Y 2019 Earnings Call

Company Participants

- Andre Nogueira, President and Chief Executive Officer of JBS USA
- Gilberto Tomazoni, Chief Executive Officer
- Guilherme Perboyre Cavalcanti, Chief Financial Officer and Investor Relations Officer

Other Participants

- Analyst
- Benjamin M. Theurer
- Bryan Cecil Hunt
- Carla Casella
- Joao Pedro Soares

Presentation

Operator

Good morning, everyone, and thank you for waiting. Welcome to JBS Fourth Quarter and Year of 2019 Results Conference Call.

With us here today, we have Gilberto Tomazoni, Global CEO of JBS; Guilherme Cavalcanti, Global CFO of JBS; Andre Nogueira, CEO of JBS USA; and Christiane Assis, Investor Relations Director.

This event is being recorded and all participants will be on a listen-only mode during the company's presentation. After JBS' remarks, there will be a question-and-answer session, at that time further instructions will be given. (Operator Instructions)

Before proceeding, let me mention that forward statements are based on the beliefs and assumptions of JBS' management. They involve risks and uncertainties because they relate to future events and therefore depend on circumstances that may or may not occur.

Now I'll turn the conference over to Gilberto Tomazoni, Global CEO of JBS. Mr.Tomazoni, you may begin your presentation.

Gilberto Tomazoni {BIO 2090061 <GO>}

Welcome to our fourth quarter 2019 year end results call. We are disclosing record results at a moment that celebrating is difficult. The world is going through a very challenged moment, and JBS as a food company is conscious of its obligation to feed the world. And we take our responsibility very seriously.

I'm very proud of everything we are doing in each of our business units in our office, distribution centers and sales areas. What we are doing now reflects in what will be in the future. We thank to all our team members and all of our supply chain. The fact that we are living in a challenged moment does not change the fact that our results in 2019 were excellent.

Record net revenue of more than BRL200 billion, record EBITDA of BRL2 billion, 67% higher than the last quarter -- last year, and a record 9.7% margin. Free cash flow of BRL2.5 billion record net income of BRL6 billion, leverage of 2.1 times and debt average tenure of 6.5 years, liquidity of $4.5 billion of which $2.5 billion in cash. These results are the best financial result of our history. Crisis provoked stress to our supply chain. Nonetheless, we are extremely prepared to navigate in this period, given our robust cash position.

Our operation platform, we have -- we operate in four types of protein in four continents. We have a fantastic team. This is that will make the difference in the event of a challenge. The experience of the team will make the difference. And the marketing conditions have not changed. The global gap of protein because of ASF is still there. And good sign from China that it's recovering very fast.

Our utmost importance at this time is the safety of our team members and we're taking a number of measures to guarantee their health and safe conditions. We will keep operations running and we are ready to feed the population at the time when it needs to take care of its health. Ensuring the supply chains of food is essential in this critical time. Especially, in our sector, which count a long supply chain. We will keep up the job of more than 240,000 team members. I think this is very important in this moment that we'll be able -- we are proud that we are able to keep the job of our team members. We alongside our customers, our business partners, seeking creative solution for the challenge we have currently.

Now I'll pass the -- to Guilherme Cavalcanti that will give us the details of our financial results and about our business units. Later on, we are back to our Q&A.

Guilherme Perboyre Cavalcanti {BIO 2181205 <GO>}

Thank you, Tomazoni.

After the highlights, please let's begin at Page 4, where we have the 2019 consolidated results, showing our revenues increasing 13% to BRL205 billion, which means $51.7 billion. Our gross profit increasing 21% to BRL32 billion and our EBITDA increasing 67% in dollars to BRL20 billion or $5 billion in 2019. Net profit was BRL6.1 billion, which means $1.5 billion.

Operational cash flow increased 49% to BRL17 billion, lower than the increase in EBITDA, mainly to lower receivable discounts given that those receivables are discounted at a higher cost than our cost given its -- our clients' risk. Given that we don't have short-term debt to be paid, our leverage decreased a lot, we don't need to incur in those extra interest expenses.

Now in the middle of the page, we see our decrease in net financial expenses. So from 2018 to 2019, we decreased our interest expenses in $120 million per year. Our free cash flow in 2019 reached BRL9.5 billion or $2.4 billion.

Fourth quarter numbers, I would highlight the EBITDA of $1.4 billion in the quarter or BRL5.7 billion, and the net income of BRL2.4 billion or $591 million in the fourth -- of net profit in the fourth quarter. In the fourth quarter, we also have BRL5 billion in operational cash flow, $11 million in savings in interest expenses, and a free cash flow of BRL3.2 billion or $770 million just in the fourth quarter.

Now please let's move to Page 8, where we talk about our debt profile. First, I would like to highlight our decrease in net debt to EBITDA, coming from 3 times to 2.13 times in dollar terms and from 3.18 times to 2.16 times when measured in reais. It's worth mentioning that we were able to reduce our net debt as Tomazoni said, in $1.5 billion even with an almost $600 million in acquisitions. So showing that we have enough cash generation to continue to reduce our net debt and continue to do acquisitions at the same time without putting our liquidity at risk.

On the right top hand of the chart, we see that we finished the year with almost $4.5 billion in liquidity, $2.5 billion in cash on hand and $2 billion in revolving credit facilities. Those liquidities -- this liquidity is enough to cover all our debt amortizations up to 2025. So even if we didn't generate any cash from now on, our liquidity is able to take us up to 2025. And even if we sum up to those expenses, interest, dividends and the acquisitions, we see that our liquidity continues to cover a few years ahead.

Now moving to the bottom of the page. First, I think it's worth mentioning that our short-term debt corresponds to only 3.9% of our debt. Also worth mentioning that our exposure to commercial banks decreased from 25% of our debt in -- at the end of 2018 to 8.8% at the end of 2019. Because term loan that we see in this chart is also with institutional investors. This is very important, because we paid -- we used our free cash flow and new issuances at the capital markets to pay down bank debt. Now that the capital markets are in a more challenging environment, we have lines availability with the banks, because once we pay the banks, we open this credit limits to us and that's where it can be used now as an additional source of liquidity.

Now in terms of entity break down, we see that one year ago, our -- for around 40% of our debt was allocated in Brazil and 60% in U.S. We already moved U.S. now have 71% of the debt, it's more in line, but still behind the proportion of free cash flow around 15% to 20% of the free cash flow is generated in Brazil. So we are moving to have a more proportional debt allocation between countries. And it's worth mentioning that in Brazil, we still have BRL3.6 billion in tax credits, so this movement of debt from Brazil to U.S. increases the efficiency of our tax shield.

Now the last chart, show our cost of debt that decreased to 5.5%, coming from a level higher than 6%. And if we get this average cost of debt multiplied by our gross debt and decrease this from the financial income, we forecast that this year, our interest expenses will be around $700 million, so will be at least a savings of a $100 million again. So we decreased our interest expenses from 2018, 2019 $120 million and we have more -- at least $100 million in savings for 2020. If we continue to pay down debt, these savings could be even more.

Now please let's talk about business unit. We will start with Seara. Seara had an increment of EBITDA of 50% in the fourth quarter and 46% in the year. Margins of the EBITDA of the year was 11%, in the fourth quarter 12%. In the domestic market, net revenue in the fourth quarter was BRL3.1 billion, representing an increase of 14.5% in relation to the fourth quarter '18, with volumes and prices increasing respectively 3.9% and 10.3%. And it's important to highlight the prepared products category, which posted an increase of 8.1% in volume and 8.9% in prices in the period. In the export market, net revenue was BRL2.7 billion, a 37% increase boosted by 17% growth in volumes and 16.5% higher prices.

Now please let's move to JBS Brazil, showing that we had EBITDA of the year increasing 39% and 66% in the fourth quarter. In the domestic market, this net revenue increased 26.5% due to the growth of 9% in volumes and 16% in prices. In the export market, net revenue increased 31% in the quarter, reaching BRL4.4 billion boosted by an increase of 20% in prices, although the contract renegotiations with the Chinese customers pressured this part of results, exports to China almost doubled in revenue recording increases of 61% in volume and 23% in prices. It's important to highlight that JBS is developing sales and distribution channels in China through partnerships with large local players, such as WH Group.

Now please let's move to Page 12. We talk about JBS USA Beef. We had $1.9 billion in EBITDA, and increasing 13% in the year and increasing 47% in the quarter to $580 million in the fourth quarter with a margin of 10%. I would like to highlight the Australia for the increase in beef and lamb direct exports to China, which grew 80% in sales compared to the previous years.

Now please let's move to Page 13, where we talk about JBS USA Pork. EBITDA increasing 4.7% with a margin of 9.5%. In the fourth quarter, the EBITDA increased 78% to a margin of 13.6%. For the fourth quarter, the EBITDA showed a significant growth compared to the fourth quarter, so with this margin of almost 14%. In 2019, the U.S. Pork industry export volumes increased 10% in relation to 2018, driven by the Chinese demand for pork which accelerated significantly in the second half of the year. In order to maximize export market opportunities and previously announced, JBS USA

Pork is in the process of eliminating the use of ractopamine from its supply chain. I think it's worth mentioning that in March this year, China reduced its tariffs from 63% to 33%, a reduction of 30% in tariffs, and it's also the same 30% reduction in beef as well.

Now please let's move to Page 14 to talk about Pilgrim's Pride. We had an EBITDA increase of 22% and a margin of 8.5% for the year. For the quarter, a increase was 45% with the margin of 5.3% in the fourth quarter. In the U.S. -- the U.S. operating performance has continued to improve driven by the partnership with the key customers and a relentless focus on executing and delivering the best results possible, despite changes in market conditions.

The newly acquired operations in Europe had a strong start and is already generating positive EBITDA. In Mexico, weak market conditions of fourth quarter contributed to uncertainty in consumer spending and demand, specifically in traditional markets. But despite market -- difficult market environment in fourth quarter, PPC Mexican business has contributed to perform well operationally compared to the industry.

Now let's jump straight to Page 16. We're showing our net export. Our exports this year was almost $14 billion, corresponding to 26% of our revenues, where China already representing 27% of our total exports and Asia as a whole 49%.

Now next page, Page 17. We show the turnaround of Seberi. This is a pork plant that we acquired in the South of Brazil, used to have 1,600 heads per day of pork. We increased to 2,300 a day in 2019. We are forecasting 2,800 for 2020 and for 2024, the forecast is 5,600. So with this volume increases, the return on capital invested in this plant will be very fast.

Now the last page, we'll talk about Tulip, acquisition that we made last year in Europe. We have acquired that business that was almost break even. If you see in the fourth quarter '18, it was still a negative EBITDA and with our operational and commercial synergies, we already reached a positive EBITDA in the fourth quarter 2019.

So with that, I would like to open for the question-and-answer session.

Questions And Answers

Operator

(Question And Answer)

Ladies and gentlemen, we will now begin the question-and-answer session. (Operator Instructions) Our first question comes from Bryan Hunt, Wells Fargo Securities.

Q - Bryan Cecil Hunt {BIO 1530288 <GO>}

Thank you for your time this morning. I was wondering, if you look at COVID-19 and the impact it's had on food service demand around the globe, how fast can the company alter its product mix? And how does the switch from food service to retail affect margins?

A - Gilberto Tomazoni {BIO 2090061 <GO>}

Andre, would you like to answer about how you are doing in U.S.?

A - Andre Nogueira {BIO 19941317 <GO>}

Yes. Thanks for the question. The change in our case is, it's a very simple Bryan. Very few lines in our case cannot be immediately used for retail. Maybe some of the lines in bacon that's basis for food service and that's basis -- you have the proper package, but it's very small. I would say, irrelevant. So in our case, we can change pretty much 100% what was done before for food service. If reduce -- if demand reduced 50% for food service, we can immediately transform that to retail with very, very little impact.

I don't think that there is any -- just the change from food service to retail in our case have absolute no impact in margins overall. So as long as the total consumption don't change, what was consumed in food service that should be consumed in retail, here we have some Primo Bryan (Technical Difficulty)

Q - Bryan Cecil Hunt {BIO 1530288 <GO>}

Hello.

A - Guilherme Perboyre Cavalcanti {BIO 2181205 <GO>}

Hello. Hello. Andrea? Hello. Andrea's line is down we are connecting him. (Multiple Speakers) Yes. We are reconnecting him.

A - Gilberto Tomazoni {BIO 2090061 <GO>}

No, no. I'll go ahead with the explanation of Andrea. If you look for chicken in U.S., we can have -- in the line what Andrea is saying, chicken, for example, we have three size of chicken: big chicken, medium chicken and small chicken. Normally, the big chicken is for processor, the middle chicken go to the retail and small go to the retail, part and part go to the food service.

Chicken, just to talk about age, we can bring the big to middle, we can bring the small to medium. Then it's our team are doing a great job. And we are transformed. We are not -- really we're not facing any loss margin. In terms of margin, we lost anything in terms of transformation was, we have done very well.

In Brazil, for example, we produce Hamburgers through many of chains here. And when they are -- they reduce the volume, we transform to the retail, because we have a strong brand in retail here, was easy to transfer in package of Seara in the first half Friboi and it was in the retail.

In reality, not -- was not affected our margin this moving from the one chain to the other chain. The other thing is, we have a big operation of canned foods in Brazil. This is -- we are working three shifts now because people want to buy canned food now. Then this is the flexibility. This is the advantage of our platform. I think if we have an acquisition that we have different platforms, different types of proteins, we can move one through the other.

Q - Bryan Cecil Hunt {BIO 1530288 <GO>}

Okay. Second question.

A - Gilberto Tomazoni {BIO 2090061 <GO>}

Okay. Go ahead.

Q - Bryan Cecil Hunt {BIO 1530288 <GO>}

Yes, and then I'll have one more after that. So second question is when you look at COVID-19, and I don't know how the rules have changed in Brazil. But in the U.S. and other parts of the world, social distancing has become such a significant issue, both socially and other environments, there's been lockdowns in various markets. How is that impacting your workers in Colorado and in other facilities? And what type of contingency plans do you have in case someone comes into the workplace sick?

A - Gilberto Tomazoni {BIO 2090061 <GO>}

Andre, are you back?

A - Andre Nogueira {BIO 19941317 <GO>}

Yes, I'm back from Tomazoni, sorry.

A - Gilberto Tomazoni {BIO 2090061 <GO>}

Okay. Please. Answer please, Bryan.

A - Andre Nogueira {BIO 19941317 <GO>}

Bryan, we are doing everything that we can to improve this social distance in our plants. We have plants that employ 2,000 people, 3,000 people. So we change shifts. We are screening people as they come to the plant in terms of temperature. We took the population with high-risk out of the plant. We are hiring more people to make sure that we have -- if we increase the absentees then that we can continue to run the plant.

So we took several actions in the last three weeks to improve the conditions with dramatic increase the cleaning of the common area like cafeterias and break rooms and restrooms. And we adjust the shifts to increase that. But still, Bryan, it's a plant with a lot of people that have risks. We need to balance that with our responsibility to continue to produce food.

We cannot stop. Otherwise, we cause a big, big issue for the whole nation. So we balance that and doing everything that's in our power to improve the safety of our team members inside of our plants. It is a challenge and it will continue to be a challenge. We are doing a lot of investments in change cafeterias, food separation, change shifts. We are investing in our key members. We put a bonus out there to retain the team members and keep them work, but it is a challenge and we're going to continue to face this challenge as long as this crisis continues.

Q - Bryan Cecil Hunt {BIO 1530288 <GO>}

And then my last question is beef margins in the last couple of weeks have just been extraordinary in the United States. Can you talk about, one, the volume demands on your facilities given the shift to retail, and obviously increasing consumption, as well as the potential outlook for Q1 profitability? Thank you.

A - Andre Nogueira {BIO 19941317 <GO>}

Bryan, when you look this beef margins and the spot especially when you see a big jump like that, just does not consider that this is the real margin that the business are running. This in the normal situation is a good crux for the margin. In a situation like we saw in the last two weeks, that's not a good crux for margin anymore, because it's just they spot beef margins. We have been extremely responsible for pricing, should not increase pricing in -- on a just friable way in a moment like that.

We dramatically increased our production in the last two weeks, in beef, pork and chicken to make sure that we're supplying our customers and they have the capacity to supply their customers in the retail stores. I expect that this will come back to a more normal level in the next few weeks. Until then, we'll continue to run our business very strong, anticipate some production, to make sure that everyone's supplied and being extremely responsible with price. So don't look this spot beef margin and believe that this is the margin that the companies are having, but they're not. This is a spike. We don't have spot business to supply. We don't have available meat to go to the spot market. So we are not participate on that.

Operator

Our next question comes from Joo Soares, Citi.

Q - Joao Pedro Soares {BIO 18265689 <GO>}

Hi, and good morning, everybody. I have three questions. So the first one I just wanted to understand, how is this current situation affecting your investments this year? We know that you have this strategy of increasing your exposure to the processed foods. You've been doing several small ticket acquisitions. So how is that going to affect your investments, if you could give us some color on CapEx for this year as well?

And my second question relates to the beef business in Brazil. We've seen domestic margins down year-over-year, mostly due to the cattle prices. You have also been doing some temporary shutdowns in certain plants. But on the upside we see exports really, really coming back with China demand, now also India out of operations until end of April. So how -- in the net, how do you see the margins for the beef business? And then I have one last question that's in follow-up later.

A - Gilberto Tomazoni {BIO 2090061 <GO>}

Joo, thank you for the question. Let me -- about the CapEX was your first question. We have not changed our plan so far. But of course we are looking the situation very closely. And we are take the decision in the future. Now because we don't know how long willl be this crisis and how will -- how will be affected the market as a whole. And we are -- so far, we are keeping our plan because I will have explained in the beginning, the gap of protein is still there. We are running our factories and we are very close to our customers trying to overcome the challenges we are facing all of the chain. And we are confident so far about what we can do.

And about CapEx, not change plan so far, but we are closely looking for what is happening in the market. About this, the margin in beef in Brazil, this quarter was depressed because we made provision of discount, maybe you need to give to the customers this year. Why? Because that the coronavirus was a big problem there and we don't have a spot business there. We have a long-term relationship with the customers. When they come to face this kind of challenge, we need to be a partner and we are discussing case by case how will need to do some in terms of to support our customers. And what we are provisioning now, we provision everything. Now we are discussing that we now don't know exactly if you are -- will use all the provision on that, but it was the fact that depressed the margin of beef in the first quarter.

Q - Joao Pedro Soares {BIO 18265689 <GO>}

Okay. Thank you, Tomazoni. And just once last question, just a follow-up to the Portuguese call. In regards to the chicken business globally, I just wanted to understand, you guys see no fears, no concerns with regards to poultry oversupply. Still we see high inventories of fresh meat in the U.S., but do you think China demand will help drive price higher and potentially a margin rebound for Pilgrim's. How do you see the whole global chicken scenario? And how could that also affect your other chicken poultry integrated operations?

A - Gilberto Tomazoni {BIO 2090061 <GO>}

Joo, as I answered in the call in Portuguese, we look -- we see that U.S., Brazil is increasing the production of chicken. If you just look for the domestic supplies, it will be a challenge, but not forget that the ASF make it up -- create a big gap in China. We strong believe that China needs more protein this year, because the gap is not small. In U.S., now they reduced the tariff around 30%. Now U.S. is able to export to China. I think China will be playing a big role in this market.

Q - Joao Pedro Soares {BIO 18265689 <GO>}

Okay. Tomazoni, thanks for the answers, and congratulations on the results.

Operator

Our next question comes from Benjamin Theurer, Barclays.

Q - Benjamin M. Theurer {BIO 17248534 <GO>}

Good morning, everyone. Well, first of all, congratulations on the results. Just a few follow-ups. So first of all, you've mentioned the strength of your liquidity position. Just quickly to understand, roughly 2.5 billion, you actually have cash. Is that held in U.S. dollars? Do you have the currency mix that is relative to the operations, like the 80/20 U.S. Dollar versus BRL? Or how do you handle the cash position? Just very quickly?

A - Gilberto Tomazoni {BIO 2090061 <GO>}

Guilherme, please answer the question.

A - Guilherme Perboyre Cavalcanti {BIO 2181205 <GO>}

Okay. Thank you. No, this cash position is almost all in dollars. So even in the cash that is allocated in Brazilian entity, is mainly in offshore accounts in dollar terms.

Q - Benjamin M. Theurer {BIO 17248534 <GO>}

Perfect. Next, we've talked a lot about the ability of switching from food service into retail and that's being explored a lot. Within the U.S. And within Brazil, can you give us a rough idea how much of your -- the 2019 sales was actually associated with food service versus retail? Just like on a broad consolidated basis, no details in the different subsegments, just a broad consolidated number?

A - Gilberto Tomazoni {BIO 2090061 <GO>}

Globally, it's around 10%. I think in U.S., Andre mentioned before, is a little bit higher. I don't know, Andre, how is the percentage in U.S.?

A - Andre Nogueira {BIO 19941317 <GO>}

Yes. Food services here represent 17% in the combined of all the countries.

Q - Benjamin M. Theurer {BIO 17248534 <GO>}

Okay. Perfect. And then, I mean, you've announced the share buyback and that's obviously I guess much appreciated from shareholders in terms of returning some cash to shareholders. But considering the market situations and I remember back in the call it late 2000s, 2007, '08 onwards with the back then financial crisis, you actually took the opportunity and engaged and for sure, call it transformational M&A.

Now with the situation we're in right now and maybe more companies getting into financial difficulties, not having a liquidity position as healthy as your position is, don't you think it would be a good time to analyze some of that more transformational M&A and not so much only the small ones you've been doing and holding back maybe some of the cash you've approved for share buybacks, thinking of M&A, getting good opportunities just in the light of the turmoil we're in?

A - Guilherme Perboyre Cavalcanti {BIO 2181205 <GO>}

Okay, thank you. I will start with the share buyback and then I'll pass to Tomazoni for M&A. First, the share buyback announcement is just reopening of our program that we always work with this program open. So the last years, we've been doing that. So we just renew it and of course, we are monitoring the market. So any time that we feel it's an opportunity to use our cash to repurchase shares, we can do it because we have the program open. But it doesn't mean that we necessarily will do it. But of course, if there's an opportunity, we can do.

And again our cash generation, it's very good as I mentioned in the beginning. I would say that we have cash enough to do acquisitions, to pay dividends or share buybacks and is still not putting the balance sheet as we -- and our leverage is also very low. Anytime we also can think on bigger acquisitions and then I'll pass to Tomazoni to talk about.

A - Gilberto Tomazoni {BIO 2090061 <GO>}

Okay. CapEx is -- you talk about M&A, M&A, all the times, M&A was important enough -- the growth of the company. And -- but this moment, in short-term, we are not focused on any M&A. But I believe that in the medium term, maybe we'll have a good opportunity.

Q - Benjamin M. Theurer {BIO 17248534 <GO>}

Okay. So you don't think short-term, you're going to make something out of it?

A - Gilberto Tomazoni {BIO 2090061 <GO>}

So I think now the focus is on to protect our team and keep our plant operating.

Q - Benjamin M. Theurer {BIO 17248534 <GO>}

Okay. And with the reduction in tariffs to China, could you share your outlook what you think in terms of exports from the U.S. Could -- that, that would be more (inaudible). In terms of how much you think you're going to be able to export in 2020 in the different categories, particularly with pork and the reduction, and once you are (inaudible). So how do you think this is going to turn out in terms of your company specific demand of products to be shipped to China?

A - Gilberto Tomazoni {BIO 2090061 <GO>}

Andre, I think you are in better condition to answer this question.

A - Andre Nogueira {BIO 19941317 <GO>}

Yes. I think that all from U.S., all the three proteins will benefit with the new level of tariffs. And it's all the flexibility that we have now to export to China. I strongly believe that for the whole U.S., China would be top three importer of chicken. Today -- or last year, they were irrelevant. But with the volumes that we're seeing right now with our salse right now I think that China will finish this year in the top three in terms of export of chicken from U.S. I think that China will be the largest market for pork. They will become the biggest importer of pork for U.S. And I think that U.S. will represent around 20% and 30% of the total import of pork from China, that's just my perspective as I've seen these volumes come right now.

And I think that they will become more relevant in beef. I don't think that they will be in the top three, but they'll become more relevant in beef from U.S. probably in the top five importers of beef, again, coming a from position that they are not the top 20 today.

So we'd be relevant for all the three proteins. In terms of volume, I think that pork will be by far the biggest volume followed by chicken. Beef would be much less, maybe because U.S. does not have all this availability of beef to export. I think that the export from U.S. will grow 10% next year. And this will be driven by China. But still, we are going to continue to supply Japan, Korea, in a pretty strong way. Mexico will continue to be a very important partner for us. So overall picture for exports is very favorite outside of coronavirus, just because you have now has the agreement with Japan, has the agreement with Korea, has the agreement with China, Mexico and Canada. So these main partners for U.S. protein and all the main partners with U.S. have a very favorable agreement. Thank you.

Q - Benjamin M. Theurer {BIO 17248534 <GO>}

Thank you. Perfect. Andre, thank you very much. That was very helpful. Congrats again on the results.

Operator

Our next question comes from Carla Casella, JPMorgan.

Q - Carla Casella {BIO 2215113 <GO>}

Hi. My first question is a business question, given the reduction we've seen in oil and gas prices. How much of your costs are transportation cost? And do you see some improvement in margin from the lower gas and oil?

A - Andre Nogueira {BIO 19941317 <GO>}

Carla, Tomazoni, I'll take that from the U.S. perspective. Oil is a pass-through, Carla, so there's no benefits or any impact negative on oil goes to the transportation. We've said that last time and that's the reality, it's a pass-through cost for us. Gas, you have a benefit. Gas that we're using today, we saw a very low gas price, we saw during 2019. We're going to see this 2020, but it's not material for our overall cost. It's much lower. That's a benefit, but not material for the overall cost.

Q - Carla Casella {BIO 2215113 <GO>}

Okay, great. And then have you talked to the rating agencies? And do you think that doing the share buybacks, there's any risk of kind of moving towards that IG rating that you'd talked about in the past?

A - Guilherme Perboyre Cavalcanti {BIO 2181205 <GO>}

No, as I mentioned, we're just reopening a program that we are -- we always used to operate with this we purchase share program. It doesn't mean that we will spend this money. Of course, we are monitoring the markets, but we don't have any commitment to spend. And again if you look at the history, we have 63 million shares in treasury that was purchased along eight years of repurchase programs.

Rating agencies, as I mentioned, if you look at their reports, our financial metrics are already at the investment grade level. And of -- but of course, so I think with all the current situation, rating agencies will probably be looking carefully at the market. But we are confident that we should be having upgrades in our ratings given the financial strength of our balance sheet that we are showing.

Q - Carla Casella {BIO 2215113 <GO>}

Okay, great. And then just one last one on the U.S. business. And it may be too early to tell, but are you seeing that with some of the consumers under strain, are we seeing that typical recession type activity, where there's more demand for chicken -- the less expensive chicken over pork or beef or supermarkets advertising one versus the other?

A - Gilberto Tomazoni {BIO 2090061 <GO>}

Andre?

A - Andre Nogueira {BIO 19941317 <GO>}

Sorry Carla, can you repeat? My phone here was not so good. Can you repeat the question for me, please?

Q - Carla Casella {BIO 2215113 <GO>}

Yes. So given that some consumers are under strain, I'm wondering if you're starting to see any of the impact that we typically see in the U.S. supermarkets where people favor chicken over pork -- the more expensive cuts of pork and beef? And -- or if you're hearing any of that from your supermarket customers yet?

A - Andre Nogueira {BIO 19941317 <GO>}

What you saw, again Carla, just two weeks on this, okay. And it's very new. But what's clear in this first two weeks that chicken demand, ground beef demand and pork demand was very strong. Compared to middle meats, for example in beef, and middle meats is much more food service item than it is a retail item. But clearly ground beef went through the roof the demand. Chicken was very strong. But it's only two weeks, very early to say. It's not more in chicken than in beef, but just the type of items. Maybe related to what the consumers are more confident to cook at home, instead of economic reasons. But we saw very, very strong demand.

We have been running our ground beef operation in the last two weeks, where we can seven days, that's very unusual to supply the demand of ground beef in this retailer. Chicken has been very strong and pork has been extremely strong too. So all the three proteins are very strong. But in beef, much less in the middle meat, much stronger in the ground beef segment.

Q - Carla Casella {BIO 2215113 <GO>}

Okay. Great. Thank you.

Operator

Our next question comes from Monica Luongo, (inaudible).

Q - Analyst

Hi. Thank you for your call. Congratulations on the result. I have a few quick questions. You were talking about the CapEx earlier. Could you give us a number for 2020 of how much would that CapEx be?

A - Guilherme Perboyre Cavalcanti {BIO 2181205 <GO>}

Sorry, we don't give guidance of CapEx, but if you look for last two years, we are not a capital intensive business, so roughly $1 billion per year for the whole group.

Q - Analyst

Okay. Thank you. And what is the minimum cash that you need to run the business?

A - Guilherme Perboyre Cavalcanti {BIO 2181205 <GO>}

In Brazil, it's around BRL1 billion, given our cash conversion cycle. And in U.S. given that we have that $1.9 billion in revolving credit facilities, which we can withdraw at any time, we don't need to have a specific cash position from U.S. because we have this liquidity available at any time.

Q - Analyst

Okay. Great. Perfect. And my last question is, have you had any cases of COVID-19 in the company, where -- in U.S. and Brazil or around the world?

A - Gilberto Tomazoni {BIO 2090061 <GO>}

Andre, do you -- you can answer by U.S.?

A - Andre Nogueira {BIO 19941317 <GO>}

I'm not sure, if I understood the question, Tomazoni. Can you ask that question again to make sure that I understand?

Q - Analyst

If you have had any cases? Have someone working at JBS globally has tested positive for the disease?

A - Gilberto Tomazoni {BIO 2090061 <GO>}

I think it is -- we are not disclosing this information.

Q - Analyst

Okay. Thank you. And those were my questions. Congratulations on the result again.

A - Gilberto Tomazoni {BIO 2090061 <GO>}

Thank you for your question.

A - Guilherme Perboyre Cavalcanti {BIO 2181205 <GO>}

I'm going to read a question that we received on the webcast. So the question is, given the BRL impact to the balance sheet in the first quarter and the non-BRL revenue benefit, what are your plans for balance sheet, leverage management in 2020 considering share buyback announcement?

Secondly, please talk about the weakness in food service segment in the near-term, any strategic plans to address it.

So I'll talk about leverage, and then I'll pass to Tomazoni to talk about weakness in food service and our strategic plans to cope with that. So I would -- so in terms of leverage, first, I would like to say that we should look more at our net debt to EBITDA in dollars okay, in our balance sheet in dollars, because 90% of our revenues and 80% to 85% of our costs are in dollars. So we should look at the company in dollars terms. So net debt-to-EBITDA in the first quarter, because of the BRL depreciation, will not have a significant increase

and of course, net debt-to-EBITDA in reais, whenever we have any spike on the FX at the end of the quarter, we have an increase -- a sharp increase in this ratio, because the effects of the end of the quarter compared to the average effects of the last 12 months can make this ratio much more volatile. Even so at the current levels of FX around 5, even in that we will have in the first quarter, a net debt-to-EBITDA in reais below 3 times. So we will continue in very comfort levels of net debt-to-EBITDA both in dollars and in reais terms.

And going forward again, we expect given that the first quarter is the worst quarter of the year, going forward, we expect to continue our deleveraging path in dollars and in reais will depend on the effect of the end of each quarter. But if the FX stays at the current levels, we will also continue our deleverage path also in reais.

A - Gilberto Tomazoni {BIO 2090061 <GO>}

And about the challenge in terms of food service. In the short-term, we are able to manage in all of the marketing, because as we explained before, we are doing right now moving from the food services to the retail. I don't know how long it will take, this crisis. If they'll be long, in Brazil, we do not have a challenge because just represented less than 10%. Globally, it's around 10%, would be not a challenge, but maybe specific in U.S., we have 70 --

I don't know if Andre you want to comment that we have some specific challenge to move some products from the food service to the retail who are facing the situation if this crisis will take more longer than then we predict.

A - Andre Nogueira {BIO 19941317 <GO>}

Oh, so, no, I don't see any challenge, because what all the type of products that we used to sell in the food service we sell in retail. So very, very few lines cannot be adjusted. So there's no impact. If the demand -- the total demand continues to be the same, and it's just a channel situation for us, the impact is zero.

A - Gilberto Tomazoni {BIO 2090061 <GO>}

Okay, then the answer is globally it's zero, even the crisis will take longer.

As there are no more questions, I just want to thank you all of our 240,000 team members, who have taken seriously our mission to feed the world. We are confident that all of these will pass and that world can count on us during this challenged moment. Thank you everyone.

Operator

That does conclude the JBS audio conference for today. Thank you very much for your participation. Have a good day, and thank you for using Chorus Call.