Q2 2020 Earnings Call

FINAL

Bloomberg Transcript

Company Participants

- Andre Nogueira, Chief Executive Officer, JBS USA
- Gilberto Tomazoni, Global Chief Executive Officer
- Guilherme Perboyre Cavalcanti, Chief Financial Officer and Investor Relations Officer
- Jose Batista Sobrinho, Chief Executive Officer, Vice Chairman of the Board
- Wesley Batista Filho, Chief Executive Officer, JBS South America

Other Participants

- Benjamin Theurer, Analyst
- Bryan Hunt, Analyst
- Carla Casella, Analyst
- Carlos Laboy, Analyst
- Lucas Ferreira, Analyst
- Unidentified Participant

Presentation

Operator

Good morning everyone and thank you for waiting. Welcome to JBS Second Quarter 2020 Results Conference Call.

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

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

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

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

Gilberto Tomazoni {BIO 2090061 <GO>}

Good morning, everyone. I want to begin by thanking our 240,000 key members for the extraordinary work, dedication and commitment, especially our leadership team. You are great. Thank you very much.

Since the beginning of the Coronavirus pandemic, JBS has prioritized as one, to protect of our 204,000 team members. Two, to commit to our greater purpose of producing food at the time when the world need it most. Third, to stay by the side of our customers, clients and supplier. And number four, ensuring the strength of our financial position.

We promote a giant mobilization to protect people and support community. We invested $400 million in protective measures for team members and their community, including bonus paid in US. We implemented a strict prevention of safety protocol in all of our facility, established with the support of health expert and benchmark institution. The protocols have been strictly adhered by our team members and jointly incorporate enhanced safety measures including new PPEs into our day work routines.

We donate BRL700 to the communities, equivalent of $120 million for action to combat the Covid-19, one of the largest global donation of our company in the food sector. The spirit of the response of our team in the face of this context was extraordinary. The ability to adapt to change in the markets, imposed by the changing consumer habit and buying pattern was unbelievable. This was only possible due to the experience of our team, their autonomy and our culture of execution.

During a period of so many challenges where we have once again demonstrate our recent -- resilience, our diversified geography and in our protein production platform, our focus on health and the safety of our workforce and our dedication of team members around the world was enabled JBS to face the challenge and the volatility that the pandemic imposed to our company -- all the companies worldwide.

Even throughout this period of so many challenge, innovation at the company did not stop. On the contrary, with the acceleration of trends, some initiatives took shape quickly. We entered in the leisure [ph] outdoor segment and meatless segment in the US, we set up an independent company to explore this market.

Planterra with the Ozo brand, it is already in the shelf of so many stores. In Brazil, Seara, with Incrivel line is the leader in the category. This is a market that grow year-by-year. We are very well-positioned to be among the leaders in this segment. We have significantly increased our dedication to the important issue of sustainability. We have been firmly committed to eradicating deforestation across our entire supply chain. The last independent auditor report showed that 100% of our carrot [ph] purchase meet our social environment criteria.

We are confident that our action make us part of the solution. But we are aware that we must do more and we will. We have already directed our efforts towards the development of the platform that will guarantee full traceability of our livestock supply chain. We are well-positioned in technology and operational to address this issue, responsibly from a leadership position.

Let's go to the numbers, net revenue in the quarter was BRL67.6 billion, an increase of 32.9%, with EBITDA of BRL10.5 billion, and EBITDA margin of 15.5%. In this scenario of countless challenge we kept our liquidity at very comfortable level, $4.8 billion. Even we have reduced our leverage ratio to 1.75 [ph] times, the lowest leverage in the JBS history.

Now I'll pass to Guilherme that who will be -- make the details of our results. Guilherme, please.

Guilherme Perboyre Cavalcanti {BIO 2181205 <GO>}

Thank you, Tomazoni. So let's move to Page 5, where we show the increase in revenues to BRL67.6 billion. It shows our gross profit of BRL14.5 billion, an increase in 83% and the increase in sales, 106% of EBITDA reaching BRL10.5 billion. This is strong operational result, was enough to offset the FX loss caused by the translation -- of the dollar debt into the reais balance sheet. And at the end generated a net profit of BRL3.4 billion.

Next page, we show our operating cash flow, which increased 120% to BRL11.4 billion, higher than our EBITDA due to release in working capital. More specifically, lower accounts receivables and lower inventories, which was also benefit on our free cash flow that was BRL9.5 billion, a cash

FINAL

Bloomberg Transcript

conversion from EBITDA of more than 90%. In this page, we all see the reduction in our net interest expenses of $30 million on a quarter -- compared to the quarter last year.

Next page 7, our debt profile. On the left hand side, we see the decrease in our leverage ratio to the lowest level in the history of the company to 1.75 times net debt-to-EBITDA, and a decrease in net debt from $11.7 billion to $10 billion. On the right hand side, we have our debt amortization schedule. This is already a pro forma considering the payment of $875 million of debt that's a use of cash for that. And even after the payment of this debt we still have $3.25 billion in cash on hand and $1.6 billion in revolving credit facilities available.

This liquidity -- the total liquidity of $4.8 billion is enough to take the company on their own terms [ph] of its amortizations, through 2026. Worth mentioning that second quarter 2019, we ended with $1.6 billion in cash on hand. So if you were to come back to the same levels of cash on hand of one year ago, we could pay $1.7 billion in debt, which will represent more $100 million in net interest savings.

Worth mentioning as well of these -- our cost of debt of 5.15% for an average term of seven years. I think comparing to our 10-year bond, which trading at 4% shows that we also have an opportunity to continue decreasing the expenses with more liability management exercises.

Now let's talk about unit performance. We will begin on Page 9 with Sierra. Net revenue of BRL6.4 billion, an increase in 25.8% compared to the second quarter 2019, boosted by a 19.8% increase in the average sales price and 4.5% in volumes sold. EBITDA in the second quarter 2020, totaled BRL1.1 billion, which represents a significant growth of 91.6% when compared to the BRL563.4 million of the second quarter, 2019.

The EBITDA margin expanded from 11.1% in the second quarter '19 to 16.9% in the second quarter of '20. This performance is a result of an increase in sales volume, a better mix of markets, channels and products with an emphasis on processed products category, and the continued growth in sales coming from innovations introduced since 2019.

In the domestic market, net revenue was BRL2.9 billion, 9% higher than the second quarter of 2019, with an increase of 4.2% in volumes sold and 4.5% in the average sales price. The processed products category was once again the highlight posting growth in volumes and average prices of 12.3% and 8.9% respectively.

The Seara brand has been for the last 12 months, the leader of the frozen food category, with 23.8% of market share in value, 1.8 points versus the second brand. And has been delivering record results in the increased Incrivel Seara, Seara Gourmet, Seara Organico product lines. In the export markets, Seara's net revenue reached BRL3.5 billion in the quarter, an increase of 42.5% in the annual comparison, driven by an increase in 36.1% in the average price and 4.7% in the volumes sold.

Moving to JBS Brazil, net revenues of BRL8.7 billion, an increase in 21.6% compared to the second quarter '19. EBITDA of the second quarter 2020 totaled BRL1.21 billion, with an EBITDA margin of 12.4%, which represents significant increase of 222.8% in the annual comparison. In the domestic market, net revenue was BRL4.3 billion, which corresponds to an increase of 0.8% when compared to the second quarter '19. Friboi remains focused on consolidating its position as the main beef brand in the Brazilian market, with the growth of its Maturatta, Friboi Reserva and 1953 Friboi brands in the country.

In the export market, which represents 51.1% of the business unit sales, net revenue had a significant growth of 51%, reaching BRL4.5 billion, driven by an increase in the average sales price. It's worth mentioning that the beef exports to China posted 53% growth in dollar revenue in the period, when compared to the same last year.

Now moving to JBS USA Beef. Net revenue of $5.6 billion and EBITDA of $1.1 billion and an EBITDA margin of 20.4%. The quarter was marked by a material volatility in the supply and demand balance, due to the impact of Covid-19 on the animal protein industry, notably in North America. During the quarter the Company's number one priority was protecting the health and safety of its team members, coupled with the safety of their families and local communities.

In the United States and Canada, beef production volumes decreased as a result of the enhanced safety measures and protocols implemented by the Company. These actions included removing the group of vulnerable people with full pay and benefits, decreasing line speed and erecting physical barriers on production floors, among other safety measures to prevent the potential spread of Covid-19.

During April the Company temporarily closed three processing facilities, further reducing production capacity. On the other hand, beef demand remained strong, creating a momentary imbalance in supply and demand, which impacted beef prices. The Australian operation had less impact of COVID-19 in the second quarter. The volume of processed cattle increased compared to the previous quarter despite the continuity of the challenging scenario of cattle availability.

Primo Foods' further processing operation remain focused on diversifying its portfolio with innovative products, mainly in the snacking and ready to eat segments. In the first half of 2020 alone, Primo Foods launched 15 new products under the Primo, Smokeman Brothers and Stackers brands with great success in Australia and New Zealand.

Now moving to JBS USA Pork, net revenue of $1.6 billion and EBITDA of $167 million, an increase in 31% over the previous years with an EBITDA margin of 10.5%.

In a quarter marked by the unprecedented impact of COVID-19, the unit confirmed the resilience of its business model basically in its operational excellence expanding from its team members ownership attitude. On the close relationship with the suppliers and on the commitment to supply a higher quality pork products to its customers.

Similarly to Beef JBS USA Pork also enhanced safety measures and protocols through all its plants in the US. The focus on safety of its members and families, as well as the partnership with the local communities were of vital importance to ensure the continuity of pork production, minimizing the negative effects of a more pronounced reduction in slaughter. In the quarter JBS USA Pork processed 5.5% less hogs compared to the same period last year, a rate significantly lower than some of our competitors.

Moving forward, the Company's growth strategy, in the prepared food segment in US, during the quarter Plumrose broke ground of its brand new facility in Moberly in Missouri. The new plant with a capacity of GBP24 million per year will produce precooked and cooked bacon and should start operating in 2021. Also in a later announcement this week, Plumrose communicated its plans to build a new state-of-the-art Italian meats and charcuterie ready to eat facility with investment estimated into $200 million.

Now moving to Pilgrim's Pride, net revenues of $2.8 billion stable in relation to the second quarter '19. EBITDA of the second quarter totaled $112 million, an EBITDA margin of 4%. In the US, the first half of the quarter was significantly challenged before a gradual loosening of travel and movement restrictions due to COVID-19 drove an improvement in channel demand, especially from food service. Similar to the first quarter, large bird deboning was once again the most volatile in the quarter and remained challenging.

In Mexico, industry prices were also below seasonality before reverting closer to normal levels by the end of the quarter. In the region, PPC increased its share of non-commodity products, stronger execution, and growth in prepared foods have helped it to partially offset the weakness. In Europe,

Bloomberg Transcript

FINAL

Bloomberg Transcript

the operations once again performed in line with last year, driven by strong retail demand and despite the significant impact of COVID-19 on the operation it's strong internal operating performance and improving SG&A management helped in mitigating the difficult environment. The performance was driven by strong demand at retail partially offset by a reduction in foodservice, continuing strength in pork exports, especially to China, as well as the implementation of operational improvements and synergy capture.

With that, I would like to open for question-and-answer session.

Questions And Answers

Operator

Ladies and gentlemen, we will now begin the question-and-answer session. (Operator Instructions) Our first question comes from Ben Theurer with Barclays. Mr. Ben, you may proceed.

Q - Benjamin Theurer

Hello, can you hear me?

A - Jose Batista Sobrinho {BIO 16125475 <GO>}

Yes. We can hear you Ben.

Q - Benjamin Theurer

Now you can hear me. Okay, sorry there was little technical issues here. So let me start off again. So first of all, congratulations on the results. Clearly impressive what you've managed to post during the quarter. I have two questions, one, I guess, more for Guilherme. Obviously, we saw a very strong cash flow generation during the quarter and leverage, and you've mentioned that being at like the historic low levels for JBS. So question is around capital allocation. What is priority right now in terms of CapEx, potential M&A, shareholder return, i.e. for dividends, pay down debt.

So if you could guide us a little bit through your capital allocation process, and what are the drivers? And how do you think about M&A, in the current environment, considering that there might be some opportunities that have been cost, because of the COVID pandemic. So that would be my first question.

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

Okay. Thanks, Ben. So regarding capital allocation, in the last 12 months we generated around $3.3 billion in free cash flow. Roughly speaking, we used this cash to pay down $2 billion of debt -- on that debt. $800 million in acquisitions and $300 million in dividends. Going forward, we expect positive free cash flow. So even if you consider the same EBITDA of the last year semester, we will still be deleveraging through the free cash flow and reach the year-end with leverages even lower than now. So said that, we have free cash flow enough to invest in organic growth, to invest in M&A, to return money to shareholders, and still preserve a very solid balance sheet.

Of course, with the leverage that we are reaching, the balance from returning to shareholders to pay down debt and M&A change, but in the case of M&A, this will be depend on we having a target at the right price. We will not spend our cash just because we have with an excess cash. So it has to be an accretive acquisition for the shareholders.

In terms of returning money to shareholders, we have repurchased shares from the [ph] open and given the high discounts that we -- our enterprise EBITDA related to our peers, we think that it's a good investment for our excess cash.

Now to finish I would like also to remember that if we were to increase our net debt in one-time, remember, we generated $5.6 billion in EBITDA in the last 12 months. So in order to come back to the levels of between two and three times maybe would maximize the firm value. We would need to expand $5 million [ph] without bringing any EBITDA to the balance sheet. So I would say that we will continue with a very strong balance sheet despite being able to continue with our strategy of growth and create value for the shareholders.

Q - Benjamin Theurer

Okay. Perfect. That was very clear. And then my second question, I guess it's more for Andre. In the US, obviously it was a challenging quarter. There was a lot of disruption within your beef and pork operations here to shut down and then the market dynamics, clearly cost is just once in a lifetime opportunity with low cattle and then high beef pricing.

Now, how do you think about the potential going forward the next 6 to 12 months? How do you feel about cattle availability, farmer reaction within cattle but also within Hawk in order to secure supply beyond 2021? And how have you performed within that context domestically and on the export markets? I think you've mentioned something on the Brazil call this morning. So just wanted to follow up on your performance on export as well. Thank you.

A - Andre Nogueira {BIO 19941317 <GO>}

Hi, Ben. Thanks for the questions and good morning. Ben, we have a situation in terms of the supply, that's very favorable, correct? Was already favorable even before the pandemic, and now with the backlog of cattle and hog that are created during the pandemic, because of the reduction in production for all disruption that you comment, that was very challenging, not only in US, challenged in US, challenged in Canada, less strong level of challenge in Europe.

So it create a backlog of cattle in US and Canada and a backlog of hogs. That will take time for us to work through this with this backlog. So the supply perspective is very positive for the next several months, probably this year and next year, and demand is pretty strong, demand is strong in retail, very strong in retail. We reduced the export from US and from Canada during the quarter by design because we put priority in the domestic market. And our exports is growing again, production is back for almost normal level, I would say, that's not a 100% but it's close to normal levels.

We still have some areas that we need to improve, especially more of the value added side and side of the beef and pork plants is more, I think, that we can do through return to the normal beef level. But export will grow, in the second part of this year. Exports is growing pretty strong to China, US as anticipated in the last quarter, US has taken a big part of that share. I think that now is around 20% of the total pork that China imports, is imported from US. So it is ahead of what I thought, and I said in the comments in the last quarter, the volumes from US and China.

And we have this reduction in export that we need to offset now in the second part of the year. So we will grow pretty strong. Australia production will be less, Australia is in a re-bounced phase of the herd. So grass is very good and very available in the whole Australia. So production of Australia will be down because less care available, but for a good reason. We are building the herd back and for the mid to long term, this will be positive. But Australia will export most of the grass.

So US will export more, US and Canada. And they will start to export beef from US to China. We have had a very, very small position today in China, but now with the adjustments in tariffs, the US is more competitive and it's growing. And I believe that today China is the largest importer of pork from US. I believe that China will be one of the top five importers of beef from US too. That would be very helpful for the demand for the US beef business side.

Again, we are back, close to normal production, not absolute normal, but very close. Supplies are in very good shape. Demand is in good shape, can improve, as foodservice come back, it is coming back, it's not normal yet, but it's clear coming back and if foodservice comes back, we should see even -- a big improvement in it.

And the perspective for the long term did not change. Asia overall is growing the consumption of protein and is growing through import in US, Canada, Australia, and of course, Brazil are the suppliers of this new demand. So I think that the perspective is very positive. Understand that we are still in the mid of the pandemic, that we can see and probably will see a lot of volatility, but I'm extremely proud the way that our team faced this volatility. The way that we put our priorities to protect our workers and produce food, and even in background [ph] of that, we were able to deliver pretty strong results in the quarter.

FINAL

Q - Benjamin Theurer

Perfect. Well, thank you very much, Andre, very complete and congratulations again.

Operator

Our next question comes from Bryan Hunt with Wells Fargo Securities.

Q - Bryan Hunt {BIO 1530288 <GO>}

Thank you very much. Just two questions. First question is when you look at your $400 million of COVID-related expenses, how much of those may be ongoing in future periods? And basically, what should we expect in Q3 and Q4?

A - Andre Nogueira {BIO 19941317 <GO>}

Maybe I start -- maybe I start to answer here in the US perspective.

A - Jose Batista Sobrinho {BIO 16125475 <GO>}

Yes, please Andre.

A - Andre Nogueira {BIO 19941317 <GO>}

So Bryan from a US perspective was around $350 [ph] million, a lot of this is investment one time to adjust the plants. A big part of this is new protocols of safety and staggered shifts, a 1,000 more people that we hired, 500 of that is to educate with the workers about COVID, and enforce social distance and enforce the use of PP&E, the new PP&Es that is face mask and face shields in every plant. Another 500 is extra cleaning in all the common areas.

So just where we stay despite of the people, as long as the COVID is referred [ph] we stay. The parts of the PP&E that -- the extra PP&E. It will stay, some additional cost for staggering shifts, it will stay as long as the COVID is here. But I would say that the big parts of this -- the largest part was one-time event, that was in Q2. But it's hard, again we're still in the mid of the pandemic, how much this will come to (inaudible), how much more we need to do to be able to say that will be maybe less than 50% for the second part of the year. But it's -- I will not go there try to guess that.

Bloomberg Transcript

But I'll say that the biggest part was one-time event and this $350 million related to that, we are not consider any inefficient, because we reduce speed and we do not cross and that's not -- that's only cost that was accrued in the quarter. And part of this is the donations, the $35 million donations and investment in the communities that we are doing. Of the $50 million that we are going to do in US, $35 million was already booked in the quarter.

A - Wesley Batista Filho

Bryan, this is Wesley here. So very similar scenario from -- in Brazil. Most of this -- a lot of it is -- a lot of this cost is one-time events for Brazil. Adjustments in the plant flow of the plant of (inaudible) in the plant, increasing size of cafeteria, increasing the size of changing rooms. And obviously there is going to be ongoing PPE. But like Andre said, it's very hard to forecast on what's going to be, because we continue to always improve our growth and new things could come. So it's tough to say how much it will be ongoing.

Q - Bryan Hunt {BIO 1530288 <GO>}

Very good. My next question is around the $200 million cured meat facility in United States, which was announced. You look at that and you look at the success of you all and others in the industry, I'm wondering, is this announcement of building your own facility more of a characteristic, the earnings are so strong in the industry at this point that there is less willing sellers. I was wondering if you can characterize what the M&A pipeline looks like. And should we anticipate more organic growth in the company going forward.

A - Andre Nogueira {BIO 19941317 <GO>}

Bryan from the US perspective, again every growth that we want to have, nicely aligned the company's strategy. The company's strategy to grow the portfolio of prepared foods and brands. So this is aligned with that growth. We did the acquisition of Empire Foods. That was more in the value added side. The price was right. The acquisition was right. We analyzed that then was better, in that case to do acquisition then built five new case ready plants. So we bought five case ready plants with Empire.

In the Italian meats and in the bacon side, where the pressure is, to complete our portfolio of the prepared foods, we want to grow in that area. We didn't see any assets that was mortgaged and loss, with the quality that we want, for the growth of the segment. So in that case, between buying older assets, and smaller plants, not so efficient and built a new state-of-the-art very efficient plant in the segment that's growing that already have the capability inside of Plumrose to build and to sell that, made more sense to build that.

So we always will look both, Bryan. Sometimes it will be acquisition make more sense and be a better return, sometimes it will be our greenfield investments will be a better investment. In that case, we have very few new or relatively new assets in US that makes sense for us to do the acquisitions.

I would not say that it is more a trend of greenfield, it is a trend of (inaudible) and where it makes sense, we will see, need to be aligned with the Company's strategy of grow more the prepared foods and value added, continue to build up, we just did two acquisitions in the more value added, and we had announced two greenfield, will be a combination of both.

Q - Bryan Hunt {BIO 1530288 <GO>}

And then my last question.

A - Jose Batista Sobrinho {BIO 16125475 <GO>}

And Bryan --

Q - Bryan Hunt {BIO 1530288 <GO>}

Go ahead.

A - Jose Batista Sobrinho {BIO 16125475 <GO>}

Just to -- in addition of Andre said, JBS has a history of the acquisitions. We didn't change this. We are always evaluating opportunities in the market. We have had a great success, due to our disciplined to seeking the right price. I think, it is in the right prices, it is a combination of margin and multiples. We continue to evaluate looking for the right moment. We didn't change the strategy, but when you don't have the right target, we do greenfield, it is simple like that.

FINAL
Bloomberg Transcript

Q - Bryan Hunt {BIO 1530288 <GO>}

Very good. And then my last question is, given the strong results that you just posted and the likelihood, you'll be listed on a US exchange. Do you believe those are trigger mechanisms to become an investment grade on the debt side and that's it for me. Thank you.

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

Now the investment grade there it's worth mentioning that the rating agencies they work on a moving average way. So generally they get two years of historic data and three years of forecast data. So even with showing strong data at the moment, maybe you have to that is moving average to get on the scorecard, the level of investment grade. If you read the reports of S&P, Moody's and Fitch, our financial metrics are already investment grade. And its carries for example our financial matters would be compared to a Triple B flat before these results.

Now I would say that our financial metrics is going towards an A level. So because as I mentioned, we will continue to deleverage through the end of the year. So my expectation is that these strong metrics will be enough to offset all the quantitative metrics of the scorecard and bring us a ratings upgrade.

Q - Bryan Hunt {BIO 1530288 <GO>}

I concur. Best of luck and stay safe. Thank you.

A - Jose Batista Sobrinho {BIO 16125475 <GO>}

Thank you, Bryan.

Operator

Our next question comes from Carla Casella with JPMorgan.

Q - Carla Casella {BIO 2215113 <GO>}

Hi. Just a follow-up on Bryan's question. Are there any hurdles left to complete the US listing? And do you have a time frame in mind?

A - Jose Batista Sobrinho {BIO 16125475 <GO>}

Hi Carla. As we said last quarter, our priority was to focus on protecting people and the operation challenge imposed by the pandemic. And the agility with which we have reacted, setup that we did the right decision. But now things are more under control. And we are returning to the addressing the listing. We don't have that line, but we are take all necessary step for the process.

Q - Carla Casella {BIO 2215113 <GO>}

Okay, and are there any key steps that we should track.

A - Jose Batista Sobrinho {BIO 16125475 <GO>}

Sorry, could you repeat.

Q - Carla Casella {BIO 2215113 <GO>}

Are there any steps that we could track to see as you move towards the holistic meaning what we see -- what's the order events where you have to put out a bond amendment or other -- just documentation, I'm wondering if there any important steps that or hurdles.

A - Jose Batista Sobrinho {BIO 16125475 <GO>}

Bloomberg Transcript

No, no, it is -- is the sense that we have some rules to be proved to be complete -- the paper to be complete is just as to return on the process. There is a time to approve. It is now we return our -- we need to return at the beginning. But it's just -- we have a lot work done. We just to restart. Now if you -- I don't know if you want to add something, Guilherme I mean, I think it's clear that we just restart the project.

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

Yes. And in good time, if we need a conference solicitation from bondholders, we will ask it. But we still have some other things to do before that.

Q - Carla Casella {BIO 2215113 <GO>}

Okay, great. And then I have one question on the business. Foodservice, if you could talk about how foodservice versus retail performed or the mix, how does that mix change -- may have changed during COVID and if you're seeing it shift back to more normal levels or if you see that changing more longer-term?

A - Andre Nogueira {BIO 19941317 <GO>}

Maybe I'll start here from the US perspective, Carla, of course, during the pandemic, the strong point of the pandemic, April and May, foodservice slowed down dramatically. I'd say that for us, and I'm not saying that's the reality of the market, but for us, in the beef and pork side, foodservice in July was only 10% below of July last year. So pretty strong in my mind, considered all that's still going on in the US and Australia -- in US and Canada.

In Australia, foodservice is still very slow, very very slow in Australia. Our customers in chicken, maybe because of the segments that we operate in chicken, some of the customers in the foodservice are doing better than the same time of last year. So I'd say that the recoveries come in US. I don't think that is a long-term, but more a medium term perspective, and should be upside for the business. I think that as foodservice recover, retail will slow down a little bit, but will not slow down the same amount that foodservice with recover.

So it's coming, it is not in the level it was before, but no question, that's improving, especially in the US and Canada, and Mexico. Australia, a little bit behind the curve, with the resurgence of the virus that we saw there now, foodservice was recovered, now came back.

Q - Carla Casella {BIO 2215113 <GO>}

Okay, great. And then just one other one. Given that you have all three proteins in the US market, can you talk about what the grocers are doing in terms of promoting -- as we come out of COVID, are you seeing them shift from one protein to another?

A - Jose Batista Sobrinho {BIO 16125475 <GO>}

Carla, I think that during the COVID, no one promotes anything, correct. It was a special (inaudible) it. And I'm really proud that our key customers, were the ones that gained more market share during the COVID time. So looks like that we kept the supply in very good shape and they were able to gain market share from other retailers that are not customers of us. I think that now we're seeing much more promotion, price has come down in retail.

The wholesale price came down very early. Retail enjoys very good margins for a period of time. And now they are promoting more aggressively. And I think they promote all the three proteins. I don't think that they are put one ahead of the other. In the period of time some retailers will push more beef, some will push pork, others chicken. I think that we're seeing promotion strong back and strong back in all the three proteins.

Q - Carla Casella {BIO 2215113 <GO>}

Bloomberg Transcript

FINAL

Bloomberg Transcript

Okay, great. Thank you so much for all the answers.

Operator

Our next question comes from Israel Lubbeck [ph] with VLP [ph] Asset.

Q - Unidentified Participant

Hi, everyone. Congrats on the operating results, and thank you for taking the question. It's a bit of a different one, okay. So, bear with me. I much appreciate you describing the SG&A efforts you're pursuing, and that's why I look forward to following these results. Now as a Brazilian, I recognize that the government doesn't always do its part in restraining deforestation, fires and cattle raising the movement in prohibited areas. And given that they don't do much of their part, it increases the burden as you -- on you as a company to do this extra effort. And of course it is very hard and more often than not, the press likes to show the negative headlines and probably will take time to show the positive ones.

So given this negative bias and press I guess and everybody paying much more attention to it, as a shareholder, I'm starting to think that maybe it would be better for your share price to completely shutdown the 20 plus plants that you have close to those protected areas. You would probably lose maybe 2% to 3% of your revenues, but get more clients elsewhere, more investors, better stock multiples or credit et cetera.

So I'm starting to think it as a positive trade-off. I know it's very sensitive for you. But is this something that you are also considering? Is this a valid discussion? So get out of those areas, shutdown those plants, maybe sell, will have a limited impact on your revenues and probably better benefits elsewhere. Thank you.

A - Wesley Batista Filho

I would like to answer. So this is Wesley. I think I would approach this question from two angles. So first angle, we don't believe that that's part of the solution and that's not part of improving the situation in that region of Brazil. We actually think the other way around. We think that our operations can be part of the solution, part of bringing positive improvement and positive change in the region. So we don't approach, we don't like to think of approaching the addition -- the situation from that perspective.

The other part that I think it's important we -- from when we approach it from an ESG perspective, we can't forget the middle part or the S part, which is the social part and all of the thousands of people that work in those regions and thousands of jobs that are created directly and indirectly by those operations in Brazil, and those are regions that really need that type of companies and type of industry there.

So we believe that we can improve, we can be part of the solution. We can bring positive change, create -- take care of the environment for sure, that's a priority, but absolutely continue to create opportunities on the social part.

Q - Unidentified Participant

Even better, thank you.

A - Jose Batista Sobrinho {BIO 16125475 <GO>}

I would like to add that the answer of Wesley, we have a strong policy in terms zero deforestation in Amazon region. We have -- I think we have one of the best volumes. So with satellite monitoring in general reference date our direct supplier -- is 50,000 suppliers and we blocked 9,000, but I know there is the direct suppliers. There is a gap to monitor the indirect suppliers and we need to fill the gap. We need to close this gap. We are working on that.

We are -- because this is dependent on two things, one is the technical platform and the other is the agreement with the other association in the market. Give the information that possibility, the monitoring all of this process and we are really advanced on that, really advanced and we need to do work at these. I think the solution is not to close the plant, is to find a way to guarantee that we are traceability of our supply chain.

Q - Unidentified Participant

That's right. I hope -- that's the better solution indeed. But I think it's a good discussion. Thank you for the answer and congrats.

A - Jose Batista Sobrinho {BIO 16125475 <GO>}

I know, but we are work hard on that. We are -- work hard and are so confident we will give the answer to the market very soon.

Q - Unidentified Participant

Very good.. Take care.

Operator

Our next question comes from Carlos Laboy with HSBC.

Q - Carlos Laboy {BIO 1506984 <GO>}

Yes, good morning. First of all, congratulations on the spectacular results. This is fantastic. Mr. Tomazoni -- can you expand on the traceability tool that you've mentioned here. Do you have a plan for when it's going to get rolled out, if it's been pilot tested already. Are you getting good results from this? When do you think you may have a target date for tracing the full provenance record of every animal that you buy.

A - Gilberto Tomazoni {BIO 2090061 <GO>}

We are committed to do that. We are committed to full traceability for all of the supply chain. We are committed to do that. We have some challenge, because its technical challenge and process challenge to get information, to get in -- to put all of it. But we are working hard on that for a long period of time. I believe that we are very advanced on that.

And -- as I said before, I think we are able to share with the society in the short terms our strategy to do that. But don't forget -- that these (inaudible) supply we are doing a great job in that. Indirect, it's just we didn't, because not the credit that's just for us, we need to -- to have more other association, other players in the market to do that to get there. And we are working on that. I think we are (inaudible) time.

A - Jose Batista Sobrinho {BIO 16125475 <GO>}

Carlos, if I can just complement on Tomazoni's answer, he's 100% spot on, the direct supplier issue we can directly address without the partnership with third-party. With the indirect supplier, we need to work with the chain -- this is not an integrated chain. So we need to work with other people and bring more parties in the solution -- into the solution here. So what -- so because of that it's more difficult to put a timeline. What we can tell you is that this is a top priority for the Brazilian operation and for the Company in general. And that we're working very hard on this and this is something that we are -- it is in the top of our priority, and in the short term, we want to be able to present to the market, and to the society, a proposition of how to address this issue.

FINAL

Bloomberg Transcript

Q - Carlos Laboy {BIO 1506984 <GO>}

Thank you.

Operator

Our next question comes from Lucas Ferreira with Banco JPMorgan.

Q - Lucas Ferreira {BIO 16552031 <GO>}

Hi, good morning, everybody. I have a very specific question about the margarine business that you recently bought, that -- it appears that is now fully approved by the anti-trust authorities of Brazil. So wondering if you can comment about integration plan for this business and what's your expectations about just the sales volume growth or investing in the brand. What's the kind of commercial strategy for it? And also in terms of production if you expect also to increase your market share in this segment. Thank you.

A - Jose Batista Sobrinho {BIO 16125475 <GO>}

Wesley, I think you can answer and I can add at the end some --

A - Wesley Batista Filho

Sure. So Lucas, we had a response from the anti-trust division here in Brazil or unit here in Brazil and they were not -- they did not have any objections to this deal, and we are now in the 15 days -- within the 15 days in which we can -- we have to wait until the transaction is concluded. So we are waiting here for these 15 days to be -- to pass and then we can -- with the antitrust approval, antitrust unit approval, we can go ahead in the integrated business.

A - Jose Batista Sobrinho {BIO 16125475 <GO>}

Our approach to this business will be very similar and in line with what we've done is Seara and in JBS in general. Our strategy doesn't change in that way. So top quality products, that's the first part and that's -- I think that we have already been working on with our current margin business and we are already planning with this approval to implement and to put all of our controls and all of our practices to improve quality. And that's the number one action that we need to take.

Other than that, use our distribution in Brazil for Seara, which is a very robust distribution, to bring this product to the market and communicate it well to the consumer what are the benefits of this product and why our product has a top-quality in the market. So we won't have a different -- a very different approach. Our integration will be fast, and with the approval be fast and will be similar to what we done in Seara and we hope to gain share with the customers -- consumers preference, similar to what we've done in Seara and acquire the preference of the consumer, just like we've done with other brands here in Brazil and around the world.

I don't know if you want to complement?

A - Gilberto Tomazoni {BIO 2090061 <GO>}

No, I think it will integrate that, integrate in terms of to get all of the synergy. But we are managed as an independent company, just a team focused on developing this market and these are a lot of synergy to us because first, we don't have today production facility. We are -- we have a third-party supplier that we are starting to do our own margin in that story.

And the second, I think is, we are -- with all of the capability that Seara has for distribution, for point of sales management, and we are so excited with this opportunity in this market.

Q - Lucas Ferreira {BIO 16552031 <GO>}

Thank you very much.

Operator

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

A - Gilberto Tomazoni {BIO 2090061 <GO>}

Thanks, sorry, I was in the mute. I want to say that we are -- our solid team, our global production distribution platform, our robust balance sheet and our liquidity, have put in a good position to continue as a group to execute our growth plan. We are continuing to put our team's safety first and we will focus on to produce quality foods for all of the world, and we'll keep our focus on innovation. I extend my sincere appreciation to all of you and continue to support us, and I believe in our Company. Thank you very much.

Operator

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

This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.