Q1 2015 Earnings Call

Company Participants

- Andrew Murchie, Chief Executive Officer, Beef Brazil
- Frank Ravndal, President and Chief Executive Officer
- Janet McCollum, Chief Executive Officer
- Martin Secco Arias, Chief Executive Officer
- Ricardo Florence dos Santos, Chief Financial & Administrative Officer

Other Participants

- Lauren Torres, Analyst
- Mauricio Martinez Vallejo, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to Marfrig Global Foods S.A. Conference Call to present and discuss its results for the first quarter of 2015. The audio for this conference is being broadcast simultaneously through the Internet in the website 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.

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 will turn the conference over to Mr. Martin Secco, Marfrig Global Foods' CEO. Please, Mr. Secco, you may now begin the conference.

Martin Secco Arias {BIO 18098476 <GO>}

Thank you. Good morning, everyone. I am thankful you are participating in our earnings conference call for the first quarter of 2015. Here, with me, are the CEOs of each business unit: Frank Ravndal from Keystone; Janet McCollum from Moy Park; Andrew Murchie from Beef Brazil, who will present the result of their respective units later in the call and also will be available for questions at the end of the call. Also, with me, are Ricardo Florence, our CFO; and Marcelo Di Lorenzo, our new Director with the relations with the investor and Strategic Planning Vice President.

In the first quarter, our net revenue grew 23% year-over-year with all business units posting double-digit growth. And here it is important to note that 83% of the company's revenue comes from currencies other than Brazilian real.

Today, our international units combined, which are Keystone, Moy Park, Uruguay, Chile and Argentina, account for approximately 70% of the consolidated revenue and EBITDA margin of Marfrig Global Foods. Keystone and Moy Park, in particular, continued to deliver excellent results and, today, account for 59% of the group revenue and 56% of the adjusted EBITDA.

Adjusted EBITDA margin stood at 7.8%, reflecting the good performance of international operations and the challenging scenario facing the Beef Brazil operations, which was already anticipated for the start of the year.

In our Beef Brazil operations, our market share for fresh beef in terms of export volume and value in the first quarter stood at 20%, which represents an improvement from last year of 300 basis points in volume and 130 basis points in value. We reduced our consolidated SG&A expenses in a ratio of net revenue by 60 basis points sequentially and 170 basis points year-over-year.

In term of sales by our international operation, the 8% volume growth at Moy Park was driven mainly in the UK and Ireland markets retail and food service channels, with Keystone posted 35% higher sales in Asia compared with the last year.

Regarding our financial targets, we achieved R$5.9 billion on net revenues, 7.8% EBITDA margin and R$149 million of CapEx and a consumption of cash for R$88 million. We don't provide guidance for each quarter. We just provide a guidance for the whole year. But this result was absolutely aligned with our guidance for 2015 and was absolutely predicted when we made the guidance for the whole year.

Let's go to the page number five. Consolidated net revenue in the first quarter was R$5.9 billion, up to 23% year-over-year. International units contribute 70% of the growth of the group revenue with Keystone and Moy Park close to 60% of the consolidated revenues. Moy Park, which is responsible for 26% of the group revenue, posted growth of 17% year-over-year, benefiting mainly from the 11% of depreciation of the Brazilian real against the pound sterling and from a stronger sale in the retail and food service channels.

Keystone posted revenue growth of 37% year-on-year to account of 33% of the group revenue. Revenue growth is explained by the effect of 21% appreciation in the dollar against the Brazilian Real, a 35% growth in sales volume in Asia or APMEA region and a 12% growth in sales volume to the Key Accounts in U.S.

Marfrig Beef, which is the 41% of the group revenue, posted growth of 17% year-over-year driven by growth in Brazil domestic markets and the strong performance of Uruguay and Chile operation in both domestic and export markets.

Page number six. Our consolidated gross profit was R$631 million this quarter, up 2% year-over-year and gross margin stood at 10.7%. The main reason of the margin decrease is related to the rising cost of the raw material in Beef Brazil as a result of the higher level of cattle price.

Turning to the expenses, our SG&A expenses come to R$342 million in the first quarter, down 4% on the year-ago period. This means that expense is registration as a nominal decrease despite the impact from exchange variation and inflation in the period.

As a ratio of the net revenues, expenses stood at 5.8%, falling really by 170 basis points year-over-year. We can continue with our targets to achieve a reduction, especially expenses in Marfrig Beef, of R$60 million in the year which was R$14 million achieved in this quarter.

Adjusted EBITDA in the quarter come to R$461 million, up to 14% year-on-year, reflecting the fact that all our units posted EBITDA growth in the period. Naturally, we did not post growth against the fourth quarter since it was a very strong quarter seasonally, the fourth quarter, at all our units.

Here, I should note that because of the strong performance of our international units, Keystone and Moy Park, their EBITDA contribution was already 56%. Adjusted EBITDA margin broken down as for Moy Park 7.8%, Keystone 7.3% and Marfrig Beef 8.3%.

Go to page number nine and this is our net income, which was mainly impacted by a noncash exchange loss of R$506 million reflect in our P&L, was negative R$571 million for a negative net margin of 9.7% of consolidated net revenue.

I will pass to Janet McCollum. And I will be back to you for the final comments at the end.

Janet McCollum {BIO 17090604 <GO>}

Thank you, Martin. Good morning, everyone. If you turn to page 10, let me share with you some of the key highlights for Moy Park's financial performance in quarter one 2015. The Moy Park business continues to realize strong results, delivering both revenue growth and EBITDA margin enhancements compared to the prior year.

Looking, firstly, at our revenue growth, Moy Park has recorded its highest quarterly revenue of R$1,543 million, increasing 17% compared to quarter one 2014 and with the underlying revenue increasing 4% year-on-year. Our volumes have actually increased 8% year-on-year, supporting strong volumes in the UK and Ireland poultry, both in the fresh poultry and convenience foods categories and across retail and food service channels.

In addition, we have seen the consolidation of Marfrig's European beef process business into Moy Park effective from quarter three of last year. Our underlying Continental Europe revenues are very much in line with quarter one 2014 with higher sales of poultry and non-protein cereal products (12:58), offset by lower sales of beef and pork products. The business has benefited from a positive impact from exchange variation of sterling against the Brazilian real of about 11%.

Some other factors, which are partly offsetting the favorable growth, include the cost deflation, which is reflecting the lower grain prices; lower market prices on international exports, very much the result of the restrictions on trade to certain export markets; and the continued weakness of the euro relative to sterling, which reduces the sterling value of Continental European revenues. It is, however, important to note that the trade restrictions from the UK to South Africa have now been lifted and the markets have reopened.

Turning now to our adjusted EBITDA, the Moy Park business, you will see, continues to deliver year-on-year margin enhancements, reporting R$120 million adjusted EBITDA, 7.8%, representing an increase of 27% on quarter one 2014 and a 60 basis point margin improvement. The 50 basis point margin dilution compared to the previous quarter is explained by the seasonal performance of quarter four which includes the Christmas Turkey campaign. Year-on-year, the underlying margin enhancements has been delivered through improving our sales mix, continued focus on operational excellence and cost control, and increasing capacity utilization, with the background also of continued benign commodity cost.

We are pleased to also report the SG&A costs have reduced by 110 basis points compared to the previous year. 50 basis point dilution reflects a reclassification of cost appropriately reported to cost of goods sold, which adversely impact the gross margins, whereas a 60 basis point underlying improvement reflecting a continued positive dilution trend due to the higher revenue productivity coupled with lower marketing expenses.

In summary, looking forward, we're pleased with the ongoing progress being made in the business and remain confident in the long-term success and development of the company. We continue to build our business based on the highest quality standards of animal husbandry production and processing and aim to meet and exceed the ever-changing requirements of our customers and our consumers through innovation, through development and consumer insights.

Now, let me pass you on to Frank Ravndal who will review the Keystone operation. Thank you.

Frank Ravndal {BIO 17222037 <GO>}

Thanks, Janet, and good morning, everyone. Let's talk a little bit about Keystone Foods and how the first quarter developed.

Overall, it was a very solid quarter for Keystone. So, on page 11, as you can see, net revenue in reais was up 37% with a very large impact from FX. In U.S. dollar terms, the increase in sales was 12%, so still very strong growth. The year-on-year revenue growth in APMEA was 27% in U.S. dollar terms, while revenue growth in the U.S. business was 7% in dollar terms.

We had strong double-digit volume growth in APMEA of 35%. Our overall business in China is also up significantly over last year. And we expect that to continue into the next few quarters. The Middle East market also continues to be growth market for us. Volumes were up 27% year-on-year. The Middle East also continues to be a really attractive market for future investment for us given both growth trends in poultry across QSR channels as well as retail channels.

Relative to Key Accounts, on a global basis, total Key Accounts sales increased 13% in U.S. dollar terms, continuing our track record of double-digit Key Account growth that we've established over the past several years. In the U.S., Key Account volumes increased 11% with growth in both the QSR channel and in the retail, whole birds to deli business. In APMEA, Key Account volumes increased 24%, driven by new export volumes out of our Thailand operation, as well as gains in both Korea and China.

Turning to adjusted EBITDA, the first quarter result of R$140 million was the same as the EBITDA for the fourth quarter of 2014. The EBITDA margin compared with a year ago is 70 bps lower at 7.3%. The change in margin is due largely to two factors. One is the negative variance of US$3.1 million compared to the first quarter 2014 in the unrealized mark-to-market on grain hedges.

The current quarter mark-to-market is a small unrealized loss of US$400,000. The comparison period was a positive unrealized gain of US$2.7 million. Another factor impacting just the U.S. business is the heavy market and low resulting prices for leg quarters caused by the closing of several important export markets in the U.S. poultry.

You can see that EBITDA was up 26% year-on-year in reais. In U.S. dollar terms, EBITDA was up 3% from the first quarter of 2014. So, in summary, very good underlying growth in APMEA and within the Key Account business in the U.S. The Keystone team delivered a solid quarter, contributing 30% of Marfrig's overall EBITDA.

And now, I'd like to pass the microphone to Andrew Murchie to go over Marfrig Beef.

Andrew Murchie {BIO 18098471 <GO>}

Good morning, everyone. Going to page 12, we'll talk about our Beef business division. The net revenue increased 17% compared to the first quarter of 2014 from R$2.1 billion to

R$2.4 billion.

The first quarter was marked by a trend of capital price increase across the whole country. This was due to a few factors such as an increase of cow prices and late rain also affecting the low productivity of pasture that has also contributed to the low supply of animals. If we also take into consideration that this is a grazing period where there is no real pressure to sell, combined with a favorable exchange rate for export, the farmers are waiting for the best moment to sell their animals.

The cost of the arroba was almost 26% higher than the first quarter of 2014 and the total slaughter was 4% lower. Consequently, we had a lower volume of product sales for both the internal and external markets. Even with the challenging scenario in the general market, we were able to increase the share of sales in the food service and retail channels as we were also able to pass on the increase of raw material in the sales price, showing, once again, that our focus, knowledge and tradition in these channels have always differentiated our company.

The external market was no different and equally challenging. Russia and Venezuela, traditional meat importers of Brazil, went through economical and institutional crisis and reduced their imports from Brazil in this quarter. Notwithstanding, our export share grew from 16% to almost 20% of the total Brazilian export in raw beef compared to the first quarter of 2014. Also, during this first quarter, we completed the approval of three more of the group plans for export to Iran and Egypt. These were plans that were previously focused only on the domestic market.

Our productivity agenda continues to show positive results. We are looking for reductions in the order of R$14 million in this first quarter, showing our commitment and continuity to the Focus to Win plan. It is important to stress that productivity is no longer a project, but it's an integral part of the agenda of all our leaders in our Beef division. We brought R$50 million reduction in 2014 and we are convinced, after results of the first quarter, that we will achieve our reduction target of an additional R$50 million in 2015.

As we see in the EBITDA graph, despite the steady increase in the acquisition costs of raw materials, the Beef division was able to pass on increases in domestic prices, a leverage by a favor exchange rate also to export market. However, the cost of plants being idle, given the lower volume of slaughter than the first quarter 2014, contributed to the fall of 1.2 percentage points in the EBITDA margin.

To finalize, I would like to comment on the possible opening of the U.S. market for the Brazilian beef. We are confident that this will be confirmed by August 2015. We already have experienced and served the American market with our processed beef products produced in two of our industrial units, as well as production of raw material for this market in four other industrial plants.

It is worth noting that the Marfrig Group has a very strong presence in the U.S. market through our subsidiary, Keystone, which is already importing beef from other destinations and, therefore, allowing us to be prepared to act quickly when the opening happens. Of no less importance, China should also reopen Brazilian imports hopefully during May, according to the last information.

We are convinced that we will reach more than 50% in export sales, as shown during the Market Day. And it's important to highlight that we are not taking the opening of these markets into this percentage. Therefore, we believe that the beginning of a large offer of animals already occurring and the readjustment on cattle prices aligned to a more optimistic scenario of markets like Russia and Venezuela indicate better results in the coming months. Our operation in Uruguay and Chile will continue to show strong performance in both volume and in prices.

I will now like to pass the word to Ricardo Florence.

Ricardo Florence dos Santos {BIO 20008948 <GO>}

Thank you, Andrew. Good morning, everyone. Going to the page number 13, in this quarter, we had an impact of R$2.2 billion as a consequence of the accelerated devaluation noncash that we've had on the period. Our gross debt as a consequence of this raised to R$13.4 billion compared to the R$11.1 billion that we had in the fourth quarter. We also managed to keep the same level of cash that we had as of the end of the fourth quarter, despite the payment of R$250 million that we had as related to the payment of the interest on the mandatory converts of the company.

It's important also to note that as regarding the exchange rate that we had at the end of the quarter, both the average exchange rate that had in the first quarter, R$2.86 per $1, this is 13% down from the rate at the end of period. And if you compare to the average that we had in the last 12 months, it's even more impressive, the difference. The average was R$2.43 per US$1 or a 29% difference compared to the R$3.21 that we had as of the end of the period.

Go to the page number 14 for covenant purposes on our bonds. If you exclude the effects of the exchange rate variation, as it's stated in the nature of the bonds, we ended the first quarter at 3.36 times EBITDA at the end, down from the 3.42 that we had as of the end of the previous quarter. It is true that we are approximately at a level of 6 times natural average. If you take only the EBITDA, non-adjusted ended at the level R$2.43 per U.S. dollar. But if you make an adjustment pro forma to the EBITDA to the first quarter of 2015 period end exchange rate, this will keep us in the 4 times to 5 times natural average range.

Another important point to mention is that, during this quarter, with all the financial operations that we did in the quarter, we managed to keep the average cost of the company at the level of 7.7% per annum. The participation of the short-term debt is 16% of the total debt at this point, totally aligned in what has been the policy of the company. Also, the participation of other currencies in our debt of 93%, they follow approximately the participation of other currencies in our revenues, which is 83%, leaving us with a very efficient natural hedge.

Going to the page number 15 now, talking about the maturity schedule that we have as of the end of this quarter. We have a very comfortable position. What is in the short-term is basically the trade finance line, which we have already managed to get all the funding that's required to the realization of those lines. I'd like to mention also a recent operation that we did, a re-tap of one of our business units bounced in the Moy Park, very successful. We did a placement of £100 million at an exchange rate of 6.5%, which is below the 7.5% interest that we have on the average debt of the company. Also, the maturity of 2021 helps us to increase the duration of the debt of the company.

Going now to the page number 16 on the cash flow bridge, after the net income loss and the non-affecting cash items, as regard to the working capital lines, we had a decrease of the suppliers line of R$108 million as a consequence of more cattle in Brazil that it paid on cash. But we've managed to decrease also the level of the receivables of the company and also the level of inventories to keep absolutely neutral the working capital cycle.

This Others that you see here of R$198 million are the mark-to-market on the financial operations related to the operations of the company, also non-realized results that we had on the period, the most important of them were on our accounts payable amounting R$31 million and the legal deposits amounting R$36 million.

Page number 17. You have basically the behavior of the free cash flow in the last quarter. I'd like to stress also that the consumption of R$88 million in this quarter is absolutely aligned with the budget that we had in the quarter, which puts us in line to achieve the 2015 guidance of a cash flow generation between R$100 million and R$200 million.

The way that we do to reach this goal, as we had stated in our guidance to the year for each one of the divisions, they include improvements in operating performance and also working capital gains. You remember that one of the goals of the company is to reduce the working capital between four days and five days at the end of the year. I believe that by the reserves (33:13), we'll be able to deliver the goal at the year-end in the same extent that we did in 2014.

Now, I'd like to hand over to Martin Secco to do the final remarks.

Martin Secco Arias {BIO 18098476 <GO>}

Thanks, Ricardo. Just to finalize, remind you that our Focus to Win strategy remains unchanged, our focus on operation margin efficiency and free cash flow generation.

We achieved the budget for the quarter, which indicates that we are in line to deliver the guidance for the year, especially including the free cash flow generation positive between R$100 million and R$200 million. First quarter proved challenging for the Brazilian beef operation. As Andrew explained, we have a strong domestic environment between the price of the cattle, raw material, and also we cannot pass all these costs for the internal and external market.

But we'll improve this situation at the end of the first quarter and at the beginning of the second. The external markets are coming again. And we are having extremely potential with the opening of the United States market and China market. Not only for the importance of these markets represents, but it's very important that we know that this market opens for other markets, very important in pricing at Korea, Japan, Mexico and Canada. We believe that our global platform puts us in a good position to achieve these opportunities and synergies between our business units.

Our international operations, Moy Park, Keystone, and the beef operation of Argentina, Uruguay and Chile, which already account 70% of the net revenues of the group, continued to post top line growth of the operation performance and margin. Moy Park sales continued growing, especially in the food service and retail market channels. Keystone was a very, very good growth in Asia, but also continued growing in the U.S. market as Asia for the rest of the year.

We are very success, as we promised, in reducing our SG&A benefits in all the units, but especially in the unit of Beef Brazil. We promised for the market a reduction of R$60 million for the year and we reduced in the first quarter R$14 million. Finally, we continue to work to strengthen our capital structure. And subject to the market condition, we will carry out the Moy Park IPO in the latter half of 2015.

I will thank you again for your participation. And for now, we are going to open straight for Q&A.

Q&A

Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. Our first question comes from Lauren Torres, UBS.

Q - Lauren Torres {BIO 7323680 <GO>}

Yes. Hi, everyone. Actually, I have two questions. The first question, you mentioned that at the end of the quarter you did see cattle prices show signs of weakening and as a result beef prices adjusted. So I was just curious if you could talk a little bit more about that as far as trends and how we should think about margins at your Beef Brazil division for the year.

And the second question relates to your free cash flow guidance. I appreciate the fact that you said that it is within your plan – what we saw in the first quarter and improvement later this year. But with the currency where it is and your debt exposure, I was just curious about how we think about modeling financial expenses and how you expect that to progress over the year to actually help you get to that positive free cash flow number? Thank you.

A - Martin Secco Arias {BIO 18098476 <GO>}

Thank you to you for the questions. I will ask to share the answer between Andrew and Ricardo.

A - Andrew Murchie {BIO 18098471 <GO>}

Hello, Lauren. In terms of the beef margins, there was a drop in slaughtering in the beginning of the year. So there was less offers on ready available animals. Together with that, we had Russia and Venezuela which are very important importing countries from Brazil, also going through these, let's say, internal problems. And the volume, of course, of export went down.

Now we're just seeing that those markets, which represent quite an important in our volumes, are picking up. Russia has already started. During April, it's already the main importing country in Brazil. And Venezuela has also started. They normally start by the end of February, beginning of March, but they had some problems with their budgeting and they only started now. So by these two countries taking these volumes from Brazil, we will have less volume offer in the different export markets that we have such as Egypt or Chile or Iran.

So by spreading the volume, we can begin to see some recovery in the U.S. dollar prices from these markets. At the same time that we take even more product outside Brazil, in Brazil focusing on the food service channel and on retail, we understand that we will see margin improving, not just in Brazil but also on the export, especially considering that having a higher volume of offers in terms of cattle at this moment is bringing prices - is adjusting prices a little bit. Some of the states of Brazil we have already seen these prices being adjusted. In others, I presume it will take another couple of (40:43).

A - Ricardo Florence dos Santos {BIO 20008948 <GO>}

Regarding to your second question, I would like to remind you that the company has a natural hedge. It's absolutely true that we will have an increase in nominal interest, even measured them in real, but it's also true that we'll have higher revenues as a consequence of the participation of sales in other currencies compared to the real. This is basically what we have almost as a perfect match in order to do not interfere in the cash flow. I mentioned this during the Portuguese call that it's likely to see a positive impact in the translation coming from the devaluation of the currency on the revenue line that basically brings up all the other lines in nominal terms. By doing this, the impact on the cash generation from operations basically compensate in nominal terms the increase in nominal reais that we have in interest basically compensating that.

Q - Lauren Torres {BIO 7323680 <GO>}

Can you provide guidance for the year on financial expenses? I mean, generally speaking, a range.

A - Ricardo Florence dos Santos {BIO 20008948 <GO>}

We have not done this. But if you take the average 7.5% on our debt, plus about R$290 million, maybe R$300 million that we have on the payment of interest, you have about R$1.15 billion, R$1.2 billion in interest payments. I believe this would be a likely range. A little bit difficult to predict at this point, given the volatility that we have had on the exchange rate, but this will be a good range, I believe.

Q - Lauren Torres {BIO 7323680 <GO>}

Okay. All right. Thank you.

A - Ricardo Florence dos Santos {BIO 20008948 <GO>}

You're welcome.

Operator

The next question comes from Mauricio Martinez, GBM.

Q - Mauricio Martinez Vallejo {BIO 19835511 <GO>}

Hello, everyone. Thank you for taking my question. I was wondering if you can share with us if you expect further impact from the avian flu outbreak in the U.S., if you can elaborate on that.

A - Martin Secco Arias {BIO 18098476 <GO>}

Yes. Of course, I will pass to Frank Ravndal for this.

A - Frank Ravndal {BIO 17222037 <GO>}

Yeah. Thanks for the question. I think it's very difficult to determine just how long some of those export markets might be closed because as it depends on how the avian influenza outbreaks continue to move through the U.S. market. So I think that predicting when that relief to some of the leg quarter pricing might occur is very difficult.

I think there's naturally a delay from when things start to clear up in terms of outbreaks to when those markets reopen. So it won't be something that's immediate. But it's difficult to predict exactly how long that would occur because we think that's the sequence that needs to happen. In the meantime, we look to reduce that exposure and the impact on that exposure by looking for opportunities to debone some of that rather than counting on export markets. But the overall impact of that avian influenza from an export market capability is rather difficult to predict.

Q - Mauricio Martinez Vallejo {BIO 19835511 <GO>}

Okay. Perfect. Thanks.

Operator

The next question comes from Sershan Eshmar (45:15).

Hi. Thanks for having this call. I just wanted to ask you about your cash flows. I mean, obviously you're still guiding R$100 million of free cash flow this year and you mentioned that there are two sources. Obviously, one of them is your operating cash flows and the other from working capital. Can I just have a good gauge of exactly how you intend to shave four days to five days off? Is this from inventory? Because my impression is that you don't really have that much influence over inventory, for example. You talked about your cattle and how you had to pay up cash flows, et cetera. So maybe if I just have a better idea of exactly how you intend to do that and what the real impact can be from working capital reduction.

A - Ricardo Florence dos Santos {BIO 20008948 <GO>}

Ricardo speaking. Good to talk to you. You remember that the company stated that one of our goals for this year is to have between four days and five days of improvement in the working capital cycle. This is a combination of the reduction in the receivables as we did in this quarter here. We also did something in terms of the reduction on inventories. And the room that we have above us is to have back the terms with the suppliers. The R$100 million that we lost in suppliers in the cash flow in the first quarter is a room that we have to gain back in the next quarters.

I believe that the biggest contribution to this improvement in the working capital cycle should come from higher turns coming from the suppliers of the company. We did a lot of purchase on cash on cattle. I believe that the trend now is to see the second trend of purchase that we had in the previous quarters. I would like to remind you also the effects of our productivity agenda. We have a (47:36) for R$50 million of improvement. This also should be the positive contribution compared to the level that we are. This will happen in the operational cash flow. Those are two of the examples that I believe can explain what is our path to the free cash flow delivery at year-end.

Q - Operator

Just to confirm. The suppliers – that was mostly in your Marfrig Beef business, right?

A - Ricardo Florence dos Santos {BIO 20008948 <GO>}

Yeah. That's right. But we also have initiatives in Keystone and Moy Park that will contribute a little bit on this. But the most part is in Marfrig Beef. You're right.

Q - Operator

Okay. Thank you.

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

A - Martin Secco Arias {BIO 18098476 <GO>}

Thank you. I would like to thank you again for the participation. And we will be in contact in the next call of results or at any moment that you need through our IR department here in Marfrig. Thank you very much.

Operator

Thank you. That does conclude our Marfrig conference call. Thank you very much for your participation and have a nice day.