Y 2012 Earnings Call

Company Participants

- Marcos Antonio Molina dos Santos, Chief Executive Officer
- Ricardo Florence dos Santos, Investor Relations Officer
- Unidentified Speaker

Other Participants

- Alan Alanis, Analyst
- Alexandre Miguel, Analyst
- Christopher Vandergrift, Analyst
- Diego Maia, Analyst
- Eric Ollom, Analyst
- Fernando Ferreira, Analyst
- Josephine Shea, Analyst
- Unidentified Participant
- Wesley Brooks, Analyst

Presentation

Marcos Antonio Molina dos Santos {BIO 15363967 <GO>}

(Starts Abruptly) 2012 to 81%. We are delivering the EBITDA, earnings before taxes, interest and taxes and depreciation for the year in line with market forecast R$2.13 billion with a steady margin of 9%. So this year, the annual performance was pretty much in line with what we had expected and it was a very intense here. It was, it was a challenging year for a variety of reasons that we will articulate as we go through.

The year did not finish better and actually we weren't able to get a breakeven point giving the signal towards profitability in light of the fourth quarter. Fourth quarter was impacted by the following factors; one the grain prices, and particularly corn which we have widely discussed with the marketplace through 2012.

Second, the consolidation of the assets swaps of the assets, which basically came from Brasil Food and the third, later part of the third quarter, fourth quarter of 2012 were quite challenging. The integration process was challenging for a variety of reasons that I'll articulate as we go through.

Still a year that we are ending with better capital structure, we are disappointed that we are not able to bring a leverage ratio under four because that would have been our desire already, but it's already presenting a leverage level ratio that is coming down. So from 4.5 from 2011 to 4.35 in 2012.

On a quarter-to-quarter, our third quarter 2012 to fourth quarter 2012, our net debt reduces by 100 million again reais and significant towards what our ambition is. A couple of all important -- important elements of 2012, we have certainly ended the year with a very solid cash position of over R$3 billion, which is important, and we have, we will articulate that later on during the presentation. Improved duration of our debt maturity pro forma of our debt as we will show later on.

On the governance front, we are trying hopefully market will recognize is coming with a relief, with a higher level of detail relative to what we have presented in the past. We're trying to give you a level of transparency to the results and understanding of the results that eventually in the past, we weren't able to do. We have hired the CEO and Chairman, sorry, the CEO of Keystone, Frank Ravndal, who have already started and we are also recently bringing (inaudible) a local banker in Brazil and M&A banker, who is known in the Brazilian market who basically be leading our strategic planning unit which amongst other things will be together with me working on a long-term strategy among other teams to assist and help us to make smart choices and help us to reduce the leverage of the company faster.

So with that I go to slide two of the presentation, which I think I have covered most of the points on slide two of the presentation. Then on the recent highlights on slide four, I covered a couple of points and I have just mention the one's that I have not necessarily mentioned. We have strengthened the financial infrastructure if you will of the company, Ricardo Florence on my side here, he is the Group CFO and despite CR approved our, the beef businesses of Marfrig or even the holding.

Today, we have one consolidated financial arm inside of the company. I'm not implying that it didn't exist before, but it wasn't as robust as I would call yesterday. So we are building it to a level of (inaudible) and data quality that perhaps we didn't have before. We are making a very significant effort in transparency. You've got to be able to understand what we do, how the business is doing. So, and hopefully, we will try to accomplish some of that today.

Transition, I should be assuming the Group's CEO position until by January 2014, but the date is not really important, I think what is important is to share with all of you the tranquility and good process that exist inside of the company, this is history making as I would call it. This is a group owned and controlled by a phenomenal entrepreneur, Brazilian entrepreneur who has been able to create a group that has sold R$25 billion last year, 24 to be exact, R$24 billion last year, with the capacity to continue to show double-digit growth on the top line side.

So, phenomenal amalgamation of interesting gross per units.

I did mentioned the two transactions; one, the equity offering, and more recently in January, a $600 million debt issue that allows the company, as I mentioned ended the year with R$3.2 billion that does not taking into account the proceeds of the bond. So fundamentally as we show you the debt profile we walk into 2013 with a very strong cash position that allow us to continue doing the work on the operational front that we have to do.

We have been very fortunate that local banks and International banks have been able to understand where we are, they have seen our operational plants particularly for Seara Brasil. And they fully understand and monitor because that's what we want, we want to make sure that we share progress of where we are. Hopefully the fourth quarter is certainly an anomaly in the history of the company, but it can also signal the potential with particularly with the assets log with the new assets.

On slide five, I start showing that, the asset swap transaction absolutely from a strategic point of view for Seara in a completely different position. We have now market share of the consumer brand food business in Brazil, between 15% to 18%, 19% depending on the category. It would have been very difficult to replicate such a position without the ten plants, 18 distribution centers that we have acquired along the way.

But with such a significant acquisition towards the end of the third quarter came a number of real significant operational challenges, I mean the company was already in the process of what we call normalize its industrial training process from that a cultural base to the end consumer. And towards July, we again add a very significant piece of a new business, good business because you're talking about the process Food side. But nevertheless, that requires a complete redesign of your supply chain management.

Coupled with a very particular thing, which is last, which is year-end. Year-end is a very active, very important period for almost any business, anywhere in the world. And particularly for consumer food business Christmas and everything that is related to year-end festivities, it's absolutely critical that impacted the fourth quarter a lot more than we had anticipated. We will show you a little bit of the impact that you're going to see on the SG&A, relative to net revenues and so forth.

What I also like to share with all of you that I particularly with rest of the management, we are spending a significant amount of time in the plant, understanding the planning, understanding logistics, understanding different aspects particularly in Seara Brasil. We will now move to slide 10, the structural review of the financial highlights.

So let's -- I would like to ask you to focus first, I understand that we're also disclosing in the fourth quarter, that it is my strong belief, this is a business that requires more than an analysis on a quarterly basis. And I can understand that some of your made this capital because it was meant the disappointing quarter, but it isn't necessarily that reason. This is a business that has different cycles for different parts of its portfolio.

The consumer food side, which is Seara Brasil through primarily, it's a business that have phenomenal platform that has been built. It is in the process of making itself a significant company over the last two years, hasn't yet reached, what I would call operational stability to be able to now start delivering more consistently results. It takes time, it takes more than a couple of quarters, especially knowing that in the last two quarters, if I can call first quarter behind us, we have added the significant number of assets out of Brasil Foods.

So if we focus on the right side of the slide, you're going to see a very significant top line growth, very few companies in the world can show that top line growth. Now, that is a function of a number of things. One is the Brazilian -- the Brazilian economy such that it's helping has been Seara Brasil to continue to grow very fast, definitely in this growth line, you're not seeing an entire year for the asset swap. So all the new plants and the distribution centers are not yet here will be accounted for.

So you're really seeing half a year for the 12.9% net operating revenue you're seeing. You're also seeing growth that's coming very strongly from Keystone Asia, we have seen double-digit growth out of Keystone in Asia over the last 10 years. We fully understand that we're not giving you that visibility, we are trying -- this time -- with this new release, if you will to give you a lot more transparency than in the past.

Our gross margin is (inaudible) for the year of 15% not good enough, absolutely not good enough. You just have see, how cost of goods sold were impacted by a variety of reasons in the Europe 2002. SG&A, it's explained on a consolidated basis by, Seara Brasil. Seara Brasil as I said, it basically get the assets, get this new asset swap, it doesn't have sufficient time to replicate the revenues because you're talking about 10 new plant that come with idle capacity, higher than 40%, it's not 50%. So it takes a number of months before you're able to get the machinery, to get the right people, to get the right planning, to the right customer process. So you have the industrial challenge, plus you have the commercial engine challenge.

We have been given a number of new brands. Some brands are actually even regional very important brands like (inaudible) for the Northeast -- northeastern part of Brazil. So it's almost like beginning a whole new business with new brands. So we end the year with a 9% EBITDA margin and we show you on the growth side at the end both Keystone Foods and Seara Brasil having a billion in terms of net revenue 2011 to 2012 and Keystone Foods with 1.1 billion. So we end the year with 24 billion.

I don't know, we don't give guidance, but I would expect we'll have a solid top line growth again most likely that whole region for the year 2013. So, top line growth it is not good.

Let move now to slide 8. I will give a couple of highlights, I will comprehend the cash flow. And so here I think it speaks for itself, it's a combination of key highlights here is we had a very strong performance of our meat business. So 2012 and that's one of the challenges of these release is that internationally both Keystone Foods and Marfrig had very strong performance in 2012.

Our meat business probably had one of the leading performances relative to the industry in Brazil posting a very solid double-digit EBITDA and the Seara Brasil was the one challenged. So it is a mixed bag of which one-third of that group is Seara Brasil. So, that one-third -- did take, it's still on the overall results of the company.

SG&A, we showed you the Seara Foods growth and primarily there the big chunk is explained by Seara Brasil. So, it's not necessarily keystone or more required for that matter. And conversely the fourth quarter EBITDA contraction comes on the back of the operational challenges that we had in Seara Brasil. Let me trying to articulate those challenges. So, what happened in the fourth quarter was the followings.

We try to explain that in the release, but I'll make sure that I by articulated once again. Fourth quarter was impacted primarily by Seara Brasil's performance. And that performance was impacted by a number of factors. The first one, what I already mentioned corn or grains in general. Last year, we actually like everyone else in the industry have to buy corn at price levels higher than R$30 per 60 kg bag. Today, we're buying corn under R$28, for the same 60 kg bag, R$28. So, we have seen already a 10% decline in corn prices. We'll see what the average is going to be for the rest of the year. But what we know is that Brazil grew both a record corn drop.

Second point, we had a clear lease alignment with our logistics, as new assets came on board towards the third quarter, coupled with high season periods (technical difficulty) we had levels of delivery that were absolutely below what we have done historically.

Our fuel rate as we call it here was actually on average 65% in the fourth quarter, for Seara Brazil. What does that mean. It means that 35% what has been contracted by customers was not delivered and it wasn't delivered for variety of reasons but call it in these alignment which could be a combination of bad planning, non-availability of trucks, bad planning around trucks, wrong facts, wrong packaging. So peer operational nature, which with the new assets and everything (technical difficulty) the target, the operational goal that marketplace in Brazil does not necessarily share. I'm basically saying you need to get 75% on average and already in January, we are already above 70%.

So it's totally something within our control, it can be fit but being that it has on cash generation, free cash flow was significant. Because, the moment that you have the product in the agricultural supply chain whether it's -- pork or chicken. You bring it to the client, you process it, you have to -- and you do not deliver.

So that means inventory that means the product that can eventually could be reprocessed that means fundamentally margin erosion. And with that also cash burn.

So that's one of the pieces that we need to pay and we are paying attention, for that realignment created a most significantly higher level of inventory that is being adjusted downwards as we speak. So we have to normality of course the second quarter. And I feel completely comfortable with that.

Third, we have a number of distribution centers in Brazil. Just in the vicinity of city, Sao Paulo, we have three, we have one of the largest distribution centers in (inaudible) warehouse with 50,000 square meters. I apologize, those were are on peak, that so 50,000 square meter with capacity to basically store 34,000 tons of frozen food, very close with the same city, we have two others. And so definitely we have three cities very close to -- Sao Paulo that we may not really need if the largest one (inaudible) is capable to be operating at full capacity and that will happen.

So we have already, we are running that to be much better levels that we did before and that should allow us to basically close this two other cities bringing savings to the company of annual savings to the Company of $10 to $15 million. So these are just tangible points to explain some of the fourth quarter results.

Moving to the slide nine, what we're trying to give you here for the first time, I would say it's total visibility to the cash flow of the company. And I would like to ask you to look at the changes in working capital because that's what I think it is important at this point in time. We basically utilize around R$2.5 billion working capital that has been reais that has been pretty much the pattern in the past. In the year 2012, we also had the gain for our key practice as we mentioned, so that added R$477, so about R$500 million was paid back. So pretty much 20% to 25% of the original working capital. So corn prices as they behave in 2012 pretty much added 20% to 25% additional working capital to the Company, totally manageable.

But on top of that, of course we also had the asset swap. We also had this very significant transaction and just beyond that as you see it, the 350 to your right side, R$350. That's pretty much the working capital comes on the back of the asset swap. So I have the assets, I have the cost, I have industrial costs, I have the chips or corns being raised. I don't have a normalized revenue yet because I'm having new sales team coming on board. So I'm not yet having a commercial machine at full steam and on top of that I certainly need an half working capital.

So that has, that have clearly deteriorated or increase the need for working capital. On the other, you see a number of 397 that the non recurrent number that's about R$200 or at the 397 is the last payment made to Moy Park. As part of the transaction there was a earn-out launch, which the controlling shareholder would have to pay in case that the control in shareholder was largely would have to pay in case, they would have reached higher targets of profitability.

So, they have, so final payments have been made to all RSI, best part of almost R$200 million. And that's totally no incurring.

And still all the cash flow which is very, very important that you realize, there is a R$1 billion of CapEx. So, we have not in any way with some people may say, can we have utilize 2 billion, yes, we did. But we also chose. I'm not saying there we would have chosen a billion, but we invest a billion, which is more of an investment metric but necessarily a cost nature.

I'll show you slide 10, the nature of our CapEx. So we are from 2011 to 2012. We increased the CapEx by 11%. For 2013 to help your modeling we will decrease that by 11%. So that number will be 100 billion. So, we will decrease CapEx by 11%.

And the other piece, that I think is important for you to understand is, not all of that is for really fixed. So I would say, we have around 40% of that amount is discretionary. So I think we have the discretion of about R$400 million throughout the group to spend or not to spend. And some of this is absolutely non-discretionary like our -- live production of birds or horse or cattle we have very, very little and the likes.

Okay. So, I think you see that in the bottom of the page you see that under breeding stock.

So slide 11, show you the net debt. So we end the year at 9.2 of -- during our leverage as mentioned moves from 4.5 in 2011 to 4.35 in 2012. And as you can see CapEx certainly have been caught off that increase in the level of debt.

So, out of the 9.2 one of the natures is really CapEx. The other piece that is worth sharing with you is the foreign exchange impact. So, because of our debt the -- the debt nature and the way of distributing in terms of foreign currency, we were negatively impacted by almost R$1.750 million with foreign exchange impacts. So, that which is not an immaterial number. So that impacted here also not just by the operational challenge. If we had not had the operational challenge with Seara Brasil in the fourth quarter. Probably our debt levels would be a lot closer to 4 billion to 9 billion, the 9.2. So I think we have -- and again reminding you all again is that in the year 2011, the average foreign exchange in Brazil was around 161, 165. In 2012, that same average became a lot closer to 1.9. So that more of that explains the impact of almost a R$1. And the -- I don't want to -- I made really the point of cash position of the company.

Slide 12, here what you have is hard work of the last three months. So we have basically, if you look at the pro forma debt profile most of what you see for 2013, it primary explore related finance. Is it that renewable, we have commitments of banks, we are renewing it. So -- any -- I'll say liquidity risk here is pretty close to zero, then what we had in 2014 was a very significant refinance risk because we had $600 million, which was keystone facility in place which would have all mature only in November, from an overall November 2014.

We decided to anticipate the refinance and we are in the process of finalizing it, will be signed either tomorrow or Monday, we have further commitments from the bank. We have actually being oversubscribed, we are pleased to see the interest of a number of banks and more importantly, we were able to bring cost from Libor three in a quarter to Libor plus two to two in a quarter. So and I again, I'd like to thank those banks, they are maybe on the call for their support on this facility.

And what you see here, we bring $600 million or R$ 1.2 billion to 2018 and then 2020, because these $600 million is basically $400 million or R$800 million, five years (technical difficulty) and that's where you see the 2020. That's more or less spare our 2013 and 2014 (technical difficulty).

Quick highlights on the two dealers of the business of the portfolio Seara Foods page 14, very significant growth in number of customers, we move from 36,000 customers at the end of 2011 to almost it's not higher now 70,000 customers. So this is a consumer food story as far as Seara Brasil is concerned. In the case of Keystone and Moy Park, Moy Park is benefiting tremendously for a number of things. First by the disarray of the poultry industry in Europe. So that's positioning Moy Park with a very solid and well established name in the European market. And second unfortunately the food safety concerned around horse meat scandal in Europe had definitely triggered a higher demand for poultry, a higher demand for local origin, a higher demand of products from critical suppliers.

It's worth noting that Seara Brasil has actually been able to increase its prices by almost 40% if not high depending on the category, that's an hurdle, especially through sitting outside of Brazil. And that's also the function of the leader in Brazil, the ARPUs is actually leading as probably market shares in the north of 60% depending on the category. So they're highly, highly motivated to focus on profitability and we certainly benefiting in our work is (inaudible). And at the bottom of the page, we try to give you a little bit of a sense on what is pure Seara Brasil, I think we're doing this for the first time and what is Moy Park and Keystone for that current.

Slide 15 is self-explanatory, there's not much I can add. You can see the direction of gross margin and why was it was impacted primarily through the fourth quarter, primarily Seara Brasil. So if it weren't, so I would see our more normalized gross margin, more along the line or what you have seen on average in 2012 the necessary fourth quarter of 2012.

These remarkable performance very solid, very cyclical business. So 2012, was one of the best years of the beef sector in Brazil, I think we've done very well better than many other competitors even on a relative basis. As the business focus on profitability didn't go for its lot of capacity per se, has actually kept a relatively low capacity utilization relative to the footprint. I think we ran at 68% to 70% more like 68% than high 70s. And that certainly paid off, absolutely paid off.

So we have now more recently resumed the opening of two slaughter plants that were closed. And so very solid performance confirmed by slide 18. They were not at all impacted by the fourth quarter, so they were very, very and not even impacted by logistics per se.

The next slide (technical difficulty) So we allow sufficient time for Q&A. We are very confident to say that, we will see improvement in cash generation in Seara Brasil. And hopefully complete the market some signals in the second quarter. Again, it's a challenging business to be examined on a quarterly basis, to understand that's important. It is free cash flow that's an important piece, not the only important metric, but we have construct increase particularly Seara Brasil, so that we can give very clear signals of profits of deleveraging that goes beyond just the portfolio, but the operation.

I see, seems to be incredible performance of peak last year. we are seeing pressure on margins in the first quarter. I do expect a good year, I don't expect 2013 to be a challenge for Marfrig Beef but I would suspect we may not be as good as 2012.

We are committed to transparency, we are committed to do what we say. It takes more than a quarter and a couple of quarters to feel that market place, but management is absolutely committed to that. And the last and not least important point, we will have to reunderwrite a little bit of our strategy, the advantage of the group is clearly the profits to the company, with very strong, with very strong focus on consumer, being Brazil where beef plays a very important place and grow food service, Keystone, where again our beef operation plays a very important role.

So we have to really look, analyze and come to the marketplace and that's my commitment. So beef becomes the marketplace with our long-term strategy. That should also focus, not only but should also focus on debt reduction one on a more accelerated basis.

With that, I will certainly pass most of the questions to my CFO, I don't wanted to anyway be the only voice but just in the spirit of keeping more of the consistent line and optimize time, I kept the presentation and now we take questions. Thank you.

Questions And Answers

Operator

Excuse me ladies and gentlemen, we will now begin the question-and-answer session. (Operator Instructions) And our first question comes from Alan Alanis with J.P. Morgan.

Q - Alan Alanis {BIO 15998010 <GO>}

Thank you so much and good day everyone. Thanks for the detailed presentation. I have two questions. The first one I usually don't do it in a conference call. But I think it's relevant to do it in this case given the management changes and the situation with the company is right now.

The first one has to do with how much can you share with us of your compensation being based, being shares. For you, for the new strategy guy, for Ricardo and so on. I mean how important it is for you, your compensation there that the price from our free stock. Any color as you can provide us. I mean you worked here in the United States. You know that's not an unreasonable question and this is disclosed in many U.S. companies?

A - Marcos Antonio Molina dos Santos {BIO 15363967 <GO>}

Absolutely. And I'm very pleased to share with you. It will be in terms of total potential more than 70% of my potential. So how we restructured. It is restructured as the debt. So I am on my variable comp, it's completely and only dried up for the company's share price.

Unfortunately I wish I could discuss a needed concept but when in Brazil are still a misnorm. There were no weighted average cost of capital is still a challenge in this country because of the high level of interest rates. So in order to make it simple and completely aligned with the rest of the shareholders I dried up the share price.

Not everyone in the management team is working for us to implement it hopefully as strong 2014.

Q - Alan Alanis {BIO 15998010 <GO>}

Got it. That's actually very, very useful. My second question is more, a more traditional question more from the operation standpoint. And you have to do with your pricing strategy at Seara. I mean we heard Brasil Foods say well, first of all, we saw them grow a lot prices in the fourth quarter for their processed foods and if we understood correctly, they are also driving for a period of robust pricing increases in 2013. In my view that should allow or open an umbrella for you to also raise prices. So what's your thinking regarding the positioning in terms of price differential between the Sadia brand and the rest of the BRF brand relative to the Seara brands as much as you can comment on that. I think that would be useful because -- I mean, I completely agree with your presentation that the key for your company to make it is working capital and that might take a little bit of time, but an way you are helping, working capital is taking pricing or a slight sooner rather than later. What are you views regarding pricing and process foods in light of the competitive environment that you are living. That's was my last question. Thank you.

A - Marcos Antonio Molina dos Santos {BIO 15363967 <GO>}

Thank you, Alan. I mean, this is very critical. I will not give you a very -- it's actually in the release, that on process start, if you look fourth quarter of 2011 and fourth quarter of 2012. We were able to increase prices by 23%. I have zero concern about corn, we have a highly motivated leading brand trying to focus on higher levels of profitability. So I think we go along the way.

Second part of the question, what's the gap, what's the differential, we are trying to work on average not having higher than 15%, it's carried out in some cases, we are really down to even one digit, but not across all categories. So 15% is a target that I think, we have and will vary from time-to-time, but we feel very, very comfortable on price part, that's not and the concern. That's why I think, I'm also giving the market a signal that -- we should be able to give you evidence that throughout second quarter and third quarter has a much better free cash generation of Seara and still not have the expense of top line growth. But still keeping double-digit top line growth.

Q - Alan Alanis {BIO 15998010 <GO>}

That's very clear. Thank you so much.

Operator

And our next question comes from Wesley Brooks, Morgan Stanley.

Q - Wesley Brooks {BIO 16407564 <GO>}

Good morning, guys. Couple of questions from me. Firstly, just to trying to understand how much of an impact all of this distribution and all of that was in the quarter and obviously your process products volumes would daily up sequentially. And how -- what sort of volumes do you think you could have done in that segment, had you not had all these issues and had you how been running more smoothly?

A - Marcos Antonio Molina dos Santos {BIO 15363967 <GO>}

Yeah, I think the way for you to see it is pretty much along the lines of the third quarter. So I think the disruptions that you see in the fourth quarter, it's -- is fundamentally, if I may, I think, I remember mentioning 65 was our average field rate, which means 35% of everything we produce domestically on the profit side was actually not delivered relatively purposely. Right, so what you have here is significantly better. So it has a millions and millions of dollars, which is also reflected on the inventory. I can go back and really just to make sure that I give you're a percentage, which I don't have any from me right here, but we continue to do that and email to you. It shouldn't be a problem.

Q - Wesley Brooks {BIO 16407564 <GO>}

Okay. And so when we think about the improvement you're expecting from Q2, but your pricing seems to be okay as you've just said. Obviously grains, hopefully ease a bit. But -- would it be safe to say the vast majority of the improvement you see is coming from that. And then could you just give us an idea, do you expect that business to be cash flow positive from sort of Q2, Q3 or just earning less cash?

A - Marcos Antonio Molina dos Santos {BIO 15363967 <GO>}

Terrific question. So I think besides the two points you mentioned as what we call property vehicles to the business. I would say there is a much more -- much more benign export markets. I mean prices internationally have gone up actually. So I mean, for example, last quarter which we did not necessarily mentioned, export prices were actually depressed whether was Japan still coming out of the earthquake.

I mean significant still a significant export market for Seara Brasil in particular and we are see in the first quarter much stronger pricing levels both for the Japanese market, but also realized as we call home birds to the middle east.

So we are experiencing a very positive export market for the first half. It can certainly change in the second half, that's another one, it's important. Third, there is important and you may not necessarily follow. We certainly have for the year lower labor costs and part of that is coming on the back of

simplify push from the government to deregulate social related charges.

It's going to be a one-off, you don't have that being repeatable, but that's again another not immaterial thing because we deployed in Brazil over 60,000 people in Seara Brasil. So it's not material at all, so that's money.

The other piece that is very important related to cash seems we have strengthened our cash position. We were able to bring our financial cost significantly down. So when you look at the 2013 export or import related lines more closer than export. We are basically talking about holding cost between 5 and 5.5. So the average cost of the company last year ended at that 7.4 extracting from right in domestic interest rates in the first half. I would imagine first half 2013, will be able to bring that average down in the first half from 7.4 to a lower number that I don't want to mention because, first, I don't know, I certainly have a target that was -- I rather not share with the market at this point in time. So financial cost are also helping us.

And the last one is to bring the logistics or the delivery process of the supply chain planning, act in a more consistent manner. It's totally within our control. And the last piece of you question, certainly, Seara is going to be free cash flow positive. We are working toward that. I can't give you a complete statement.

What I can give you that in the second quarter of this year, you will see improvements, which is a combination that could be from sure, it's improvement, they are going to be using lot of cash. I don't like the word burning because it looks like being put to bad use but it's been using significantly less cash and eventually to already showing signals of potential moving through neutrality to positive towards the end of the year. So the second would be a good recovery of that plan.

Q - Wesley Brooks {BIO 16407564 <GO>}

That's very helpful. Thank you very much.

Operator

Our next question comes from Fernando Ferreira with Merrill Lynch.

A - Marcos Antonio Molina dos Santos {BIO 15363967 <GO>}

Place your question. Let's move to the next one please then.

Operator

Our next question comes from Alexandre Miguel with Itau DBA.

Q - Alexandre Miguel {BIO 20048366 <GO>}

Hi, good morning. Just want to -- first question related to these logistics and delivering process not only to these, I just wanted to discuss and if you can break down by discuss, how you're going to achieve these high utilization rates at Seara. And if you could break it down between how you are -- you think you are in production including all the products and packaging and logistics and also in terms of generating demand for your products and the sales force to reach your clients with these products.

So if can breaking in these three parts on how you think you can turn around the operations of Seara from these high, these low levels, will be very useful. That will be my first question.

A - Marcos Antonio Molina dos Santos {BIO 15363967 <GO>}

Okay. So I mean, it's -- it is a challenging question because I am not in a position to give you all the data that I like to give you. Let me try to give you, it's -- and I like to repeat what happened to the logistics, it is aligned in to the -- and there is a line ended in the fourth quarter is what I normally call issues related to integration. We have made, whether we like it or not I mean, the asset swap was a significant addition to the company's portfolio, very significant in a high season part of the year.

In a year where the company not only wasn't yet completely stabilized from a cash generation point of view. That was a year impacted by a number of variable. One very important in grains, but not only. And by the fact that also you have this hundreds of new sales people joining the group having two market brands that they haven't market before.

So you can imagine the complexity of their integration in that quarter. Okay. You can and I can now looking at the numbers. So, the quarter is explainable and more importantly, it cannot be the quarter that you still can extrapolate as a trend, it isn't, and it won't be.

Q - Alexandre Miguel {BIO 20048366 <GO>}

Okay.

A - Marcos Antonio Molina dos Santos {BIO 15363967 <GO>}

And that, so let me just.

Q - Alexandre Miguel {BIO 20048366 <GO>}

Yeah. Sure.

A - Marcos Antonio Molina dos Santos {BIO 15363967 <GO>}

Better way to see is actually normalize third quarter when the transaction took place in the fourth quarter. You find a better answer in two quarters than you find in one quarter if you will. Now, so what you do specifically. So we are working, we are making sure that we have the right number of trucks available. We are underlying specific rounds.

We are pulling the right people in the right place. We are trying to optimize our CDs, we will close CDs once we have the largest one in Sao Paulo fully operational. We plan to do that throughout 2013 and the early months of 2014. That should give us a savings of R$10 million to R$15 million.

We have created an incentive programs for those in logistics to perform the last where is. We are committed to the marketplace that our fill rate hopefully our competitors are going to be disclosing their fill rate. We are disclosing our fill rate, we're saying on average in 2013 we want to be at 75 consistently for Seara Brasil business, we were at 65 in the fourth quarter.

So if you take sales per quarter, and it takes 10 points of improvement, and you take management's word of 75 being a potential target for the rest of the year, you start coming to some interesting conclusions.

So that's, I guess the 75 target, if you will synthesize all the execution behind it, which I'm not be able to give you all the details on this call.

Q - Alexandre Miguel {BIO 20048366 <GO>}

Okay clear. But you don't think that, it is a demand problem by what I understood, like you think, it's our execution and reaching declines you don't think, you won't have problems to fulfill your whole capacity as you, as you fix these distribution centers and routes and et cetera, right?

A - Marcos Antonio Molina dos Santos {BIO 15363967 <GO>}

Absolutely. And I want to be honest, capably clear about this point because those who are in Brazil, will have a lot more understanding of the statement, I'm ongoing to make. And I incur this was side of Brazil to reach out to your franchise within Brazil. With the movements, so Brazil foods basically it absolutely going through some important changes, I think, the signals that we are giving to the market was there just a phenomenal company for which we admire, we have a lot to learn and we absolutely pay attention to what we do.

But, it seem to begin a very strong signals that they're going to get bit more aggressive, call it that way, from a profitability point of view. We have the marketplace trying for a credible, reliable, sustainable number two. We have zero problems to position ourselves, as the number two in the Brazilian market. As long as, we get our execution in order and we get, we are always on top of our price evolution, we will sell. We don't have a volume of sales challenge. So, top line is not of challenge, which is, which is, it's a benefit. So, I just to make sure that we Brazilian customers retail, food service want Seara to succeed.

Q - Alexandre Miguel {BIO 20048366 <GO>}

Okay, that was very clear. Thank you. Just, just a follow-up on the debt side and liquidity. By taking a look in your maturity schedule here after the bonds and after their (inaudible) preceded from Keystone, we see that. Okay. If in the short-term, you have to pay roughly 30% of your credit, now, the lines, which are not related to exports and working capital. Any frequency there on 5% minimum cash, you are not -- you are kind of tight to meet the maturity in 14.

So, I was just wondering -- do you feel comfortable with your current liquidity position and or if you have plans to do any certain sell assets, that could improve that throughout the year or you know do another offer for bonds or for equity?

A - Marcos Antonio Molina dos Santos {BIO 15363967 <GO>}

Good question. So, it's very importantly, the maturity that you see in 2013 are one year, two year export lines, zero concern. We have to many bank supporting the company really comfortable, how we're going our improvement on the Seara Brasil. I mean, if a bank would have to repay all its maturities in one given year will probably not be alike either. So, you have to accept that a lot of those short term maturities in refinancing, which I think. But we are also because we're doing the right things and we are entering 2013 with a very significant cash position as mentioned. We're not looking at any additional follow-on for this year.

We will look have a news, I wouldn't call need to look at revising our strategy, our intend, what kind of company do we want to be, that we're going to be able to structurally create value and reward shareholders and that probably will force us to look at all kinds of different pieces of our portfolio.

So nothing is secret per se. So we're going to have to put that through the lenses of does it or not makes sense in the overall scheme.

So that should eventually help us to delever the company faster. We will announce it to the marketplace what our new strategy will be. In the meantime, we look at small asset so we sometimes sale but like I think we've been working on a small terminal in Brazil, which is not for to the Seara Brasil. But there is no push towards disappointing times divestitures.

Absolutely no push because they can't and should not be made in the absence of an overall strategy because they should fall strategy, but once the strategy is a agreed and debated at the Board of the company and with the controlling shareholders. We will then eventually good, I wouldn't in any way, say, there won't be sales. I think and sales could be done in different ways.

Total pass out in all kinds of different formats. So I'm very comfortable with the liquidity position of the company and the dialog with the banks.

Q - Alexandre Miguel {BIO 20048366 <GO>}

Okay, thank you.

Operator

Our next question comes from Fernando Ferreira, Merrill Lynch.

Q - Fernando Ferreira {BIO 2389113 <GO>}

Thank you. Sorry, I don't know what happened with my line before. But first question, if you could stripe out. I don't know if it's easy to do that or not but stripping out the new assets that you're right that arise from Brazil foods. How would the results look like in terms of top line growth and margins? If you have or you can share that with us?

A - Marcos Antonio Molina dos Santos {BIO 15363967 <GO>}

What we are going to do, just to make sure we just don't shoot it from the hip. But if you go back to the cash flow net, the cash flow position. We would have used all R$3.5 billion for working capital for the whole year eventually as supposed to 4. So right there, I think if you allocate an interest cost of 7.4 which was the average 7 and additional 500 million. And on top of that, you eliminate hundreds and hundreds of millions of potential disruption that actually occurred. I'm very confident to say that Marfrig would have posted a break even position for the whole year and having said that we would not be in a better position strategically, because the Brasil Food assets allows Seara Brasil to be a credible competitor of long term. It impact the company's short term without a doubt, especially knowing that the company was already relatively fragile in explaining process, normalization process from industrial point of view.

But two years from now, assuming we are executing and doing what we're saying, this is fundamentally a much better company Seara Brasil in particular, then it would have been without those assets. But my analogy will be around breakeven, but we can go through some calculation and give you a better educated answer through e-mail. So, I have the people here making a note of your question.

Q - Fernando Ferreira {BIO 2389113 <GO>}

Sure. Thank you. And just a follow-up from the Portuguese call. I know that you don't provide guidance, but in what sort of trajectory of margins you're expecting or you're foreseen for Seara throughout this year. I mean, is that the 6%, 7% margin level that you had before, now the new target to get back to or not, let me just for us to help us on the modeling side here?

A - Marcos Antonio Molina dos Santos {BIO 15363967 <GO>}

I have all my people here around me noting that and we don't give guidance, I wish, I'm always a lot more inclined to share and be transparent because I like markets to price us correctly, but will be premature. What I can tell you is definitely look at 2012 put some -- put some upside on management, just some not too much, and then figure out that somebody is not going to be in the fourth quarter.

What I can tell you also we have a very international peace both more Moy Park and Keystone have -- are really performed very strongly, very strongly. So these probably not as strong as that, that's why I mentioned as 2012, but probably, I don't know what the rest of the year is going to look like. It doesn't look like the end of the good deep cycle. And I think all the upside of this group is on the performance and the execution of Seara Brasil, which again the quarter is too short, the quarters too short, but you've got a few signals, concrete signals in 2013.

Q - Fernando Ferreira {BIO 2389113 <GO>}

Okay. Thank you.

Operator

Our next question comes from Eric Ollom with Citigroup.

Q - Eric Ollom {BIO 4374335 <GO>}

Yes, hi. Good afternoon, everybody and thank you for the call. Just to delve a little bit deeper into the fourth quarter of Seara Foods and the margin contraction that was due to the whole logistical situation. I mean, is it just I think, is it, I know you don't give guidance, but is there, can you give us some sort of impact in either dollars or overall margins, that was related to the logistical -- the inventory build-ups versus shares, corn prices and say, delay in passing through those corn prices into selling prices. Just help us, isolate this one or two quarter kind of phenomenon, so we can that would help us develop what 2013 should look like?

A - Ricardo Florence dos Santos {BIO 20008948 <GO>}

Hi, Eric. It's Ricardo speaking. The fourth quarter is -- say for management was that on the peak or between prices in the year. For that grains here higher than the R$33, R$34 -- while now in this first quarter we are being bothered really by at the end of the quarter, I mean by R$27 and slower.

As regarding to volume, there is a very good sign of increase that get (technical difficulty) that it will for instance just volume that is sold in process products in Seara foods, in Seara Brasil in the fourth quarter. They were to increase by 50% compared to the amount that is sold in volume 134,000 tons compare to what we have in the same quarter in the previous year.

I didn't have at this point the figures in the precisely that you -- help me to do, but in a general sense this is the breakdown. There is a positive impact of the new products in volume. There is a lots of impact in price, but at the same time, we are not in the position that we would like to be in operations, in the plants and this is definitely what cause the (inaudible) in margins for Seara Brasil in the quarter. In addition to the issues that he have in logistics.

Okay, later I can you send you more precisely the breakdown, but generally these are the reasons for the performance of the fourth quarter.

Q - Eric Ollom {BIO 4374335 <GO>}

Okay. And now I'll look forward to that. You know, maybe you could just tell me if I'm looking at this correctly, if just sort of back and beyond follow up, if I look at the decline in the gross margin, which is about 200 basis points and the increase in the SG&A which was close to 200 basis points. So let's say 400 total and EBITDA margin came down about 550. I mean would 250 kind of margin impact be ballpark. I mean or and am I just simplifying it way too much?

A - Marcos Antonio Molina dos Santos {BIO 15363967 <GO>}

Hope you're not, you're not; you are on the right ballpark.

Q - Eric Ollom {BIO 4374335 <GO>}

Okay, great. Thank you.

A - Marcos Antonio Molina dos Santos {BIO 15363967 <GO>}

Most welcome.

Operator

Our next question comes from Josephine Shea with Hartford Investment Management.

Q - Josephine Shea {BIO 5476706 <GO>}

Hi, yes. I'd like to go back to your orders of 35% of your order, customer orders were not delivered. As this led to cancellation of any contract and where are there cost involved like penalty for non-delivery. Secondly was there ride up of inventories because some of these are obviously perishable good. And how has this been going into the first quarter of 2013. I understand that the second quarter is better, but has this situation continued?

A - Marcos Antonio Molina dos Santos {BIO 15363967 <GO>}

Okay. So, the situation has improved considerably in the first quarter not to its full normalcy. Delivery levels actual in January 71%, on average in March, we are going to be very close to the target of the year 75. For us to be able to be on a target 75 on average for the year. We're going to have to do better than that, closer to 80.

Again I repeat in the Brazilian market this level of pay dates is not disclosed. We're disclosing just in this period to period. The marketplace is complete, tangible data of what the destruction was and your other part of question, the cost of that is very much embedded in the poor results of the fourth quarter.

So, they have not been any penalty, what you ended up having Josephine is if you don't deliver, you have to store that product. And what you ended up happening, what ends up happening is that you have to pay for a third party warehouse costs. Sorry, your inventory debt impacted short-term, you have a perfectly good product. I mean there is nothing wrong with the product.

You can have to reroute it, eventually re-repackage. Those are all additional costs, you may have to use it for different views, which calls it reprocess it. So this are all different cost. Of course, the beauty would be to give you all that visible but we find it to be far too much detail in order to gave it to really, it's almost an operational plan. But so follow-up the additional cost of the impact in other way. When you see the decline of 55% of the EBITDA of Seara Foods, a big chuck the majority of that is the right from this complete near the alignment in a high meat sales, because it would be different --

Yeah.

A - Ricardo Florence dos Santos {BIO 20008948 <GO>}

-- in the first quarter. But when you have Christmas --

Q - Josephine Shea {BIO 5476706 <GO>}

No.

A - Unidentified Speaker

You are wrong. It's just --

Q - Josephine Shea {BIO 5476706 <GO>}

I can absolutely appreciate your answers and it's very helpful, perhaps also helpful would be to put in an industry norm. So, your aim is 75. What is the industry norm in Brazil that you retain too. What is an average that is really that you're comfortable with is that actually only 80 or 85. I just assume that actually that it's 90 or 100, but perhaps that's wrong.

A - Marcos Antonio Molina dos Santos {BIO 15363967 <GO>}

So you're absolutely right. So you would be wrong at 90 higher that will beat US (technical difficulty) 45% capacity and why this 45. It's first of all, when you get those brands, your competitors doesn't give you the plan after running like as we got, right.

You have the machines. There are not there. You have machines that are now working, you have some of your refrigerated units now working. So the variety of operational challenge that takes time for you to bring maintenance and you've to think out the quality of the brand to where it should be.

Today, in the first quarter, those 45 production level or 65 -- sorry 65 either capacity had been reduced. We are at 60% capacity on this new 10 plants if you will. We will grow that gradually over the years because we're dealing with processed food. It takes a little bit more of planning and time to get it up and run, because, if you produce wrongly, your customers are not going to take it. It's different than just slaughtering of birds, or slaughtering cattle's. Now, which is cutting, having the right cut and shipping it.

So that (inaudible) is moving from 45% capacity to 60% capacity in the first quarter. So it is not about a complete new supplying design. Isn't it. It is about adjusting the supply chain from the agricultural point to 32. It's rethinking and re-planning the right places in the right plants, both raw meat as well as processed meat and ultimately adjusting the logistics domestically to fulfill the promise of all the sales that we make. That's integration are from. You still have a very important dealer, which is our commercial engine. Your commercial engine needs to be in line as well, which I think price, we don't see the challenge we thought but you need to keep an eye on volume as well.

So that's pretty much and on the beef side which was when I mentioned margins under pressure. Yes, it's a combination of additional slaughter capacity in the industry, most players are slaughtering more than they were in 2012.

I think there has been some inventory carried over to the first quarter of 2013. And last but not least we've seen a pressure on prices in the wholesale segment. Not necessarily retail level but certainly wholesale, that has been noticed.

Q - Josephine Shea {BIO 5476706 <GO>}

Okay. That's helpful. And just I am sorry, the last here was just to understand. So in this first quarter, do you expect to have more or less integration expenses with Brasil Food assets compared to the fourth quarter?

A - Marcos Antonio Molina dos Santos {BIO 15363967 <GO>}

Yeah, I wouldn't say additional cost. I would say we're not optimizing the infrastructure as it should. So even if we're delivering at 75 on average in the first quarter, it's not. So I think there is line capacity in what we could actually do as opposed to disruption.

I mean in the fourth quarter we had high sales in Christmas period that was pretty significant challenges. Just the demand drops, remember in Brazil more than 65% of the deliveries are made in trucks, it was a pretty appalling which was not the same in the first quarter.

Q - Josephine Shea {BIO 5476706 <GO>}

Okay.

A - Marcos Antonio Molina dos Santos {BIO 15363967 <GO>}

I have gone over time pretty significant because I want to be sure that we as management we -- we give you all the answers. So, we will keep answering all the questions before we hang up. I want to make sure that we entertain all questions. Thank you.

Q - Josephine Shea {BIO 5476706 <GO>}

Thank you.

Operator

Our next question comes from Christopher Vandergrift with Hartford.

Q - Christopher Vandergrift {BIO 18703326 <GO>}

Hi, thanks for taking my call. I just had a first question on other operating income and expenses. I looked briefly through the release but didn't find exactly what that 62 million expenses was?

A - Marcos Antonio Molina dos Santos {BIO 15363967 <GO>}

Yeah, Christopher, the main expenses that we had they were provisions that the company had on labor mainly and also in other legal claims that we had there. Of the 60 million, close to 32 million was in this. We had also 40 million in an agreement that we did in one of the states and the balance is basically in our expenses. We consider them to be extraordinary and this is what we had to include in the quarter. Nothing extraordinary but this.

Q - Christopher Vandergrift {BIO 18703326 <GO>}

So, those will be being non-recurring and in 1Q 1'3 and moving forward?

A - Ricardo Florence dos Santos {BIO 20008948 <GO>}

Yes, that's correct.

Q - Christopher Vandergrift {BIO 18703326 <GO>}

And in terms of tax credits. Now, you guys are hoping to ramp up production. I guess what kind of tax credit monetization, can we expect to see in 2013?

A - Ricardo Florence dos Santos {BIO 20008948 <GO>}

Well, all the most that we have done is basically to the (inaudible) of tax credits with a higher use that we have in processed products. This is what we have expect to see with increased ramping -- is on process product in Seara that basically we expect to be able to concern that credits that is to have with the balance sheet.

Q - Christopher Vandergrift {BIO 18703326 <GO>}

Is there any way that invites -- sorry.

A - Ricardo Florence dos Santos {BIO 20008948 <GO>}

-- here and sorry to interrupt you.

Q - Christopher Vandergrift {BIO 18703326 <GO>}

Yes.

A - Marcos Antonio Molina dos Santos {BIO 15363967 <GO>}

And I just want to add to what Ricardo said, so, one is we are not anymore accumulating in the same sort of speed that we were in the past. Point number one. Point number two, we have a huge opportunity to be a bit more structured how to monetize those credits. So I can tell the market this half might -- that might and regardless undivided attention for your 2013 and '14. We're actually thinking about creating the group, that will nothing but the only purpose of figuring out, how to monetize those credits in the next 24 months. So, that's one.

The second one, that I'd like to reveal to the market place, is that there will be also a high level degree of attention to costs. So we will have a group dedicated particularly for Seara Brasil to look at every corner in terms of optimization for cost. It will be done with the focus internally with the dedicated group but also probably held by people who have done similar thing in companies, which are well perhaps in cost management liking best. So this is something more towards the third quarter to be give in details. So all in fact, and cost have an our undivided decision.

Q - Christopher Vandergrift {BIO 18703326 <GO>}

Okay. And then, Ukrainian ban on the pork, I was wondering if that affected processed and fresh products and how that affected your business?

A - Ricardo Florence dos Santos {BIO 20008948 <GO>}

This ban first, I don't believe that it has any impact on us. We've been able to have order export to destinations as well and not all of this, that there is a much bigger use on pork as well for the domestic market in processed products. This is why we are doing in order to balance higher use in newer export destinations. We have increased other parts for instance, there is an opportunity to increase exports to Asia not immediately but it's an opportunity and also in the domestic market outside that is the major points to balance. I do not expect that higher impact on pork just because of this.

Q - Christopher Vandergrift {BIO 18703326 <GO>}

And I guess did you see any pressure from any other brands on products such as beef I guess late last year and early this year. Did that pressure export prices?

A - Marcos Antonio Molina dos Santos {BIO 15363967 <GO>}

No, absolutely not. Total brands they have a very, very small participation on the total exports of the company and we don't think so. Yeah, (inaudible) say it was about 2.5% or 3% of total here in all the potential impact and would been able to last us with other destination as well.

Q - Christopher Vandergrift {BIO 18703326 <GO>}

Okay. Thank you very much.

A - Marcos Antonio Molina dos Santos {BIO 15363967 <GO>}

You're welcome.

Operator

Our next question comes from Maroof Siddiqui [ph] with Deutsche Bank.

Q - Unidentified Participant

Hey, guys. Good afternoon, thanks for taking my questions. Just have a couple of quick questions to ask. You talked about coming out of the strategy for the company overall. Just heard you mentioned that you did not want to specifically speak for any spin off and divesture and you see that looks to an overall constant of the company. And this is something that has been in the press, in many communication or sometimes moving from the company except last year, then you can share it down to follow on. So should we look at that has a revival of the dialog that came out last year at the end and you guys being a follow-on equity issue as opposed to what many people talked about partial fell of Seara -- Alimentos Seara Brasil unit.

If you could do you have an overall plan to issue an analysis, what is the time frame that we look at, we've noticed that we had, a key high down just couple of days that you announce. Will you be able to keep an indication of the time frame in terms of first quarter, second quarter, what's the timeframe to get the strategy at least in the market. Secondly the technical question, you talked about another -- the focus of amortization on the tax credit, you say for next 24 months, but can you break it down for us. And then, what is the penalty, do you wait for 24 months to see what happens, are you going to or do you have building blocks where milestone that you want to see something, some ideas coming out of the task force in one quarter or two quarter. If you -- if you could highlight of this two part of your, I guess more brand strategy and just more of a tactical strategy of tax amortization, they'll be helpful.

A - Marcos Antonio Molina dos Santos {BIO 15363967 <GO>}

Yeah. So, first question on strategy. We're looking at the third quarter for that, that answers your question. Second question on (inaudible), I don't think you're going to see anything on the first quarter, we have built in at least we have an expectation of doing something for this year between R$50 million to R$100 million. So, there will be the range but that range will get accelerated, hopefully in 2014, as we fill out our capabilities and the team and ways of doing it, that varies from state to state. I mean, I mean this is not like one side we saw, you can have almost different strategies for the different states, we are operating.

Q - Unidentified Participant

Okay. That's good. I have one more question, if I can ask quickly but this getting little bit more, I think, one other caller had mention -- asked a question before, so apology for -- asking the same thing, in terms of the grain costs, when you mentioned the market participant, towards the end of third or in the fourth quarter last year.

You know, we (inaudible) opportunistically hedging some of the grain cost. Right. So, to be honest, a little bit of surprise -- I'm just saying what the spot market is. So, are you able to tell us, are you still opportunistically hedging some of your grain costs, as it relates to the poultry division, you still, you know what percentage sort of your target as you look to obtain and what is lack for the grain cost to show up in your cost to Brasil, 45 days, 30 days?

A - Marcos Antonio Molina dos Santos {BIO 15363967 <GO>}

Okay, well, if I may add, just, I think we need to clarify to those on the call still. Brasil doesn't have the same level of debt in terms of futures market entry cargo's [ph]. So, no company in Brazil, can say I'm 100% hedged on grains.

Q - Unidentified Participant

Understood.

A - Marcos Antonio Molina dos Santos {BIO 15363967 <GO>}

So that's important. So, because 100% of signal, that we have a crystal ball and then we become opportunistic, we don't. I wish, I could actually hedge 100% of entire grain purchases, we can't. So, what we do in Brazil, we do two things, we hedge whatever we can both in Q2 but also directly the sellers in terms of growth, volume and prices. So we make sure that we kept the volume that we need, which is a combination of inventory. It's your inventory management strategy and price, try to fit as much as possible.

So I think, that's a very, very important. The good news is that Brazil is having a record growth in crops instruction. And for those on the call, Brazil have actually two crops in a year for the quarter. I think the only country. So we are, we tend to be very comfortable at this point of time for the first half with corn 60 kilo bags being priced under R$29 against 32, 33, 34 in the later part of 2012.

So we're going to have a very good relief on working capital, particularly for Seara Brasil in the first half of 2013 which is one of the drivers that should help the company also to come with a better cash flow picture than I think we have posted in 2011. Hopefully not only this, but also help by this.

And Maroof, if you want to sort out the tail of this, you should go later to the north of the financial statements.

There is a way to tell you that the confirmation in what we have in terms of the revisit we have on corn, later me or Freny[ph] can call you on Page 92 of the financial statements of the notes. So, the financial statements in total the company have more than 6,000 contracts of the derivatives in order to protect our position. I be more than happy in discussing this later?

Q - Unidentified Participant

Sure. I appreciate it. Let me take a look of own, if have any question I could ask maybe I could e-mail you guys.

A - Marcos Antonio Molina dos Santos {BIO 15363967 <GO>}

Thank you.

Q - Unidentified Participant

Thank you.

A - Marcos Antonio Molina dos Santos {BIO 15363967 <GO>}

We are now moving to the last call, last question. This is going to be the last question. And I really appreciate everyone to be as long as you have all being on the call. Last question.

Operator

And our next question come from Diego Maia, HSBC.

Q - Diego Maia {BIO 16478658 <GO>}

Hi, guys. Good morning. Thank you for taking my question. I am interesting to learn from you about market share. The right size I assume that you guys lost some market sharing this quarter because of all the challenges that you had already discussed. Could you guys give us a number and it would be very helpful for us to understand the base you starting from 2013? Thanks, guys.

A - Marcos Antonio Molina dos Santos {BIO 15363967 <GO>}

I don't think, we lost market share. I mean, you may have lost some customers. which maybe you can equal as market share, but there wasn't any market share erosion for that matter. I mean, our top line growth more than close to you, so that's the case. I mean we increased the number of customers from Seara -- from 36,000 to 70,000 plus seven zero thousand plus, it should be ending the year hopefully getting close to 100,000 which is a target we want to get as close as we can.

So zero concern on market share, but a lot of concern on our reputation in terms of consistency. So we will ensure that it's not only about the quality of the product, it's the quality of being a reliable part. And I think we have lost India as a certain customers for share reliability, that people understand where we were with the integration of the assets.

A - Ricardo Florence dos Santos {BIO 20008948 <GO>}

And -- just to remind you that a significant part of the small medium size clients that you have here, they are not covered by (inaudible). That's the area in that we intend to grow, why is that because we have a much higher margin with this clients, here that also help to improve the working capital, that's the point. What you need to pay attention, it is in the sales increase of the company, in processed products because that's the best way to follow.

Q - Diego Maia {BIO 16478658 <GO>}

Okay. That's it. Thank you.

Operator

This concludes today's question-and-answer session. I would like to invite Mr. (inaudible) proceed with his closing statements. Please go ahead, sir.

A - Unidentified Speaker

Again, thank you very much for the time. Thanks, particularly I want to thank to all bond holders, shareholders and who have been on the call, friendly media, everyone who has basically being a helping hand in making this group, what I think it can be. So thank you very much for your support and once again happy Easter for those who are going to celebrating Easter in the next coming days. So thank you.

Operator

That does conclude our Marfrig Conference Call. Thank you very much for your participation and have a nice day.