Q3 2013 Earnings Call

Company Participants

- Jerry O'Callaghan, Director IR
- Wesley Batista, President and CEO

Other Participants

- Aaron Hofsberg, Analyst
- Alex Robarts, Analyst
- Belinda Hill, Analyst
- Celina Merrill, Analyst
- Daniel Sensel, Analyst
- Jose Yordan, Analyst

Presentation

Operator

Good morning, everyone. Welcome to JBS S.A.'s conference call. During this call, we will present and analyze the results for the Third Quarter of 2013.

As requested by JBS, this event is being recorded. The recording will be available to the listeners this afternoon and can be accessed by following the instructions posted on the Company's Website at www.JBS.com.br/ir.

Taking part in this call we have Mr. Wesley Batista, President and CEO of JBS S.A.; Mr. Andre Nogueira, CEO of JBS USA; Mr. Gilberto Tomazoni, President JBS Foods; and Jerry O'Callaghan, Director Investor Relations.

Now I will turn the call to Mr. Jerry. Please, go ahead.

Jerry O'Callaghan

Good morning, to those of you in the US. Good afternoon, to everybody else.

We just finished our JBS Day presentation here in Sao Paulo, and so this is our opportunity to speak with those of you who are not -- who could not be present with us today.

I will go through the presentation here quite quickly, because we have some of our management from around the world with us, so that we have more time for Q&A.

Just before we start, I'd like you to, please, read the disclaimer, which is on our presentation.

And I will follow the slides, also, which are posted on our Website, as we go through this quick presentation here this morning.

Starting with the highlights for the Third Quarter, page five in our presentation for those of you who are following the pages in our presentation -- starting with net revenues. We had substantial growth in our net revenues in this quarter when compared with the same quarter in 2012, BRL24.2 billion. This was BRL4.9 billion more than the similar quarter last year, 25.1% increase, of which almost 88% was organic growth. So really substantial organic growth in our revenues.

Our EBITDA. BRL1.71 billion in EBITDA, the highest EBITDA at JBS in any given quarter, 24% above three quarter 2012 and an EBITDA margin of 7.1%. Again, quite a consistent EBITDA margin.

Net income came in at BRL220 million -- just under BRL220 million.

We had a lot of free cash flow generation in the quarter, BRL807 million. Operating cash flow was BRL1.24 billion.

We ended the quarter with BRL7.8 billion in cash or cash equivalents. That corresponds to 73% of our short-term debt.

Our leverage at the end of -- on September 30 was excluding Seara. And all these numbers that I've just mentioned up until now exclude Seara.

Our leverage was 2.96 times, excluding the Seara debt assumption, which we assumed on the very last day of the quarter. When we consider the BRL5.85 billion that we assume in the acquisition, our leverage goes to 4 times -- just over 4 times, 4.03 times, remembering that we have not inherited any of the results from Seara; we've just inherited the debt to reach that 4.03 times.

Now moving on in the presentation to page 11, our consolidated results on page 11, net revenue by quarter over the last five quarters and EBITDA and EBITDA margin over the same period of time. We can see there's quite a lot of consistency in our EBITDA -- in our revenue growth. We've gone from just over BRL19 billion in the Third Quarter of last year to BRL24.2 billion this quarter. And our EBITDA has been growing quite substantially as well. If we look at the Second Quarter of 2013 and the Third Quarter, we've had similar EBITDA, close to BRL1.7 billion in both quarters and above 7% of an EBITDA margin over the last six months or over the last two quarters.

Speaking about each one of the business units individually and starting with JBS Mercosul, which is on page 12 of our presentation. It represents 27% of our total net revenue. And again, just to remind everybody, none of the revenue or none of the performance of Seara is included in this presentation.

So at Mercosul, we had BRL6.2 billion in revenue in the quarter. That was 35.2% above the same quarter last year.

We had an increase of over 21% in the number of animals that we processed during the period, a 31% increase in the volume of beef sold in the domestic market and then 30% on the international market.

Our revenue in the domestic market grew 40%. So if our volumes grew by 31%, obviously, we've had some incremental pricing on the domestic market. And that is at least partially due to the advertising campaign, the branding that we've been doing of our fresh beef products in Brazil.

EBITDA for the Mercosul business BRL687.5 million, EBITDA margin of 11.1%. And if we look at Brazil on a standalone basis within the Mercosul, 11.7%. So I think it's important to remember that we've begun to see an uptick in the EBITDA margin in the Mercosul business as a whole and in the Brazilian business specifically.

We've seen quite improved exports out of South America. As an example, Brazilian exports are up 25% year on year. Our exports are up 34% year on year. And obviously, the devaluation of the real is helping boost margins in the export business.

Now, moving on to page 13 in our presentation, JBS USA Beef. And when we say JBS USA Beef, we're talking about our business in North America and Canada and in Australia as well. So it's across those three geographies.

We had net revenues of $4.69 billion; again, practically 10% up on the same quarter in 2012.

An increase in the export volumes.

EBITDA came in at BRL125.3 million (sic; see slide 13, $125.3 million) with an EBITDA margin of 2.7%.

We've basically seen cattle prices increasing but beef prices mirroring the increase in cattle prices. So beef prices have been up. Australia had an improved performance also during this quarter.

If we look at US beef imports, they have declined quite a bit, and they were down quite a bit in the quarter, helping balance supply and demand domestically in the US and helping with pricing in the US.

Australia performed very well in its exports, particularly to greater China. There's been significant demand growth in greater China.

And regarding our business in North America, just something we've observed recently which we think is worth mentioning is the fact that we've seen some heifer retention of the US -- some cow retention in the US, which indicates that we're at the beginning of a recovery in the herd size in the US, something we've been talking about for some time. But now we can see a diminishing number of cows coming to the market, indicating that we should have more calving in the springtime, and we should see the beginning of a recovery of the herd in the US.

Our pork business in the US, page 14 in our presentation. Our pork business is very constant, very regular performance. If we look at revenues, they're very little -- between $850 million and $900 million, basically, per quarter or a little bit above or a little bit below that.

EBITDA has been $43 million, $45 million, and $50 million per quarter, as well, with EBITDA margin pretty close to 5% consistently over the last five quarters.

We had an 8.5% increase in prices in the domestic and in the export markets in this business. And potentially, I think we can see some increased exports. The US has gone from being a non-player in the pork export market to being the largest exporter of pork products, primarily to Asia but also to neighboring North American countries. 34% of all pork exported in the world is produced in the US today. And other regions which were big in the export market, particularly countries in the European Union, have become less competitive. So we should, in principle, observe some growth in pork exports out of the US, which should translate into better margins in this business.

Our poultry business in North America, Pilgrim's Pride Corporation, page 15 of our presentation represents about 21% of our revenue. Again, this business has performed well over the last number of quarters. We published these numbers already, 15 days ago, so I presume most of you are very much aware of the numbers.

But we had $2.14 billion in revenues. That was up 3.6% compared with the same quarter in 2012.

We've had strong margins in this business, much improvement in margins -- double-digit margins in the last two quarters, 10.6% in the Third Quarter, which was $226.1 million.

And we see the favorable dynamics in this business moving forward, coupled with the fact that we've seen feed costs decline quite substantially into this Fourth Quarter.

Moving on to page 16 in our presentation regarding exports -- exports in volume and then by destination. We've increased our exports by 16.6% in the Third Quarter of 2013 when compared with the same quarter last year. If we go back one quarter previously, we will see also exports were up a lot. So this is something which is becoming very consistent, good volume of exports; basically, as we've always said in the past, strong demand out of the emerging economies. We are placed in the most competitive regions in the world. And this is translating into real business over the last number of quarters. Almost $1 billion in exports per month, almost $3 billion in the quarter.

The primary destination, again, is greater China. Mexico, a very strong destination out of our US business. Japan, from being not such a relevant destination, because of the lifting of restrictions on US beef at the beginning of this year, Japan has increased its import volumes quite substantially.

Then the other regions being Africa and the Middle East, where we're always very strong and where we supply product out of Australia, out of South America, out of North America. So that's a strategic market for us.

We've seen an increase in exports to the European Union, imports into the European Union, over the last number of quarters as well as herds decline. Not only in the pork business, as I mentioned, but in the beef business, as well, we've seen a declining herd and a declining production in the European Union and an increased dependence upon imported products.

Perhaps a quick word about South America. We're increasing our exports out of Brazil, particularly into South American neighboring countries, quite substantially -- Peru. Venezuela is a really good example. Quite a lot of volume going into Venezuela.

So moving on quickly, a couple of comments about our debt profile, page 18 of our presentation, our leverage. As I mentioned at the outset, our leverage would have been under 3 times were it not for the Seara acquisition. It would have been 2.96 times. As it was, we inherited BRL5.85 billion in debt and zero in EBITDA or in revenue. And that elevated our leverage to 4.03 times.

A little bit more about our debt profile on page 19, the breakdown by currencies. 25% in reais at the end of the quarter, and that's transformed quite a bit over the last five or six weeks. 75% in dollar, with average costs of 10.5% in reais because of the increase of the Brazilian CDI. And the cost debt in US dollars has declined quite a lot. By company, 60% of all net debt is at JBS S.A., 40% in subsidiaries. At the end of the quarter, 36% was in bonds and 64% in other currencies -- in other forms of financing. Pardon me. Not in other currencies. 35% of the debt was in the short term.

Now, if we move on to the next page, page 20 in our presentation, we've had some relevant deals done in terms of liability management over the last six weeks. So just to bring everybody up to today's position -- to our position having completed these deals, firstly, JBS S.A. issued a $1-billion bond last month.

And we also concluded the negotiation with a number of banks in Brazil regarding the debt we assumed at Seara. And as the bond we issued is totally dedicated towards paying down short-term debt, our short-term debt would go from 35% of our total debt at the end of the quarter to 21% today; so, a really substantial decrease in our short-term debt with the liability management we did.

Our cash or cash equivalents would be 116% of our total short-term debt at the end of this liability management.

Our average maturity is extended now to 53 months, so that's extended quite a lot. And we've extended the maturity without increasing the cost of our US-dollar-denominated debt, which remains at 6.2% per annum.

So that's quite relevant what we've done over the last six weeks, basically, since we finalized the acquisition of Seara at the end of September.

A little bit about our stock performance and the stock performance at Pilgrim's Pride, pages 22 and 23 in our presentation. And we're coming to the close of the presentation here.

Our stock performance in Brazil is up 15% in the last 12 months, while the Ibovespa index was down 12% at the same time. So that's -- we've outperformed the Ibovespa index quite substantially.

Our daily traded volume has also increased quite a lot. We've seen a consistent increase month on month. We are now above BRL31 million average daily traded volume. So that indicates increased liquidity in the stock.

Our current market cap at JBS S.A. is BRL24 billion.

At Pilgrim's Pride, page 23 in the presentation, Pilgrim's Pride has substantially outperformed the S&P 500 index. It's up 228% in the 12 months to September 30, while the S&P index was up 17% in the same period. So we've seen a lot of value creation at Pilgrim's over the last 12 months.

Currently, we see market cap at $3.7 billion.

And finally, on page 24 of our presentation, we've been innovating quite a lot in Brazil in creating some brand value for our fresh beef products in Brazil. This is something which was never done previously.

In fact, we've been advertising our Friboi brand particularly in Brazil. We've done a very consistent campaign since the beginning of the year. It's been a big attraction in terms of an advertising campaign because it's very creative, and it's been recognized as such with -- it won a prize as the Top of Mind 2013 with one of the large Sao Paulo newspapers. We are on the short list to get a prize for being the most creative advertising campaign in Brazil in 2013. It's called the Cabore de Publicidade Brasileira. It's like the Oscar of Brazilian advertising. And our campaign has already been mentioned in the press as being one of the top ten advertising campaigns in Brazil this year, which has translated into a lot of value for our fresh, branded beef products in Brazil.

With that, I will finalize the presentation, and I will -- we will open for Q&A. Pardon me. Wesley Batista, our global CEO and President, will make some comments. And immediately afterwards, we will open for Q&A. Thank you very much.

Wesley Batista {BIO 15243148 <GO>}

Welcome, you all.

Like Jerry -- he already went through all the numbers, but I would like to -- I will repeat some of the numbers here only to point out some important points that, in our view, we should -- I should mention again.

So almost BRL24 billion in sales in this quarter, so a strong top line growth, 25%, this quarter above the same quarter last year. And it is important that 87% of this growth came from organic growth. So this is an important point.

One thing that I think is important for the analysts that is making the projections. This number does not include any Seara revenue. So if you do BRL24 billion or BRL25 billion and analyze this number, you will end up in BRL100 billion in revenue if you add the Seara revenue that is around BRL10 billion (technical difficulties).

Sorry. We got cut off here.

So I was saying about our revenue. If you look, our revenue this quarter and at the Seara revenue plus a growth for next year -- so you will end up seeing that we'll probably do more than BRL120 billion in revenue next year.

So EBITDA, we came in this quarter 7.1% (inaudible) and EBITDA BRL1.7 billion in consolidated EBITDA.

So strong free cash flow, BRL800 million, very strong cash position. So we have BRL7.8 billion in cash. On top of this number, we have more than $1 billion in credit lines available in the US. (So we're strongly liquid).

And about leverage, I think I want to mention (inaudible) here. We end up this quarter at 4 times leverage with all the debt that we assumed from Marfrig but not accounting or not normalizing or not including in our LTM any Seara results. So 4 times leverage -- if we add the number that we believe we can do in Seara in the next 12 months or in a run-rate base, our leverage is more at around 3.4 times leverage after the Seara acquisition.

So it's important it of (inaudible) BRL6 billion acquisition. So we feel that leverage is in a level that we feel confident in our ability to keep the leverage in our balance sheet like we have been doing the last five or six quarters. And our assumption, we will be able to end up 2014 at around 3 times leverage. So we are very positive where we are today.

So talking about some part of our business, North America, we are confident that we can deliver strong results in 2014. Beef -- we start the beef business this year -- in the First Quarter, it was not a good quarter. It was more difficult. Second quarter was better. This quarter was a little below the Second Quarter but was an okay quarter, not in the level that we want to see our beef business performing. But it was okay. So going forward, we believe, even though some challenge in terms of supply, we believe we can keep running this business in a reasonable margin level.

So chicken in the US. I think the market has been raising some concern about chicken production in the US. And I think it's something that we also -- we also have been analyzing this very closely. But in our view, grain price is much cheaper now comparing to the previous quarters. And the ability for the industry to grow too much chicken production that can jeopardize or can hurt margin, in our view, is not there. So the (inaudible) is low, like Bill Lovette mentioned in our Pilgrim's Pride earnings call.

So we don't see US will produce less beef next year -- probably less pork. And we feel that the industry will -- even though the chicken industry will produce more chicken, we believe margin can be strong next year. So this is our outlook for chicken.

In Mercosul, our business keeps performing well. And I expressed this before. I think -- I don't see that we are close to the end of any beef cycle in Brazil. I believe we are still more, it's the beginning of the cycle than to the middle or to the end of the cycle. So feel pretty good about our ability to keep delivering strong results in our beef business.

So moving to Seara that I think is the most questionable in terms of results and in terms of what Seara -- with how much result we can generate in Seara. So in our view, we already -- we closed the deal 40-some days ago. So we already identified a huge amount of improvement that we can do there. At this point, we are very confident our team -- we are building a very, very strong team in this business. And we are very, very confident that, in 2014, we can deliver BRL1.2 billion in the EBIT line in Seara.

So it seems that is very aggressive for a company that has been struggling to deliver results, but, in our view and with the team that we have in the position that we are, we are confident that we are set to have a strong 2014 in Seara.

I'm confident that this will be a big surprise for everybody. I think we will be able to surprise the market like we have been doing before when we acquired Swift in US and when we acquired Pilgrim's Pride. I think we will be able to turn Seara around very quickly and surprising the market in terms of the result that we will generate over there.

So with that, I will stop here and open to Q&A. Please, operator, open to the Q&A session. Thank you.

Questions And Answers

Operator

(Operator Instructions) Daniel Sensel, JPMorgan.

Q - Daniel Sensel {BIO 16854713 <GO>}

My question is regarding Seara. Yesterday, Marfrig released the income statement of Seara Brasil of the last four quarters. And there, we can see that operating results were negative. In fact, I think we're talking over negative EBIT of BRL1 billion. So can you clarify a little bit what the situation of Seara in terms of current EBITDA and current EBITDA margins? Thank you.

A - Wesley Batista {BIO 15243148 <GO>}

I will not comment about Marfrig's numbers. So this is in their results. This is their numbers. So I will not comment. And I don't know what they did to end up in this number. So because of this, I will not comment about their results.

What I can tell you, Daniel, that, if you look the sector in Brazil and you -- if you look including a company that is part of Seara by the name Excelsior, that is a public company that is below Seara, the margin in Excelsior is 13%. And I can tell you that our chicken operating in Brazil -- we are running our chicken operation in Brazil. We don't disclose this number in our statement. But I can tell you that we are running this business at around the same margin level as Excelsior.

So look, we are confident that no reason that we cannot run Seara and deliver a strong number. I think, look, the First Quarter, we will publish JBS Foods -- that will be Seara business plus JBS chicken in Brazil. We will publish this number separate, as a separate segment, and the margin to you to have the opportunity to analyze what we are doing there and what we are saying in terms of our confidence and ability to turn this business around quickly and deliver strong results.

Q - Daniel Sensel {BIO 16854713 <GO>}

Okay. But let me rephrase. So when you acquired Seara, you said that you were trying -- you were going to achieve at least or around 10% of EBITDA margin on a normalized level. That 10% EBITDA -- (I want) to see it in terms of gross margin. Do you have an estimate of what could be the gross margin of Seara?

A - Wesley Batista {BIO 15243148 <GO>}

Look, top of my head here, I don't know in terms of gross margin. But what I can tell you -- yes, our assumption -- JBS Foods that will the Seara business plus our current chicken business in Brazil. Our number is still the number that I mentioned before. And we believe we can deliver over BRL1 billion. Actually, we are more to BRL1.2 billion (identified) in this segment next year.

Q - Daniel Sensel {BIO 16854713 <GO>}

Okay. Thank you.

Operator

Celina Merrill, Credit Suisse.

Q - Celina Merrill {BIO 6748233 <GO>}

Congratulations on the results.

I have a follow-up question on Seara. Can you guide us to what you think the working capital investments will be for that business either in the Fourth Quarter or in 2014 and, also, what CapEx spending will be for Seara and, maybe, for JBS Mercosul as a whole? Thank you.

A - Wesley Batista {BIO 15243148 <GO>}

So CapEx without livestock is BRL150 million in CapEx. And working capital is around BRL500 million.

Q - Celina Merrill {BIO 6748233 <GO>}

Is that for 2014?

A - Wesley Batista {BIO 15243148 <GO>}

Yes.

Q - Celina Merrill {BIO 6748233 <GO>}

Okay. Thank you.

Then my second question was regarding the additional liability management or capital structure changes you might want to make. Are you looking to term out additional debt in 2014? Or what's your thought process in general about that?

A - Wesley Batista {BIO 15243148 <GO>}

Look, we did the liability management in PPC, so we don't have anything in front of us in middle term or even in short term -- middle term. The next maturity in PPC is 2018. JBS USA, the same thing. We just did two months ago liability management that we paid down the 2014. So we also don't have anything in front of us until 2018. And we just did the last bond in JBS S.A., $1 billion. And like Jerry mentioned, we are using all these proceeds to pay short-term debt. So we don't see any need to do anything, and we are not looking anything now. But during 2014, if we see opportunity to reduce cost and to improve, extend maturity, yes, we are always looking opportunity. If we see opportunity that we can reduce financial costs plus improve maturities, we will be analyzing. But at this point, we don't need to look to do anything.

Q - Celina Merrill {BIO 6748233 <GO>}

Okay. Thank you very much.

Operator

Alex Robarts, Citi.

Q - Alex Robarts {BIO 1499637 <GO>}

First question is on the USA business for beef. And I appreciate you saying in your commentary that the level that we saw, the 2.7% of EBITDA margin, was something below what you were hoping for. You referenced also some supply challenges. I mean, as we think about the past quarter and into the Fourth Quarter and looking at the US business, is the issue or is the challenge that you feel kind of at the pricing in the US? Is that kind of the main factor here that is perhaps making these margins a little weaker than you'd like?

And I guess, the bigger picture you've told us -- I understand, from prior calls that you're kind of hoping a 3% to 4% EBITDA margin for the JBS USA Beef business. And to get that, I guess you have to have roughly a 6% EBITDA margin in the Fourth Quarter. So I'm wondering. Does it make sense to perhaps change a little bit the guidance for this year if in fact that was -- if I remember right that that was the stated guidance? And again, if you could talk a little bit about how you see the Fourth Quarter outlook for pricing in the US, that would be helpful.

A - Wesley Batista {BIO 15243148 <GO>}

(inaudible). Let me comment here. Two things impact our quarter in a negative way. One was Canada. That's performed much lower than our expectation, and I think that we are working in our operation there to continue to improve. It's taking longer than we expect to regain the confidence from the customers. But we are moving the direction, so I'm confident that 2014 will be a much, much better year for our Canadian operations. But at this quarter, impact negatively the performance of what you call JBS USA.

Another thing that's more seasonal is you know that part of operation in US is cow operation. And the Third Quarter is a weak quarter for that operation because you have much less availability of cows. It's just the normal way that the farmers behave in the US. That's not the time that they turn cows.

And on the opposite side, in the Fourth Quarter, they (inaudible) for the cow business. So I think that (inaudible) to expect that we will recover.

Our expectation continues to be the same. Again, we said at the end of the First Quarter the First Quarter was a very weak quarter -- that we expect between 3% and 4% going forward. And that's continued to be our expectation. I expect that our Fourth Quarter be better than our Third Quarter.

And for next year, the same line. I don't see additional challenges that can put this in a weaker position. But we will not be 3% or 4% for the full year 2013. But we'll be between 3% and 4% if we just consider First Quarter was a very weak quarter before one of our big competitors shut down one plant.

Q - Alex Robarts {BIO 1499637 <GO>}

Okay. That's very helpful.

The second question is on Brazil domestic beef. A tremendous success, it seems to me, kind of getting volumes up 30% and, as Jerry commented and referred to, as well, the pricing as well. The marketing campaign seems to be having an important effect. Can you tell us a little bit about your own expectations around this marketing campaign? We've seen various product launches and campaigns through the years in Brazil. -- the sustainability of this going into the Fourth Quarter, things that you were surprised about?

How was the SG&A also? Obviously, when we look at the Mercosul margin, we have a lot of pieces in there. But that margin was a little bit lower than what we were expecting. Was SG&A kind of in line to support this marketing? And should we expect the marketing program around the Friboi brand to continue into the kind of holiday season and such?

A - Wesley Batista {BIO 15243148 <GO>}

We are continuing the campaign, and we will keep the campaign in the Fourth Quarter. We will stop for Christmas and New Year and the beginning of next year. We will stop the campaign because not the best time to be doing this campaign. But we are very (optimistic). Look, this campaign has surprising us. I need to tell you that, actually, when we start this campaign, the impact on this campaign was not in our view going to be like this campaign is today.

So we are investing money, of course, but, I should tell you, amazing, this campaign is already paying by themselves through the price differentiation in our sales, and the campaign is already self-funded in terms of our ability to sell our products for a better price and put in a spread compared to the other players in the market.

So again, we are very, very optimistic, and we will keep investing this. And we are creating a brand that we believe is sustainable.

Q - Alex Robarts {BIO 1499637 <GO>}

Okay. Fair enough.

The last thing is clarification. Sorry. The BRL1.2 billion that you're talking about Seara and you referenced earlier in the Brazilian call -- I should say the BRL1.2 billion is what you're looking for, you're setting as a target, for EBITDA 2014 JBS Foods Brazil. So that's not comparable -- or we shouldn't think about the BRL93 million in last 12 months' trailing EBITDA at Seara. In other words, the BRL1.2 billion that you're talking about now introducing to the market as guidance -- that's (inaudible) plus Seara EBITDA. Is that right?

A - Wesley Batista {BIO 15243148 <GO>}

Yes. That's right. But I would tell you what (inaudible) Seara, comparing apples and apples -- only Seara we do expect should do over BRL1 billion.

Q - Alex Robarts {BIO 1499637 <GO>}

So the remainder -- sorry -- is the (inaudible) EBITDA. Is that right?

A - Wesley Batista {BIO 15243148 <GO>}

I'm telling you that, excluding (inaudible), we -- comparing apples and apples and only looking Seara, we do expect to generate over BRL1 billion only in Seara. And adding (inaudible) on JBS Foods -- that is how we are naming this division -- we expect to do BRL1.2 billion or even more.

Q - Alex Robarts {BIO 1499637 <GO>}

Got it. Okay. Thanks very much.

Operator

Aaron Hofsberg, Santander.

Q - Aaron Hofsberg

I just wanted to clarify. I apologize if this has already been addressed. But I'm not sure I understood.

For Seara, regardless of what Marfrig said, it looked like the numbers were negative for both EBITDA and free cash flow. Do you think you can get them to positive for the First Quarter you'll be reporting? And can we assume you'll report Seara as a completely separate division and not mix the numbers with JBS Mercosul?

A - Wesley Batista {BIO 15243148 <GO>}

Yes. We will report a separate division starting the First Quarter next year. The division that we are calling JBS Foods -- we are going to report this separate. And yes, we are confident that we will deliver a good result already in the First Quarter next year.

Q - Aaron Hofsberg

Okay. So what will we be seeing for the Fourth Quarter in terms of Seara, so we can track what's going on?

A - Wesley Batista {BIO 15243148 <GO>}

Look, we are not going to disclose the Seara separate in the Fourth Quarter to start, next year, our fiscal year to not jeopardize comparison. But look, we are already improving Seara from the level that we got there.

Q - Aaron Hofsberg

Okay. Well thank you very much.

Operator

Jose Yordan, Deutsche Bank.

Q - Jose Yordan {BIO 1496398 <GO>}

Most of my questions were answered.

But not to belabor the point here on Seara, but can you give us a little color as to how you plan to, essentially, more than double what the EBITDA generation of a company that -- even before the recent dive in profitability in the second and Third Quarter, it probably wasn't generating much more than (400 or 500) per year. And as you know, the company has changed hands several times, has had several big companies have a chance at improving it, and nobody's been successful. And you may well be the right company to get it done. But I'd just love to see any color as to how you plan to get there. Are there any sort of systems, projects, or massive, let's say, headcount reductions, and any other initiatives that are behind this confidence you have?

A - Wesley Batista {BIO 15243148 <GO>}

Yes. Very good question, Jose. First of all, let me mention you two things.

In fact of Seara has a company by the name Excelsior. I mentioned at the beginning of the call that it is running at 13% margin (inaudible). This is a public company. It's not a company that -- it's a public company. So you can see the numbers. It's 13%.

We are running our chicken division in Brazil that we call JBS Chicken at around these levels. So even though this number is included in our (inaudible).

But let me go through. We have all the breakdown. And we have a very (deeply) analysis in every part of this business already. So we identified only Seara to make sure only Seara without JBS Chicken -- only Seara -- BRL1.2 billion for 2014 in opportunities, synergies, and improvements.

And let me go to the breakdown. Sales -- domestic sales BRL234 million, BRL183 million from this BRL234 million coming from price -- sales price. Seara was discounting products. Seara was letting product get too close to expire day and discounting product and not well coordinated at operation in terms of supply and demand.

So BRL183 million coming from sales, BRL51 million coming from volume but not in the domestic market, volume going to the export market. So this (totalize) BRL234 million, BRL53 million in exports. So we analyze every opportunity, every market that we sell products, and we identified BRL53 million.

BRL629 million coming from operation. What means operation? Live production, (inaudible), plant efficiency, and product formulation, and standards to produce product with the right formulation in terms of sausage and all these products.

And I can go the breakdown with you. (inaudible) production. So we can (inaudible) in lab production.

Productivity is reducing labor and improving productivity -- (inaudible) and BRL150 million in the right raw material to produce all the sausage and all the (inaudible) -- so, to produce the product with the right spec.

So all these numbers together is BRL629 million. BRL118 million in (logistics). There I can go with you all the breakdowns. So optimizing distribution centers, optimizing product transfer, cost of freight, and all these things (inaudible) -- BRL40 million coming from finance, BRL10 million coming from the other corporate areas, BRL6 million in HR. So BRL10 million in (back office). BRL87 million in supply. So we already did a deep analysis comparing all the price that we buy corrugate, we buy chemicals, ingredients, and all this stuff. So we identified BRL87 million.

And BRL50 million impacts sales tax, selling products from the right state, so we can optimize BRL50 million in sales tax. So this is BRL1.2 billion.

Q - Jose Yordan {BIO 1496398 <GO>}

All right. Thank you very much. That's helpful.

Operator

(Belinda Hill), (inaudible).

Q - Belinda Hill {BIO 17655475 <GO>}

With respect to free cash flow, other current liabilities seem to have been a big, positive contributor. Can you tell us what this line item includes?

A - Wesley Batista {BIO 15243148 <GO>}

Sorry. Say it again.

Q - Belinda Hill {BIO 17655475 <GO>}

Other current liabilities seem to have been a big contributor to free cash flow. Can you tell us what's included in this item?

A - Wesley Batista {BIO 15243148 <GO>}

Oh, Belinda, I don't know to answer top of my head. I can ask our team here to follow up with you. So I don't know exactly what line you are talking about.

Q - Belinda Hill {BIO 17655475 <GO>}

Okay. Great. Then, just with respect to -- back to Seara, Marfrig had had a payable to BRS related to the acquisition of the plants. Did this payable also transfer over to you, or was it extinguished?

A - Wesley Batista {BIO 15243148 <GO>}

It's part of the price that we agreed to pay for Seara. So we will be -- it is our -- it's part of the deal.

Q - Belinda Hill {BIO 17655475 <GO>}

So you have a payable to BRS now.

A - Wesley Batista {BIO 15243148 <GO>}

Yes.

Q - Belinda Hill {BIO 17655475 <GO>}

Okay. Thank you.

Operator

Excuse me. This concludes today's question and answer session. I would like to invite Mr. Wesley Batista to proceed with his closing statements. Please, go ahead, sir.

A - Wesley Batista {BIO 15243148 <GO>}

Look, I want to thank you all to be in this call with us. Like I mentioned in the beginning, I am more confident than ever that we have the right structure, the right team, to keep improving the results and to keep delivering good results going forward. So again, thank you, all, and have a nice day.

Operator

That does conclude the JBS audio conference for today. Thank you very much for your participation, and have a good day.