Q1 2012 Earnings Call

Company Participants

- Corporate Participant
- David Alan Palfenier, Chief Operating Officer
- James David Ramsay Cruden, Chief Operating Officer
- Ricardo Florence dos Santos, Chief of Corporate Strategy and Investor Relations Officer

Other Participants

- Aaron Holsberg
- Alessandro Arlant
- Analyst
- Christina Ronac
- Eric Ollom
- Jose Yordan
- Matthew Campbell
- Wesley Brooks

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 first quarter of 2012.

The audio for this conference is being broadcast simultaneously through the Internet on the website, www.marfrig.com.br/ir. In that address you can also find the slide show presentation available for download. We inform that all participants will only be able to listen to the conference call 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 dos Santos, CFO and Investor Relations Officer. Please, Mr. Ricardo, you may begin the conference.

Ricardo Florence dos Santos {BIO 18071813 <GO>}

Good morning. In this first quarter of 2012, when despite of all the adverse is of uncertainties that we had in the exports mainly from Brazil, some inventories were higher than expected in certain countries. We believe that we did other staff going forward in the consolidation of the newest track. I believe that we are on track and the reorganization of the two business segments that we announced in the first quarter of this year Seara Foods and also Marfrig Beef. The closing of the - a shop with Brazil foods is definitely an important step to have a higher capacity, higher volume in the production and also a considerable addition that we do in our capabilities for distribution in Brazil and its also a strategic for the optimization of tax credits that we have.

Going to the quarter, the first quarter every year is a quarter where we have the seasonal impact. It's usually the weakest in the year. This first quarter was not different but despite of all this we managed to present the revenues of the companies at same level that we had in the previous year, R$5.23 billion. This strategy that it follows in the quarter it was to keep the margins where we achieved in the previous quarter and thus minimizing the effects of the lower revenues that we were achieving in the exports from Brazil and directing mainly the sales to the best distribution channels that we have here. The results of all this, it was that we kept the gross margin of the company at the level of 15.4% compared to the previous quarter and 150 basis points higher than what we had in the first quarter in the previous year.

We achieved a gross income of more than 800 million in the year. EBITDA was 21.8% up compared to what we had in the first quarter in the last year and as a consequence of all this we presented net income of R$34 million that is 46% higher than what we had in the same period in the previous year. Among the highlights that we had in the quarter, one of the most important it is to mention that we are on track to achieve the goal 50% of our sales in process and value added products. We achieve it 45% of this quarter compared with 36% that we had in the same quarter in the previous year. In this Seara Foods I would like to mention that we did closing of the Keystone Foods logistics asset sales and the $390 million are already in the cash position of the company. You'll see it in the results of the second quarter, this was in the first days of May.

In Marfrig Beef the highlight was the achievement of an EBITDA R201 million almost 30% compared to RE Beef in the previous year.

Going to the next page this is what Marfrig is. The two segments that we have, we expect to generate synergies in both of them and also integrate all the business, all the segments. In the case of Marfrig Beef, integrating the commercial teams, this is what we have done, it's already in place and in the Seara Foods with the focus of each one of the three companies that we have there and their unique strengths as you see later with David, the COO of the division.

In the first quarter we had 67% of the revenues and 51% of the EBITDA, happening in the Seara Foods, while we had the Marfrig Beef with 33% of the total revenues, but with almost half of the EBITDA that it was generated in the company.

In the next page, page number five, it's basically to remind you in what has been our goal in the graph that's in the bottom of the page in green. You can see that we continue to grow going forward, to have more and more process and value added products in the quarter, we achieved their financial view 45% of our sales in this category.

Now I would like to pass to James Cruden, the CEO of Marfrig Beef.

James David Ramsay Cruden {BIO 15363978 <GO>}

Good morning. We continue with our integration for the beef division with a unified production plan for the three countries, consolidated and expanded our export sales teams, both working together in the joint strategy. We also continued to work to integrate best practices in our production facilities.

If you go to slide number 7, you can see on the Brazilian scenario that we see continued rise in beef production, we see a continue to rise in cattle herds and we also see on the local market a steadily increasing demand as the middle part in Brazil grows. On the global scenario we see increasing prices and costs in the U.S. -- we see a relatively stable Australia, Chile has become a very important market again for Brazil and for Uruguay and Argentina.

Venezuela is passing through difficult moment, Russia continues to buy large quantities of beef from Brazil and at the moment we are seeing somewhat weaker demand in Europe as with all financial problems that they are going through.

And with regards to the results in Brazil, the depreciation of the real has positively affected our operational results and the domestic market continues to be a positive factor. Brazilian capital cost and prices are competitive at the moment and we believe that this will continue at for the time being.

As is normal January and February were slow months in terms of production volumes but we return normal volumes as from March and planned shortly to re-open three of the plants that we closed during last year. Our export volumes are also increasing and these will be visible as from the second quarter. We are looking at moment on the beef side is a very favorable scenario.

Ricardo Florence dos Santos {BIO 18071813 <GO>}

Now I would like like to pass to David Palfenier, the COO of Seara Foods. Please David.

David Alan Palfenier {BIO 17536438 <GO>}

Good morning everyone. Starting on slide nine just to remind everyone of the newly created group. That was constituted primarily to begin the effort of finding the synergies that exist between our divisions I think we've done far better at achieving synergies inside the group, but have done not enough between the groups as we mentioned in last quarter.

And we remain committed to the roughly R$300 million of synergies in the next three to five years. Work is already begun and the 16 up and running going through the selection process of which few projects are focus on, but we're encouraged with what we are doing there. We're calling that we are however going to lose our focus on our core commercial strengths and I think the photos on the slide show well in the case of the Brazilian business, clearly a focus on consumer brands. In the case of Moy Park, focus on customer brands and then of course our Keystone unit which is clearly one of the foremost food service organizations in the world. So, we definitely did not want to lose that commercial focus, while looking for synergies between the groups and I'm pleased so far with how this is playing out.

Slide 10, talks about the general strategies where we're using to improve our progress. Ricardo, mentioned earlier, that the entire company's move to higher process, higher-value process products. And in Brazil now we are already, we've got another 200 basis points we're now at 73% for the process at the end of first quarter and this was before the addition of the Brazil Food assets, which are virtually all for the process. Focus on brand architecture continues, additional investment and marketing in the quarter and the CR brand now being sold in 22 countries as well as in our sister division and big division.

Our distribution expanding mostly in Brazil, so last quarter I think I shared with you that we were reaching roughly 28,000 customers, we actually closed this quarter with 31,000 and I just saw the April result reaching 33,000 customers. So clearly we are reaching out which has both growth implications as well as margins get better as we reach smaller customers that don't demand such high discounts as the organization straight. I'll talk in a second about where we are on the new assets coming in from foods but we continue to look at investments in our footprint and also in our people.

Going then to slide eleven to talk about our progress in Brazil primarily. So good news on the market share side continue to grow in total and particularly in the more profitable frozen meats group. And then slide shows what additional share potential gets for us as we integrate with those assets. So of course it will be dog fight to get all that share, we're not going to want to -- but with the capacity that's come on stream for us reminding everyone that, not only are we receiving capacity for 100% of the in bound market share but we are receiving an equivalent amount of free capacity to help us compete for the volume that's going to be left on the table when - brand and the - brand from BR Foods are particularly for three to five years.

So, a good opportunity for us to make material growth in Brazil and its obviously a key driver for the whole Seara Foods group. You will see on that same slide a decline in our market share of poultry exports out of Brazil, this was a decision we made in the fourth quarter when we saw what was happening with the export pricing which although did get better towards the back end of the quarter and modestly improving I think at the end of Q2, still not anywhere near where it was last year or where we would like it to be. So, as we heard of setting his openingm we have definitely prioritized gross margin over market share at this point. The pork shares are more typical of where we expect to be under normal conditions. We still believe we are competitive with anyone in the world for market share and exports.

Poultry was just not a situation we wanted to get overhead. And thanks Ricardo.

Ricardo Florence dos Santos {BIO 18071813 <GO>}

Thank you David. Going to page number 12 of the presentation. As David said we favored the domestic markets and the distribution channels that we have here because its true for both Marfrig Beef and also the Seara Foods division. We had high concentration in our sales in Europe even this quarter. You can see that even compared to the previous year we continue to have a growth there while the growth areas, they continue to be Asia and some other destinations in experts.

Going to the next page. In the quarter compared to the previous year, we manage to take advantage of improvements, that we had in the raw material purchasing activities and also in reduction in cattle prices to achieve a better performance in the gross margin and consequently we had a reduction in the cost of goods sold year-over-year.

Regarding to the SG&A, we had an increase in the year, as a percentage of sales and compared to this previous quarter the same happened, because of the lower sales that we had in that period and because of some slightly higher marketing expenses that we had mainly in Brazil to favor the Seara brands. It's also work I mentioned that we had some extraordinary expenses in the quarter already in the preparation for the absorption of our new plants and in some other projects that he had, like for instance the sale of the logistics foods assets that are included in this figure and not in the other revenues and in expenses excluding them from the adjusted EBITDA.

EBITDA it's an early definitely had improvement compared to the previous year, we had 140 basis points of improvement, 7.8% of EBITDA margin compared to 6.4% that we had in the previous year, translated mainly from the higher prices that we achieved in the comparison year-over-year.

And the result was net income that it was 46% higher than what we had in the previous year.

Going for the highlights by segment in the Beef division, we favored the domestic markets in the beginning of the year as a consequence of this, we have been able to increase the EBITDA margins to 11.6%. This was combination of an increase in the average price of beef and the decrease that we had in the average cattle price in Brazil.

And in the Seara Foods despite of the decrease in margins that we had that seasonal compared to the last quarter we achieved an improvement of 60 basis points compared to the same quarter in the previous year.

Moving to the capital structure, we had a higher concentration in the quarter in the short-term, basically significant part of the renovations we had paid them for we did it in the short term slow ones here, mainly in ACCs for exports because the destination was the working capital in order to get lower interest. The goal will continuously be the same, despite of the 24.4% in the short-term that we registered in this quarter of our debt profile, the goal is to have 15% of this participation in the short-term in the next periods.

We got into the breakdown of our debts, it continues to be very close of what we had in the previous quarter, 80% of our long-term debt, it is in foreign currency and that's basically the same participation that we have in the revenues of the company.

Going to the cash flow of the company, in the seasonality of the period thus leaded to consumption in the working capital, mainly in the reduction of the suppliers, this is what we have here in the working capital changes, the most significant items here, were the suppliers, the payables with a reduction of 231 million.

We had two effects here, first was the decrease in the production, lower grain purchases also the seasonality between the fourth quarter and the first quarter and the more cattle that we bought in cash in the quarter in order to have a higher gross margin. We didn't manage to compensate all the recoverable taxes in the quarter like we had done in the last two previous quarters, but we continue to expect to compensate this in the next quarter, mainly with the higher profitability of the company.

And thus regarding to the suppliers we expect to increase again to the previous level with the increase in the activity of the company. In other assets and the liabilities accounts, it -- the main pointers that we had there it were payments regarded into previous investments that we did, that amounted in total 58 million of reais in the period.

The leverage of the company in the quarter was 4.5 times, basically stable compared to what we had in the previous quarter, but we included here a proforma exactly to show to you what will be the effect of the sale of the Keystone Foods logistics assets in the balance sheet of the company with $390 million that we have in cash.

On top of what -- of the increased cash that we will, we will also have an EBITDA gain on the sale compared to the book-value of these assets here, we estimate it to be around R318 million that leads to a proforma leverage of the company of 3.5 times.

If you discount the last advances EBITDA of the asset that is sold then this would go to approximately 3.7 times. This means that I believe that the company is on track in what we have said to you. We still have other assets to contribute to the cash flow of the company of the year. And we believe that we are on track to continue to the leverage of the company, mainly through in the items that are related to the working capital.

In investments we kept our focus in controlling investments here. We've invested in the total in the quarter R103 million in fixed assets and 86 million in breeding stock. Total CapEx of 191 million. Our focus will continue to be the same. We believe that the addition of the new assets that we are bringing from the assets bought with the Brazil Foods, both production plants and distributions centers will have us to continue to increase the production in Seara Foods while in Marfrig Beef, we have plans that are coming back to operation. We do not believe that the working capital that will be needed to them will be significant and the same happens in terms of investments to put them into operation.

We do not believe that they could be significant as well. The message going to the last page, page number 18, is basically the same one that we have said to you in all the previous quarter. We will continue to focus in the reduction of costs, expenses and improvements in the working capital and management.

The goal that we have in the long-term run, it is to be an investment grade company there. First half it will be to achieve net debt to EBITDA ratio between 2 and 2.5 times and we believe that the way that we have to do to achieve this, it will be through obeying these points that we are mentioning here to you.

We believe that the main goal for this year, it is the integration of the assets that are coming. There is a huge potential in all of them to increase our market share in Brazil, in the same extent that we believe that's the moment to take advantage of the good momentum that we have in the cattle cycle, also to increase the beef operations in Brazil and abroad.

That's it and we are ready now. I would like to open to answer any questions that you may have. Thank you.

Questions And Answers

Operator

Thank you. [Operator Instructions]. Excuse me. Our first question comes from Mr. Wesley Brooks with Morgan Stanley.

Q - Wesley Brooks {BIO 16407564 <GO>}

Hey guys. I have a couple of questions. Firstly, on the cash flow outlook. If we're thinking excluding the asset sales, do you think you'll be able to generate positive operating cash flow in the second quarter and what is your outlook for the full year?

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

Our outlook for the full year Wesley it remains the same. We will work to compensate the seasonal effect that we have in the first quarter now. We do expect to see some improvement now in the second quarter, but the most part of this improvement, like we did in the last year, we expect it to come in the third and in the fourth quarters, with the increase of the activity in these two quarters.

It's a little to say if we will achieve a positive free cash flow in this quarter now. But I would expect it to happen more in the third and in the fourth quarter, but definitely in this quarter already showing significant improvements compared to what we had in the first.

Q - Wesley Brooks {BIO 16407564 <GO>}

Okay, thanks. And then my second question was around the debt. Obviously that big chunk of your debts in U.S. dollars, if the currency continues to weaken, it could stretch your leverage multiples even more. Are you prepared for a scenario where the real continues to weaken and what can you do to really stop your multiples from getting out of hand?

A - Corporate Participant

You have a very good point here. To compensate this we have this gain in EBITDA, it's one time, but it has to be considered in all the calculations of leverage of the company. And in addition to this it's the benefits that we have from an appreciation of the U.S. dollar compared to the real is very significant for both the exports of Seara, Alimentos in Brazil and also to Marfrig Beef. In one side we are protected in the leverage ratios through this additional EBITDA that we've got from the sale. And in the other hand we understand that the effect in the gross margin and in EBITDA's margin at the end of the 12 months, it provides a significant increase for both the divisions.

In addition to this I mentioned to you already we intend to do in some sales of non-core assets still in this year that can contribute and improvements of course in the working capital, that's the combination of what we intend to do.

Q - Wesley Brooks {BIO 16407564 <GO>}

All right. Thank you very much.

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

You are welcome.

Operator

Excuse me, our next question comes from Mr. Phillip Cruz, Idaho BBA.

Q - Analyst

Good morning everyone. I have two quick questions, you mentioned earlier that there was an impact of upfront payments for cattle on the company's supplier's account. Could you give us a color on what was the impact of the upfront cattle payments on the company's beaf margins and on the payables account and what can we expect this to be, can we expect to be a recurring event strategy going forward?

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

First that was a strategy that we followed, just to remind you the main goal that the company had it was to keep and even to increase the margins. That's the main strategy. While we have had of course is an increase - in the beef sector, does leads also to an increase in the supplier payables as well. And by managing well, the purchases in Seara Foods and grains and also in Marfrig Beef we understand that we can compensate the working capital effects in both of them. You asked about what are the effects in margin that this could happen? The average term that we have in our purchases about 25 to 30 days in total, you mention what could be the effect in difference between paying cash and term is about 2% at this point James. Yes, it's about 2% difference in acquisition that we have between buying in cash or in terms.

Q - Analyst

Okay. Thank you.

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

You're welcome.

Operator

Excuse me. Our next question comes from Mr. Eduardo --.

Q - Analyst

Hi, good morning. Thanks for the call. I have a follow-up on the previous question. Do you feel confident that you can, with your leverage target and covenant management with the continued, the practice of buying -- from to get that 2% margin. And do you think the level of working capital that you achieved in the first quarter should be seen as a -- in terms of average base of the working capital cycle to be mostly recurring or do you expect the significant improvement and which account should we expect a significant improvement? Thank you.

A - David Alan Palfenier {BIO 17536438 <GO>}

We don't expect it to be recurring, the question of purchasing capital for cash was due to the lower activity at the beginning of the year. And the greater margin to be had at that moment. It's not our normal actually to buy everything on catalog, our normal strategy is -- term. We discount some suppliers who wish it at the rates of varies between 2% and 3%, but it has an effect, the cash payments on the lower throughput. But on a higher throughput that we've been operating on since March and there were no -- there are less cattle being purchased today than there were for cash at the beginning of the year.

Q - Analyst

Okay. And a follow up from me. Another question actually, what has been the impact of the increase in the cost of trade finance line on the company given the increase of the term for financing to be exempt from the IOS? Thank you?

A - Corporate Participant

If I understood well your question the concentration that we have in the domestic market is required shorter term in total. But just to remind you the seasonality of this quarter usually the first quarter is weaker, much weaker than the fourth quarter and it has of course all the effects in working capital cycle in both the suppliers, inventories and so on. What we believe are the main benefits that we have due for the reduction is in the finished products inventory, it has in our grain strategy, in acquisition. These are all the areas that we expect to have in addition of course to following our regular purchasing strategy in both grains and cattle based for this.

Q - Analyst

Okay. Thank you very much.

Operator

Excuse me our next question comes from Mr. Eric Ollom, Citigroup.

Q - Eric Ollom {BIO 4374335 <GO>}

Hi good morning everybody. My question is about the EBITDA gain, the R318 million. I just want a little clarification. This is that actual gain on the sale of the Keystone business. So therefore it's not cash and I would think and why is that being, why would you include that in EBITDA, just it would be discontinued item for, this is actually the increase in EBITDA expected by basically getting rid of a loss making enterprise. Could you just clarify for me the nature of these numbers? Thank you.

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

Okay Eric this is a non-recurring effect that comes from the sale of the acquisition and the comparison of the value that we obtain with the assets value that is in the balance sheet. This effect it has to go to other revenues and expenses that is part of the EBITDA that's used for the calculations in all our loan contracts, in all our debts, that includes as well the financials and the bonds and the bonds that we have in international market. It is not part of the adjusted EBITDA excluding the non-recurring effects, but it is part of the normal EBITDA of the company.

Q - Eric Ollom {BIO 4374335 <GO>}

Okay. So this is basically a covenant calculation number? Would that be fair to say?

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

Yes, and not only this but it's good also to show how protected the company is against for instance the effects of an appreciation of the U.S. dollar compared to the real, that gives to us a significant gap that we could take advantage of it. And at the same time that improved the margins of the company because of the effects of this appreciation and all the exports that we have.

Q - Eric Ollom {BIO 4374335 <GO>}

Okay. And then just finally, I assume this is an annualized number, not just for one quarter.

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

No, no, no. This is not an annualized number. This is the difference between the value that we are getting and the asset value that is in the balance sheet. This is the effect that you have this is only in this quarter.

Q - Eric Ollom {BIO 4374335 <GO>}

Okay. Perfect. Thank you.

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

You're welcome.

Operator

Excuse me. Our next question comes from Mr. Jose Yordan with Deutsche Bank.

Q - Jose Yordan {BIO 1496398 <GO>}

Hi, good morning Ricardo and everyone. Well I guess obviously really good margins in the beef business and I just wanted to see if you could give us more color on how should we think about the rest of the year and for those of us who had additional margin increases in our model for next year, how should we think about that. Are we seeing let's say upfront benefits of the turning cycle following one year or do you think it's still fair to see benefits beyond this year? And to the extend if you can give us any idea of whether a level even a little lower than first quarter gross margins, so around the 21% range does that make sense for the entire year and again how should we think about going forward are we done with the margin attrition or not?

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

Well that's a little bit difficult to answer. But perhaps we have seen part of next year's expected gain coming to us at the moment. I am not sure whether the climatic conditions at the end of last year when we had a dry spell in Central Brazil cattle, January and February's cattle were pushed back to March, April and May. But we are seeing a steady decline in cattle cost. We are at stable price both in dollar and locally in Brazil and more favorable exchange rate. And I think that the exchange rate is probably the reason that we're seeing better than expected results at the moment.

What happens here on - I don't know. The gross margin as you pointed out is encouraging, but I hesitate to say that it will grow any greater than that and we'll just have to wait and see. What I would say is that we will see a continued regular cattle supply and I don't think we'll see much change in the way of reduced demand or anything like that for beef and the exchange rate well - where that might go.

Q - Jose Yordan {BIO 1496398 <GO>}

So, with an exchange rate perhaps coming back a few cents sometime this year than you would expect margins perhaps to take back or remain in the rates where they were in, but not with the fundamental, the underlying fundamentals remain sound and you continue to expect cattle supply to continue to drive those lower costs.

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

Yeah I don't think today's exchange rate is what we expect alright. I think everything we have been looking at on our less favorable exchange rate should we call it. So the strangers in the exchange rate going over the real depreciating further because that will effect the cost of cattle, expectations of the suppliers and also expectations of our customers and at the sort of rate we are now and even slight less favorable is a favorable scenario for us.

Q - Jose Yordan {BIO 1496398 <GO>}

Great. And if I can ask a follow-up on the poultry business, I know you don't break it out specifically, but can you give us a sense of the EBITDA margins at the three main divisions of the poultry Moy Park, Keystone and Seara. How close are their profitability these days versus a year ago, any color you can give on that would be great.

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

As you said we generally don't break this out. What I will tell you is first of all on sort of a margin structure, the Brazil business tends to be about the mid point of our average EBITDA margins, Moy Park tends to be slightly accretive and Keystone is slightly decretive because of its cost plus relationship with the McDonalds business which is a big chunk of its business. However that's also a very stable part of the portfolio. So we end up liking that. In terms of performance year-over-year I would say, I wouldn't have anything material in any of the divisions differ from the general progression you saw for the business at all.

Q - Jose Yordan {BIO 1496398 <GO>}

Okay, great. Thanks a lot.

Operator

Excuse me. Our next question come from Mr. Aaron Holsberg, Banco Santander.

Q - Aaron Holsberg {BIO 16876068 <GO>}

Good morning. I just have few questions concerning of volume. First indeed your for the additional plans which are coming on stream, how much of an increase in beef volume should we expect to see and how gradually do you expect it to rollout?

A - Corporate Participant

At least 10% and within 90 days.

Q - Aaron Holsberg {BIO 16876068 <GO>}

Okay. The other question was more regarding the assets which are getting under the Brazil Foods turns action. Again as you said in your press release you have the potential to reach nearly 17% margin, but how do you think it's going to look in the first full quarter reflected, what increase in volume should we expect after that? And how long do you think it'll take to reach your target?

A - Corporate Participant

Yeah. So I may have misspoken that should been 17% market share and not 17% margin that I reflected.

Q - Aaron Holsberg {BIO 16876068 <GO>}

I may have a picture.

A - Corporate Participant

Okay. So, we're -- there okay. So, the phasing up the facilities are begin in June and they go through the end of August, the brands that the facilities produced lag the plans by a month. So what that means is that we will be in about October with all plants and all brands producing. In parallel with that of course we are bringing up our sales force in our logistics.

So I am really hesitant to commit to sort of any sort of running rate kinds of numbers until probably Q1, but already in the month August we will start seeing some of this volume come through the P&L and it will continue to build until I think we'll take our first breadth for air around Q1 of '13.

Q - Aaron Holsberg {BIO 16876068 <GO>}

Right, but again I guess we should expect to see over that time period a pretty significant increase in volume, based on that market share. If you reach even a third that would be a 30, 40% increase in volume?

A - Corporate Participant

Yes, I am I obviously it's everybody has been watching this coming. We won't be the only ones fighting for this new market share, but I do agree with you that we because of the capacity we received and the brands we received, we have a better shot than most at securing this and as you say even a conservative estimate represents some pretty favorable growth for us.

Q - Aaron Holsberg {BIO 16876068 <GO>}

Thank you.

Operator

Excuse me. Our next question comes from Mr. Alessandro Arlant, Bank of America.

Q - Alessandro Arlant {BIO 15732215 <GO>}

Hello. Good morning everybody. A couple of questions if I may. The first one with Ricardo if you can confirm the working capital improvement that you expect particularly in sequentially over the quarters of this year and in the third quarter if that already takes into accounts the Brazil Foods assets and the working capital requirements of those assets, particularly as the phase out is completed from the third to the fourth quarter?

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

Well, the preliminary goal that we have of course is to compensate while we had a consumption in the beginning of the year-year here. We see a room to decrease the recoverable taxes through higher sales in the process products and thus regarding to the working capital in new plants that are coming, I'll remind that we will have about 150 million in the inventories that are, in field inventories that are come in already with the those assets.

We do not expect at this point based in the calculations to have investment any significant amount in the working capital, in the plants and the other point is that will be doing it gradually the addition of the return of this plants. I don't know David if you like to add something to this?

A - David Alan Palfenier {BIO 17536438 <GO>}

No, I think that's better perspective.

Q - Aaron Holsberg {BIO 16876068 <GO>}

So -- I understand that on the sales coming from Brazil Food assets that the working capital is included, but to fill the void of the other brands which Brazil Foods cannot put in the market in order to feel that void, will you have incremental working capital needs in order to sustain or even increase market share in the second semester of this year?

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

Yeah I think, there it's going to look like any other growth that we have. So as you know in addition to competing for that volume, we are also undergoing and having undergoing an expansion in distribution and you are correct that all that volume will require some working capital but on a cash flow basis it should be accretive.

Q - Aaron Holsberg {BIO 16876068 <GO>}

Okay, great. And then my second question is looking at these prices in Brazil we have your competitors been very aggressive in the local market in terms of acquiring and ramping up beef operations with the GDP in Brazil slipping this year, what is your expectation in terms of beef prices and how would you expect these to behave particularly in the second semester?

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

We expect beef prices to remain relatively stable and what is holding up beef prices is the increased competivity of the exports. The depreciation of the real means that exports can compete better with the local market and that is what's leaving to a relatively stable price situation on local market beef at the moment.

Q - Aaron Holsberg {BIO 16876068 <GO>}

Okay, great. Thank you so much.

Operator

Excuse me. Our next question comes from Mr. Matthew Campbell, Goldman Sachs.

Q - Matthew Campbell {BIO 15390071 <GO>}

Yeah. Thanks for taking my call. I have just one -- couple of questions. First, Friday evening you announced that you're changing -- you've changed auditors from KPMG to BDO RCS. Can you give us a little more of an explanation there?

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

There is regulatory turnover every five years that it has to be done among the auditors and CVM, the regulatory agency in Brazil indicated that they would be considering KPMG as the successor of, in the acquisition of -- in Brazil that it was the name of the auditing firm that they acquired here. We had this indication very late at the end of April. After that the company that it has already, the auditing of BDO -- in some of the subsidiaries that it have, we contacted BDO RCS in Brazil, that's a different firm from BDO to be our auditors of Marfrig in Brazil. This is what happened. They started auditing the parent company as of the beginning of this month. But with the advantage of having already order from the same parent company, from BDO already auditing the companies of Marfrig.

Then was the -- there is reason I am sorry, it was a legal requirement of the turnover as part of the corporate covenants, of the company's covenants that is required by CVM for the Brazilian companies to do.

Q - Matthew Campbell {BIO 15390071 <GO>}

My question is more -- want a CM, if has your limit then you have to switch auditors for a minimum periods of three years before going back to the regional order. Your audit is that BDO, you switched in 2011 to KPNG, understand the KPNG both -- was with BDO, but now you switched back to BDO because they've had a very small accounting firm in Brazil and the fraction of the size they were before. I mean it seems like it's not within I understand that there is a merger change which seems like at least in this period of the regulation, it's unclear to me why you would do that. I would also ask is the auditor partner, is it the same as did he remain with BDO or is he with...?

A - Corporate Participant

No, absolutely not. BDO RCS in Brazil, it's a different firm with different partners here and different from what was a BDO previous year in the past. It's a different firm, it's not the same one. Anyway this was requirement from CVM that we had to follow.

Q - Matthew Campbell {BIO 15390071 <GO>}

Okay thanks.

Operator

Excuse me our next question comes from Ms. Christina Ronac, Gleacher & Co.

Q - Christina Ronac {BIO 6623815 <GO>}

Hi, thank you. I see on page four of the slide presentation, you breakout revenue and EBITDA for Seara Foods market and during the calculation your market beef is 12% EBITDA margins, very high and then Seara, however is just 6% and I know you're doing some asset -- food for but you owned Seara and Moy Park for quite some time now. So, I am just now understanding why the margins are so low for a branded value added type of product. I don't know if you are providing very low prices to try to gain more market share or how should I think about the 6% margin because again you have had these assets for quite sometime?

A - Corporate Participant

Yeah. It's all part of our process. I think -- relative newcomer I'll try to give you my perspective on things. This is a branded company and it has had the brands for now few years. It's also the result of acquisition of many, many small brands, meaning yesterday I think the Group had a total of 26 brands. So, and many of these brands were value players, smaller regional value players, the process of moving those brands into the Seara brand which is a brand that commands a premium versus these vital brands in the market, it is a work in progress.

What I'll tell you it's moving forward quite nicely. And the other -- and more than moving forward if you were to track our we don't share the -- if you look at our average price it continuous to move up in the marketplace as well.

I'd also remind you though that nearly two-thirds of the Seara brand, the Seara business is still export which as I'm sure you've heard from other folks in the space and is our case as well. That's had a pretty challenging first quarter and although some recovery in second quarter, that looks to be challenging in the second quarter. So I -- it has the affected crunch in margins.

So the very step that have been made which is a continuous away from these more fresh brands to the value added. The effort can make sure that we're more sort of 50-50 export and import which we largely accomplish now with foods assets come in. And a continued effort to push out into smaller retail stores where we don't give as bigger discounts plus we continue investments in the Seara brand itself. All these things have an effect where you should see our margins slowly progressing up and up. And as we have said before we are committed to overall double-digit EBITDA margins in the business.

Q - Christina Ronac {BIO 6623815 <GO>}

I know you said you wanted on your roadshow you want to go down to seven to eight brands, I don't know how long is that going to take you and in the meantime this is a creative type of business when you have to have attractive marketing to get the consumer to buy your products. What kind of new SKUs are you launching if any?

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

Yeah, so we are actually already moving up some of the brands that we are inside this Seara portfolio. Of course there is a whole bunch of new ones that are coming in with the result good assets and we need to settle those down before we migrate those. So I would say that there will still be a fair amount of brand migration happening over the next 12 to 18 months. Obviously what you do when you get those brand consolidate is you do focus your investments, so the consumer should be able to see more investment in the brands we choose to prioritize. And in terms of innovation, we were just in the big trade show in São Paulo last week, and I think we announced 30 new items between some line extensions of some of our growing more powerful segments as well as entering some new categories that are new to Brazil, offset by a 100 or in some discontinued SKUs. So you will see us taking out more SKUs than we add, but you will see us continuing to innovate as you highlighted that's whole part of building a vibrant profitable growing brand.

Q - Christina Ronac {BIO 6623815 <GO>}

Okay. Thank you.

Operator

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

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

Well just like to thank you every one for attending this call with our first quarter 2012 results. And we look forward to seeing you again in about 90 days time. Thanks very much.

Operator

Thank you. That does conclude our Marfrig's first quarter 2012 conference call. Thank you very much for your participation. And have a nice day.