International Conference Call

JBS

3rd Quarter 2013 Earnings Results

November 14, 2013

Operator: Good morning everyone and welcome to JBS S.A.'s conference call. During this call we will present and analyze the results for 3Q of 2013. As requested by JBS this event is being recorded. The recording will be available to listeners this afternoon and can be accessed by following the instructions posted on the company's website at www.jbs.com.br/ir.

Taking part on this call we have Mr. Wesley Batista, President and CEO of JBS S.A.; Mr. André Nogueira, CEO of JBS USA; Mr. Gilberto Tomazoni President of JBS Foods and Jeremiah O'Callaghan, Director of Investor Relations.

Now I will turn the call to Mr. Jerry. Please go ahead.

Mr. Jeremiah O'Callaghan: Okay. Thank you very much, thank you and good morning to those of you in the US, good afternoon to everybody else. We have just finished our JBS Day presentation here in São Paulo and so this is our opportunity to speak with those of you who could not be present with us today.

I will go through the presentation here quite quickly because we have some of our management from all over the world with us so that we have more time for Q&A. Just before we start I would like you to please read the disclaimer which is on our presentation and I will follow the slides also which are posted on our website as we go through this quick presentation here this morning.

Starting with 3Q, the highlights for 3Q on page 5 of our presentation for those of you who are following the pages on our presentation starting with net revenues. We had substantial growth in our net revenues in this quarter when compared to the same quarter in 2012, R$ 24.2 billion, this was R$ 4.9 billion more than the similar quarter last year, 25%, 25.1% increase of which almost 88% was organic growth, a really substantial organic growth in our revenues.

Our Ebitda R$ 1.71 billion in Ebitda, the highest Ebitda of JBS' in any given quarter, 24% above 3Q 12 and in Ebitda margin 7.1%, again quite a consistent Ebitda margin. Net income came in at R$ 220 million, just under R$ 220 million; we had a lot of free cash flow generation in the quarter, R$ 807 million; operating cash flow was R$ 1.24 billion; we ended the quarter with R$ 7.8 billion in cash or cash equivalents that corresponds to 73% of our short-term debt.

Our leverage at the end… On September 30 was excluding Seara - and all these numbers that I have just mentioned up until now exclude Seara - our leverage was 2.96x excluding the Seara debt assumption which we assumed at the very last day of the quarter.

When we consider the R$ 5.85 billion that we have assumed in the acquisition our leverage goes to 4x, just over 4x, 4.03x, remembering that we have not inherited any of the results from Seara, we have just inherited the debt to reach that 4.03x.

Now moving on the presentation to page 11 our consolidated results on page 11, net revenue by quarter over the last five quarters and Ebitda and Ebitda margin over the same period of time we can see this quite a lot of consistency in our Ebitda growth… Revenue growth. We have gone from just over R$ 19 billion in 3Q last year to R$ 24.2 billion this quarter and our Ebitda has been growing quite substantially as well. If we look at 2Q 13 and 3Q we have had similar Ebitda close to R$ 1.7 billion in both quarters and above 7% of an Ebitda margin over the last six months, over the last two quarters.

Speaking about each one of the business units individually and starting with JBS Mercosul, which is on page 12 of our presentation, represents 27% of our total net revenue and again just to remind everybody none of the revenue or none of the performance of Seara is included in this presentation. So at Mercosul we had R$ 6.2 billion in revenue in the quarter. That was 35.2% above the same quarter last year. We had an increase of over 21% in the number of animals that we processed during the period and 31% increase in the volume of beef sold in the domestic market and then 30% in the international market.

Our revenue in the domestic market grew 40% and so if our volumes grew by 31% obviously we have had some incremental pricing on the domestic market and that is at least partially due to the advertising campaign, the branding that we have been doing all our fresh beef products in Brazil.

Ebitda for the Mercosul business R$ 687.5 million, Ebitda margin of 11.1% and if we look at Brazil in a standalone basis within Mercosul 11.7%. So I think it is important to remember that we have begun to see an uptick in the Ebitda margin in the Mercosul business as a whole and in the Brazilian business specifically. We have seen quite improved exports out of South America. As example Brazilian exports were up 25% year on year, our exports were up 24% year on year and obviously the devaluation of the real is helping boost margins in the export business.

Now moving on to page 13 of our presentation JBS USA beef and when we say JBS USA beef we are talking about our business in North America, in Canada and in Australia as well, so it is across those three geographies. We had net revenues of US$ 4.69 billion, again practically 10% up on the same quarter in 2012, an increase in the export volumes. Ebitda came in at R$ 25.3 million with an Ebitda margin of 2.7%. We have basically seen cattle prices increasing but beef prices mirroring the increase in cattle prices so beef prices have been up, Australia had improved performance also during this quarter.

If you look at US beef imports they have not declined quite a bit and they were done quite a bit in the quarter helping balance supply and demand domestically in the US and helping with pricing in the US.

Australia performed very well in its exports particularly to the greater China. There has been significant demand growth in greater China and regarding our business in North America just something we have observed recently which we think is worth mentioning is the fact that we have seen some heifer attention in the US, some cower attention in the US which indicates that we are at the beginning of the recovery in the herd size in the US, something we have been talking about for some time but now we can see a diminishing number of cows coming to the market indicating that we should have more cows in the springtime and we should see the beginning of recovery of the herd in the US.

Our pork business in the US on page 14 in our presentation, our pork businesses is very constant, very regular performance. If we look at revenues they are very little between 850 and US$ 900 million basically for quarter, a little bit above or a little bit below that.

Ebitda has been 43, 45 and US$ 50 million per quarter as well with Ebitda margin pretty close to 5% consistently over the last five quarters. We had an 8.5% increase in prices in the domestic and in the export markets in this business and potentially I think we can see some increased exports. The US has gone from being a non-player in the pork export market to being the largest exporter of pork products primarily to Asia but also to neighboring North American countries: 34% of all pork exported in the world is produced in the US today and other regions which were big in the export market, particularly countries in the European Union, have become less competitive so we should in principal observe some growth in pork exports out of the US, which should translate into better margins in this business.

Our poultry business in North America, Pilgrim's Pride Corporation on page 15 of our presentation, represents about 21% of our revenue and again this business has performed well over the last number of quarters, we have published these numbers already 15 days ago so I presume most of you are very much aware of numbers, but we had US$ 2.14 billion in revenues up 3.6% compared with the same quarter in 2012. We have had strong margins in this business, much improvement in margins, double-digit margins in the last two quarters (10.6% in 3Q which was US$ 226.1 million and we see the favorable dynamics in this business moving forward coupled with the fact that we have seen feed costs decline quite substantially into this 4Q.

Moving on to page 16 in our presentation regarding exports, exports in volume and then by destination. We have increased our exports by 16.6% in 3Q 13 when compared with the same quarter last year. If we go back one quarter previously we will see also exports were up a lot, so this is something which is becoming very consistent, good volume of exports basic as we have always said in the past: strong demand although the emerging economies and we are placed in the most competitive regions in the world and this is translating into real business over the last number of quarters: almost US$ 1 billion in exports per month, almost US$ 3 billion at the quarter.

The primary destination again is greater China; Mexico very strong destination out of the US business; Japan from being not such a relevant destination. Because of the lifting of restrictions on US beef at the beginning of this year Japan has increased its import volumes quite substantially; and then the other regions being Africa and the Middle East we were always very strong and where we supply products out of Australia, out of South America, out of North America and so that is a strategic market for us.

We have seen an increase in exports to the European Union, imports into the European Union over the last number of quarters as well as herds decline and not only in the pork business as a mentioned but in the beef business as well we have seen a declining heard and a declining production in the European Union and an increased dependency upon imported products.

Perhaps a quick word about South America. We will increase our exports, Brazil particularly into South American neighboring countries quite substantially through Venezuela is a really good example, quite a lot of volume going into Venezuela.

So going on quickly a couple of comments about our debt profile on page 18 of our presentation our leverage. As I mentioned at the outset our leverage would have been under 3x if it were not for the Seara acquisition, it would have been 2.96x as it was, we inherited R$ 5.85 billion in debt and zero and Ebitda or in revenue and that elevated our leverage to 4.03x.

A little bit more about our debt profile on page 19, the breakdown by currencies: 25% in reais at the end of the quarter and that has transformed quite a bit over the last five, six weeks; 75% in dollar with average costs of 10.5% in reais because of the increase of the Brazilian CDI and the cost of debt in the US dollar has declined quite a lot.

By company 60% of all that debt at JBS S.A. and 40% in subsidiaries. At the end of the quarter 36% was in bonds and 64% in other currencies… In other forms of financing, not in other currencies. 35% of the debt was in the short term.

Now if we move on to the next page, page 20 in our presentation, we have had some relevant deals done in terms of liability management over the last six weeks. So just to bring everybody up to today's position our position having completed these deals. Firstly JBS S.A. issued a US$ 1 billion bond last month and we also concluded the negotiation with a number of banks in Brazil regarding the debt we assume at Seara and the bond we issued is totally dedicated towards paying short-term debt. Our short-term debt would go from 35% of our total debt at the end of the quarter to 21% today, so a very substantial decrease in our short-term debt with the liability management we did.

Our cash or cash equivalents would be 116% of our total short-term debt at the end of this liability management; our average maturity is extended now to 53 months, so that has extended quite a lot and we have extended the maturity without increasing the cost of our US dollar denominated debt which remains at 6.2% per annum. So that is quite relevant what we have done over the last six weeks basically since we finalized the acquisition of Seara at the end of September.

A little bit about our stock performance and the stock performance of Pilgrim's Pride, pages 22 and 23 in our presentation and we will come into the closing of the presentation here. Our stock performance in Brazil is up 15% in the last 12 months while the Bovespa index was down 12% the same time, so we have outperformed the Bovespa index quite substantially.

Our daily traded volume has also increased quite a lot. We have seen consistent increase month per month and we are now above R$ 31 million average daily traded volume and that indicates increased liquidity in the stock. Our current market cap at JBS S.A. is R$ 24 billion.

At Pilgrim's Pride, page 23 in the presentation, Pilgrim's Pride has substantially outperformed the S&P 500 index, it is up 228% in the 12 months to September 30 while the index, S&P Index was up 17% in the same period. So we have seen a lot of value creation at Pilgrim's over the last 12 months. Current PPC's market cap is US$ 3.7 billion.

And finally and page 24 of our presentation we have been innovating quite a lot in Brazil in creating some brand value for our fresh beef products Brazil. This is something which was never done previously. In fact we have been advertising our Friboi brand particularly in Brazil. We have done a very consistent campaign since the beginning of the year. It has been a big attraction in terms of advertising campaign because it is very creative and it has been recognized as such with one prize as the "Top of Mind 2013" at one of São Paulo's largest newspapers.

We are on the short list to get a prize for being the most creative advertising campaign in Brazil in 2013, it is called the Caboré Publicidade Brasileira, it is like the Oscar of the Brazilian advertising and our campaign has already been mentioned in the press as being one of the top 10 advertising campaigns in Brazil this year, which has translated into a lot of value for our fresh branded beef products in Brazil.

With that I will finalize the presentation and we will open for Q&A… Pardon me; Wesley Batista our global CEO and President will make some comments and immediately after we will open for Q&A. Thank you very much.

Mr. Wesley Batista: Thank you Jerry and welcome you all. Like Jerry already went through all the numbers but I will repeat some of the numbers to point out some important points that in our view I should mention again.

So almost R$ 24 billion in sales in this quarter, so strong topline growth; 25% this quarter above the same quarter last year and it is important that 87% of this growth came from organic growth. So this is an important point.

And one thing that I think is important for the analyst that is making the projection, this number does not include any Seara revenue okay? So if you do 24, R$ 25 billion and annualize this number you will end up in R$ 100 billion in revenue and if you add the Seara revenue that is around R$ 10 billion...

Operator: Excuse me ladies and gentlemen please hold, the conference will restart in a few minutes. Excuse me ladies and gentlemen, the audio conference call will resume in a few minutes. Thank you.

Mr. Batista: The line is open again?

Operator: Yes sir you may go ahead.

Mr. Batista: Sorry we got cut off here. So I was saying about our revenue. If you look at our revenue in this quarter and at the Seara revenue plus a growth for next year you will end up seeing that we will end up probably doing more than R$ 120 billion in revenue next year.

Ebitda we came in this quarter 7.1% margin Ebitda, R$ 1.7 billion in consolidated Ebitda; strong free cash flow, R$ 800 million; very strong cash position, we have R$ 7.8 billion in cash and on top of this number we have more than US$ 1 billion in availability, credit lines available in the US, so strong liquidity.

And above leverage I think I want to mention, reemphasize here: we end up this quarter at 4x leverage with all the debt that we assumed from Marfrig but not accounting or not normalizing or not including in our LTM any Seara results. So 4x leverage and if we add the number that we believe we can do in Seara in the next 12 months or in a run rate base our leverage is more around 3.4x leverage after the Seara acquisition.

So it is important, it is a sizable acquisition, R$ 6 billion acquisition, so we feel that leverage is in a level that we feel confident in our ability to keep deleveraging our balance sheet like we have been doing in the last five, six quarters and our assumption we will be able to end up 2014 at around 3x leverage. So we are very positive where we are today.

Talking about some part of our business, North America we are confident that we can deliver strong results in 2014. Beef we started the beef business this year and 1Q was not a good quarter, it was more difficult; 2Q was better; this quarter was a little below 2Q but it was not okay quarter, not in the level that we want to see our beef business performing but it was okay.

So going forward we believe even though some challenges in terms of supply, we believe we can keep running this business in a reasonable margin level.

Chicken in the US I think the market has been raising some concern about chicken production in the US and I think it is something that we also have been analyzing this very closely, but in our view the grain price is much cheaper now comparing to the previous quarters and the ability for the industry to grow too much chicken production that can jeopardize or can hurt margin in our view is not there. The breed stock is low like Bill loved to mention in our Pilgrim's Pride earnings call. We do not see the US will produce less beef next year; probably less pork and we feel that the industry will… Even though the chicken industry will produce more chicken we believe margin can be strong next year. This is our outlook for chicken.

In Mercosul our beef business keeps performing well and we have expressed this before. I do not see that we are close to the end of any beef cycle in Brazil. I believe we are still more at the beginning of the cycle than to the middle or to the end of the cycle. I feel pretty good about our ability to keep delivering strong results in our beef business.

Moving to Seara that I think is the most questionable in terms of results and in terms of how much result we can generate in Seara. In our view we closed the deal 40 some days ago, so we already identified a huge amount of opportunity, a huge amount of improvement that we can do there. At this point we are very confident.

We are building a very, very strong team in this business and we are very, very confident that in 2014 we can deliver R$ 1.2 billion in Ebitda in Seara. It seems that it is very aggressive for a company that has been struggling to deliver results, but in our view and with the team that we have and in the position that we are we are confident that we are set to have a strong 2014 in Seara.

I am confident that this will be a big surprise for everybody. I think we will be able to surprise the market like we have been doing before when we acquired Swift in the US and when we acquired Pilgrim's Pride. I think we will be able to turn Seara around very quickly and surprising the market in terms of the result that we will generate over there.

With that I will stop here and open to Q&A. Please operator open to the Q&A session. Thank you.

Q&A Session

Operator: Excuse me. Ladies and gentlemen we will now begin the question-and-answer session. If you have a question please press the star key followed by the one key on your touchtone phone and if at any time you would like to remove yourself from the questioning queue please press star two.

Our first question comes from Daniel Sensel with J.P. Morgan.

Mr. Daniel Sensel: Hi good morning, thank you for the call. My question is regarding Seara. Yesterday Marfrig released the income statement of Seara Brasil of the last four quarters and there we can see that operating results were negative, I think we are talking over a negative Ebit of R$ 1 billion.

So can you clarify a little bit what is the situation of Seara in terms of Ebitda, current Ebitda and current Ebitda margins? Thank you.

Mr. Batista: Daniel look I will not comment about Marfrig's numbers, this is in their results, this is in their numbers so I will not comment and I do not know what they did to end up in this number so because of this I will not comment about their results.

What I can tell you Daniel is that if you look the sector in Brazil and if you look including a company that is part of Seara by the name Excelsior that is a public company that is below Seara, the margin in Excelsior is 13% and I can tell you that our chicken operation Brazil we are running our chicken operation Brazil - we do not disclose this number in our statement - but I can tell you that we are running this business at around the same margin level as Excelsior.

Look, we are confident that no reason that we cannot run Seara and deliver a strong number. I think look, 1Q we will publish JBS Foods that will be Seara business plus JBS chicken business in Brazil. We will publish this number separately as a separate segment and the market will have the opportunity to analyze what we are doing there and what we are saying in terms of our confidence and ability to turn this business around quickly and deliver strong results.

Mr. Sensel: Okay but let me rephrase: when you acquired Seara... You said you were going to achieve at least or around 10% of Ebitda margin on a normalized level. That 10% Ebitda margin… see it in terms of gross margin; do you have an estimate of what could be the gross margin of Seara?

Mr. Batista: Look on top of my head here I do not know in terms of gross margin; but what I can tell you, yes, our assumption JBS foods that will be the Seara business plus our current chicken business in Brazil, our number is still the number that I mentioned before and we believe we can deliver over 1 billion, actually we are more to R$ 1.2 billion in Ebitda in this segment next year.

Mr. Sensel: Okay thank you.

Mr. Batista: Thank you Daniel.

Operator: Our next question comes from Celina Merrill with Credit Suisse.

Ms. Celina Merrill: Hi thank you very much for taking my question and congratulations on the results. I have a follow on question on Seara. Can you guide us to what you think what the capital investments will be for that business either in

4Q or in 2014? And also what Capex spending will be for Seara and maybe for JBS Mercosul as a whole? Thank you.

Mr. Batista: Capex without livestock is R$ 150 million in Capex and working capital is around R$ 500 million.

Ms. Merrill: Is that for 2014?

Mr. Batista: Yes.

Ms. Merrill: Okay thank you and then my second question was regarding the additional liability management or capital structure changes you might want to make. Are you looking to turn out additional debt in 2014 or what is your thought process in general about that?

Mr. Batista: We did a liability management in PPC so we do not have anything in front of us in the middle term or even in the short or middle term. The next maturity in PPC is 2018. JBS USA the same thing: we just did two months ago a liability management that we pay now in 2014, so we also do not have anything in front of us until 2018 and we just did the last bond in JBS S.A. (US$ 1 billion) and like Jerry mentioned we are using all these proceeds to pay short-term debt.

So we do not see any need to do anything and we are not looking at anything now; but during 2014 if we see opportunity to reduce cost and improve, extend maturity yes, we are always looking opportunity. If we see opportunity that we can reduce financial costs plus improve maturity we will be analyzing. But at this point we do not need to look… To do anything.

Ms. Merrill: Okay thank you very much.

Mr. Batista: Thank you.

Operator: Our next question comes from Alex Robarts with Citi.

Mr. Alex Robarts: Thanks, hi everybody. First question is on the USA business for beef and I appreciated you saying in your commentary that the level that we saw at 2.7% of Ebitda margin was something below what you were hoping for and you referenced also some supply challenges.

As we think about past quarter and into 4Q and looking at the US business is the issue or is the challenge you feel a kind of add the pricing in the US? Is that a kind of the main factor here that is perhaps making these margins a little weaker than you would like?

And I guess the bigger picture you told us… I understand from prior calls that you are a kind of hoping that 3% to 4% Ebitda margin for the JBS USA beef business and to get that I guess you have to have roughly a 6% Ebitda margin in 4Q.

So I am wondering does it make sense to perhaps change a little bit the guidance for this year if in fact I remember right and that was the stated guidance?

And again if you could talk little bit about how you see 4Q outlook for pricing that would be helpful.

Mr. André Nogueira: Alex this is André. Two things impacted our quarter in a negative way: one was Canada that performed much lower than our expectation and it is things that we are working in our operation there to continue to improve and is taking longer than we expected to regain the confidence from the customers but we are moving in the direction so I am confident that 2014 will be a much, much better year for our Canadian operation. But at this quarter it impacted negatively the performance of what we call JBS USA.

Another thing is more seasonal. You know that part of the operation in the US is cow operation and 3Q is a weak quarter for that operation because we have much less availability of cows and it is just the normal way that the farmers behave in the US, that is not the time that they turn cows and on the opposite side 4Q is a strong quarter for the cow business, so I think the seasonality we expect that we will recover.

Our expectation continues to be the same: again we said at the end of 1Q - and 1Q was a very weak quarter - that we expect between 3% and 4% going forward and that continues to be our expectation. I expect that our 4Q the better than our 3Q and for next year the same line. I do not see additional challenges that can put this in a weaker position.

But it will not be in 3%, 4% for the full year 2013; but it will be between 3% and 4% if you disconsider 1Q that was a very weak quarter before one of our big competitors shut down one plant.

Mr. Robarts: Okay that is very helpful and the second question is on Brazil domestic beef and a tremendous success it seems to me a kind of getting volumes of 30% and as Jerry commented and referred to as well the pricing as well, the marketing campaign seems to be having an important effect.

Can you tell us a little bit about your own expectations from this marketing campaign? We will see various product launches and campaigns through the years in Brazil? The sustainability of this going into 4Q seems that you are surprised about. How was the SG&A also? I mean obviously when we look at the Mercosul margin we have a lot of pieces in there; but that margin was a little but lower than what we were expecting. Was SG&A in line to support this marketing and should we expect the marketing program around the Friboi brand to continue into the kind of holiday season and such?

Mr. Batista: Robarts this is Wesley. Yes, we are continuing the campaign and we will keep the campaign in 4Q. We will stop for Christmas and New Year and the beginning of next year. We will stop the campaign because it is not the best time to be doing this campaign; but we are very optimistic. This campaign has surprised us and I need to tell you that actually when we start this campaign the impact on this campaign was not in our view going to be like this campaign is today.

So we are investing money of course but to tell you, amazing, this campaign is already paying by itself through the price differentiation in our sales in the campaign is already self-funded in terms of the ability, our ability to sell our products for a better price and putting spread compared to the other players in the market.

So again we are very, very optimistic and we will keep investing this and we are creating a brand and we believe it is sustainable.

Mr. Robarts: Okay fair enough. So the last thing is a clarification sorry: the 1.2 billion you were talking about Seara and you referenced earlier in the Brazilian call… Or I should say the 1.2 billion is what you are looking for, you are setting as a target for Ebitda 2014 JBS foods Brasil that is not comparable or we should not think about the R$ 93 million in the last 12 months trailing Ebitda at Seara?

In other words is the 1.2 that you are talking about and now introducing to the market as guidance that is Frangosul plus Seara Ebitda? Is that right?

Mr. Batista: Yes that is right but I tell you that only in Seara comparing apples and apples only in Seara we do expect to do over R$ 1 billion.

Mr. Robarts: So the remainder, sorry, is the Frangosul and plus the Ebitda is that right?

Mr. Batista: I am telling you that excluding Frangosul comparing apples and apples and only looking Seara we do expect to generate over R$ 1 billion only in Seara and adding Frangosul on JBS foods that is how we are naming this division we expect to do 1.2 billion or even more.

Mr. Robarts: Got it okay, thanks very much.

Mr. Batista: Okay.

Operator: Our next question comes from Mr. Aaron Holsberg with Santander.

Mr. Aaron Holsberg: Good morning. I apologize if this has already been addressed, I am not sure I understood. For Seara regardless of what Marfrig said it looks like the numbers were negative for both Ebitda and free cash flow. Do you think you can get them to positive for the first quarter you will be reporting? And can we assume you will report Seara as a completely separate division and not mix the numbers with JBS Mercosul?

Mr. Batista: Yes. We will report a separate division starting 1Q next year, the division that we are calling JBS foods. We are going to report this separate and yes, we are confident that we will deliver a good result already in 1Q next year.

Mr. Holsberg: Okay so what will we be seeing for 4Q in terms of Seara so we can track what is going on?

Mr. Batista: We are not going to disclose Seara separate in 4Q to start next year, our fiscal year, to not jeopardize comparison; but we are already improving Seara from the level that we got there, so...

Mr. Holsberg: Okay thank you very much.

Mr. Batista: Thank you.

Operator: Our next question comes from Jose Jordan with Deutsche Bank.

Mr. Jose Jordan: Hi good morning everyone.

Mr. Batista: Hi.

Mr. Jordan: Most of my questions were answered but relative to the point here on Seara can you give us a little color as to how you plan to essentially more than double what the Ebitda generation of the company even before the recent dive in profitability in 2Q and 3Q quarter it was not generating much more than 400 or 500 per year and as you know that is a company that has changed hands several times, has had several big companies had the chance of improving it but nobody has been successful and you may well be the right company to get it done. But I would just love to see any color as to how you plan to get there. Are there any sort of systems projects or massive headcount reductions and any other initiatives that are behind this confidence you have?

Mr. Batista: Very good question Jose. First of all let me mention to you two things: inside of Seara there is a company by the name Excelsior and I mentioned at the beginning of the call that it is running at 13% margin Ebitda. This is a public company, it is not a company that… It is a public company so you can see the numbers and it is 13%.

We are running in our chicken division in Brazil that we call it JBS Chicken at around these levels. So even though this number is included in our Mercosul business.

But let me go through… We have all the breakdown and we are very deeply analyzing every part of this business already. We identified only in Seara - to make sure only in Seara without JBS Chicken, only Seara - R$ 1.2 billion for 2014 in opportunities, synergies and improvement.

And let me go through the breakdown: sales, domestic sales R$ 234 million; 183 from these 234 coming from price, sales price. Seara was discounting products, Seara was letting profits get too close to expire day and discounting products and not well coordinated at operation in terms of supply and demand. So 183 coming from sales; 51 coming from volume but not in the domestic market; volume going to the export market. So this totalizes 234; R$ 53 million in exports - so we analyze every opportunity, every market that we sell products and we identified R$ 53 million.

R$ 629 million coming from operation and what means operation? Live production, yields, plant efficiency and product formulation and standard to produce products with the right formulation in terms of sausage and all these products.

And I can go the breakdown with you: 207 live production, so we can improve R$ 207 million in live production; productivity is reducing labor and improving productivity, 205; R$ 103 million in yields and R$ 150 million in the right raw material to produce all the sausage and all the further processed to produce the product with the right spec. So all these numbers together is R$ 629 million.

R$ 118 million in logistics and I can go with you all the breakdown; optimizing distribution centers, optimizing product transfer, cost of freight and all these things.

In back office R$ 30 million, R$ 14 million coming from finance, R$ 10 million coming from the other corporate areas, R$ 6 million in HR, R$ 10 million in back office.

R$ 87 million in supply. We already did a deep analysis comparing all the price that would buy corrugated, we buy chemicals, ingredients and all this stuff. We identified R$ 87 million.

And R$ 50 million in tax, sales tax selling products from the right state so we can optimize R$ 50 million in sales taxes.

So this is R$ 1.2 billion.

Mr. Jordan: All right thank you very much that is helpful.

Mr. Batista: Thank you.

Operator: Our next question comes from Belinda Hill with Schroders.

Ms. Belinda Hill: Hi how are you? Thank you for the call.

Mr. Batista: Hi Belinda.

Ms. Hill: With free cash flow other current liabilities seem to have been a big positive contributor. Can you tell us what this line item includes?

Mr. Batista: Sorry say again?

Ms. Hill: So other current liabilities seem to have been a big contributor to free cash flow. Can you tell us what is included in this item?

Mr. Batista: Belinda I do not know the answer from top of my head. I can ask our team here to follow up with you. I do not know exactly what line you are talking about.

Ms. Hill: Okay and then just with respect to… back to Seara Marfrig it had a payable to BRF related to the acquisition of the plant. Does this payable also transfer over to you or was it extinguished?

Mr. Batista: It is part of the price that we agreed to pay for Seara, so it will be transferred. It is part of the deal.

Ms. Hill: So you have a payable to BRF now?

Mr. Batista: Yes.

Ms. Hill: Okay thank you.

Mr. Batista: Thank you.

Operator: Excuse me. This concludes today's question-and-answer session. I would like to invite Mr. Wesley Batista to proceed with his closing statements. Please go ahead Sir.

Mr. Batista: I want to thank you all to be in this call with us. Like I mentioned in the beginning I am more confident than ever that we have the right structure, the right team to keep improving the results and to keep delivering good results going forward.

So again thank you all and have a nice day.

Operator: That does conclude JBS's audio conference for today. Thank you very much for the participation and have a good day.