Q1 2016 Earnings Call

Company Participants

- André Nogueira de Souza
- Jeremiah Alphonsus O'Callaghan
- Russ Colaco
- Wesley Mendonça Batista

Other Participants

- Alexander Robarts
- Bryan C. Hunt
- Carla M. Casella
- Carlos Laboy
- Edward Santevecchi
- Farha Aslam
- Hale Holden
- Isabella Simonato
- Jeronimo De Guzman
- Ronan B. Clarke
- Ryan D. Bloom

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, everyone, and welcome to JBS conference call. During this call, we will present and analyze the results for the first quarter of 2016.

Taking part on this call, we have Mr. Wesley Batista, Global CEO of JBS; Mr. Gilberto Tomazoni, President of Global Operations; Mr. Enéas Pestana, President of South America; Mr. André Nogueira, President of JBS USA; Mr. Russ Colaco, Head of Strategy and Corporate Development; and Mr. Jerry O'Callaghan, Investor Relations Officer.

Now I'll turn the conference over to Mr. Jerry O'Callaghan. Please go ahead, sir.

Jeremiah Alphonsus O'Callaghan {BIO 19817115 <GO>}

Thank you, thank you. Good morning, everybody, and welcome to the JBS SA earnings call for the first quarter of 2016. We're pleased to have you all with us this morning. But before we get into the – to the results, we just wanted to speak a little bit about a Material Fact that we filed yesterday evening with the regulatory authorities here in Brazil regarding our proposed reorganization of the JBS Group.

As part of this reorganization, we intend to file a registration statement for a new company JBS Foods International with both the SEC and the CVM in Brazil. However, because we intend to file a registration statement, all of our comments will be restricted to the information shared with you in the Material Fact. To talk a little bit more about the details of the Material Fact, I'd like to hand you over now to Russ who will go through those details before we get back to speak about the results for the quarter. Russ?

Russ Colaco {BIO 17952782 <GO>}

Thank you, Jerry, and good morning, everyone. The proposed reorganization that was announced yesterday is a natural next step in the continuing development of JBS as a global food company. Our management team went through a process where we have carefully considered various strategic alternatives to enhance the value of our company, and we believe that this proposed reorganization offers the greatest potential to deliver long-term value to our stakeholders.

I'd like to spend a few minutes with you this morning, giving you an overview of the general process the reorganization will follow. So we have formed JBS Foods International which we intend to list on the New York Stock Exchange and on the BM&FBOVESPA through a Brazilian depositary receipts program.

JBS SA will transfer its businesses outside of Brazil and Seara to JBS Foods International, after which JBS SA will be named – renamed JBS Brazil and will remain a publicly listed company on the BM&FBOVESPA.

The creation of a BDR program and having JBS SA remain as a listed company will allow our Brazilian shareholders to participate in both companies.JBS Brazil is going to continue to hold our Brazilian beef, biodiesel, collagen and carrier businesses, as well as our global leather business. The Seara operation and JBS Brazil with their 125,000 Brazil-based team members will remain under the leadership of their existing management and continue their growth strategies in the Brazilian market.

Subject to approval at a general shareholders meeting, JBS will implement a capital reduction where we will deliver to our existing shareholders all of the shares of JBS Foods International. So what this means is, if you are a shareholder of JBS SA today, you will be a shareholder of similar percentage ownership in JBS Foods International. So you will receive an allotment, exchange ratio to be determined of a similar percentage of JBS Foods International shares.

The JBS Foods International shares will be registered for trading on the NYSE with our BDRs registered for trading on the BOVESPA. Shareholders who wish to hold BDRs may exchange their shares of JBS Foods International for BDRs.

Now following the capital reduction, the company's controlling shareholders may contribute their JBS shares held by them in exchange for JBS Foods International shares. As a result of this private capital contribution, if our controlling shareholders contribute more than 50% of the JBS SA outstanding shares to JBS Foods International, JBS SA will become a non-wholly owned subsidiary of JBS Foods International.

In addition, we may offer the opportunity for non-controlling shareholders to contribute their shares of JBS SA in consideration for newly issued shares of JBS Foods International. However, this would be limited to a fixed number of shares that would allow JBS SA to maintain a free float of at least 25% as required by the rules of Novo Mercado.

Now I'd like to spend a moment and focus on what will happen with the debt allocation here. If you are a bondholder of JBS SA today, you will be moved to become a bondholder of JBS Foods International. We believe this transaction will be credit-enhancing to our bondholders. The ultimate capital structure of JBS SA and JBS Foods International is yet to be determined. However, we have determined that the bonds of JBS SA will migrate to JBS Foods International.

We want to assure shareholders that in order to assure that our reorganization complies with the highest governance standards, the company submitted the proposed reorganization to the Brazilian Takeover Panel, CAF. The CAF confirmed to JBS in its decision that the proposed reorganization gives equal treatment to the shareholders of the company and ensures that the final decision to approve the proposed reorganization remains with the company's shareholders.

Upon completion of the reorganization, the JBS Group will continue to be controlled by its existing Brazilian shareholders with its major shareholder J&F Investimentos maintaining its central office and strategic decision-making authority in São Paulo.

The existing management team won't be maintained in its present form with Wesley Batista becoming the CEO of the Global Business. Let me take a moment to share with you some of the transaction benefits that we see from the proposed reorganization.

We believe that having JBS Foods International as a listed subsidiary on the NYSE that contains all of our global businesses and Seara will better reflect the global presence in our diverse international operations. JBS Foods International as an NYSE listed company should have improved access to the international equity and debt capital markets which will enhance our ability to raise financing to support our operations while also lowering our cost of capital.

This will enhance our company's ability to participate in the increasing consolidation of the global food industry and to better compete with other global food companies for international development opportunities.

In terms of timing of the reorganization, we're in the process of preparing a registration statement that will be filed in a timely manner with the SEC and the CVM. We expect that to occur sometime at the beginning of our third quarter.

And with that, I would turn it over to Jerry to provide you some details on our first quarter results.

Jeremiah Alphonsus O'Callaghan {BIO 19817115 <GO>}

Thank you, Russ. Thank you very much. Now to talk about the results for our first quarter 2016, I'd like to make reference to a presentation we've put up on our website. I will be making reference to this presentation and going through the pages and mentioning the numbers, so that the conversation can be aligned with the slides.

Starting on page three of our presentation to talk about the consolidated highlights for the quarter. Firstly, on net sales, they were up almost 30% year-on-year from BRL 33.8 billion up to BRL 43.9 billion in the first quarter of 2016.

Our gross profit went from BRL 4.77 billion, basically flat to BRL 4.76 billion year-on-year with a reduction in our gross profit margin from 14.1% to 10.8%.

Moving on to the next page and looking at EBITDA and net income. Our EBITDA for the quarter was BRL 2.137 billion compared with BRL 2.758 billion in the corresponding quarter last year, down 22.5% year-on-year. EBITDA margin going from 8.2% to 4.9%.

Net income, which was impacted by FX variation results, went from BRL 1.39 billion in the first quarter of last year, positive BRL 1.39 billion to negative BRL 2.74 billion in the first quarter of 2016. The reduction in the EBITDA was impacted by the beef operations in North America and we're going to talk about that a little bit more as we go through our presentation.

Next page, cash flow, operational cash flow and free cash flow. We had negative BRL 4.44 billion in operational cash flow in the quarter against a correspondingly positive number in the same quarter last year. Free cash flow was negative BRL 5.2 billion, and again, this is as a result of the instruments related to the protection against our exchange rate variation.

Speaking of our FX variation and the results of the - of JBS as a result of its hedging policy. On page six of our presentation, we've put up a little chart which demonstrates the results of our hedging over the last five quarter. If we look at the results of FX variation, the sum over of the five quarters was negative BRL 7.37 billion.

We had a positive result and this is regardless of the result of the first quarter 2016 as - of BRL 5.8 billion. We had a positive result over those five quarters of BRL 4.78 billion, since the beginning of 2015, a positive result of BRL 4.78 billion.

So our net result of the FX variation using derivatives was BRL 2.59 billion. It would have been BRL 7.37 billion were it not for the use of these instruments and this is demonstrated clearly quarter-on-quarter on page six of our presentation.

Moving on to talk about our debt a little bit. Our debt was $13.69 billion at the end of the first quarter. If we look at it in reals, we've had our debt going from approximately BRL 33 billion, at the end of the first quarter last year, to BRL 48.7 billion at the end of this quarter with leverage going from 2.29 times, up to an adjusted 3.6 times at the end of this quarter.

I think it's important just to remember here that during this span, we've had acquisitions that totaled over BRL 20 billion and so our net debt going from BRL 16 billion - going up BRL 16 billion in the period is much less than the amount of investments we've made in new acquisitions in the period.

And we're taking into account the pro forma EBITDA associated with those acquisitions through the last 12 months to reach the 3.6 times leverage. Also important to remember that at the end of the first quarter 2016, we had more than BRL 15 billion, BRL 15.3 billion in cash at JBS.

Here's a breakdown of our debt by currency, by source and by company on page eight. By currency, it's 91% dollar and 9% Brazilian reals and the cost 5% in dollars and 14.6% in reals. The major split is between commercial banks and the capital markets, basically 60%, 40%. The breakdown by company is about 45% at SA, 45% at USA and the balance at JBS Foods.

I think it's important to look at the maturity at the bottom of page eight. We've had - we have minor maturities in the next four years, five years up until 2020 with the majority of our debt maturing after 2020.

Looking at long-term and short-term debt on page nine, one-third of our debt is in the short-term and we broke down that short-term debt a little bit so that people can appreciate that the vast majority of it, almost three quarters, is actually trade finance for our business in Brazil which is a major exporter. We will export out of Brazil this year more than USD 7 billion. And we have all these trade lines. We don't have committed lines as in the U.S., in Brazil. So we have these trade facilities which are revolving all the time, but they're all short-term. And we revolve - we rotate those lines all the time. 72% of our short-term debt is in this category.

Now moving on to talk about our business units, a little bit more detail about each business unit starting with JBS Foods. Net revenue for JBS Foods in the first quarter was BRL 4.28 billion as against BRL 3.87 billion in the corresponding quarter last year, up over 10% year-on-year. EBITDA was BRL 580 million down from BRL 616 million down just under 6% year-on-year with EBITDA margin declining from 15.9% to 13.5% in the first quarter of this year.

The growth in revenue was associated with the increase in sales prices and volumes. Market share, we've had growth in market share, just about all product categories and this in accordance with independent Nielsen numbers. We've had in Brazil particularly in this first quarter of 2016, we've had an increase in the cost of production, primarily due to the increase in the cost of corn in Brazil which has gone up much more than corn prices on the international market. And just to mention finally, we have revamped the Seara brand. We have the new Seara brand in our presentation in page 11. We've modernized the brand and we are launching new packaging and new products under this revamped Seara brand.

Moving on to the Mercosul business, which is just to recap here, the Mercosul business is our beef business in Brazil, Paraguay, Uruguay and Argentina, our global leather business and all associated businesses which goes from biodiesel to collagen to all the other activities which are related to our beef business. We had just under BRL 7 billion in sales in the first quarter of this year, up 3% from the first quarter of 2015. EBITDA doubled basically from BRL 3.76 million (sic) [BRL 376 million] (16:37) in the first quarter of last year to BRL 761 million in the first quarter of this year. EBITDA margin going from 5.6% to 10.9%.

We had an increase in sales prices of fresh beef in the domestic and in the international market. We've also seen a decline in the number of livestock that we processed in the first quarter of this year against the first quarter of last year, basically we're in adjustment of capacity through 2016 which was necessary due to a mismatch between the amount of capital available and the amount of capacity installed. So that has been resolved.

And we've seen an increase in exports. Early part of last year, we had a lot of difficulty with exports particularly out of Brazil. We've seen much better exports at the beginning of 2016, remembering that China has become a relevant destination for Brazil over the last 12 months.

Speaking of our USA beef business, we had a decline in revenue from USD 5.2 billion down to USD 4.65 billion, a decline of almost 10.5%. EBITDA went from positive USD 186 million down to negative USD 215 million with EBITDA margin going from positive 3.6% to negative 4.6% year-on-year. And this is primarily due to three factors. First factor is associated with Australia. We had a decrease in the number of livestock in Australia, and that is as a result of change in climatic conditions. With the improved rains and the better pastures in Australia, there's been a lot of cattle retention. So cattle have become less available and obviously more expensive.

And parallel to that, we've had an appreciation of the Australian dollar against the U.S. dollar and seeing as 75% plus of our revenues in Australia come from exports, any increase in the value of the local currency is a cap on margins. We also had mark-to-market position associated with cattle purchases in the U.S. and in Canada. We had a decline in cattle prices in the first quarter of 2016, and so this mark-to-market position was quite relevant in the first quarter. And we also had, as a result of a decline in cattle prices, a reduction in the prices of fresh beef in the domestic and in the international market. We've seen a big pickup in beef consumption in North America in the recent past, partially driven by the decrease in meat prices.

With regard to our pork business in North America, JBS USA pork, page 14 in our presentation, we saw a big increase in our revenue in this business unit. And this is as a result of the integration of the assets associated with the acquisition of the pork business from Cargill during the last quarter of 2015. So revenues went from USD 762 million to USD 1.256 billion in the period, up almost 65% when compared with the same quarter last year. EBITDA was USD 102 million against USD 93 million in the corresponding period last year. EBITDA margin was down. There are some challenges associated with the integration but great opportunities at the same time. We are working on the integration and very happy with the acquisition. We've seen increased exports out of the U.S. of pork products, primarily to the Asian market in the period and we expect that to continue.

The JBS USA chicken business, which is Pilgrim's Pride Corporation, they have already published their numbers and the market is aware of them. We've seen a decline in revenue from just over

USD 2 billion to USD 1.96 billion year-on-year, down just under 5%. EBITDA was down also from USD 363 million, down to USD 233 million with an EBITDA margin of 11.9% this year against 17.7% last year.

We saw this reduction in prices both domestically and on the international market, at the same time, input cost declined as well. We had an increase in sales in Mexico, and that's primarily boosted by the acquisition of the assets that we had in middle of last year in Mexico.

We're converting one of our U.S. poultry – chicken facilities to be a fully organic certified facility. We announced that recently, that's quite relevant to a growing market and a high value market in the U.S. And also Pilgrim's announced at the – when they announced the earnings release at the end of the first quarter that they are making a special dividend payment of USD 2.75 per share to their shareholders later on in this month of May, about USD 540 million of that dividend will flow down to JBS.

Moving on to our European business, Moy Park, which we acquired six months ago. So this is the second quarter that we are reporting this business. We had a decline in revenue year-on-year, marginal decline in revenue primarily due to the conversion of euros into sterling. These numbers are in pound sterling, not in dollars, and about 20% of the revenue is derived from the Continental European business in euros. So there has been a marginal decline in revenue because of that.

EBITDA was up from GBP 28.2 million to GBP 30.6 million with EBITDA margin going from 8% to 8.8%. We're already seeing an improvement in operational efficiency with the focus on cost control, and we're obviously very enthusiastic about the synergies associated with the integration of Moy Park with the JBS Group.

Now with that, we complete our prepared remarks and our presentation here. Before we open for Q&A, I would like to pass you over to our Global CEO, Wesley Batista for his comments before we open for questions-and-answers. Thank you.

Wesley Mendonça Batista {BIO 15243148 <GO>}

Thank you, Jerry. I'd like to add some comments on our proposed restructuring as well on our results. So, as Russ described and went through the proposed reorganization, we have been analyzing for quite a while various alternatives and ideas to have a corporate structure that better reflect who we are today being a global player like we are. And we strongly believe that after a long period of time analyzing all these various alternative, this proposed reorganization offers the greatest potential to deliver long-term value to our shareholders and stakeholders. About – and we look forward to implement this reorganization in a timely manner.

About the – about our results, a couple of comments, was a challenged quarter coming from two areas basically. One coming from our beef business in the U.S. that includes Canada and as well Australia. Jerry already described some issues and one-time issues that we faced in this quarter. We also believe that these issues that we faced in the first quarter in our beef business is not recurring issues that is one-off kind of issue and we are going to be able to, in the coming quarters, to deliver better results on this division.

On our hedging strategy, we were impacted as well in this quarter. We have been – with this strategy to being fully hedged (25:49) since the beginning of 2015, as we were seeing commodity price going down, the U.S. economy looking for hikes, rate hikes or so, and as well uncertainty coming from China. On top of all that, all the Brazilian uncertainty coming from the political side, then as well from the economy side. So we – even though we were impacted in this quarter, as Jerry described, when we look our strategy in the last five quarters since we start to be fully hedged, the strategy is still working very well for JBS. We protect our results by BRL 4.8 billion if we were completely unhedged, looking for natural hedge, something that we don't believe that is the right way to look. We were going to get impacted BRL 4.8 billion more. So we were able to protect our results by BRL 4.8 billion. So we - again even though with the impact in this quarter, we believe that the strategy worked well. So - but now things changed substantially in our view, when we look, commodity price got some - stabilized and actually got some rebound. The situation in China is more stable and I think there's less uncertainty coming from China, as well the U.S. economy, the speed or the magnitude of rate hiking reduced the expectation, so the market is looking for two hikes or maybe even less.

So - and we have today big event in Brazil that is the change on the government in Brazil and also this brings another scenario and another expectation. So with all this (28:21) things changing together, so we changed substantially our strategy. So we let expire USD 2.5 billion in hedge by the end of the first quarter and from the end of - since the end of the first quarter to now, we reduced substantially our hedging position. And actually the other way around, we now see a possibility to see the real strengthening against the U.S. dollar.

So we adapted and adjusted our structure. We are confident that our global business and our diversified platform in regions and also in different segment is a key differentiation for JBS, and we strongly believe that our business is set to perform well and to deliver a good result in this coming quarter.

So, with that, I'm going to ask the operator to please open to Q&A.

Q&A

Operator

Our first question comes from Bryan Hunt, Wells Fargo.

A - Jeremiah Alphonsus O'Callaghan {BIO 19817115 <GO>}

Hi, Bryan.

Q - Bryan C. Hunt {BIO 1530288 <GO>}

Good morning. Thanks for your time. Firstly, I've got two fundamental questions, then two cap structure questions. First, if I were to dig into the USA beef results, results were definitely lower than expected. Can you discuss the segments of the Canadian operations as well as Five Rivers? Were those the drivers as well as Australia with the losses relative to the U.S. operations? Can you just dive into those results a little more?

A - Wesley Mendonça Batista {BIO 15243148 <GO>}

Sure. André, please.

A - André Nogueira de Souza {BIO 20244486 <GO>}

Bryan, four main reasons as Jerry comment some of the reasons for the performance below our expectation in the quarter. I'll start what the main reason, Bryan, and on top of Jerry had said, just remind that Australia normally have a very strong seasonality. The first quarter is very weak. It's the time that you shutdown the plants for maintenance and for vacations. The shutdown this year was much longer than the last two previous years. Our big plants, our biggest plants and the most important plants, we shut down for a month and one plant we shut down for three months because of the weather condition in that region. So Australia was a big hit on top of what Jerry already said in terms of the availability of cattle and the Aussie dollar. The shutdown in the Australia plants was much longer this year than normal.

Canada was another important impact. (31:46) in Canada, most of the cattle, you contract the cattle, the low cattle availability in U.S. last year forced a lot of cattle moving from Canada to U.S. So, normally, you buy, you contract cattle in Canada with discount in the base compared to U.S. brand and the discount goes to USD 100 to USD 150 (32:05) per head. This base discount disappear for this first quarter. So the contract are longer and the base disappear. Then the cost is just a consequence of the less availability of cattle in U.S. last year.

The good news to hear is that for the next quarters especially the second part of the year, the base arrive in Canada for the cattle already (32:30) went back to the normal historical level. So we're not seeing that. In Australia now we are operating all the plants, so I run the Australia in the normal level now. Another point was our operation here, Bryan, in the U.S. was not in the level that we expect the last two quarters. We have a lot of opportunities that we are working now in a very intense way to take this opportunity. So I don't think that we run our operation as well as it should in the last two quarters, and I'm very confident that we change that going forward.

You asked about specifically Five Rivers, there's no impact about Five Rivers. Five Rivers see a lot (33:14) of operation with hotel, so there's no impact that came from the Five Rivers. There is an impact that came from contract cattle. We contract cattle last year and carry these contracts (33:26) to this year and the various – the cattle price affect our performance in the quarter. So these are the four major reasons. If I put in (33:55) scale, Australia was the most relevant one.

Q - Bryan C. Hunt {BIO 1530288 <GO>}

Okay. Fantastic, and I'll only ask two questions on cap structure. I'll forget my other fundamental question. Can you talk about within the JBS structure, what the plans are for the USD 540 million dividend that'll be paid next week at a PPC?

A - Russ Colaco {BIO 17952782 <GO>}

The dividend will be going to JBS USA, but we're really not going to comment further than that as to use of proceeds at this time, Bryan.

Q - Bryan C. Hunt {BIO 1530288 <GO>}

Okay. And then my last question is you're listing on the New York Stock Exchange and those shares are going to be exchange shares for SA holders to exchange into JBS International. Will – are the plans in place for JBS International to issue any primary shares as well?

A - Russ Colaco {BIO 17952782 <GO>}

The reorganization, as contemplated, does not have us issuing any primary shares to new shareholders. So, if you're a JBS SA shareholder today, you will receive new JBS Foods International shares. You will keep your existing JBS SA shares and you may also have the opportunity to exchange your existing JBS SA shares for newly issued JBS Foods International shares. However, there won't be a primary issuance to any new investors as contemplated today.

Q - Bryan C. Hunt {BIO 1530288 <GO>}

Very good. I'll get back in the queue. Thank you.

A - Wesley Mendonça Batista {BIO 15243148 <GO>}

Thank you.

A - Jeremiah Alphonsus O'Callaghan {BIO 19817115 <GO>}

Thanks, Bryan.

Operator

Our next question comes from Carla Casella, JPMorgan.

Q - Carla M. Casella {BIO 2215113 <GO>}

Hi, one clarification on the U.S...

A - Wesley Mendonça Batista {BIO 15243148 <GO>}

Hi, Carla (35:29).

Q - Carla M. Casella {BIO 2215113 <GO>}

Hi. On the U.S. beef business, how much was the mark-to-market charge or gain or loss in the quarter?

A - Wesley Mendonça Batista {BIO 15243148 <GO>}

André?

A - André Nogueira de Souza {BIO 20244486 <GO>}

Carla, the total mark-to-market for the total JBS USA that includes beef, pork and the chicken operation, you can see in our numbers is close to USD 100 million. So that's the total impact in the total derivative contract. But that includes beef and that includes pork, that includes chicken (36:07). So, again, we're not – we do not breakdown for any specific (36:12), but was a relevant impact for beef. But again just to keep in perspective, the Australia impact was more relevant because of the time that we stopped the plants in Australia.

Q - Carla M. Casella {BIO 2215113 <GO>}

Okay. And then you said the Australian impact, you said that's completed now. So, second quarter, will it be more normalized or was it completed or were the plants reopened in the middle of the second quarter?

A - André Nogueira de Souza {BIO 20244486 <GO>}

Now we stopped the plants, Carla, in Christmas time and most of the plants stopped for four weeks, some of the plants stopped longer than that, but all the plants are reopened. The last plant that we reopened, we reopened at end of March. So Australia is running normally again, normal level, but we have less (37:02) Australia. We've said that since last year and expect that the Australia production this year would be around 15% less than was last year. And we're seeing that as we start the year. So Australia is running, all the plants are running, it's more normal level, but not with the level and the margin that we saw in the last two years. On the other hand, the U.S. introduces (37:25) the much more favorable position now. So our expectation is very positive for beef U.S. for the remainder of the year in the next three quarters.

Q - Carla M. Casella {BIO 2215113 <GO>}

Okay. So has the normalized margin level for beef changed longer-term or you just expect to be below that for this year?

A - André Nogueira de Souza {BIO 20244486 <GO>}

I think that, if we look for the next three quarters, Carla, I think that we go in the direction of the normalized and if you see that we're entering the normal positive cycle, I think that we can expect that this year will be close to the normal level for the remainder of the year. Again, it's seasonal, it's quarter-by-quarter for the remainder of the year, and I think that we have a big chance that next year will be above normal.

Q - Carla M. Casella {BIO 2215113 <GO>}

Okay. And then on the cap structure, so will the existing bonds that are guaranteed by SA, will they get – it sounds like they'll get a new guarantee from JBS Foods International, will they also retain their existing JBS Brazil guarantee or will the guarantee just shift to the JBS Foods International?

A - Russ Colaco {BIO 17952782 <GO>}

It will shift to JBS Foods International.

Q - Carla M. Casella {BIO 2215113 <GO>}

Okay. Great. And then will there be a new org structure that shows where the bonds reside? I know you did one of those when you did the re-org in December.

A - Russ Colaco {BIO 17952782 <GO>}

Absolutely, Carla, and all that will be disclosed when we file the registration statement.

Q - Carla M. Casella {BIO 2215113 <GO>}

Okay. And one quick cap structure, any thoughts on – I know you've got some U.S. bonds that are callable, any thoughts on refinancing?

A - Russ Colaco {BIO 17952782 <GO>}

No thoughts on refinancing that at the moment given all we have going on with this reorganization right now.

Q - Carla M. Casella {BIO 2215113 <GO>}

Okay. Great. Thank you for all the answers.

A - Russ Colaco {BIO 17952782 <GO>}

Thank you.

A - Jeremiah Alphonsus O'Callaghan {BIO 19817115 <GO>}

Thank you. Thank you, Carla.

Operator

The next question comes from Carlos Laboy, HSBC.

Q - Carlos Laboy {BIO 1506984 <GO>}

Good morning, everyone.

A - Wesley Mendonça Batista {BIO 15243148 <GO>}

Good morning, Carlos.

Q - Carlos Laboy {BIO 1506984 <GO>}

Congratulations. I mean this is a huge step forward to fixing your stock. I was hoping you could clarify three issues that fall out of this restructuring. The first one is that, is a buyout calculation about a third of your cost of equity maybe 600 basis points is governance risk, corporate governance risk and Brazil country risk. But this doesn't entirely go away unless the new corporate bylaws are world class. Can you give us any comfort on the notion that the corporate bylaws that are going to emerge are going to be world class, not just minimum New York Stock Exchange compliant. On a related basis, what's you're thinking on the chairmanship of the new company? And the third issue that falls out relates to the hedging activates. Does this New York Stock Exchange listing and the structure of the new company eliminate your need for hedging activities have recently worried investors?

A - Russ Colaco {BIO 17952782 <GO>}

So let me tackle those one at a time. Your first question related to our governance and bylaws. Of course, we're going to file all our bylaws with the registration statement, and you'll get a chance to see that. We have a commitment to having very strong corporate governance. We are certainly not shooting for the minimum as you said in terms of our bylaws. And so that is something that you'll see when the registration's filed. We understand your concern and part of this reorganization is aimed at having a high standard of corporate governance.

You had a question around the hedging. Clearly, as you move to the NYSE and you have a dollar currency and as you know most of our revenues are in dollars, the need to hedge against real risk would be substantially diminished. So you could expect to see a very strong diminution in any hedging, currency-related hedging activity by the company. And sorry, Carlos, your second question was?

Q - Carlos Laboy {BIO 1506984 <GO>}

Was relating to the chairmanship, have you defined the chairmanship of the new company and the board structure?

A - Russ Colaco {BIO 17952782 <GO>}

So we have a commitment to having independent directors and independent committees. We will announce the candidates for the board with the filing. And you know as well as I do what the rules are for the NYSE is to, one, those director candidates need to be announced. We are hoping to be ahead of that schedule.

Q - Carlos Laboy {BIO 1506984 <GO>}

This is very helpful. Thank you.

A - Wesley Mendonça Batista {BIO 15243148 <GO>}

Thank you, Carlos.

A - André Nogueira de Souza {BIO 20244486 <GO>}

Thank you, Carlos.

Operator

The next question comes from Isabella Simonato, Bank of America Merrill Lynch.

A - Jeremiah Alphonsus O'Callaghan {BIO 19817115 <GO>}

Hi, Isabella.

Q - Isabella Simonato {BIO 16693071 <GO>}

Good morning – hi, Jerry, how are you? Hi, Wesley.

A - Wesley Mendonça Batista {BIO 15243148 <GO>}

Hi.

Q - Isabella Simonato {BIO 16693071 <GO>}

So thank you for the question. I have a question regarding the restructuring and more related to management, for you guys wrote on the press release, nothing is going to change for now. But I was more curious regarding the organization in South America with Mr. Pestana as the CEO, if anything changes, not now but in the future, what are you guys seeing on this? Thank you.

A - Wesley Mendonça Batista {BIO 15243148 <GO>}

Yeah, no, we don't plan to change our structure (43:04) Enéas going to keep being our South America CEO, and of course, my position when we finish the restructure I'm going to be – I'm already the JBS Global CEO, I'm going to the JBS Global CEO and André is going to be leading our business, CEO for our North America business. So not major change, but until the completion of the restructure, we are going to finalize if we are going to change anything. But as now, we don't plan any major or meaningful change in management.

Q - Isabella Simonato {BIO 16693071 <GO>}

Okay. Thank you very much.

A - Wesley Mendonça Batista {BIO 15243148 <GO>}

Okay. Thank you.

Operator

Our next question comes from Hale Holden, Barclays.

Q - Hale Holden {BIO 4777218 <GO>}

Good morning. Thank you for taking the call. Just two cap structure questions.

A - Jeremiah Alphonsus O'Callaghan {BIO 19817115 <GO>}

Good morning.

Q - Hale Holden {BIO 4777218 <GO>}

You said the separation will be credit enhancing for JBS SA bonds and I was just wondering if you could elaborate on why you felt that?

A - Russ Colaco {BIO 17952782 <GO>}

Sure. So the bonds are going to move to Foods International. We are going to have – we don't think there's any diminution in the security package that's provided to the bonds. We think moving to a dollar company will help with some of the volatility around exchange and we think that being domicile in a international jurisdiction might be viewed more favorably by our bondholders.

Q - Hale Holden {BIO 4777218 <GO>}

Okay. And then my second question is the assumption would be that all of the short-term trade receivables and bank lines that are currently in country in Brazil as SA obligations would remain the new SA Brazil entity?

A - Russ Colaco {BIO 17952782 <GO>}

So we have not determined the level of debt that will remain at JBS Brazil. If you want to think about principles, the company is an export-driven company and as we think about what debt might remain in JBS Brazil, we'd really be focused on export-related financing. But we haven't made any determination as to the final amount of leverage that will remain at the company and we'll do that in consultation with our bankers.

Q - Hale Holden {BIO 4777218 <GO>}

And then no decision on cash separations right?

A - Russ Colaco {BIO 17952782 <GO>}

Correct, correct.

Q - Hale Holden {BIO 4777218 <GO>}

Okay. Thank you for the call and time. I appreciate it.

A - Wesley Mendonça Batista {BIO 15243148 <GO>}

Thank you.

A - Jeremiah Alphonsus O'Callaghan {BIO 19817115 <GO>}

Thank you, Hale.

Operator

The next question comes from Farha Aslam, Stephens Incorporation (sic) [Stephens Incorporated] (45:48).

Q - Farha Aslam {BIO 6151888 <GO>}

Hi, good morning.

A - Wesley Mendonça Batista {BIO 15243148 <GO>}

Hi, Farha.

Q - Farha Aslam {BIO 6151888 <GO>}

Question on Pilgrim's, do you anticipate in this new structure that Pilgrim's will remain a publicly traded company in the U.S.?

A - Russ Colaco {BIO 17952782 <GO>}

Farha, there haven't been any decisions about what we intend to do with our structure beyond the reorganization. But as a principle, the company doesn't comment on M&A speculation.

Q - Farha Aslam {BIO 6151888 <GO>}

Okay. And then one fundamental question perhaps for André, you see increasing announcements of poultry facilities being built in the U.S. as well as pork plants that will potentially be built in the U.S. and you have a recovering cattle supply, so you will have more beef. With this added protein, how do you expect consumption over the next few years to run in the U.S. and how do you think that's going to affect your profitability?

A - André Nogueira de Souza {BIO 20244486 <GO>}

Farha, if you look the way that consumption's behaving now in U.S. I think that's in a very strong pace. We grew production mostly cattle. But when you put out the proteins together, 3% in the first quarter and it's a very strong demand supporting that. So I don't see any imbalance in this near future, even cattle is coming back and we're going to see a little bit more production of beef this year and next year. It's still way, way below how it was few years ago and we'll be balancing at this side because a lot of plant was shut but it's too way below our historical production level.

And I think that U.S., especially in the pork side (47:42) in the chicken side, there is relatively more number of plants. So, if plant should be build, I don't think that change anything of the growth of 2% or 3% per year. In the pork side, we have some plants announced two years from now. I think that we will have an off demand and U.S. will continue to grow in the export there to help just be balanced there. So the future that I can see, one, two years, three years, I don't see any imbalance being built on this structure now.

Q - Farha Aslam {BIO 6151888 <GO>}

That's helpful. Thank you.

A - Jeremiah Alphonsus O'Callaghan {BIO 19817115 <GO>}

Thank you, Farha.

Operator

The next question comes from Ed Santevecchi, Nomura.

Q - Edward Santevecchi {BIO 5947871 <GO>}

Hi, guys. Thanks for the call. Just I guess one more follow-up on the cap...

A - Wesley Mendonça Batista {BIO 15243148 <GO>}

Hey, Ed.

Q - Edward Santevecchi {BIO 5947871 <GO>}

Hi. Just a follow-up on the cap structure questions. I know you mentioned that the SA bonds will move over to Foods International. So can we expect I guess a cross-guarantee just at that new HoldCo level or could be (48:51) a cross-guarantee more at the OpCo levels? And then in that vein going forward, can we expect a more simplified structure just for debt issuance where we can view everything as kind of cross-guaranteed and one and the same? What are your thoughts on I guess using the U.S. OpCos to benefit the SA business?

A - Russ Colaco {BIO 17952782 <GO>}

We're not going to comment on that now. You'll see all that when the consent solicitation goes out. Again, the one thing I want to just make clear to our bondholders is that they're going to preserve the same covenants that they have today, and largely the same covenants they have today, and largely the same security package that they have under them. So we don't expect this to be an issue for them that's why we're confident in the consent. And then, for the rest of your questions, just you'll have to wait until the consent solicitation comes out.

Q - Edward Santevecchi {BIO 5947871 <GO>}

Okay, and any idea on when we should expect that for the next step?

A - Russ Colaco {BIO 17952782 <GO>}

That would come after the filing of the registration statement, so won't be a near-term event.

Q - Edward Santevecchi {BIO 5947871 <GO>}

Okay, great. Thank you.

Operator

The next question comes from Jeronimo De Guzman, Morgan Stanley.

Q - Jeronimo De Guzman {BIO 15888043 <GO>}

Hi, good morning. I just had one clarification question on the re-org, specifically about the private – the exchange by the controlling shareholders of JBS SA shares for JBS Foods International. I just wanted to understand the mechanics of that because – just wanted to understand, I mean the minorities, are they subject to the cap in terms of the – keeping the free float at 25%, but not the controlling shareholders, or is everyone proportionately subject to that cap of 25% ?

A - Russ Colaco {BIO 17952782 <GO>}

Yeah, no, great question. So we don't count in the free float the controlling shareholders. And so we need to maintain a 25% free float according to the rules of the Novo Mercado. So it's really the pro rata effect on the capital contribution that's going to be restricted to the non-controlling shareholders.

Q - Jeronimo De Guzman {BIO 15888043 <GO>}

I see. Okay. And how come the controlling shareholders don't count for free float? I'm not sure I understand that.

A - Wesley Mendonça Batista {BIO 15243148 <GO>}

The free float (51:34) is – are the shares of the non-controlling shareholders.

Q - Jeronimo De Guzman {BIO 15888043 <GO>}

Yes. Correct. But I guess what I don't get is, the controlling shareholders have 43% and then you have other shareholders and you have the minority. I'm just wondering why not everyone would be subject to the same requirement.

A - Russ Colaco {BIO 17952782 <GO>}

Well, we need to maintain – because we don't count as free float and that's really not a JBS decision whether our JNS (52:10) shares are counted as free float, that's the regulators decision. But it's really the public or the non-controlling shareholders that are counted as free float. And so, when the pro rata distribution happens, if we have more non-controlling shareholders than shares available who would like to participate in the capital contribution, then we'll have to restrict it such that we maintain a 25% free flow.

Q - Jeronimo De Guzman {BIO 15888043 <GO>}

Okay. Got it. Thank you.

Operator

Our next question comes from Ronan Clarke, Deutsche Bank.

A - Wesley Mendonça Batista {BIO 15243148 <GO>}

Hi, Ronan.

Q - Ronan B. Clarke {BIO 16934256 <GO>}

Hi, there. Just a quick one on the Moy Park restricted group, I'm just wondering, could you comment on any implications of the reorganization there? So, for example, any thoughts on leverage policy? Will there be a consent process or even a change in controls for the Moy Park bonds and do you see that restricted group as compatible with the new balance sheet and organization?

A - Russ Colaco {BIO 17952782 <GO>}

So there will be no impact to the Moy Park bondholders, so really no issue there.

Q - Ronan B. Clarke {BIO 16934256 <GO>}

Okay. And just in general, given that there's so much on the plate at the corporate level, will there still be focus on the synergies at the Moy Park and do – for this year?

A - Jeremiah Alphonsus O'Callaghan {BIO 19817115 <GO>}

Ronan, we're always focused on synergies. We have a tradition of making acquisitions and integrating those businesses and capturing the synergies. There will be no distraction from the operational point of view of advancing with those synergies due to this proposed reorganization. They will operate completely parallel one to the other.

Q - Ronan B. Clarke {BIO 16934256 <GO>}

Okay. And can we rate the margin improvement in Moy Park in this quarter? Is that a little synergy that we're seeing or is there something else going on?

A - Jeremiah Alphonsus O'Callaghan {BIO 19817115 <GO>}

Yes. Yeah. There are synergies. Basically, the team are working together with the JBS team and we should probably see the synergies kick in gradually June 2016.

Q - Ronan B. Clarke {BIO 16934256 <GO>}

Okay. Super. Thank you very much.

A - Wesley Mendonça Batista {BIO 15243148 <GO>}

Thank you.

A - Jeremiah Alphonsus O'Callaghan {BIO 19817115 <GO>}

Thank you, Ronan.

Operator

The next question comes from Ryan Bloom, Hartford.

Q - Ryan D. Bloom {BIO 15328797 <GO>}

Yes. My questions have already been answered. Thank you.

A - Jeremiah Alphonsus O'Callaghan {BIO 19817115 <GO>}

Okay, Ryan. Thank you.

Operator

The next question comes from Alex Robarts, Citi.

Q - Alexander Robarts {BIO 1499637 <GO>}

Thanks for taking the question. I wanted to follow-up first of all on your commentary in earlier call around the group's capital structure target. You mentioned getting back to close to 2 times net debt EBITDA is the goal. As we've seen, you guys get up to 2.8 times or so in this quarter. When you think about that deleveraging process, is it in your mind more of a function of kind of cycling out of these seasonally soft quarters? Is it a – or could it be also some thinking around taking out or paying down some of the gross debt? So that's the first question. Thanks.

A - Wesley Mendonça Batista {BIO 15243148 <GO>}

Alex, basically if you look last year, we did over $5 billion actually close to $6 billion in acquisition. So this put our leverage up, and we are integrating these acquisitions, and we – I said before that we are in a mood, not in acquisition mood here today, because we did to finalize the integration of this business and as well we – as we incorporate this business and our leverage increase, we are focused now to see our leverage going back and declining again. But nothing related to the performance of the business, more related to step-by-step, we did $5 billion – $6 billion in acquisition, integrating, digest (56:37), leverage went up, reduce the leverage and being able to later to go again. So it's more about a question of integrating and deleveraging again. So we are not deleverage mood and it's not an acquisition mood. And it's not because the performance, it's more because the timing.

We did a lot. Think about, we acquired Primo last year in Australia. We acquired the Cargill Pork business in U.S. We acquired Moy Park. We acquired the Tyson Brazilian and Mexican chicken business. We acquired a lot of chicken companies here in Brazil, so we have a lot of things in our plate to finalize the integration. And as a result of that we are going to be focused on this integration, we expect to see our leverage coming back again.

Q - Alexander Robarts {BIO 1499637 <GO>}

Okay, no, very clear. The second question is more on the corporate reorganization and I – you made it clear that tax synergies or tax benefits from this new structure are not expected. When you think about it though operationally, a clear change is that your branded processed poultry business, Seara, essentially becomes a company listed in New York. Did that change how you think about going to market in any of your markets? What I'm trying to get at is that, might there be a potential for revenue synergies or some way of going to market that would be different and generate any benefits in this new structure or not? So that's the second question. Thank you.

A - Russ Colaco {BIO 17952782 <GO>}

Okay. So I think your question is not really addressed at tax but is really addressed at – with Seara, do we have the opportunity to leverage that brand or those products or our knowledge and processes globally to advance the company. And certainly, we are – we have value-added businesses in the UK. We have a value-added business in Australia, and with those three companies now part of international, there is certainly opportunity to share knowledge, to share product processes, to share go-to-market strategies, to enhance the successfulness of the business. So I think your comment is correct in that there is some things we can do to improve our go-to-market as we have those housed under one company.

Q - Alexander Robarts {BIO 1499637 <GO>}

Would it be fair to assume that you might give us a sense as the process continues this year of quantifying that or is that something that's kind of a work in progress still?

A - Russ Colaco {BIO 17952782 <GO>}

I would say that's a work in progress right now in terms of how we would manage things differently going forward. So probably not disclosing synergies around the three organization at this point.

Q - Alexander Robarts {BIO 1499637 <GO>}

Got it. Thanks.

A - Wesley Mendonça Batista {BIO 15243148 <GO>}

Thank you, Alex.

Operator

This concludes today's question-and-answer session. I'd like to invite Mr. Wesley Batista to proceed with his closing statement. Please go ahead, sir.

A - Wesley Mendonça Batista {BIO 15243148 <GO>}

Thank you. Thank you all for being in the call with us today. We look forward to implement the proposed reorganization. Like we mentioned before, we believe that the proposed reorganization offer the greatest potential to deliver long-term value to our stakeholders, and as well, we are confident that our platform, that we believe is quite a unique platform, global platform is well set to deliver good results in this coming quarters. And we are going to keep invest in our brands, in our business and looking forward to grow our branded business and our portfolio in the value-added business.

So, with that, thank you all and have a great day.

Operator

This concludes JBS audio conference for today. Thank you very much for your participation and have a good day.