Q1 2010 Earnings Call

Company Participants

- James David Ramsay Cruden, Chief Operating Officer
- Ricardo Florence dos Santos, Planning Director and Investor Relations Officer

Other Participants

- Aaron Holsberg
- Alan Alanis
- Denis Parisien
- Gustavo Wigman
- Luis Miranda
- Marcel Moraes

Presentation

Operator

Good morning ladies and gentlemen. At this time, we would like to welcome everyone to Marfrig Alimentos SA Conference Call to discuss its results for the first quarter of 2010. The audio for this conference is being broadcast simultaneously through the Internet in the website, www.marfrig.com.br/ir.

In that address, you can also find the slideshow presentation available for download. We would like to inform you that all participants will only be able to listen to the conference during the company's presentation. After the company's remarks are over, there will be a Q&A period. At that time, further instructions will be given. [Operator Instructions]

Before proceeding, let me mention that forward-looking statements are being made under the Safe Harbor of the Securities Litigation Reform Act of 1996. Forward-looking statements are based on the beliefs and assumptions of Marfrig's management, and on information currently available to the company.

Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions, because they relate to future events and therefore depend on circumstances that may or may not occur in the future.

Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of Marfrig and could cause results to differ materially from those expressed in such forward-looking statements.

Now, I'll turn the conference over to Mr. Ricardo Florence, Planning Director and Investor Relations Officer. Please Mr. Florence; you may begin your conference.

Ricardo Florence dos Santos {BIO 18071813 <GO>}

I will pass to James Cruden that will start the conference.

James David Ramsay Cruden {BIO 15363978 <GO>}

Good morning, and thank you for joining our conference call to present our first quarter 2010 results. This is an important quarter for us, with the inclusion of Seara as for the 4th January.

The startup has been efficient and quick, and we have achieved good results almost immediately, with synergies introduced from the startup. Seara's brand awareness have increased significantly, and we plan to use Seara as a global brand.

I will now handover to Ricardo.

Ricardo Florence dos Santos {BIO 18071813 <GO>}

Thanks, James.

Starting with the highlights of the first quarter, we grew our revenues in the quarter, gross revenues to R$3.4 billion, more than 40% compared to the previous year, and it was also 26% growth if you compare to the last quarter.

EBITDA reached R$406 million, up 148% compared to the previous year and 103% compared to the previous quarter. We have included in these figures also the tax benefits that came with the Seara operation, mainly in the equivalents to VAT taxes in Brazil, both state taxes and federal taxes, like ICMS, PIS/COFINS. If we do not include this, the Marfrig's EBITDA, it would have been R$256 million or 7.9% of EBITDA margin.

We also reached a net income of R$41.7 million, reversing this net loss that we had in the same period in the previous year that was exactly in the middle of the global crisis. We have ahead of us, we are pursuing this with all our team in the Seara division, as James mentioned, all the synergy gains that we expect to have there, more than R$200 million to be reached in a full extent in 2011.

We expect to deliver 30 to 40% of this figure still in this year. The other highlights of the quarter are the efforts that we are doing in the reposition of the Seara brand in Brazil, we have been very successful in doing this through the link of the Seara brand that produces healthy products, with the practice of sports, mainly football, like the sponsorship that we are doing to the World Cup now, we will do it again at 2014; the Brazilian football team in all categories up to December 2014, and also the Brazilian team of Santos Futebol Clube.

Comparing the results that we achieved with our guidance, the R$3.2 billion in net revenues, they represent 19.4% of our 2010 guidance. Like I mentioned to you in the previous conference call, we expect to have growing revenues quarter after quarter in this year. In the EBITDA, we reached R$406 million that means 29% of our guidance of the year.

Regarding to the EBITDA margin, do not considering the fiscal benefits that we had coming with the acquisition of Seara, they would have been at level of 7.9%, or 16 basis points below the EBITDA margin range that we presented. The net debt to EBITDA, and just to remind you that we have included only one quarter of Seara, it is at a level of 3.98 times.

What we will be adding now in the next quarters will be the EBITDA of the acquired companies, in addition to the increased utilization of our cattle slaughtering capacity in Brazil, and we continue to have the goal to be between 2.7 and 2.9 times at the end of the year with decreased leverage in each one of the next quarters.

Regarding to the CapEx, we've invested R$110 million in assets, mainly in plants for the production of industrialized products, and R$38 million in poultry grandmothers, of which R$34 million were in Brazil and R$4 million in the units that we have in Europe. Tomorrow, we will have in Brazil the opening of a new plant to produce industrialized products in Brazil, mainly sausages and bolognas here that will add to our capacity in Brazil 8,100 tonnes of these products per month; that means an increase in our capacity of 18% in the production of industrialized products in Brazil.

Regarding to the financial performance of the company, we grew both in the domestic markets, but mainly in exports, taking advantage of the good momentum that we have in the external markets, recovering export levels and prices. We grew by 53% in our export sales, to almost R$1.5 billion in the quarter, more than 50% above of what we had in the same period in the previous year and 62% above the sales in export that we had in the fourth quarter.

The gross margin was at level 19.9%, including the fiscal benefits. Without including them, it would be a gross margin of 15.2%, an increase of 50 basis points compared to the previous quarter. And we presented a net income of R$41.7 million, or a net margin of 1.3% at the end of the quarter.

Regarding to the exports, the main destination continues to be Europe, with a participation of 30%, slower than the one that we had in previous quarter. What was very impressive? It was the growth of the Asian countries, and primarily Japan, Singapore and also Hong Kong that reached in the quarter 19.9% of participation in exports. This is more than twice as much of what we had in previous quarters in the last year.

Regarding to our exposure by currency, we grew in this quarter because of the increase in exports and in the presence of the U.S. dollar as the main currency of the company with 41.2% of our revenues, and compared to 31% that we have in the domestic market. We expect the figure in the domestic to grow in the next quarters because of the higher presence of the Nova Seara's division and also because of the increase in production in our beef division in Brazil.

The gross margin, I have already mentioned this, is 19.9% and without including the tax benefits, 15.2%, a growth if we compare to the quarters that we had in the previous year and showing the benefits of the integration that we are doing in Seara and of the better momentum that we have for both the domestic market and also exports, an area in that we have increased the average prices by more than 10% if we compare the prices that we have in the first quarter in the last year.

Regarding to SG&A, they reached 11.1% of our net revenues in the quarter. This was a consequence of the absorption from the Seara operations and also a consequence of the marketing efforts that the company is doing in order to increase the awareness of the Seara brand. EBITDA, 12.6% of EBITDA margin, with an EBITDA of R$406 million.

A new disclosure that we have provided in this quarter is the summary of the financial statements by proteins. Why do we consider this the best disclosure that we could give to the market? It's basically because it combines all the operations that we have in the same proteins and also because it eliminates all the internal transfers that we have among all the divisions.

One concern that we had in the past was if we were going to provide the EBITDA margins by division, they could vary depending on the level of transfers that we could have. We understand that this is the best way to provide this to the market and the best way to let investors know and to forecast the results of the company.

In the quarter, talking first of all our beef operation that includes beef Brazil, food service, Argentine and Uruguay, we grew by 30% in the quarter compared to the previous year and by 1.7% if we compare to our operations in the fourth quarter of '09.

Our gross margin increased by 190 basis points to 18.4% compared to 16.5% that we had in previous quarter. Compared to previous year, it was a decrease of 120 basis points. I would like to remind you that the operations in Brazil, we are increasing during the quarter the utilization of our beef slaughtering plants and I believe that you can expect much better momentum in the next quarters as a consequence of the cattle availability in Brazil.

Regarding to EBITDA, we reached R$140 million in the quarter and an EBITDA margin of 10.1%, 70 basis points above of what we had in the fourth quarter. What affected this result was primarily the operation in Argentina as a consequence of the reduced number of licenses for exports granted by the authorities in their country.

In poultry, pork and industrialized products, we increased our revenues by 55% when compared to the same period of 2009, by 54% if you compare to the last quarter, primarily as a consequence of the integration of the new Seara to this division here. The gross margin was at the level of 21%; without the fiscal benefits, it would have been 12.8%, almost twice as much of what we had in the previous quarter and showing the benefits that we have had in the integration of the Seara division.

EBITDA margin was at the level 14.5%; without including the fiscal benefits, it would have been 6.3% already integrating the Seara division. Regarding to the debt operations, in the position that we had at the end of the quarter, we still had a higher participation of the short-term debt in the total debts, 30.6% of the total. This is a consequence of the debt that came with the operations of Seara and Zenda that were only in the short-term; just after that in the month of April, we did bond's issuance with the maturity in 2020 and one of the main proceeds -- one of the main user proceeds for this amount will be the payment of the short-term debt.

If we do a pro forma with the 70% of the funds that we raised in that operation, reducing the short-term debt, we would be at the level 23.8% in the short term closer to our goal for the end of the year that is to be below 20% of the total debt in the short term. The debt average costs as we see on this table at the level of 1.4% in our total debts.

A reduction in the participation of the domestic currency leaded to a stable average cost of debt compared to the previous quarter. Leverage of the company was at level 3.98 times and we continued to pursue our goal that used to be below 3 times at yearend, something between 2.7, 2.9 times.

Capital expenditures we invested R$110 million in fixed assets in the quarter including the R$30 million that is invested in this new plant for industrialized products for the productions of sausage and bolognas that we will open tomorrow in the interior of São Paulo state. We also invested in breeding stocks, R$34 million in Brazil and R$4 million in the UK.

In this quarter, we also paid the acquisitions of Seara and Zenda; and in total, we disbursed R$1.3 billion, but keeping our cash with more than R$1.5 billion in line always with the policy of the company that is to keep the cash position close to 10% of the revenues of the year.

Synergies of Seara, we have implemented already the conditions to achieve close R$92 million of R$200 million in synergies that we expect to have in 2011 in the full extent. We have done very strong job together with Bailey Company there, and detailing in every area in the supply chain what we could to save there and the economic impact that we expect to have in each one of the years.

In this year, in 2010, we expect to deliver close to 30%, between 30 and 40% of these synergies between R$60 million and R$80 million and the total amount in 2011. Just to provide a breakdown of these synergies, among them in agriculture, I could mention the implementation of breeding stocks both in birds and in swine. This is something that Seara didn't have, we had it in our operations; and doing this internally, we estimate we could save R$16 million.

In the dissemination of best practices; this is basically the standardization and specialization of the operations of the company in each one of the units, we believe that we can reach R$29 million just by doing this. Regarding the supply chain, we are also doing efforts in the unification of distribution of our logistics, the administrative areas savings are not big, only R$12 million and only in the organizational restructuring of some central operating functions there. What's ahead of us and it's not included here is the benefit from increased sales as the consequence of the marketing efforts that you are doing this year.

All the synergies, the benefits that we expect them to bring to the company are basically in the awareness of the Seara brand, an improved perception of Seara that will be our global brand as a supplier with a complete animal protein portfolio. We also intend to grow more value-added products. Only this quarter, we have launched more than 100 new SKUs here, and we are also at this point more and more in the supermarkets' shelves, in all the top 10 supermarket chains in Brazil, and achieving the benefits of the scale gains.

I could not avoid to mention the success of the commercial that we did with some players of one of the soccer teams that we sponsor, the Santos Futebol Clube, that only in four days reached more than 5 million views. This was at this point a real success that I believe is increasing more and more the awareness of the brand, and just to compliment, we intend to continue with other promotions now, with other marketing campaigns and with more and more the presence of the Seara products in the supermarket shelves in Brazil and abroad.

I will pass now to the Q&A part to answer any questions that you may have. Thank you.

Questions And Answers

Operator

Thank you. [Operator Instructions]. Our first question is from the line of Marcel Moraes with Credit Suisse.

Q - Marcel Moraes {BIO 6696122 <GO>}

Good morning, everyone. First of all, congratulations for the additional disclosure you are putting in this report. My first question regards the guidance. I'd like to know what needs to happen in the coming quarters for you to be reaching the 2010 guidance considering kind of a recurring EBITDA, and how comfortable you are still with this guidance.

A - Ricardo Florence dos Santos {BIO 18071813 <GO>}

Marcel, good morning.

As we have discussed several times, the company continues to pursue the original guidance that just to remind you it is linked with some assumptions in the exchange rates that are different at this point. We are keeping at this point the same guidance, we expect to have bigger figures in the next quarters now, mainly in revenues, where we can have the support of growing sales both in beef and in poultry in Brazil.

However, we have to consider the volatility of the exchange rates that at this point they have been lower than the ones we originally forecasted. If at the certain point during the year, we see that there's volatility persists, we could revise the guidance. But at this point, we intend to really pursue to deliver the 2010 guidance that in the environment that we are facing both in the domestic market and in exports is a challenging task, but we are definitely engaged to pursue in order to deliver it.

Q - Marcel Moraes {BIO 6696122 <GO>}

Okay. The second one regards to the poultry and beef export business, correct me if I am wrong, but I think the poultry export players are facing an improved environment while this doesn't seem to be the case with beef, in terms of margins I mean, so what is going to happen to the poultry EBITDA margin going forward? Because we saw a strong decrease in grain prices in the first quarter, and I thought that this will have some impact in production costs in the second quarter. So, is it right to think about margins for the poultry business going up in the second and maybe third quarter?

A - Ricardo Florence dos Santos {BIO 18071813 <GO>}

The conditions that we see are for growing margins both in beef and also poultry. The reason for this, first in beef are higher export prices that we have achieved and combined with stabilized even lower prices in cattle in Brazil. In the other countries, where we have operations like Argentina and in Uruguay, the cattle cost is still high at the same level as in Brazil, but the increase in the export prices I believe that tend to favor also this market increase in these countries.

Regarding to the poultry margins, in Brazil, Marcel, I understand that the benefits are very clear. With the integration of Seara, more industrialized products, more products in the supermarket shelves, we understand that it's a clear trend to see the increase in the margins also in the division. In the UK, we understand that also that it is a clear trend also to deliver the remaining synergies that we have there that we forecasted to occur in 2009 and in 2010, now we see there also the same trend.

That's why, basically, we have mentioned that our expectancy, our goal is to deliver growing margins quarter after quarter and going towards more and more to the EBITDA range that we provided to the market.

Q - Marcel Moraes {BIO 6696122 <GO>}

What about the fresh poultry export business? I understand that you are trying to decrease the product mix, right? You are targeting the domestic market, Brazil, but what about the export for fresh poultry business? Should we expect margins to go up?

A - Ricardo Florence dos Santos {BIO 18071813 <GO>}

In exports?

Q - Marcel Moraes {BIO 6696122 <GO>}

Yeah.

A - Ricardo Florence dos Santos {BIO 18071813 <GO>}

In exports, we have faced a mixed environment there. There are some destinations, where we have seen a considerable price increase there while in one specific destination that's the Middle East, prices have remained stable there. But that's basically the only destination that we have seen. With the clear trend that we see of decreased grain prices, I understand that also in this area the trend is to increase volumes and margins in these operations.

Q - Marcel Moraes {BIO 6696122 <GO>}

Thank you. Just a final question about the beef plants, the utilization raise of the plants. I assume that you are speeding up volumes in the utilization rate in the second quarter. What's going to happen to margins? We saw that they were kind of compressed in this first quarter. And probably you have at some extent protect these margins with lower volumes, because you target the premium clients, right?

Going forward, as you accelerate that, what is going to happen? I understand that there should be some fixed cost dilution, but at the same time you are going to be targeting in a different high.

A - James David Ramsay Cruden {BIO 15363978 <GO>}

Marcel, it's Jim.

What we saw was a fast rate of utilization of our capacity in March, and this has continued into April and May. What we are seeing is basically be it the export, be it the domestic market, we are seeing strong demand and a stable supply of cattle. At the moment, because of climatic conditions and going into what we call the off-season, the dry weather, we are seeing good volumes on cattle. And as I said, all of the markets are strong. And what I would remind you is that normally the third and fourth quarter, particularly the four are stronger for us than the beginning of the year. The first quarter is historically our weakest quarter. So, we believe that we are in a stable to improving position as far as margin is concerned.

Q - Marcel Moraes {BIO 6696122 <GO>}

Okay. Thank you very much for your answers.

Operator

Our next question is from the line of Alan Alanis with JPMorgan.

Q - Alan Alanis {BIO 15998010 <GO>}

Hi, good morning, everyone. Thank you for taking the call.

I know you answered this question in the Portuguese conference call, specifically regarding taxes, but I would really appreciate if you can provide a little bit more color. We've seen now two consecutive quarters, where Marfrig didn't pay any income taxes and in fact you had some negative income taxes. The first question is how do you see this trend going forward, specifically regarding income taxes?

The second question I have is also related to guidance, like the previous question. Should we expect going forward guidance includes extraordinary items? Let us start with those two, first please.

A - Ricardo Florence dos Santos {BIO 18071813 <GO>}

Let us start with the second part of the question. We do not have at this point any further inclusions of extraordinary items that I could mention. On the other hand, we have provided all the disclosure in all of them, but the answer is no. All these extraordinary items are part of operational items; and as a consequence of this, they are included in the EBITDA of the company.

The question to have them included or not, they are included, because they are operational items. But we intend to work to deliver this guidance without the extraordinary items, with all those considerations that I did in the question that Marcel, minutes ago, did regarding the exchange rates.

Q - Alan Alanis {BIO 15998010 <GO>}

Sorry, if I understand it correctly, what you are saying is that basically the guidances you are providing, I mean really may include other items that are not necessarily organic growth; for example, if you make right now in the progress or achievement year-to-date, you showed yourself in the press release that you are way ahead of your guidance in terms of EBITDA margin because of the tax benefit that you had.

So, if in the second or third quarter, you would make an acquisition that would also be included in the guidance for increased revenues. Again, I am just trying to understand exactly what -- the specific question means the guidance is not only for organic things and not only for -- I mean it will include any further extraordinary items if they were to come, correct?

A - Ricardo Florence dos Santos {BIO 18071813 <GO>}

Let me give you an example of what we did in the previous years. In the previous years, we have included in the past the effect in the current year of acquisitions that we did there, and also of extraordinary gains. What I said now in my answer is that the company will continue to work to deliver the guidance without including the extraordinary items that we have provided all the disclosure in the release.

Q - Alan Alanis {BIO 15998010 <GO>}

I hear you so. Okay, so it includes non-organic guidance, which you are going to work, obviously focusing on the organic component of it. And the answer to the first question, just to clarify, when you said no, what exactly does it mean? Does it mean you do not have any extraordinary gains or income taxes going forward? Am I understanding correctly?

A - Ricardo Florence dos Santos {BIO 18071813 <GO>}

This is basically tax deferred on tax losses that came with the acquisition of Seara. In total, we had in this quarter; and by the way, the quarterly information that we provide to CVM, if you could please go there later, on item number nine that are the deferred taxes, these are mainly taxes deferred on tax losses, and also the deferred tax on social contribution on tax losses because of the benefits that came with the acquisitions of Seara that suffered losses in the bottom line both in 2008 and in 2009.

The expectation of the realization also of deferred tax assets is defined. There is a table there. What we can expect in 2010 is R$84 million to be absorbed in deferred tax assets; 82 billion in 2011 and decreasing in the next year to a total amount of R$339 million. I will suggest for further detail to go there, there is a full disclosure there in the line that I mentioned.

Q - Alan Alanis {BIO 15998010 <GO>}

That's useful. Thank you so much.

A - Ricardo Florence dos Santos {BIO 18071813 <GO>}

You're welcome.

Operator

Our next question is from the line of Luis Miranda with Santander.

Q - Luis Miranda {BIO 3590287 <GO>}

Good morning and congratulations on the results. Ricardo, couple of questions, and the first one is on selling expenses, you were mentioning the more investments in the brand promotion, and during the quarter we saw selling expenses being 8.5% of sales versus the previous level, which was close to 6.5%. I want to know if this is a new level for the company or should we expect this to be a transitional period?

And the second question is regarding synergies. I know you went through all the details on the synergies, just a very specific question, was there any benefit on synergies in the first quarter? Thanks.

A - Ricardo Florence dos Santos {BIO 18071813 <GO>}

Sorry about asking you this, but would it be possible for you to repeat your first question, please?

Q - Luis Miranda {BIO 3590287 <GO>}

Yes. In terms of your selling and administrative expenses, I want to know if the level we are seeing in the first quarter is a sustainable level going forward, or should we expect the stable selling expenses or even an increase?

A - Ricardo Florence dos Santos {BIO 18071813 <GO>}

We expect the SG&A -- well, what we would like it to be is the same level of what we had in the previous year that it was a level of 10%. Otherwise, the structure that came with the new Seara is slightly heavier there. We are still adjusting this. And I believe that you can expect a reduction, do not considering the marketing efforts in this area. Only in this division, in the new Seara division, we expect to have something between 2 and 2.5 percentage points in addition with marketing efforts that could be translated to 1 percentage points or 1.5 in the total of the company, but compensating this with the higher margin, with more industrialized products, with increased SKUs, diluting the fixed cost and by doing this also increasing the EBITDA margins of the company.

Q - Luis Miranda {BIO 3590287 <GO>}

Thank you, Ricardo. And just on the synergies, were there any benefits on the first quarter?

A - Ricardo Florence dos Santos {BIO 18071813 <GO>}

In the first quarter, the synergies, they were still very limited. The presence of synergy was something like 20, 30 million if that much. As I said, we expect to deliver something between 60 and 80 million up to the end of the year in actual synergies. Just to remind you that we are still in the beginning of considerable challenge that is the integration of Seara, a challenge that we are prepared to -- that we have detailed it very carefully together with Bailey Company in order to schedule the tests of all the managers and letting them have the conditions to achieve all those goals that we have there. The benefits are there, 30% to 40% this year, and the full amount in 2011 and all these benefits I would say that there are yet to come.

Q - Luis Miranda {BIO 3590287 <GO>}

That was very useful, thank you.

Operator

Our next question is from the line of Gustavo Wigman with Goldman Sachs.

Q - Gustavo Wigman

Good morning. Hi, Ricardo. I have a quick question.

I am looking at page 15 of the earnings release, where you published the breakdown of the cost of goods sold. There is a line there called other income decreasing the cost of goods sold, and this line has been there for the past quarters, and historically has been very low; and this quarter, we see R$266.2 million there.

My guess is that the 152 million from the tax credits is there, but there is still huge amount of income that I am forced to believe that it's non-recurring as well. Can you give us some light on what's in there?

A - Ricardo Florence dos Santos {BIO 18071813 <GO>}

The main difference that we have in this line here is that the Moy Park costs, they were not classified in the regular items here that it were, otherwise this figure here would correspond exactly to this figure that we disposed as an extraordinary gain that we had, Gustavo.

It was exactly this. In the next quarter, we will be adjusting this figure, this breakdown here. The total will not change, of course. But, please only expect a change in each one of the individual line adjusting this figure.

Q - Gustavo Wigman

Okay. Is this the 151 million including in this line?

A - Ricardo Florence dos Santos {BIO 18071813 <GO>}

Yes.

Q - Gustavo Wigman

Okay. This picture that I understand, the remaining line what you are saying is that all the above lines are overestimated and this line is just compensating the above lines for this extra charge of Moy Park?

A - Ricardo Florence dos Santos {BIO 18071813 <GO>}

No, they are not overestimated. The only thing is that we didn't have in this quarter the breakdown of the cost of goods sold in Moy Park. As a consequence of this, we had included all of it in this line.

Q - Gustavo Wigman

This line?

A - Ricardo Florence dos Santos {BIO 18071813 <GO>}

It's only this and we will provide this disclosure to the market adjusting this and also the intercompany sales are also being adjusted in this line too.

Q - Gustavo Wigman

Okay. I'll wait for the additional disclosure, thanks.

Operator

[Operator Instructions]

Our next question is from the line of Denis Parisien with Santander.

Q - Denis Parisien {BIO 20333702 <GO>}

Good morning, thanks very much for the call. Could you give us a little bit more color, please, on capacity utilization in the first quarter and taking into consideration some of the and particularly the Margen plants that were not up and running and I guess one of the Mercosul plants as well? And what you expect your capacity utilization to be in the second quarter and then in each quarter if you can, at least, give us a guess that you expect your utilization will be at the end of the year and on average through the year?

And then my second question is regarding the debt and you suggested 70% of the proceeds of the new bonds would go to pay down debt and you get some just to mention that that would bring to 23.8%. How has that actually been executed at this stage that sort of debt pay down? Thanks.

A - James David Ramsay Cruden {BIO 15363978 <GO>}

The first quarter was negatively affected by very heavy rains in the South of Brazil, where the Mercosul factory in January and February operated below their full capacity, operating at around 40 to 50%. This changed in March when the rain stopped and the logistics improved and they operated near their capacity. In Central Brazil, we also had a slow stop January and February once again due to climatic conditions, but in March, we were operating at probably closer to 70% for the month, but the average probably came at 50% to 55%.

What are we looking at going forward will be the south seasonal. When it comes to the winter in the South, we have a lean period. Central Brazil will operate we believe normally. Margen factories as you have just pointed out are only just coming online. There are two factories in fact stopping this week, and this will take a while, while we gear them up to higher utilization. We expect by the end of the year, in the last quarter to be operating at around 65 to 70%.

Q - Denis Parisien {BIO 20333702 <GO>}

Thank you. And on the debt?

A - Ricardo Florence dos Santos {BIO 18071813 <GO>}

Sorry, could you please repeat your second question?

Q - Denis Parisien {BIO 20333702 <GO>}

Yeah, I am just asking, I guess you suggested that if you used 70% of the proceeds of the new bonds to pay down short-term debt, you would be at around 23.8% of total debt, short-term debt if I remember correctly. How is that actually been executed? Can we now expect to see going forward that level of short-term debt? Have you actually used the cash to pay down the short-term debt? Are you now at 23.8% of total debt, the short-term debt?

A - Ricardo Florence dos Santos {BIO 18071813 <GO>}

No, we are not yet at the level of 23.8%, according to the maturity of the debt, we will be paying it. For the debt operations that have a higher rate there, we will be paying them immediately. And for the other ones, we will be paying them according to the maturity of the debt, but still during 2010. This is a goal that you know that we intend to get at the end of the year. And as I said, you can expect to see a decrease in the leverage going towards the end of the year.

Q - Denis Parisien {BIO 20333702 <GO>}

Thank you.

Operator

Our next question is from the line of Aaron Holsberg with Cantor Fitzgerald.

Q - Aaron Holsberg {BIO 16876068 <GO>}

Yes, good morning. Just one question; I was pleased to hear that cattle cost has been flat and even lowered. I was wondering though how this transforms into margin, how you expect them to perform going forward given the increase in utilization and slaughter you are projecting at your own plants and the leased plants and some of your competitors? What you are seeing by region?

A - James David Ramsay Cruden {BIO 15363978 <GO>}

Well, in the South of Brazil the price has been very stable since the beginning of the year and we don't really expect to see much fluctuation and either downwards. In Central Brazil, what we saw was an increase in price from the beginning of January, up to middle of April, towards the end of April, and now we are seeing a steady reduction in price. And I think I said earlier that the last quarter of the year is normally very strong and we are seeing very strong market both domestically and for exports. I am actually positive we will see something further with regard to cattle price towards the end of the year.

Q - Aaron Holsberg {BIO 16876068 <GO>}

So, you expect cattle prices to strengthen?

A - James David Ramsay Cruden {BIO 15363978 <GO>}

I would expect at the end of the year to be stronger than they are today. But we have to see how the exchange rate behaves itself.

Q - Aaron Holsberg {BIO 16876068 <GO>}

Okay. I'll ask -- with the exchange rate being constant and cattle prices increasing, are you including in your guidance the expected margin pressure from higher cattle price?

A - James David Ramsay Cruden {BIO 15363978 <GO>}

No, we expect the cattle cost -- if there any increase in the cattle cost, we expect the sales price to increase along with it.

Q - Aaron Holsberg {BIO 16876068 <GO>}

Okay. Thank you very much.

Operator

It appears that there are no further questions. Now, I'll turn the conference back to the company for their final remark.

A - James David Ramsay Cruden {BIO 15363978 <GO>}

Once again, thanks very much for joining the call. And see you again by three months' time.

Operator

Thank you all for participating in today's conference call. Please disconnect your lines at this time. And have a wonderful day.