Q3 2011 Earnings Call

Company Participants

- Andre Nogueira, CFO
- Don Jackson, CEO
- Jeremiah O'Callaghan, Director IR
- Wesley Batista, President & CEO

Other Participants

- Farha Aslam, Analyst
- Ken Zaslow, Analyst
- Lucia Kassai, Media
- Mara Camara, Analyst
- Maria Fernanda Blaser, Media
- Reza Vahabzadeh, Analyst
- Wesley Brooks, Analyst

Presentation

Operator

Good morning, everyone. Welcome to JBS SA's conference call. During this call, we will present and analyze the results for the Third Quarter of 2011. As requested by JBS, this event is being recorded. The recording will be available to 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 SA; Mr. Jeremiah O'Callaghan, Director of Investor Relations; Mr. Eliseo Fernandez, Director of Administration of JBS SA; Mr. Don Jackson, CEO of JBS USA; and Mr. Andre Nogueira, CFO of JBS USA. Now I will turn the call over to Mr. Jeremiah O'Callaghan. Please, sir, you may now begin.

Jeremiah O'Callaghan

Okay. Thank you. Good morning, everybody, and thank you for being with us again today to review our performance during the Third Quarter of 2011 ended in September. On Monday night, we filed with the Brazilian version of the Securities and Exchange Commission, the CVM, we filed a document, which summarizes the highlights for the period. This document is available on our website, where you will also find our presentation slides for this call today, which includes the results that are being presented.

Today, we will not only analyze the results for the quarter, but we will also analyze the main drivers for our business for 2012. After our presentation, we will open the call for a Q&A session, in which we will be happy to answer questions from all of you.

Before we begin, I would like to remind you that, during this call, we will refer to expectations for future results, sales, costs, and we will analyze what we believe to be the future perspectives for our business. Kindly read the disclaimer on our website, which further explains the risk factors involved.

I would now like to pass on to Mr. Wesley Batista to proceed with the presentation. Wesley.

Wesley Batista {BIO 15243148 <GO>}

Thank you, Jerry. Good morning, everyone. I would like to start the call to thanks to our team for their dedication, commitment, and patience for our Company, and for our commitment.

Talking about our results, we have BRL15.5 billion on net sales, on a consolidated base, in the Third Quarter. This is 10% higher than the same period last year.

When we look at our net sales, in a consolidated base, for the first nine months in 2011, we did BRL44.9 billion; it is 11% over the same period last year. Our EBITDA for the quarter was BRL786 million; this is 34% higher comparing to the Second Quarter in 2011. Our EBITDA margin was 5.1% in this quarter; that is 1.1% higher comparing to the Second Quarter in 2011.

This quarter we generate BRL897 million in cash from our operating activities before investments, before CapEx. After CapEx, we generated BRL500 million in this quarter. Our net income this quarter was BRL67 million negative, primarily impacted by Pilgrim's Pride results, that you already saw, the Pilgrim's Pride results, and also impacted a small portion of exchange rate impact in the quarter.

So these two numbers together, the Pilgrim's Pride and the exchange rate impact in our numbers, represented approximately BRL440 million. So when we look our net income, exclude these two impacts in our quarter, our net income should going to be BRL307 million, without the impact of PPC and the real appreciation.

So we closed the Third Quarter with BRL5.6 billion in cash; this is more than our total short-term debt. Excluding the effect of exchange rate change in our net debt denominated in dollars, we reduced our net debt in BRL530 million, again when we exclude the exchange rate impact in our debt.

Now I will talk a little bit about our view and what we are seeing in each business unit, and what we are doing in each business unit, starting talking about our US Beef operation. We had a good quarter; we closed the Third Quarter with $180 million in EBITDA. And when we look at our US Beef results in the first three quarters this year, we are 10% higher than the same three quarters last year, so we did already BRL515 million (sic; see slide 10) in EBITDA this year, comparing to $469 million last year.

So our Beef operation is getting better every quarter. We strongly believe that we are doing the necessary change to improve our business. We still have opportunity in front of us, in our Beef business. We are going to start 2012 with $150 million in opportunities that we believe we can capture. This $150 million opportunity comes from sales improvement, that is around $80 million, and $70 million cost reduction in our Beef business.

When we look at our Beef business, we are growing quite strong in export. So the industry in the US is growing this year, in volume, not in dollars, more than 25% export, comparing to last year. So the export market has been very strong for the US (Protein business) and especially for the US Beef business.

And also, when we look the amount of product that US Beef that US is importing is declining substantially, so US is importing 15% less meat this year, comparing to last year. So all this together give us a very strong confidence that we will have a strong 2012, and we will be able to deliver strong results in 2012.

I will give you some guidance. Our Fourth Quarter in our Beef business will be stronger than our Third Quarter, so we will deliver a better result in the Fourth Quarter, comparing to the Third Quarter.

So again, we are confident that the Beef business in the US, and our operation, will keep doing well. In JBS, we have a quite unique situation, the fact that we own Five Rivers, we are running over 2 million head of cattle in the Five Rivers (feedlot). That will give us a very good comfort in terms of cattle supply coming to 2012.

So moving to our Pork operation; we have a very stable Pork business, a very well run Pork business. We did well, also, in the Third Quarter. We are working to extend our value-added business in the pork segment doing more enhanced products, and adding value in our products. So this is our main focus coming into 2012.

When we look at our Pork numbers in the first nine months this year, we already did $260 million in EBITDA, comparing to $174 million last year. So this is 50% higher this year, comparing to last year. We will also have a better Fourth Quarter in our Pork business, comparing to the Third Quarter, and we will close the 2011 year in a double-digit margin in our pork segment.

As well, like beef, pork export is growing quite substantially. The industry is growing over 20%; we are seeing more and more demand for export. China has started to buy pork from US in the Second Quarter, and keep buying more volume. So we have a strong belief also that 2012 will be a strong year for our pork segment.

Moving to PPC; you already saw the PPC numbers. This year has been a very challenged year for the chicken industry, and also for PPC. We had a negative result in the First Quarter, in the Second Quarter, in the Third Quarter. We are more optimistic that our Fourth Quarter will be better than the Third Quarter. We are working to deliver a break-even result in the EBITDA level in the Fourth Quarter, and we believe we can achieve this goal.

When we look at the industry dynamic, we are seeing a quite -- what we saw last year, in the end of last year, in the beginning of this year, a very substantially growth in chicken production. Now we are seeing the other way round, so we are seeing a quite sharp decline in chicken. We are starting to see this decline in chicken production.

When we look, the (exit) numbers is showing us a strong confidence that the market will be balanced in the First Quarter in 2012. So supply and demand being balanced next year, we believe we can have a normal year and deliver a normal level of margin, and have a good year in the chicken business.

So talking about our Mercosul operation, we are doing a lot of things to improve our Mercosul operation. In the Second Quarter, we announced some restructuring in our Beef business in Brazil; we closed four processing beef plants. And this change that we are doing in our beef operation in Brazil is giving us good results; we are running the same kind of volume.

Now with these last four plants that we closed, so we estimate a saving in our annualized base of BRL200 million with this change that we did in our Beef business in Brazil. We are very focused to improve our operation through cost reduction, to improve efficiency in our plants, and we are getting, every day, better. I'm very confident that today we have the best beef operation in Brazil, and I am very confident that we can keep improving our results in our beef segment.

We have a dairy business in Brazil by name Vigor. This segment also is a segment that we are very optimistic. Brazil demand is growing a lot in the domestic market, and we are enjoying a strong growth in this segment. Our target for next year is to grow 30% organic in the dairy segment, and we are also reformulating some of our products, and we will launch new items. Remember that, in the dairy segment, we only have valued added products in this segment, and we don't have (Unigate) milk in the diary segment.

So talking about our Leather business in Brazil, we also did some things in the Leather business. We also consolidated some operation; we closed some small plants; and we transferred the production of these small plants, primarily, to four large plants that we do finished leather in this four plants. Our focus in this business is to do 100% of finished leather instead should do wet blue, and we are getting very close to achieve this objective. This restructuring that we did in our Leather business will give us , on an annualized base, a saving of BRL45 million with this change that we did.

So overall, our management, and all of us at JBS, we have been very focused this year, and we will be very focused in 2012, looking internal on our business, looking where and how we can improve results. We are very focused to generate cash, to reduce debt; this is our primary focus coming to in 2012.

We did a lot of acquisition in these last four years, and now, this year and 2012, we are 100% focused to finalize all the integration to get all the synergy that still need to be captured. And we are very confident that we are on the right track to keep improving our business, and to generate good cash flow, and to reduce debt.

So with that, I will turn the call to Jerry to go through each segment in more detail.

Jeremiah O'Callaghan

Okay, Wesley, thank you. Thank you for that. Now to talk about each business unit, we will refer to slides that we've posted on our website which you can also access and follow.

I will start talking about our Beef business in the US, and that includes our Australian business as well. This accounts for 45% of JBS consolidated revenues. Net revenue for that unit during the Third Quarter was $4.21 billion, 25% higher than during the same quarter of 2010, and over 6% higher when compared to the previous quarter. I refer to slide 11, where we can observe that this business unit revenue has had constant growth, from $3.4 billion in the Third Quarter of last year, to $4.2 billion in this Third Quarter of 2011.

EBITDA was $184.1 million, with an EBITDA margin of 4.4%. This result represents a 78% increase, when compared with the Third Quarter of 2010, and reflects the stabilization of raw material costs during the quarter, and the good performance of our export business.

Due to the improvement in this business unit's Third Quarter results, we can observe that, in the cumulative results for the nine months of 2011, the EBITDA amounted to $515 million, an increase of 10%, when compared to the $469 million during the same first nine months of last year.

Now referring to our Pork business in the US. This business unit accounts for 9% of JBS consolidated net sales, and continues to show an exceptional performance. Similar to Beef, Pork also presents constant revenue growth, as can be seen on slide (14). Net revenue amounted to $867 million in the quarter, 12% higher than the same period in 2010, with an increase both in domestic and export prices, when compared to the Third Quarter of last year.

The EBITDA was $76 million, 9% lower than that of the Second Quarter of 2011, and the EBITDA margin was close to 9%. This quarter's margin reflects a cost increase of 17.8% in hog prices, when compared to the Third Quarter of 2010, which was partially compensated by reductions in operational and management expenses.

However, when analyzing the cumulative results for the nine months for our Pork business, the performance is exceptional. Net revenue in the nine months reached $2.6 billion, an

18% increase, compared to the same period in 2010. EBITDA totaled $261.5 million, and that's a 50% increase over the same period last year, which was $174.4 million.

Referring now to our Chicken business in the US, Pilgrim's Pride Corporation, the result has already been disclosed by Pilgrim's a few weeks ago.

Net revenues were $1.9 billion in the quarter, 10% higher than the same period last year, primarily because of the increase in volumes.

Pilgrim's Pride EBITDA continues to be negative, as Wesley commented earlier, and adjusted in the Third Quarter, it was minus $31 million. The negative result reflects the increase in grain costs, and the excess supply, which hampered the transfer of cost to the sale prices.

Pilgrim's Pride initiated 2011 with a goal to substantially reduce its internal costs. So far, the Company has captured an estimated $295 million in operational improvements from a total of $400 million projected, which has helped minimize the impacts of the increase in production costs.

In summary, our US and Australian operations, excluding Pilgrim's Pride, registered a Third Quarter result of $260 million in EBITDA, a 34% increase, compared to the $194 million EBITDA in the same period in 2010.

Moving now to South America, JBS Mercosul, which represents just over one quarter of JBS SA's consolidated sales. This business unit posted a net revenue of BRL3.9 billion, 12% higher than the Third Quarter of 2010. Comparing to the Second Quarter of 2011, revenues increased by 8.1%.

EBITDA was BRL450 million, 21% higher than the same quarter last year, with an EBITDA margin close to 12%. This exceptional result reflects significant reductions in production costs in Brazil arising from synergy and scale, as Wesley mentioned earlier.

In the US cumulative results, JBS Mercosul posted net revenues of BRL11.12 billion, which is 11.6% higher than the same period in 2010, while the EBITDA grew from BRL1.06 billion, during the first nine months of 2010, to BRL1.19 billion during the same period in 2011.

A quick word about our organic growth, and making reference to slide 13 in our presentation. If we analyze each business unit without taking into account exchange variation, we notice that all these business units register double-digit growth.

The Beef and the Pork business units in the US register a growth of approximately 57% and 65% respectively since 2009, while the Chicken business in the US and JBS Mercosul register sales growth of over 15% and 38% respectively since the beginning of last year.

On exports, on page 14, we can see our consolidated exports for the quarter, which were around $2.4 billion, with $7.2 billion in accumulated exports during the first nine months of 2011. The main destinations were Mexico, Africa and the Middle East, Japan, Hong Kong, Russia, and South Korea.

Moving on to our debt position. The relationship between JBS net debt and EBITDA, excluding Pilgrim's Pride, reduced from 3.2 times, in the Second Quarter of 2011, to 3 times in the Third Quarter, due to the increase in EBITDA of JBS beef units in the US, and of the Mercosul operations.

PPC, Pilgrim's Pride, maintained its gross debt stable and registered an increase of 7.6% in cash in dollars, when compared to the Second Quarter of 2011. Therefore, its net debt remained constant in US dollars.

When excluding the exchange rate effect on JBS net debt in dollars, the debt reduced by BRL530 million, in relation to the Second Quarter of 2011.

Now, on our financial performance, we ended the quarter with, as Wesley said, BRL5.6 billion in cash, which is greater than the totality of our short-term debt.

It's also worth mentioning that we had net cash generation from operational activities of almost BRL900 million in the quarter, prior to investments.

After CapEx, we had BRL508 million cash generation in the quarter, and our net cash variation was a positive BRL620 million. The net exchange variation in loans, as well as provisioned interest rates but not paid over long-term debt, was BRL1.063 billion, as can be seen in our cash flow.

Now I would like to turn the call back to Mr. Batista for his final considerations before our Q&A.

Wesley Batista {BIO 15243148 <GO>}

Thanks, Jerry. So like I said before, we remain very focused on our operation. This year, and 2012, are years that we are 100% focused on extracting value from all the acquisitions that we made in the previous years, and our focus is to generate cash, and to reduce debt, and to improve results.

We are confident that, when we see our business overall, Beef, Pork in the US and even the Chicken business, we are very confident that we will be able to deliver good results in this coming year. Also, our Mercosul operation is improving quite substantially, and we are confident that we are on the right track to deliver what is our goals.

So we have a good cash generation this quarter. Our results, again, was impacted by Pilgrim's Pride results, and by a small exchange rate impact in our quarter.

So I would like now to open the call to Q&A. Thank you.

Questions And Answers

Operator

(Operator Instructions) Farha Aslam, Stephens.

Q - Farha Aslam {BIO 6151888 <GO>}

Your Beef results in the US were very strong in this quarter, and we would just like some color on how you think that business is going to perform as the US cattle supply gets tighter over the next six months.

A - Wesley Batista {BIO 15243148 <GO>}

So like I mentioned before, and I am giving the market some guidance for the Fourth Quarter, so our Fourth Quarter, will be even stronger than the Third Quarter in our Beef business.

Even with cattle prices moving up, when you look the amount of beef that the US is exporting and the amount of beef that US is reducing in terms of import, this gives us enough confidence that the industry will be able to pass any price increase in cattle.

So when we see the numbers, we are confident that the industry will not have a problem to pass through the system this increase in cattle price. And remember, Farha, that we have a quite good position in our Beef business in the US. We are running Five Rivers today. We have 900,000 head of cattle on feed. Five Rivers will turn in 2012 over 2 million head of cattle, so this gives us a good comfort in terms of cattle supply.

Q - Farha Aslam {BIO 6151888 <GO>}

And Wesley, if I could ask just one follow-up? Because of your global operations, you probably have a better read on global cattle supplies than most in the market. Could you just give us a read on what you look for in terms of cattle supplies in Australia, in Brazil, as well as here in the US?

A - Wesley Batista {BIO 15243148 <GO>}

I think for Australia, we will be stable; it's likely higher next year, but not material. Brazil also, will be stable, and maybe a little bit more cattle in 2012; bigger numbers in cattle supply in 2012.

And in US, we will be less cattle. So we will see less cattle in 2012, but I think what we need to look, Farha, is supply and demand. So when you don't have oversupply, so don't have any reason to not pass any price increase, it's a little bit different.

When you look the Chicken business in US this year, why the industry was not able to increase chicken price was because there was too much product in the market.

So in the Beef business, it's the other way around. This year, US imported 15% less beef on purchased last year, and we will import over 25% more beef US will export this year. So no reason to believe that the industry cannot pass any price increase. So because of this, I don't see any reason to believe that we cannot see good margins next year.

Q - Farha Aslam {BIO 6151888 <GO>}

Great. Thank you for the additional color.

Operator

Reza Vahabzadeh, Barclays Capital.

Q - Reza Vahabzadeh {BIO 5842551 <GO>}

As far as leverage is concerned for the consolidated entity JBS SA, as well as JBS USA, would you anticipate focusing on deleveraging in a coming year or two? And if so, is there a leverage target?

A - Wesley Batista {BIO 15243148 <GO>}

Yes, for sure. We have a goal to generate cash and to deleverage our balance sheet. When you see our numbers, excluding PPC, we reduced our leverage this quarter from 3.2 times to 3 times leverage. So going into 2012, we (forecast) a Chicken margin that we believe that this will be the case. So this will help us to deleverage our balance sheet. And our target is to be low 2 times leverage, so more close to 2 times than to 3 times. So we believe 2 times is a good level, and this is our target.

Q - Reza Vahabzadeh {BIO 5842551 <GO>}

Got it. Then, as far as the Chicken business is concerned, you mentioned better supply/demand in 2012, and did you indicate that you expect to get to normal margins in Chicken in 2012? If so, what is normal margins in your Chicken business in general?

A - Wesley Batista {BIO 15243148 <GO>}

Yes. We expect to see a normal margin in 2012. A normal margin for us is 7%, in this range. Let's say, 6% to 8%, this is a normal margin in our view.

Q - Reza Vahabzadeh {BIO 5842551 <GO>}

Got it. Thank you.

Operator

Wesley Brooks, Morgan Stanley.

Q - Wesley Brooks {BIO 16407564 <GO>}

A couple of questions. I'm not sure if you might have explained this already, but just looking at -- PPC reported an adjusted EBITDA of $72 million, and you reported $34 million. Can you just explain to us what the difference was there, because in the past they've been pretty much the same.

Then on the Pork side, I think part of the story here is that there's not really any new capacity coming online in the US. Can you just give us your thoughts on whether you see any new capacities, or whether you feel that you can raise your production or capacity?

A - Andre Nogueira {BIO 19941317 <GO>}

PPC reports a $31.4 million negative EBITDA for the quarter, adjusted EBITDA, that's what PPC report. Any difference in that is just the translation between US GAAP and international GAAP that JBS use, but you can see reported $31.4 million negative EBITDA.

Q - Wesley Brooks {BIO 16407564 <GO>}

Okay.

A - Wesley Batista {BIO 15243148 <GO>}

Yes, I think the $70-some-million that you are referring is not the adjusted, it's the EBITDA. The adjusted is this $30-some-million. We have a lot of one-time impact in PPC on the Third Quarter, so the adjusted EBITDA is $30-some-million, it's not $70 million.

Q - Wesley Brooks {BIO 16407564 <GO>}

Okay, I'll have to have a look, because I have it in front of me and it said EBITDA of $84 million and adjusted of $72 million, but maybe we can talk about that offline. Thank you.

A - Wesley Batista {BIO 15243148 <GO>}

Okay. So about your question in Pork, we don't see any new capacity coming to the market. Remember that, if we see any new capacities, this will take time. So if any expansion in capacities takes more than a year or two, or even more (to start), so we don't see any new capacity coming to the market in 2012.

In our plants, we are already running pretty full, and we are not planning any increase in capacity in our Pork business.

Q - Wesley Brooks {BIO 16407564 <GO>}

Excellent. Thank you very much.

Operator

(Operator Instructions) Ken Zaslow, BMO Capital Markets.

Q - Ken Zaslow {BIO 5641218 <GO>}

On the Beef side, the results in the outlook look a lot stronger than we were expecting, but I think it's good. But I guess my question on that is, is it just your access to cattle, or do you think that the public markets that we see are not fully capturing the industry margins that you are capturing in the export markets and other ways that you guys, as an industry as well as JBS, actually capture more margins on the Beef side?

A - Don Jackson {BIO 4220219 <GO>}

Ken, this is Don Jackson. You're correct that margins that we capture are not those that you can recognize just with looking at the USDA quote and the cattle price. So there is more margin to be had than what you see in the published margins.

A - Wesley Batista {BIO 15243148 <GO>}

And remember, Ken, that (multiple speakers)

Q - Ken Zaslow {BIO 5641218 <GO>}

And where are you getting it from, and then what is the public market not capturing that you guys are capturing, both on the industry level as well as on the Company level?

A - Wesley Batista {BIO 15243148 <GO>}

This is Wesley. Remember that the numbers that you see in the USDA report and the cut-out and the spread, we report our commodity sales through USDA, so no-one in the US reports any export, and any premium program or value added sales. So to answer your question, we are capturing much better margin, primarily, in export. So we are growing quite substantially in our export, and our mix has given us this improvement in margin, and primarily coming from export.

A - Andre Nogueira {BIO 19941317 <GO>}

And Wesley, USDA represents less than 30% of the total sales. As you said, it's just the commodities.

A - Wesley Batista {BIO 15243148 <GO>}

Look, Ken, like I mentioned before, the market is quite concerned about meat margin, especially now. And I tell you what, we will have a better quarter; I have already told this, and I am giving this guidance to the market. We will have a better quarter in the Fourth Quarter, compared to the Third Quarter.

Q - Ken Zaslow {BIO 5641218 <GO>}

Yes, I agree. I think the market's just relying more and more on the USDA numbers, and I'm just trying to get more color on why that number is maybe not the most accurate of all numbers. So that's what I was trying to get at.

A - Wesley Batista {BIO 15243148 <GO>}

Moving forward, Ken, and exporting from US, growing this number will not exactly represent the industry margin.

Q - Ken Zaslow {BIO 5641218 <GO>}

Great. And what about on the Pork side as well? I'm assuming that margins sequentially improved through the quarter. I'm assuming they're getting better. What are you guys doing on the Pork side to enhance your margin structure as well?

A - Don Jackson {BIO 4220219 <GO>}

And some of the same there, Ken; exports contribute quite a bit. Our value add on the Pork side contributes a lot of margin that you're not going to see strictly when comparing hog price and USDA quote.

Q - Ken Zaslow {BIO 5641218 <GO>}

And do you think that your pork packer margins also will sequentially improve and you're looking for a good year next year as well?

A - Wesley Batista {BIO 15243148 <GO>}

Ken, we believe that we can see a good 2012; we don't see any reason that we cannot deliver it the same kind of even better margin next year. So this year, we will close the year in a double-digit margin, and we don't see a reason that, next year, we cannot do the same, or even slightly better.

So we still have some opportunities in our Pork business, even we consider that our Pork business is in a very well position, and very well run. But we still have some opportunities to increase more margin to expand value-added sales. So we are confident that next year will be a good year, also again for Pork.

Q - Ken Zaslow {BIO 5641218 <GO>}

Great. Thank you very much.

Operator

Lucia Kassai, Bloomberg.

Q - Lucia Kassai {BIO 16502712 <GO>}

I would like just to get some clarification on the deleverage process that you were talking earlier. Does it include asset sales, since some of the plants have been shut down? Yes. That's it. Thanks.

A - Wesley Batista {BIO 15243148 <GO>}

Not really, Lucia. We have some assets that we close. Maybe we will sell some assets, but this is not material. So to sell business, no, we are not looking to sell any business. And the deleveraging will come from cash generation.

Q - Lucia Kassai {BIO 16502712 <GO>}

Okay, so you may consider to sell some plants, but not material.

A - Wesley Batista {BIO 15243148 <GO>}

No, please don't understand right. We don't consider to sell any plant. I say that we have some assets that may be -- not may be -- that we will sell like we have some old Pilgrim's Pride head offices that we are selling. We have a plant in Pennsylvania that Pilgrim's Pride close this plant three years ago in Franconia. We are looking to sell, but not a plant that we are running today. We are not looking to sell any plant that we are running today.

Q - Lucia Kassai {BIO 16502712 <GO>}

Okay. So if you sell any assets, it would be mainly in the US plants that are not currently running?

A - Wesley Batista {BIO 15243148 <GO>}

Yes. That's right.

Q - Lucia Kassai {BIO 16502712 <GO>}

Okay. And just a question about Brasil Foods, so I would like to know if you have changed your view on Brasil Foods since the Company has announced that it's interested in selling assets in Brazil, or maybe exchanging/swapping assets?

A - Wesley Batista {BIO 15243148 <GO>}

We have not changed in our view, so we are not looking to do -- to look for this opportunity. We are not interested in any acquisition in any acquisition of these assets.

Q - Lucia Kassai {BIO 16502712 <GO>}

Okay. Thanks.

Operator

Maria Fernanda Blaser, Debtwire.

Q - Maria Fernanda Blaser

I have two questions. First, you mention in the press release call that you already transferred $1.6 billion to the Brazilian unit to prepay some debt. I would like to know how much of debt you have prepaid, and what kind of debt you were prepaying, agency loans, (EPP) facilities?

A - Wesley Batista {BIO 15243148 <GO>}

We already prepaid $1 billion, and we transfer the rest, the other $600 million, probably some weeks ago, and we are prepaying the debts that has the short maturity. So this varies, a lot of different kind of debts, but we are paying the first debt that is more in front of us.

Q - Maria Fernanda Blaser

And are you guys considering to buy back some bonds to deleverage the Brazilian unit?

A - Wesley Batista {BIO 15243148 <GO>}

No. We are not looking to do this.

Q - Maria Fernanda Blaser

Okay. And one last question on PPC. I was wondering how is the liquidity of the Company if JBS will have lend additional cash to PPC, or if the Company's maintaining a stable liquidity.

A - Wesley Batista {BIO 15243148 <GO>}

Andre?

A - Andre Nogueira {BIO 19941317 <GO>}

Sorry, could you repeat the question please?

Q - Maria Fernanda Blaser

I was wondering how is the PPC liquidity. I remember that the last quarter you said that you could lend additional cash to the Company if the liquidity was under $300 million.

A - Andre Nogueira {BIO 19941317 <GO>}

Well the Company's a (public company), they had (boost) their liquidity, and it's over $400 million.

Q - Maria Fernanda Blaser

Okay. So you won't need to lend any additional cash to PPC?

A - Andre Nogueira {BIO 19941317 <GO>}

Well the liquidity's over $400 million.

Q - Maria Fernanda Blaser

Okay. Thank you.

Operator

Wesley Brooks, Morgan Stanley.

Q - Wesley Brooks {BIO 16407564 <GO>}

A quick follow-up. I just wanted to ask you about these comments around dairy, talking about some opportunities for M&A next year. Could you just give us some color about the potential size of any deal? Is it the kind of thing that would make this a big enough business to separate out of the Mercosul operations, just a bit more color around that, please?

A - Wesley Batista {BIO 15243148 <GO>}

Wesley, we are not active. We are not looking to do an acquisition in the dairy segment. We still have production capacity that we can grow over 30% next year organic, and this is our target for next years, to grow organic and to use the capacity that we already have in the Company today. Yes. That's it, so we are not exploring any M&A now.

Q - Wesley Brooks {BIO 16407564 <GO>}

Okay. So yes, there was some news article suggesting otherwise, but excellent. Thank you very much.

Operator

(Mara Camara, Ashmore).

Q - Mara Camara

Just a couple of quick questions, if you don't mind. On Brazil, can you give us some clarification on what the utilization rates are currently, and maybe just a little bit elaboration on your cattle strategy in Mercosul?

A - Wesley Batista {BIO 15243148 <GO>}

Can you ask again? What is your question?

Q - Mara Camara

Sure. The utilization rates of capacity where you (are you think)?

A - Wesley Batista {BIO 15243148 <GO>}

Okay. Actually, we increased our capacity utilization last quarter. So we are at around 80% capacity utilization.

And cattle strategy for next year, in terms of cattle supply, like I mentioned before, we closed four plants. And the reason that we closed these four plants is to increase the capacity utilization in the remaining plants.

So we believe, in Brazil, we'll have more cattle coming to the market next year, so we believe that we'll be able to even increase more this capacity utilization. So we would like to see more high 80s% than low 80s% that we are now in terms of capacity utilization.

Q - Mara Camara

And on the strategy, are you using hedging, or are you just doing outright, or are you buying in the spot, or are you doing 30 days payment?

A - Wesley Batista {BIO 15243148 <GO>}

No. We buy cattle in the spot market, and we also buy cattle to forward deliver. So we are doing both.

Q - Mara Camara

What's the breakdown, Wesley?

A - Wesley Batista {BIO 15243148 <GO>}

Today, the spot is two-thirds, and one-third is forward purchase.

Q - Mara Camara

And buying spot, you're getting a discount to the forward of what, call it 3%?

A - Wesley Batista {BIO 15243148 <GO>}

No. This depends. It depends in each case, but usually, it's the same price. So usually, it's the same price.

Q - Mara Camara

Then, just looking at Brazil again, I'm going on now in terms of the tax credits and the ability to use them within Brazil, within the different states, how is that going forward?

A - Wesley Batista {BIO 15243148 <GO>}

It's getting better. The state that we accumulate more credit is Sao Paolo, the Sao Paolo state, and Government in Sao Paolo is making some change to help us to use this tax credit. So not to help JBS, but to help the industry to be able to use more this credit.

So we believe that, in these coming quarters, and in 2012, we will be able to reduce the amount of credit that we have in our balance sheet.

Q - Mara Camara

So you were still creating credits as of the last quarter then, it's not neutral yet?

A - Wesley Batista {BIO 15243148 <GO>}

It's not neutral yet. You are right, but much less. We're accumulating much less credit than we were before, and we believe that, in these coming quarters, we will start to see this in the other way round, reducing these credits, and not accumulating more.

Q - Mara Camara

Okay. And just regarding tax yields, because I think we talked about before part of the reason for raising the debt in the US was to offset where you are generating taxes and where you can offset. What is going to be the savings, going forward, from this exercise that happened in the last year?

A - Wesley Batista {BIO 15243148 <GO>}

We already said this to the market, between tax credit and between less interest rate, our number is $150 million in an annualized base.

Q - Mara Camara

Okay. And just one last question. After all of that, what's the average cost of debt now as you pay down your debt in Brazil?

A - Wesley Batista {BIO 15243148 <GO>}

I don't have top off my head. We can follow up this with you, so after we pay this debt, using this cash debt we brought from US, I need to follow up this question with you.

Q - Mara Camara

Okay, perfect. Thank you, guys, so much.

Operator

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

A - Wesley Batista {BIO 15243148 <GO>}

So I'd like to thank you, to thank everybody to participate in our Third Quarter earnings call. Again, we are very focused on our business, looking internal for any opportunity to improve our results and we are confident that, next year, we will generate good cash and reduce debt. This is our primary focus.

So thank you everybody.

Operator

Thank you. That does conclude our JBS SA's audio conference call for today. Thank you very much for your participation, and have a good day. Thank you for using Chorus Call.