gains.

Now talking about our growth. First, I would like to point out something which is absolutely important. In addition to the growth in all initiatives that we have been adopting, growing swine with value-added ready meals, meat substitutes, we have worked a lot in the transformation journey and we have announced recently a partnership which is absolutely positive.

And I'm very confident using the platform of this. There is a platform that is currently used by InBev and today this platform has 800,000 clients who are actually using this platform. And I mentioned we are in the basis of 290,000 active clients. In other words, we have an opportunity to access more clients and this platform will bring about an opportunity of higher frequency of the active clients and more intensity in the relationship and activation of this relationship, and without mentioning the increase in the number of items per order. So it's something really positive that would, without a doubt, change the way we operate and we'll -- that will start obviously in a gradual manner as of the first quarter of 2022.

Now talking about ESG. There are many initiatives going on, but I would like to reinforce that our commitment with our governance, we have the commitment to integrity with sustainability and with all social aspect. I would like to talk specifically about fact. Data that we are generating. We have announced, and we are beginning the process of building two sources of generation of energy, and a partnership with AES Brazil for wind energy and a partnership for solar energy.

And those two investments with both for solar will bring the RF the capacity to make 88% of all energy consumed by BRF, generating our own energy and absolutely clean energy. And also generating a financial impact which is positive to our company in the next 15 years. So these are facts and data producing by the company so that we can reach our net zero target.

So with that, I thank you all for listening to the points that I wanted to share with you. And now we are going to open the Q&A session. Thank you, everyone.

Questions And Answers

Operator

Thank you, Mr. Lorival Luz for the presentation we are now going to start the Q&A session. Before that, we are going to see the tutorial video to provide guidance for you to operate at this time. (Video presentation) (Operator Instructions) First question, Isabella Simonato, Bank of America. Isabella, please proceed.

Q - Isabella Simonato {BIO 16693071 <GO>}

Hey. Good morning.

A - Lorival Luz {BIO 16180455 <GO>}

Hello, good morning. We all can hear you.

Q - Isabella Simonato {BIO 16693071 <GO>}

A very good morning, Lorival and Carlos and Sid. I have two questions. First question, Brazil. Of course, it was very important from you, Lorival, to make a comment about how certain you feel with regards to cost -- stabilization of cost and I'd like to just explore on that. Do you think that it is more like a flat situation? Do you see that there will be some relief in 2022? How is that?

And what about the dynamic of prices? We know that you are managing those price changes with some macro scenario. How do you see the possibility of continuity of increasing prices or improving mixes, perhaps to obtain better margins from now on. So can you just expand on this domestic market? It would be very nice to hear from you.

The second, CapEx and debt. You talked about managerial limit. I understand that it is related to exchange rate but CapEx for principally for 2022 in the wake of that 10-year plan, but of course considering the balance. Thank you.

A - Lorival Luz {BIO 16180455 <GO>}

Thank you very much, Isabella, for your question. They are very important and it is extremely essential to clarify those issues and of course Sid and Carlos can also complement if they wish to. With regards to our cost environment, what is my understanding and what do we expect? As I mentioned before, I do not expect here to have the same growth that I see for the last 12 months now.

It was a very steep one. If you analyze each cost line, so some we have twice voted 30%, 40% increase as well. Of course, there was a change on our plateau and from this plateau, we have a new fluctuation, so to say. So a new level. Some of the items, of course, will vary, and there will be some carryover impact but they won't be as much as it was in the last quarters, actually in the last year, that will allow us -- now, moving onto the second part of the question, that will allow us to conduct a more adequate management. When I say adequate, I mean with no changes with regards to price. Once you have a stabilization, it is likely to get in a normality and this is a scenario that we expect to have.

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But remember even in such an abrupt scenario as we had in the year past, the company managed to operate and get through and of course this is a long chain and with all costs that is implicit and also consider the market that we had. We managed to balance with our operations and with our planning so that we kept good results. We are very positive with regards to the stabilization and the productivity that we had then, these results are unlikely to come up as well.

Now Isabella, talking about the CapEx, that we have a very long strategy and with this providential safety standard of course we have that business, acquisition and now our focus is to capture all that synergy and of course everything that is a new opportunity or purchase or acquisition will be on hold, things that we might have planned until we capped all these positive results and earnings and additional earnings produced by this leveraging, there won't be any new acquisitions during this period of time until then.

And of course within our CapEx, we will manage in a very austere way, of course remaining within those limits and we still have space for that. We will keep investing in modernization and improvement of our units so that we can meet the demand that is anticipated considering the scenario. This is the summary of those two points that you asked for. I don't know if this is satisfactory, I would like to open to Sidney and Carlos if they wish to add anything.

A - Carlos de Moura {BIO 16675187 <GO>}

Hello, Isabella. How is everything? It is important to highlight the resilience and the volume. We also had this 480,000 tons as a level in Brazil. As Lorival mentioned, we were on the lead of price in the last quarter, 9%, and the previous year, 20%. Now we have actually a very important opportunity in a very challenging macro scenario which is trade-off, and how can we sort that out and how can we classify that in such a high price scenario of pork price. We have a trade-off between beef, pork and poultry. And poultry is up and pork is up, and so that takes space on the food basket and the Brazilian market at a restaurant or at a barbeque on a weekend. So those items are taking more space and of course that also reflects in processed beef such as poultry that drops and process beef goes up. So this is why we are expanding and we are very positive with regards to our future in those markets.

In addition to that, we have the effective growth, which reflects part of our investment and our increase in the per capita consumption of pork. For example, pork today, we have this chat with several chefs and actually out of -- 9 out of 10 chefs in restaurants in Brazil choose pork to develop new dishes and new meals and this is actually increasing. There is also a trade-off because we have this macroeconomic environment that it is challenging.

So that makes consumption out of the households is increasing. Of course, in this case we are waging on ready meals, the convenience, (inaudible) that is gaining space. This would be more like a trade up. Considering all that, we are very positive with regards to pork and poultry and that if it so this is how we see our opportunities in the near future.

A - Sidney Manzano {BIO 17678250 <GO>}

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Isabella, thank you very much. For the second part of your question. As a matter of fact, it gives us the opportunity of to make three little comments. First, during the presentation of the teleconference, we are adding two lines that gives you an idea of our debt evolution. Now just let me draw a comment about it. We went from 1,891 million comparing to the second semester. So out of this 1,891, 729 is regarding to acquisitions of our pet businesses and 1.200 billion approximately, roughly, therefore total of this variation is related to the exchange rate.

Now if you analyze the cash, the operational cash flow of our company, we had a very important evolution with regards to operational cash flow to 1,057 with this stock that we added and positioned, so that we could meet the market during the fourth quarter. So we have the stock, there should be perceived but now for the first quarter. When we compare 30 of September and the result in 31 of December last year, we are reducing the credit so we -- giving continuity to that, so the working cash flow and the exchange rate policies affected results.

And of course, if we remove the interest, so if we compare the interests of financing activities and the investments, you can see that interest go from BRL450 million on the third quarter last year to BRL224 million. So those are structural actions that are much beyond the circumstances of this quarter.

Now I would like to highlight the discipline and SG&A that we have. We have the least of the history of 1.8% and a variation from year to year just 2%. So all that is connected to our capital structure. I would like to reiterate what Lorival said, we are absolutely sure that this is just a mere circumstance. From this to the fourth quarter, there will be better cash generation and we'll be well positioned during the curve in 2022.

Operator

Now the next question comes from Lucas Ferreira, JPMorgan. You can proceed, sir.

Q - Lucas Ferreira {BIO 16552031 <GO>}

Good morning. Can you hear me well?

A - Lorival Luz {BIO 16180455 <GO>}

Yes, we can. Thank you.

Q - Lucas Ferreira {BIO 16552031 <GO>}

Lorival, good morning, and good morning, team. Now I would like just you to expand a little bit of your comments with regards to the complementation from Sidney. Of course, we have access of a greater number of partnerships. So what do we expect from them? So some are going out of this cash and carry channel. Perhaps that will be a significant move. So how can you improve this management of these channels, of course, from the client's point of view. With regards to what you have in your roadmap above, for example, as you mentioned, Lorival. So do you think that your clients use this as a platform to getting contact with you perhaps for cost reduction and how do you plan to have this as a

structure to meet really the results in this context, and of course a followup to what you talked about with regards to price for example in China.

So how -- what other markets that you are looking at this point in time and you want to intensify perhaps to move out from this problem that we have in China? Thank you.

A - Lorival Luz {BIO 16180455 <GO>}

Well, thank you very much. It is a wonderful comment and a very important point. I would like just to draw some comment about this. Well, our understanding is the following. We want to add complement another form to facilitate our consumers' interaction. We will keep on the strategy of working with the cash and carry, with the market, but also we have this (inaudible), this tool, this added tool with regards to this. So yes, we expect to have an expansion. We expect to increase our customer base so we reach more customers, clients.

Our current clients will still be met and contacted by our sales people and also get their needs met perhaps even in a closer more intimate way because we are going to have both channels and our sales force, we will be interacting with more time and also be like consulting team to improve sales and to talk about our products and to help us in activating this contact with the customers. So this strategy is based on increasing the days and the capacity, capability of activating this base and also increasing this with this sensitivity, sensitizing the client that will be coming from either platform and our sales team.

So that along with the product mix and the launching of new products that we have, yes, we have a very positive expectation with regards to the platform -- with regards to this spectrum. So what I'm talking here is about addition of complementary services. Now, I would like to pass to Sidney, if he wants to mention something else with regards to markets and course when you're talking about the market out there, there is a huge market and doors may open and we expect the New Year to have doors wide open and I'm talking about Europe and I'm also talking about how we focus on the United Kingdom, which is an absolutely important market to us and it is there, and there is a possibility that is extremely positive.

To have those doors open to Brazil and also to be RF in year 2022. This is a very important market. It is very good and customer also Turkey and poultry. Of course it will help us balance our chain as a whole. So I hope I have answered your question. I would like to pass to Sidney to hear from him what he has to say about this. For sure, he has many details and he will give you a much better explanation to a good point.

A - Sidney Manzano {BIO 17678250 <GO>}

(inaudible) So that growth would happen and would be a tool that would generate benefits for both sides. So we are very optimistic. Yes, we are in this work that we have been doing in the base platform and I'm sure that we are going to have good results. And if you would like to talk to us, I can provide more details to you on how we are structuring and how we see all those opportunities.

Operator

Our next question comes from Thiago Duarte, BTG Pactual. You may proceed, sir.

Q - Thiago Duarte {BIO 16541921 <GO>}

Hello. Good morning, everyone. Can you hear me?

A - Lorival Luz {BIO 16180455 <GO>}

Yes?

Q - Thiago Duarte {BIO 16541921 <GO>}

Okay, great. Thank you. I would like to ask three questions. The first one is in relation to CapEx, the organic CapEx in fact, excluding acquisitions. In the third quarter, you have been reaching close to one billion for the quarter. It's a high CapEx so I would like you to discuss in relation to your 2030 vision and help us to quantify how much of this CapEx is being added in terms of capacity, in terms of loan maturity, in terms of volumes, how much has this new capacity being added to the business in terms of increase in revenues if this growth has been helping composing the stronger growth year on year? So this would be my first question.

The second question is related to the EBITDA of the operations in this period as to PAT segment. When we do some calculations based on one slide of the presentation, you saw the pro forma leverage and we have a feeling that the contribution of EBITDA in the pro forma basis of the two assets would be about BRL90 million, if I'm not mistaken. I would just like to confirm if this number makes sense and if this is it, I would like you to confirm that.

And the other question is related to market share directed to Sidney probably. You decided not to disclose this information. So you had a discussion in the past about this numbers, because sometimes the figures wouldn't do justice to what you saw in terms of market evolution. Having said this, I would like to -- I'd like you to make some comments about the competitive dynamics that you see along the quarter and in the first nine months of the year and how this dynamics has, as it has been discussed in the previous question, if you have suffered some pressure from cost in relation to the margin. And in terms of prices, how do you see we should look at this composition, this price balance, considering the volume and the top line in Brazil and in the future? Okay. Thank you.

A - Lorival Luz {BIO 16180455 <GO>}

Thank you, Thiago. Let me just to touch upon -- so the answer is related to your questions. I hope I don't forget anything. In relation to CapEx, I think you said it well. You really understand the market. We cannot look at volume per se, because we didn't see the effects of the CapEx, because we have used the CapEx to make adaptations to our units for the production of new products. You see there was a high number of launches that we made, products with higher value added.

So what we see is an improvement of the product mix, yes, an improvement in the margin that we deliver, because these are products of higher value added. And we -- in 2021, we completed the plant that we will not have this cost next year. So what I mean is that the CapEx, even the organic CapEx is going to be lower than what we saw this year because there won't be the construction of the new plant. So large part of this CapEx for the adaptation was being intensified in 2021.

So this is something that has been happening. We increased capacity. We launched new products. This is something that has been materialized. So we can see that there is going to be a reduction in the CapEx, and you have already noticed an improvement in the margin of our products, in the mix of products that we have been delivering.

And in relation to pet, the calculation you made is exactly that. We just prepared the pro forma calculation of what I can say is that it was the first month. Yes, we are consolidating one month of each company only this month. So again, we cannot forget that at this time around, there will be the costs of the integration that is happening. Some adjustments that we are making in the operations so that 2022 we'll start a BRF pet with our brands focus on specific channels and then at levels much more relevant in relation to the EBITDA.

And this is what we expect. Without a doubt, this is going to happen. (inaudible) and Marcel and all the team, Hercosul and Mogiana together with our team of BRF pets are absolutely focused and doing a great job of distribution and improvements in the use of the factories and the distribution centers, and we have stronger relevant brands that would enhance the approach that we have for the market. And this is something that we have already felt in the result of this quarter.

In relation to the market share, as you said, you have already mentioned, I think Sid can even give more color on this but only addressing this point. We do not expect to have an increase in price, which was so significant off pass through prices as we had in 2021. And even in the end of 2020 because we do not expect this new jump. We do not see the major change in prices so dramatically. We do not see this delta anymore. So we are going to experience a much more orderly environment and when we have an increase, we always, because of the leading position that we have and also the market share that we hold, we suffer a lagging until the market make its own adjustment.

A - Sidney Manzano {BIO 17678250 <GO>}

This is right, Lorival. And this is a very important point, even considering this scenario where the market behaves like that. As you said, the market share is not something that reflect our operations. In processed food, we have 430,000 tons. Even in a moment when we had a strong pass-through of costs as Lorival said, this has never happened before, nearly 30% of increase, and we do not see this happening in the future at this level. It may -- we may level off probably. What is important to say is that this volume increase has come based on the pillars that we have. Our innovation reached 7%. Two years it was no more than 2%. Our brands have grown in terms of relevance and preference. Sadia, now in the last quarter, became the leader of food brand and Sadia, Qualy, these are all strong brands. So we have a larger capillarity.

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We have grown the base of the small retailer and it's not 100% covered by Nielsen. So there are a number of different and important contributions and we'd look at the brands, we can see that they continue making headway and growing and we have become ever more relevant and also the capillarity, the presence of our products and our brands in different areas in a more effective manner.

Not to mention that some bottlenecks that we used to have started to change. We opened several products, which was an important bottleneck, important lining sausages and we are advancing in cold cuts and domestic package. We are making headway in important lines that we used to have as bottlenecks and they became unblocked because of the CapEx that we allocated in them.

So there is a combination of factors. We have placed that on trends and participate is and we have also looked at removing bottlenecks and this business has been contributing a lot to all those efforts. So we have seen those stores and the results and we can see with the consumers and clients that we have made important advances that will bring very positive perspectives in the future.

A - Carlos de Moura {BIO 16675187 <GO>}

If you allow me, Thiago, to add in relation to CapEx. As you asked maintenance CapEx. In fact if you look at the reposition of depreciation, you would have a basis of about BRL2,700 million per year, but we have to recognize the effect of high cost is on the biological assets and the inflation that is partially offset by the capacity of negotiation of the company over the lease via IFRS 16.

So if you take this into consideration, considering the evolution of our figures year-on-year, we can may could good proxy of the maintenance CapEx. Okay. Just as a complementary information.

Operator

We are now going to turn to our last question. The questions that have not been answered today are going to be answered by the executives of BRF. Rodrigo Almeida with Santander. You can proceed, sir.

Q - Rodrigo Almeida {BIO 20698362 <GO>}

Good morning, Lorival, Carlos, Team. Hello, everyone. I would like to raise some issues with you. One is in relation to the internationalization in terms of capital. You mentioned United Kingdom and other interesting markets and what are the conditions of the international markets by means of joint ventures and partnerships that we've been involved an allocation of capital from your side.

And how -- what can be the contributions in terms of industrial aspect and also the possibility of having international partners. When you look at the opportunities of growth by means of partnerships with not so much allocation of capital. Using the assets that you already have. And there are other points I would like to touch upon.

Bloomberg Transcript

It's interesting to talk about the profitability of (inaudible) and the profitability of the business. And the last point, when you look at the Halal business which is so specific, we see the gross margin, but the EBITDA margin dropped a little. I would like to understand what happened. Okay. Thank you.

A - Lorival Luz {BIO 16180455 <GO>}

Okay. Rodrigo. Thank you so much for the questions. I'm going to start with your second question. If we can disclose the profitability of roter. No, this is a top secret. What I can say is that it's good profitability. You can monitor there is along those years with increase of the client base, active client base, and we ended this to this and as expected, we are going to increase with a better activation and everything that we mentioned.

So we are -- it's all very positive. And before moving on to -- moving the call to Patricio, in relation to international expansion or growth that would allow us to maintain our level and our prudence of in terms of leverage are going to be considered at all times. If there is an opportunity out there so that we consider to be important in line with our strategy with the low use of capital. And that, at the same time, would be within our prudence in the management of capital. I see no problem. We're going to be looking at that. We are going to be evaluating all this with a lot of care, with a lot of attention. So the answer is yes, we are going to look at that as long as it is within this prudent way of looking at the business.

And then I turn the call to Patricio to discuss also the Halal market and what he sees in terms of perspectives and opportunities and in the international market. So I would like to take the opportunity as well and the turn the call to Patricio. As you said, we recently announced that Patricio, even though he's so young, is nearly in his retirement period, and he is connected to me as an advisor. I would like to thank and congratulate Patricio on everything that he has done to BRF in the past 26, 27 years and without a doubt, he has built a business, he has built a market. He helped us in building a reputation of our company, our brands in the market where we operate. So I believe that he deserves all our admiration for everything that has done. He is not going to be free from me in the short term.

A - Patricio Rohner {BIO 19686996 <GO>}

Many thanks. Thank you, Rodrigo. now talking about perhaps, well my connection is bad.

A - Lorival Luz {BIO 16180455 <GO>}

Don't get nervous, Patricio. Everything is fine. Don't worry. Relax. I understand there is some sort of echo. No problem. I'm traveling today and I'll go and see you tomorrow in Dubai.

A - Patricio Rohner {BIO 19686996 <GO>}

Perfect. It will be my pleasure. Now with regard to our associations and partnership. Of course, there are different countries. We have different types of operation and our partnership that we are more connected actually there is regarding the distribution of all the brands that are complementary to our products here. In Middle East, we have vegetables. Of course, we have different international markets. Also, some of them

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produce our brands there with size and other vegetables and also different types of beef, for example, to certain markets. And also we have partnership for the development of products with global partners. They provide ingredients and also provide some capital, some investment in our brands and our products. So in that sense, a more mature markets, we work with that kind of partnership, Singapore, Jordania or Egypt, for example.

Those markets have exclusive distributors and we generate partnerships and they have their own partnership, so we have a wider proposition with regards to distribution, despite of the fact that we also take part in that distribution. So this is how we work.

With regards to Halal Food and our gross margin. So when we talk about the cost of course we have marketing, we also have distribution, operation, et cetera. for example is more like a very specific the picture of like a shot if compared to what we really need and when we are operating. But now when you see a shot today, a snapshot today and projecting what we had. For example, we had 1.5 year of COVID, developing products, developing trials of new products with their own markets.

So sometimes there was not so much knowledge of that. So we are trying to find solutions out and we wanted to achieve a winery of practical products that helped us accelerate our results here. So as Lorival mentioned, we also have the business and of course business trips and pleasure strips and religious strips. They are related to events and we have fairs, events, seminars and hotels also so consumption has increased and actually much beyond our growth goals actually is much larger than what we expected.

And actually, cost is sustained and it is more temporary in certain -- in our industry. There are trends also. Supply chain we drop, but we, that we have, it will have to happen. With regards containers and muscles et cetera. Actually, we are actually stepping out of COVID with a much wider portfolio, a much wider portfolio of channels as well. So of course we are absolutely sure that the results are going to be so promising in the near future.

Q - Rodrigo Almeida {BIO 20698362 <GO>}

Wonderful, Patricio. So we are just raising the bar. That is great, great news. Thank you.

Operator

Now, the Q&A session has ended. I would like to pass the floor to BRF Global CEO, Lorival Luz, for his final remarks.

A - Lorival Luz {BIO 16180455 <GO>}

Thank you very much for being with us. Now I would like to highlight just the importance of the moment that we are living now. Our company has been able to implement (inaudible) initiatives of gains of efficiency all related to our operation and all of them with great success based on the results that have been disclosed, even considering this adversity of high prices and costs and our main costs. And the results submitted is fruit of all of this work and our perspectives to the future and the way I trust this company, and the way I

trust our staff and our teams and our brands. Everything is extremely positive in my understanding.

In the wake of everything that we've done. So all these processes that have been implemented, all the initiatives with regards to digital transformation and also everything that we've done that will bring us beautiful results and we are at full -- we'll keep our road to the long run as defined and our expectations that this inflation will stabilize and the cost will stabilize and the same standards. And even with the reduction and that will create a possibility for us to capture results, positive results from now on.

Now I would like to just leave you with this QR code image. You can see that you can use that. You can use our Mercato Em Casa. So this is our market with 50% discount. So you make use of this opportunity. If I'm not mistaken, that will be available until Sunday, 50% discount in everything that it is available in the market. So you have also a save the date soon for our BRF Day that should be held in the beginning of December. So the first fortnight of December, we will run the BRF Day. We're going to have an opportunity to be together once again. Many thanks. Have a good day and have a good weekend.

Operator

With that, we end the BRF transmission. Many thanks to all. Have a good day.

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