Q2 2015 Earnings Call

Company Participants

- Augusto Ribeiro, Chief Financial & Investor Relations Officer
- Pedro de Andrade Faria, Chief Executive Officer

Other Participants

- Alexander Robarts, Analyst
- Fernando F. Ferreira, Analyst
- Jose J. Yordan, Analyst
- Jéronimo de Guzmán, Analyst
- Lauren Torres, Analyst
- Pedro Leduc, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, ladies and gentlemen, and welcome to the BRF SA Conference Call to discuss the Second Quarter 2015 Earnings. This conference call is being transmitted by webcast in our website, www.brf-br.com/ir.

The presentation is available to download in our website. At this time, all participants are in a listen-only mode. And after the presentation, we'll conduct a question-and-answer session. Instructions will be given at that time. We would appreciate if each participant made only one question.

Forward-looking statements related to the company's businesses, perspectives, projections, results and the company's growth potential are provisions based on the expectations of the management as to the future of the company. These expectations are highly dependent on market changes, economic conditions of the country and the sector and international markets. These are subject to changes.

As a reminder, this conference is being recorded. This conference will be presented by Mr. Pedro Faria, Chief Executive Officer; and Mr. Augusto Ribeiro Jr., Chief Financial and Investor Relations Officer.

I would now hand the call over to Mr. Pedro Faria. He will begin the conference call.

Pedro de Andrade Faria {BIO 15115819 <GO>}

Good morning, ladies and gentlemen, and thank you very much for attending today's call. I'm very pleased to be reporting today, what I believe, our good strong results, both in our Brazilian, but especially in our international businesses.

Just a quick review of the financial highlights. Net revenues are up 13% year-on-year to R$7.9 billion with a gross margin of 32% and EBITDA up 44% to R$1.4 billion. This relates to an EBITDA margin of 17.4%. The Brazilian business remains resilient despite the macroeconomic scenario. We have managed to grow our categories of processed foods by 9.4% year-on-year.

Our international business continued to perform very well, benefiting both from the structural changes we implemented in the past couple of years, as well as the tailwinds from a favorable cycle that we experienced. I'd like to highlight the performance of the Middle East and Africa region, where we saw EBIT margins rising strongly to 18% in the period.

We continue to present a very strong balance sheet with a free cash flow for the last 12 months amounting to R$3.7 billion on accumulated basis with a net debt to EBITDA ratio of 1.1 times. That has helped us achieve an upgrade in our investment rating by S&P. We are now one notch above the Brazilian (3:04). In May this year, we issued €500 million in Green Bonds, the first of its kind by a Brazilian company, which is a testament to our commitment to being a socially responsible and sustainable company.

We further improved our return on investment capital, having reached 13.3% by the end of the second quarter 2015. This quarter was also marked by some strategic M&A activity. In Asia, the JV with Singapore Food Industries, a subsidiary of SATS, will help us grow our presence in the processed food market in Singapore and also in neighboring markets in Southeast Asia.

In Europe, we concluded the acquisition of Invicta, focused on the distribution of processed foods in the UK, Ireland and Scandinavia. This will also contribute to the qualifying of our presence in this region, adding more value to our businesses there. During this quarter, we received the final approval from the antitrust authority in Brazil for the sale of our dairy business to Lactalis. We concluded this transaction at the end of the quarter, and this will translate into proceeds of R$2.1 billion in the third quarter results.

The underlying changes we have implemented during the course of 2014 and 2015 has positioned us well to withstand, what we consider, a challenging scenario presented in (4:33) the Brazilian economy. We have a solid business in Brazil. We continue to consistently grow volumes and gross margins and, as a leader in the sector, we continue to invest for the long run.

We are building a robust commercial team based on a regional structure we have implemented at the beginning of this year, bringing us ever closer to our customers, enabling us to better understand and service them, as well as quickly react to new markets trend.

We have heavily invested in our two strong brands: Sadia and Perdigão and this will be seen in our marketing and training efforts in our results. Even though these efforts may take a temporary increase in our cost base, we are confident that this will bring the positive results for the near future.

Second semester of 2015 marks an important landmark for us as we restart the sale of key Perdigão product in some categories that had been suspended for the past three years. BRF will finally be able to perform at its full capacity with a complete and unbeatable portfolio of brands in Brazil, but we are leading the pack with market and innovation in premium quality, followed closely by Perdigão, which will be very active in the mainstream markets closer to competition. Perdigão sales started on July 2 only, and they have been going very well. However, we feel it's too early to comment or give any details about its performance.

We also continue to invest in operations, consistently improving the level of service, optimizing our operational footprint. as well as innovating our portfolio with a view to service our clients and consumers with excellent and top quality products. In the international markets, we continue to benefit from favorable market cycle and FX. More importantly, we are reaping the benefits of structural changes implemented in our international business model.

Aspiring to be a truly global company, we are operating under a far more decentralized management model. We are able to leverage our abilities (6:47) the markets we operate.

In the Middle East alone, for instance, where we have (6:53) chain through the acquisition of a local distributor, results speak for themselves. In the second quarter of the year, Middle East alone, we saw our volumes grow by 7% in the poultry business, also accompanied by a higher price, leading to an increase of 43% in revenues in that segment.

The Abu Dhabi plant continues to ramp-up production ahead of expectations. We are confident we will continue to consolidate our position in this market, where today we already have a 41% market share in the whole chicken segment.

Moving forward, we continue to focus on improving our cash flow and working capital efficiency, optimize investments and ultimately improving return on invested capital, which will help us reduce the volatility of our business and generate positive results for our shareholders.

We trust that by putting people at the core of our business and motivating them accordingly is the key factor for our growth going forward. We understand this will be a tough challenging year, but we are confident that the corporate culture grows stronger every day and our people are empowered, this will help us navigate through this and achieve ambitious goals in the coming year.

With that I'd like to hand it over to Augusto, our CFO, who should comment on our financials in more detail. Thank you very much.

Augusto Ribeiro {BIO 18485971 <GO>}

Thank you, Pedro, and thank you all for joining us this morning. We are very happy with the results we are presenting here today, as Pedro already mentioned. I'll quickly run you through some of the key financials, so that we can open the call to the Q&A.

Net revenue increased 13% year-on-year to almost R$8 billion, mainly driven by higher prices up 15% (8:40) in the period. The cost of goods sold was also higher by about 5% due to inflationary pressure on energy and utilities, as well as the effect of ForEx variation, which affects the cost of imported seafood products, such as packaging and feed components.

Gross profit for the period was R$2.5 billion, up 33% year-on-year, leading to an increase of 4.8 percentage points in gross margin to 32% at the end of the second quarter of 2015. Operating expenses were up 12% year-on-year, mainly as a result of higher variable costs, such as distribution, freight and other sales-related expenses.

You will know that as a percentage of net income, operating expenses remained stable at 60%. We continue to run a zero-based budget program and look forward (9:38) to offset some of the rising expenses we see (9:41) marketing, all of which we consider to be part of the long-term investments in the qualification of our sales force and strengthening of our brands in Brazil and around the world.

We saw an increase in our operating results to R$189 million from R$115 million in the previous year. This includes R$82 million of non-recurring expenses, of which R$17 million were related to restructuring expenses and another R$35 million are related to some tax provision that we did. There were also negative impacts of R$80 million of equity income, but if you would compare the positive impact of R$11 million last year. Therefore, the consolidated EBIT grew by 59% year-on-year reaching R$1.1 billion and EBIT margin of 13.4%.

EBITDA amounted to R$1.4 billion, up 44% year-over-year and 49% quarter-to-quarter, leading to a remarkable EBITDA margin of 17.4% for the period. Excluding the impact of the non-recurring expenses and equity income, our EBITDA margin would be higher than 80% for the period.

Net profit from continued operations was R$364 million, up 47% year-over-year, but down from the previous quarter, mainly due to the payments of R$310 million in premiums related to the tender offer of bonds executed in May on our liability management program.

In Brazil, we saw net operating income rising 11.5%, when excluding other sales, driven by 9.4% increase in processed foods volume year-over-year, followed closely by an increase in volumes (11:44) and pork, both up 17% and 13% respectively. This is a significant achievement in light of the current economic situation in the country.

Gross margin continued to improve, and we're up 3.5 percentage points compared to same period last year. EBIT, however, was R$389 million in the period, 4% below last year, as we continue to invest in our commercial team and brand and accounting. Middle East and Africa showed significant improvement in results, as we continue to consolidate our new business model in the Gulf region – mainly in the Gulf region.

Net operating income was up 29% year-over-year, mainly driven by higher price of almost 29% in reais term, as well as an increase in poultry volumes both in the Middle East and Africa. It is also noteworthy that we have been able to increase dollar price in the region by 1.6%, compared to the first quarter of the year, all of which have led to an 18% EBIT margin for the period. In Asia, we continue to experience very favorable market conditions, with very high prices of 21% year-over-year and a slight increase in volumes, plus 2% year-over-year, mainly coming from (13:07) in Japan, Korea and Singapore and Southeast Asia.

Net revenues were 24% higher than the same period last year and EBIT was R$223 million, resulting a record higher EBIT margin point of 25% for the period. Europe and Eurasia also presented good results by the fact that price in Russia are significantly lower than last year, impacting EBIT margin for the region, down 4.2 percentage points. We had, however, increased volumes throughout in the second quarter compared with the first quarter of this year. Net revenues for the region were R$846 million, up 4% year-over-year mainly driven by an increase in (13:56) volumes to Europe by about 14% in the same period.

Latin America continues to be heavily impacted by the absence of sales in Venezuela. If you exclude the impact of Venezuela, volumes in LATAM grew by almost 6% year-over-year, mainly coming from South American countries, Chile and Peru and Argentina, as well as the Caribbean countries. Likewise, if you exclude the impact of Venezuela, net operating income for the region was up 53%.

We ended the quarter with net debt of R$5.9 billion, 4.9% below the end of the first quarter of this year, resulting in last 12 months net debt EBITDA ratio of 1.1 times. A result of the strong operational result negatively affected by the share buyback in the amount of R$264 million executed during the period. If we didn't have these liability management or the share buyback program in the quarter, we would be (15:08) even lower.

During the quarter, we also bought back $725 million worth of our 2017, 2020 and 2022 bonds and issued a €500 million senior notes, our Green Bonds. The combination of these two transactions has helped us improve our debt profile, expanding our maturity, as well as lowering our cost of debt.

We continue to invest in the projects announced earlier this year, the operational footprint in automation project. During the second quarter, our investments amounted to R$645 million, accelerating in comparison to the previous quarter. This is just a matter of phasing of our investments.

Our financial cycle for the period was 35.2 days, 9.7% of net operating income and an improvement to the same period last year, 2.6 days higher than that of the first quarter. This was mainly due to the increase in inventory, as we consolidate to distribute in the Middle East and in UK. There was also an uptick in receivables due to the better sales performance at the end of the period, which was partially compensated by the continued improvement in the accounts payable. On the free cash flow side, we amounted to R$3.7 billion in the last 12 months, generating R$573 million in the quarter, 9.3% lower than that of the previous period. This was due to higher CapEx and is largely deterioration of the financial cycle as I just explained before.

So, to conclude my remarks, the first set of results, we continue to grow in the Brazilian market and improve the stability in the international markets. We remain cautious in light of the macro environment development in Brazil (17:15) confident in our growth and investment strategy for the long-term.

We would like to open the call now to the Q&A session. Thank you.

Q&A

Operator

Our first question comes from Lauren Torres, UBS.

Q - Lauren Torres {BIO 7323680 <GO>}

Yes. Hi. Good morning, everyone. My question relates to your margins, both domestically and internationally, and I guess just focusing on the potential of these business, in this quarter though we did see some EBIT margin compression domestically and I was curious to kind of break down the components of that and when you think we should cycle out of that, as it starts to see better margins domestically. And I guess bigger picture on international, some very substantial improvement there. But also curious about the sustainability of these types of margins. I mean, is this structural, where we could kind of hold on to these types of improvements? Or is it somewhat one-time in nature? Just trying to get your sense of long-term margin potential of both businesses? Thank you.

A - Augusto Ribeiro {BIO 18485971 <GO>}

Thank you, Lauren. That's a very good question. We receive that kind of question every time (18:42 – 18:45) what is supposed to be our level of margins. The fact is that we changed the company. We have changed the company in the last two years. We changed the way that we do business in our international – in every single region that we operate. If you think about our model in Middle East with a local facility, producing locally already, when we started that already with distributors that we acquired in the Gulf region, the change on the commercial relationship with some of clients in Asia and even in Europe. So, all of those actions, coupled with a lot of better efficiencies captured in our supply-chain, we consider all of them structural. They are here to stay. It all depends, of course, on our capability to deliver those to sustain those efficiencies.

But, of course, we were benefited because of the ForEx (19:42) the real. But if you consider that some five, six years ago, every single time that we had the real devaluated, we would suffer on the dollar terms in our international prices. And what we saw so far in the last quarters, in the last year and a half is that we have been able not only to sustain the prices in important markets but, in some specific markets, we've been able to increase prices in dollars. That's because we are focusing our products, we are focusing in categories that we believe important for a company. And we, of course, get out from some markets that they are not focused within the current portfolio.

In Brazil, we're facing some issues regarding the economy. We implemented a lot of projects. We increased our operations in the regions of Brazil. We improved the qualification of people in each one of our regions in Brazil. We created five regions in Brazil, plus the merge of sales force, couple of other projects, we were able to get the benefit. So, far we've been able to get growth out of Brazil in all the regions that we are working.

Coupled with projects in the supply chain that I mentioned before, the footprint and some other efficiency project, the zero-based budget that we're going for the third run this year, all of them helped us to sustain the margins and actually to increase the margins when compared to the last periods – last years. So, it was a trend. If they are sustainable or not, the amount of issue regarding margins, it will depend on certain conditions. We believe that Middle East is a total different story nowadays. We are there with brand. We are there with a local production, as I mentioned before, in distribution et cetera. So, we believe that is a strong signal, a strong result of everything that we did so far.

In Asia, there are parts of the result that are not structural, that are regarding – we are going through important cycle of the product that we commercialize over there. So, but anyway, again, coupled with some actions that we did internally in the company, and they are here to stay. I cannot tell you regarding what is going to be the margins in the near future, but we are working to sustain them in a level that we considered important for the good profit for a company. I don't know if there's anyone to complement something, but regarding the issue of the international markets.

A - Pedro de Andrade Faria {BIO 15115819 <GO>}

It's okay. Lauren, I think Augusto gave you a good answer. And, of course, when we look at the results, there will be part of it which are clearly not sustainable and part of very favorable cycle that the industry is going through. And again, the challenge that we have is to really separate what's more structural and underlying, and I think at least on the side of the things that company has been doing, I think they all point in the right direction.

Q - Lauren Torres {BIO 7323680 <GO>}

Can I just ask a quick follow-up then on the domestic market, the changes that you're making and the increased operating expenses, are those still – I mean where are you in that? Is that still going to affect the second half? I'm just trying to get a sense of the pressure there on some of the changes that we know you're making and the effect that will have over the near-term margin structure?

A - Augusto Ribeiro {BIO 18485971 <GO>}

You mean the restructuring in Asia – the restructuring projects?

Q - Lauren Torres {BIO 7323680 <GO>}

The work you're doing domestically in Brazil, that's going on your EBIT margin. Is that still marketing expense realigning the region like that, is that still flowing through into the second half?

A - Augusto Ribeiro {BIO 18485971 <GO>}

It's a good point that you mentioned. For example, in terms of gross margin, we improved the Brazilian results more than three percentage points second quarter this year against second quarter of last year. So, that is because we've been growing in processed food in Brazil. That's because we have been working with our supply-chain COGS project, so we are increasing gross margins.

But as you know (24:07) we are investing more in media, we are investing more in trade marketing. We created a new structure at the beginning of this year as I mentioned before. We have a lot more people qualified working within the markets not actually from a corporate perspective, but actually – a much better understanding of the Northeast markets for example, on the south market of Brazil for example. So, all of those investments are here to stay. They are not short-term investments. That's why it's hard for me to tell you, if they'll continue or not in the second quarter.

Actually they will continue – we'll continue to invest in the company, not only in the second semester, but actually throughout the next years. So, it is important for us to build our dual brand strategy with Perdigão and Sadia. Therefore the investments, we will continue that. Working – we're starting, for example, third exercise of zero-based budget, which is important for us. So, we'll continue to look at for efficiency within the company, meanwhile investing to build the future with our brands in Brazil.

Q - Lauren Torres {BIO 7323680 <GO>}

Thank you.

A - Pedro de Andrade Faria {BIO 15115819 <GO>}

You're welcome.

Operator

Our next question comes from with Maurice Sebastian with DBM (25:19).

Hi. Good morning, everyone, and thanks for taking my question and congratulations on the results. Just like a follow-up question to the previous one, I was wondering if you can give us more color on Brazilian operating profit and the expenses incurred for the commercial area, more specifically if you can tell us how much this impact on the margin was?

A - Augusto Ribeiro {BIO 18485971 <GO>}

Specifically, how much that impact, it's hard for me to tell you. I don't have that on the top of my head. We have increased the investments in (25:59). We increased a little bit on expenses (26:01) to create those regions that I mentioned to you within Brazil. We also had some non-recurrent events that, as we move forward within our strategy, we decided to have some movement in Brazil, not only in Brazil, but specifically in the total company. So, Brazil has a bigger piece of those non-recurrent events, because it is half of our business currently. So, I don't have, on top of my head, how much of that margins – of EBIT margin quarter-over-quarter comes from those actions. But I can tell you that those (26:38) three percentage points more than that on a gross margin, and on EBIT margin, we are relatively flat. So, you can get the major differences are related to those three factors that I mentioned before.

Q - Operator

Okay. Very clear. Thank you.

A - Augusto Ribeiro {BIO 18485971 <GO>}

You're welcome.

Operator

Our next question comes from Jéronimo de Guzman with Morgan Stanley.

Q - Jéronimo de Guzmán

Hi. Good morning. I wanted to start – and sorry to keep harping on this, but on the SG&A pressure in Brazil, I was thinking that you are going to have probably a sales boost also in the second half from (27:19). I mean, do you think SG&A will continue to grow ahead of sales going forward, or do you think you're going to start to see some SG&A leverage going forward. And then just in the international market, just wanted to see your thoughts on the cycle but, more specifically, how you see it evolving going forward in terms of the elements that you can't control? And specifically, are there any concerns in Asia going forward, particularly with the potential for U.S. exports coming back, now that the avian flu seems to be behind them?

A - Pedro de Andrade Faria {BIO 15115819 <GO>}

Thank you, Jéronimo. This is Pedro. So, on your question on the SG&A in Brazil, I would be disappointed if we don't get SG&A dilution in the next 12 to 18 months, okay. It depends on, of course, the level of internal competition and marketing expenditures, but I'd say that in terms of what is the infrastructure being put in place, I would definitely anticipate dilution on the SG&A, because this will be coming from a series of initiatives that we are doing in terms of our logistical footprint and efficiency of our commercial operations.

So, I would not say these are short-term results, but if you look in the medium term 12 months to 18 months, I'd like to see SG&A moving definitely below the pace of sales growth. When it comes to the international cycle, this, of course, is the number one question we get asked all the time. This, of course, is a very dynamic market full of links.

So, I would say that generally avian flu in U.S. has been a factor constraining supply on the backdrop of a strong demand and, of course, we would anticipate some impact. And I think the one market that today looks more vulnerable to that will be Asia or parts of Asia. So, if you look at the entire international division, the one market that has benefited from a cyclical uplift far from – of course, on top of the structural changes will be Asia and in certain markets we mentioned, okay.

Q - Jéronimo de Guzmán

Okay. Thanks. And just a follow-up on the international business. I mean, it's interesting to see all the differences in margins across the different regions, but I mean are there any structural differences that between the regions that mean that -- that dictates another margin levels or, in theory, should they all be at similar levels?

A - Pedro de Andrade Faria {BIO 15115819 <GO>}

No. No, Jéronimo. These are markets which, to start with, they are at a very different stage of development. And then, of course, our footprint in those markets differ quite significantly. If you look at our operations in the South Cone, we are running five factories there, we have a complete, full-blown entity, which delivers a lot of our business on the B2C segment, and we have some of the leading brands. If you look at Asia, on the other side of the spectrum, still today most of our presence on the B2B market, is basically supported by our export business. So, these are markets in a different stage of evolution. Of course, our strategic vision points at the same direction, which is more consumer business, more local operations and the ability of (31:07) in each one of the markets you select. But as you take a picture of what the business looks like today, you would see markets in very different stages of evolution.

Q - Jéronimo de Guzmán

Okay, thank you very much.

Operator

Our next question comes from Jose Yordan with Deutsche Bank.

Q - Jose J. Yordan {BIO 1496398 <GO>}

Hi. Good morning, everyone. Just a broader question on your capital deployment. With leverage down to one-time, I mean, I know you've been making small bolt-on deals, et cetera, but your leverage continues to fall. Can you give us any color on as to what direction you're going to go in? I'd be curious of the related question whether you looked at Moy Park or not as a possibility of doing more multi-billion type deals. And so, why not Moy Park. And if you're going to look at dividends any – are you worried about the potential elimination of IOC as a tax rate?

A - Pedro de Andrade Faria {BIO 15115819 <GO>}

Thank you, Jose, for your question, before we start talking about our capital deployment, I have to say that fortunately or unfortunately, depending on your view of the world, our leverage is still coming down further, because of an event that is subsequent to the second quarter, we just concluded our transaction with Lactalis, and we have an inflow of about R$2.1 billion in cash. So, that leverage ratio of 1.1 in the short-term is actually coming further down, okay. When you look about the capital deployment aspect, I think we've been busy on that side, we've concluded successfully two rounds of share repurchase, and I think these are implemented successfully. We also bought back our bonds and, in the liability management program, we issued euro denominated bonds.

We are also accelerating CapEx. So, you see on the second quarter, already, an acceleration of our programs that we've been discussing much like footprint in our automation and we've been busy on the M&A side as well. Of course, M&A, as you are part of the finance industry, it's a patience game, but we've been looking at the number of different opportunities, none of them really transformational to the sense that it would encompass a dramatic change in our leverage ratios, but they are very strategically important and we will continue to believe in (33:55) them.

Q - Jose J. Yordan {BIO 1496398 <GO>}

Okay. Great. And if I could just ask a quick follow-up on the Portuguese question, in the call you mentioned that part of the reason Middle East margin is going up, is that you're factoring distributor margins et cetera as the business changes there. I mean, are distributor margins in the Middle East higher than the producer margins, or typically it's the other way around, but just wanted to get a little color as to how this trend is improving margins?

A - Pedro de Andrade Faria {BIO 15115819 <GO>}

Yes. I think when you talk about distribution margins in the Middle East, and as we are busy integrating and incorporating those operations, we are both benefiting from being closer to the market and being able to deliver better pricing, better promotion, better marketing, but also we are doing significant efforts on reducing the operational cost of the distribution business. There is clearly a skew effect there and a synergy effect because we are able to integrate a lot of those operations into one operation and controlling for benchmarks, driving down cost to serve and efficiency. So, that boost, which, is like we said, only part of the explanation of why we are presenting healthy margins in Middle East now, they are going in the right direction and we are happy to report that we are driving integration and skew effects throughout the distribution platform in the Middle East.

Q - Jose J. Yordan {BIO 1496398 <GO>}

Okay, that makes sense. Thanks a lot.

Operator

Excuse me. Our next question comes from (35:51).

Thanks for taking my question. And congratulations on improvements made this quarter. I would appreciate it, if you could give us more detail on the expectations for operating profit margins in the Middle East and Africa. I mean, should we expect additional margin expansions behind the production ramp-up in the new plant in Saudi Arabia? And what level should we expect the company to reach once the plant is run at full capacity? Thanks.

A - Pedro de Andrade Faria {BIO 15115819 <GO>}

Unfortunately, I have no guidance to give you as far as future margins, but we do expect the Africa market, which was constrained in the second quarter by difficulties with import licenses and all the different factors to show an improvement in the remaining part of 2015. As far as the Middle East is concerned, we're still busy like I said in the previous question, deriving all of the benefits and synergies of this platform. There's a ramp-up of the factory, but I cannot guide you as far as margin improvements in the region because they depend on a number of factors that we don't control.

Q - Operator

Right. Understood. Thank you.

Our next question comes from Fernando Ferreira with Merrill Lynch.

Q - Fernando F. Ferreira {BIO 2389113 <GO>}

Thank you. Thanks for taking my question. I just had a follow-up on working capital. I mean, we've seen the cash cycle into number of days, right, stabilizing in the last few quarters after consistent and gradual improvements, right. So, I just wanted to understand if that's the new level that we should work on going forward or do you still see opportunities for further improvement in working capital? Thank you.

A - Augusto Ribeiro {BIO 18485971 <GO>}

Thank you, Fernando. Regarding working capital, it's a (37:52) question because as you probably know, we have a cycle established in our business throughout the year. So, it's important to remember that through all this third quarter, we'll start building up some stocks related to (38:07) build up stocks, finished goods for the seasonal products that we sell at the end of the year. So, there are a deterioration, if you want to think that term, regarding what cycle (38:22) cycle in the third quarter and fourth quarter regarding the first and the second quarter of every single year.

Regarding the level of our current number around 34, 35 days, as you know, we've been working on a lot of working capital from 60 plus to 30 plus (38:42), here we are currently. We are still working to improve working capital but, as you can guess, the ratio of incremental improvement becomes – starts to become harder and harder, as we move forward in our operations. We still have things in all three aspects: Accounts receivable, accounts payable and stocks. We are having a lot of actions -- internal actions to continue to improve, or at least to sustain, the current levels of our working capital. So, there's no guidance to related to that, but we still have things to do on that field.

Q - Fernando F. Ferreira {BIO 2389113 <GO>}

Okay, thank you.

Operator

Our next question comes from Pedro Leduc with J.P. Morgan

Q - Pedro Leduc {BIO 16665775 <GO>}

Hi. Congratulations on the results. Thank you for taking the question. Just quick one on the grain cost outlook for remainder of the year. We saw small spike recently, but it's also been coming down. So, I was just wondering how your inventories are compared especially for the more seasonal products that you've mentioned are now going to begin. And in this regard, the domestic pricing, especially in processed foods, we saw print 5% rise year-over-year. In the last conference call, you mentioned that you'd be (40:07) raised prices along inflation. So, I was just wondering if this 5% has some sort of a mix effect in there or just lagging the price increases that you've done, so I'm just trying to grasp here, what the outlook for domestic price and vis-à-vis grain costs are for the second half of the year? Thank you.

A - Pedro de Andrade Faria {BIO 15115819 <GO>}

So, to the grain question, of course, we're seeing short-term volatility on commodities and grain. We don't anticipate a lot of changes that would impact our business. I think, overall, we are benefiting from a more benign scenario on commodity and grain prices. We've been also effectively running our hedging program. And so, I think we are counting on the stability on the grain account. Of course, weather can be a factor, so we've had more of a rainy season in Brazil, which is delaying a little bit of the harvest action, but we are assuming a scenario of stability here despite the short-term volatility.

In terms of price in Brazil, yes, you're seeing an impact on the pricing measures that we took and we anticipated them in the last call. Looking forward, you have definitely a more challenging scenario in Brazil. So, any movements in pricing that would be more tactical or strategic rather than a way of compensating pressure on cost factors. So, we are definitely running a much improved pricing program, but we don't expect prices to come up just because of a new reality in Brazilian market, which is proving more adverse than anticipated a few months back.

Q - Pedro Leduc {BIO 16665775 <GO>}

Great. Thank you. And good luck for the second half of the year. Thank you.

A - Pedro de Andrade Faria {BIO 15115819 <GO>}

Thank you.

Operator

Our next question comes from Alex Robarts with Citi.

Q - Alexander Robarts {BIO 1499637 <GO>}

Hi, everybody. Thanks for taking the question and I did just want to go back to Brazil pricing. Kind of felt like that the earlier call, in the Portuguese call, little focused on the volume trends in the domestic market, but as we take – kind of analyze a little bit more, the quarter-on-quarter price increase. I guess, about 2% on the processed quarter-on-quarter in terms of your average price in Brazil. It looks like the commodities, products up 3%, I guess I got the impression that you had executed an 8% price increase in the domestic market. And I just wondered if that was perhaps still work in progress perhaps, or it's stuck but, in the end, there was a price mix shift such that the price increase during the 2Q offset that, so we got quarterly price increases more like in a low-single digit? So, just kind of understand how that price increase happened, the magnitude of it and how that kind of connect with these magnitude of price increases that we're seeing? Thanks very much.

A - Pedro de Andrade Faria {BIO 15115819 <GO>}

Yes. You're right on your way of looking. So, when we talked about price increases last call, we implemented a price shift throughout the entire categories, but, of course, on a tactical way of operating, some of it became also part of a more promotional environment that we faced in the second quarter. So, we gave back some of that price increase in the form of promotions and things like that. So, the end result is below what was the price on the list, but we are happy to say that the pricing has become an area of very good management, solid management on BRF. And then, I think we're able to increase prices where we should have and we're able to quickly change and move tactics where needed to be. And like I said, going forward, which is more important, we see Brazilian scenario, which is not conductive to big price increases.

Q - Alexander Robarts {BIO 1499637 <GO>}

And just a follow-up there would be kind of thinking about second half, do you feel like, your (44:55 – 45:00) product that might also have an impact on average pricing in the second half, or might that be set-off as you say by – offset as you say by some tactical and strategic increases in the second half, how you're thinking about that balance?

A - Pedro de Andrade Faria {BIO 15115819 <GO>}

You get a bit of both. And I hope that we are – actively running that program and leading the market. But I would anticipate that the biggest impact you will see in the second half on the average price, they will come more on the mix side than on the price side, okay.

A - Augusto Ribeiro {BIO 18485971 <GO>}

It is important also to stress that, we as a leader, we are the one that had come forward first with price increases. So, far, the market has not implemented price increases as BRF did. So, these economic scenario, plus competitive scenario, is something that the dynamics will be there throughout the year.

A - Pedro de Andrade Faria {BIO 15115819 <GO>}

Yeah. And just complementing, I'll be focusing a lot of the analysis on the mix and potentially consumers moving across categories.

Operator

Excuse me, this concludes today's question-and-answer session. We would like to inform that the IR team will answer the questions sent by webcast later. Now, I'll pass the floor to Mr. Pedro Faria, for his final statements.

A - Pedro de Andrade Faria {BIO 15115819 <GO>}

So, thank you for all participants in our second quarter call. Like we said, we are happy to report results that were satisfactory despite a worsening of economic conditions in Brazil in a more challenging scenario going forward. We are happy to report a robust result in some of our international markets, which have a direct link to all of the transformation we've been running in the business.

Looking forward, we continue to be obsessed with internal initiatives that are driving efficiencies throughout the entire company and also preparing ourselves build infrastructure and investments for future growth, being very mindful of a more challenging scenario economically in Brazil. Thank you very much and look forward to seeing you all in the third quarter conference call.

Operator

That does conclude our BRF SA conference call. Thank you very much for your participation. Have a good day.