International Conference Call
JBS S/A
Extraordinary Call
June 23rd, 2015

Operator: Good morning everyone and welcome to JBS conference call about the Moy Park acquisition.

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 company's website at: www.JBS.com.br/ir

Taking part on this call we have Mr. Wesley Batista, global CEO of JBS and Mr. Jerry O'Callaghan, Investor Relations Officer.

Now, I'll turn the conference over to Mr. O'Callaghan. Please, go ahead Sir.

Mr. O'Callaghan: Thank you. Thank you everybody for being on this call this morning. We are pleased to have the opportunity to speak with you regarding the announcement we made on Sunday night: The acquisition of Moy Park.

I will go through a quick presentation that we have in our website, just a few pages and then we will open the session for Q&A. Our CEO is ready and available on the line to answer your questions when we finish this presentation.

So I'd like to make reference to the presentation as we go through this call so that people can follow the slides as we point out certain aspects of the acquisition.

So starting on page 2 of the presentation we have the company overview, the overview of Moy Park, this is a company which is more than 70 years old, a very traditional company in this business, it is in the fresh poultry sales mainly in the UK and the retail and the convenience foods business, and also in the food-service channel.

It's a vertically integrated poultry producer similar to the other businesses that JBS has in North America and in the US and then Mexico and also in Brazil, vertically integrated business with the grandparents stock and the production right from two generations back.

Moy Park is a market leader in the value-added categories; produces a lot of innovative and creative products, branded products, it's a market leader in that category, it's a leading poultry processing company in the UK, one of the two largest in the UK, there are 13 production units and almost 12,000 team members across Northern Ireland, the UK, France, Holland and Ireland.

79% of the revenue comes from the UK and Ireland and 21% comes from continental Europe.

Interesting to know on page 2 of our presentation that more than 50% of all the sales are in the process prepared foods category, which would involve value-added and to a great extend brands as well; more than 50% of all the sales.

Going to page 3 in our presentation, just to have a look at company profile and some of the products which are produced by Moy Park, there are their primary fresh products, we have some illustrations of those products, there is a ready-to-eat products basically microwavable or ovenable products, those are the coated products (breaded in the US), those coated products, which again are ready to consume products.

73% of the sales of all these products in UK and Ireland are in the retail category, 14% in the food service and 13% in the others category. In continental Europe where there are 21% of the sales there are convenient products from burgers to some nonmeat items also primarily for the food-service, 78% of the sales are in the food-service category and 22% in the retail category.

Interesting to look at the customers, on the bottom of the page 3, all the major retailers particularly in the UK from Tesco, Asda, Sainsbury, Waitrose, Marks & Spencer, Morrisons, Co-op and then the discount supermarkets Aldi and Lidl as well, and also in the food-service category with Mac Donald's, Kentuchy Fried Chicken, Pizza Hut, Kerry Foods also in Ireland and Burger King.

Moving on to page 4 in the presentation, talking a little bit about the innovation aspects at Moy Park. Moy Park does a lot of work in terms of consumer insights to support innovation and the development of convenient products and up-to-date products for the modern consumer. It has launched a large variety of products over the last 10 years and a lot of these launchings have been supported by the chefs, which are within the company, the embedded chefs within the company.

If we look at page 4 of our presentation there are more than 70 people working in innovation and research and development, developing a lot of convenient products, which is also illustrated on this slide on page 4; there is barbecue or ovenable chickens, there are some ready-to-eat chicken breast and other items illustrated on page 4 of the presentation.

Moving on to the rationale behind the transaction, if we look at JBS today, as it is today we have a strong production platform in North America, in South America and in Southeast Asia based in Australia. So this is, in our view, a moment for us to enter the European market, good timing to get into the European market in a relevant manner with production, with innovation and with brands.

And particularly we are pleased to have the opportunity to enter through the UK market, which is one of the economies that has been performing best with population growth and with consumption growth. So it is a good opportunity and the correct moment in our view to enter into this market.

It also represents an expansion; if we look at our South American business, for instance, we've been developing a lot of branded and ready-to-eat products at our JBS Foods division and recently we acquired the company in Australia called Primo Smallgoods, which is also very focused on prepared foods and convenient products.

So this is an expansion of our prepared foods category in a new market with added-value and with brands inside the European market.

Part of the rationale is associated also with some of the efficiencies around being a global producer of poultry products and we will be benchmarking against some of our North American efficiencies and standards, and against our Brazilian operations for best practices in fee conversion, in life costs and in the handling of poultry, and in yield and productivity within the plants so there will be many opportunities to do some benchmarking across the other businesses.

Also the acquisition of Moy Park represents a relevant participation in the natural and organic poultry category. Particularly in Europe we see growing in consumer awareness of where the products are coming from and demands for more natural products and more organic products, we also see this in North America with big moves towards antibiotic-free products in North America.

So Moy Park is a relevant company which brings us a lot of knowledge around natural and organic poultry production.

As is usual with JBS we are always very focused on good management, we see very experienced management at Moy Park, people that have been in the industry for many many years, so this is another aspect that attracts us to Moy Park; the experience management, the quality of the management and the amount of time that this management has been in the industry.

And speaking of the opportunities, there are JBS and Moy Park and so speaking of the estimated synergies that we see initially, and this is a very initial take on synergies, we see before we delve deeper we see at least $50 million in synergies and we've mentioned on page 6 of our presentation some of those opportunities that we see: Synergies in the purchase of non-core materials, so that would go from packaging to some of the ingredients we produce across all of our businesses, best practices in handling and in operations, a lot of that would be to do with fee conversion and efficiencies associated with fee conversion, also synergies associated with the acquisition of feed ingredients, particularly grain – we are one of the largest purchasers of corn and soybean meal for production of meats, of meat products around the world – so we have substantial knowledge around that market in our view a degree of sophistication with regard to getting the best possible prices and we have a risk management team around this aspect of our business as well, we think this is a relevant towards capturing some synergies.

Also we are very relevant exporters of meat products from a number of origins to the European Union. We export beef and lamb from Australia, we export beef from just about all be South American countries that we are in and we also export quite a lot of poultry products, particularly from our Brazilian operations into the European Union. We had more than $1 billion of products sold into the European Union from these platforms, some pork products from North America as well last year more than $1 billion in sales.

So we see opportunity to develop strong relationships downstream with the customers that Moy Park already service, those bigger retailers in the UK, particularly in the food-service people, in order to enhance our sales from outside of the European Union into those channels as well.

Moving on to page 7 in our presentation to talk about the transaction structure. We are buying the totality of Moy Park capital from Marfrig, so is 100% purchase of Moy Park. The enterprise value of the transaction, as has been mentioned in our material facts that both companies put out on Sunday night is $1.5 billion.

There is a degree of debt assumption including £300 million of bonds, which were issued and recapped recently by Moy Park, which mature in 2021 and that would be adjusted against cash and the variation in working capital at the time of closing.

The transaction multiple based upon 2015 estimated Ebitda we estimated at about 7.85 times, and when we look at those minimal synergies that we have identified to-date the transaction multiple projected for 2016 would be 6.5 times or under based upon these synergies and our projections for 2016.

In terms of leverage, particularly with regards to rating agencies and the bonds that we have out there, our leverage will move marginally as a result of this acquisition, we've done the calculations based upon the publicly available numbers at the end of the first quarter of 2015 and basically our leverage would move from 2.3 times to 2.54 times; an increase of 0.24 times in terms of leverage as a result of this acquisition.

So with that we will close our presentation and we will open now for Q&A. Our CEO is available to take your questions from now onwards. Thank you very much.

Question & Answer Session

Operator: 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 now. If at any time you would like to remove yourself from the questioning queue press star two.

Our first question comes from Lauren Torres, UBS.

Ms. Torres: Hi, good morning everyone.

Mr. O'Callaghan: Hi Lauren.

Mr. Batista: Hi Lauren, good morning.

Ms. Torres: Good morning. My question is just on the opportunity and what JBS could do from Moy Park. I guess I am comparing it to what you've done at Seara and the opportunities there to increase margins quite substantially.

So if I look at Moy Park now and the margins that they have been delivering, I'm curious to get your perspective on what type of business it could be from a margin perspective, kind of how do you get there, where is the most opportunity for growth and, you know, if that's the case, is very a need for investments to get there or you feel that the current structure of the business will allow you to get to the target?

Mr. Batista: Lauren, this is Wesley. Look, Moy Park today they are running the business at around 7.5% margin, with this synergy that we believe we can bring to Moy Park that is, like Jerry mentioned, around $50 million or at least 50 million using our global scale and our knowledge and our benchmark in our operation in North America, in South America to help Moy Park, with this it will represent a margin at 10%; that in our view is doable given the fact that JBS can bring to Moy Park this global scale and the knowledge in terms of operating in other countries.

So, you know, after that I think we still have other opportunities, but we did not count on these other opportunities in terms of our analysis for the transaction. There are still opportunities and Moy Park can in our view do more with their structure, we don't see a need of additional investments or additional chains on the company to keep doing better and more.

So overall, this is how we see, and of course this acquisition is different from some other acquisitions, I need to mention this in the case of Seara or in the case of Pilgrim's Pride in the US the opportunity in terms of improvement was much larger than Moy Park; Moy Park is already a well-run company, but we think and we strong believe that we can add value to Moy Park to run this business in a double-digit level type of margins.

Ms. Torres: If I could follow-up on that. I guess Marfrig was targeting more like a 8.5% margin and that was not for a couple of years, so is your 10% thought here at this point, something also multi-year and I guess I'm just trying to bridge the gap to how to get to that 10%? I just interested in your initial perspective on how to do that.

Mr. Batista: No, look, to bridge that gap… today they are running currently at 7.5% margin, so we believe that it's very doable to bring at least $50 million to the table for Moy Park, having a Moy Park using the JBS global scaled in terms of purchase, in terms of risk management in grains, and in terms of other areas like benchmarking, production, in feed conversion, in life cost.

If you put $50 million on Moy Park this represents around 2.5% of their sales, or between 2 and 2.5% of their sales, so this is the bridge that when we talk about 10% this is adding this $50 million on, and I see this going in a sustainable way; I don't see the reason that we cannot delivery this in a sustainable way.

After that I will not speak, I will not give any guidance because we want to get there, you know, to discuss more later on with the management where are the other opportunities that we can be exploring, like we did in other businesses.

And also this acquisition you need to remember that this is our first move in the UK market, so it's different when you have already a platform that you are adding business in an existing platform than when you are getting in in a business like we are getting in Moy Park.

Mr. O'Callaghan: Yes, just to add to that, if I may, Lauren, it's interesting to remember that JBS is a very relevant poultry producer in North America, in the US and Mexico and also in Brazil, we've made a number of acquisitions in Brazil so we do have that scale, which is something unique to us to bring that experience and particularly that in raw material purchasing with non-core and core raw material purchasing, which is unique to JBS.

Ms. Torres: Understood. Great, thank you.

Operator: The next question comes from Daniel Sensel, JP Morgan.

Mr. Sensel: Hi, good morning, congratulations on this acquisition.

Mr. O'Callaghan: Thank you Daniel.

Mr. Batista: Thank you.

Mr. Sensel: I have a couple of questions. The first one is I know that you guys have enough cash in the balance sheet, but it would be interesting to hear how do you plan to funded this; from which entity?

Which entity is given to absorb this business? Or are you planning to kind of create a new business, for example, you have JBS USA, then you have JBS Mercosul; are you planning also to create a like a JBS Europe with Moy Park being kind of the most important business of that new entity?

Mr. Batista: Yes, this is the way that we are going to do; we are going to have JBS Europe and Moy Park will be the platform for JBS in Europe, and the entity that is going to buy JBS S/A is the Brazilian entity, the Brazilian entity that is going to buy Moy Park.

So Moy Park will not be under our USA operations or our USA legal entity or as well will not be under JBS foods legal entity. So this will be directly under JBS S/A in Brazil, and Moy Park will be the JBS Europe platform

So how we are planning to fund the acquisition, you know, the equity value for the acquisition, like you mentioned, we have enough cash in our balance sheet to support the acquisition, but as well we are going to see if there is any other opportunities to be doing something to fund the acquisition, but at this point we are going to use the cash that we have in our balance sheet.

Mr. Sensel: Okay, I appreciate it. And also my understanding is that your plan is to keep the Moy Park bonds, right?

Mr. Batista: Look, the bonds… there is a clause that the bondholders have the right to receive the money and pay, I think, one-on-one, 1% premium. It is a contractual clause that Marfrig needs to offer this to the bondholders and so we don't know if the bondholders will exercise their option or not.

If they don't exercise the bond will stay there and we are going to assume the bond. If they exercise we are going to pay the full amount in cash.

Mr. Sensel: Okay, thank you very much.

Mr. Batista: Thank you.

Operator: The next question comes from Brian Hunt, Wells Fargo.

Mr. Hunt: Hi Wesley, Jerry, thank you. You may have just answered my question, but when you say you plan on paying in cash do you mean excess cash and that's currently on the balance sheet, or do you plan on raising capital on another means to pay the 1.1 billion, as it is roughly what you need to accomplish the acquisition?

Mr. Batista: Yes Brian, like I mentioned, at this point we did the acquisition with the assumption to use excess cash that we have in our balance sheet, but as well we will be looking if there are other opportunities that can be good or can be accretive for us to be analyzed.

But at this point will be using the excess of cash.

Mr. Hunt: Excellent. My next question is: If I go back to your conference call previously this year you all said that you would be focusing on capturing synergies within all the acquisitions that you've made in the past and your focus would not be on acquisitions.

I was wondering if you could just talk about maybe the acquisition of Moy Park in that context. It isn't a huge acquisition given your scale, but, again, it may be a little unexpected maybe with certain investors the acquisition overall, and I was wondering if you could talk about it in the context.

Mr. Batista: Yes Brian, look, as the Moy Park acquisition is a relevant acquisition in strategic terms, it is an acquisition that is not a very big impact on our balance sheet and, you know, we saw the opportunity, you don't choose when an opportunity appears and we saw the opportunity to get in the European market through Moy Park and, like Jerry mentioned, get in the European market through the UK in our view is the right moment for us.

We have been out of Europe for many years, but now we see that the time is right to get there, the European market is getting better and especially the UK market is improving. So we still focus on our organic growth, we are still very focused on our current business, but this opportunity was an opportunity that we saw and we thought that was the right time for us to do that.

And even is a relevant acquisition in the strategic terms; it's not a relevant acquisition in terms of, you know, leverage or, like Jerry mentioned, this will add 0.25 times leverage on our balance sheet and we have a good amount of cash in our balance sheet, so...

Mr. Hunt: And then my last question has to do with synergies. Could you give us (1); maybe a timeline to achieve the $50 million with the synergies, and then (2); when I look at this synergy opportunities in non-core materials purchasing, best practices with regards to operations and in purchasing for grains, what categories do I see the biggest opportunity to gain on that $50 million with the synergies?

And that's it for me. I really appreciate your time.

Mr. Batista: So we see the Moy Park management team being able to capture this full $50 million in 2016. So this is the timeline that we see this synergy being captured.

So on the breakdown on the synergies, we see it pretty spread out on this leaf that we mentioned in terms of non-core raw material purchasing and as well as risk management, and as well best practices across all the enterprise.

So it's pretty spread out. I think it is equal portion in each part of this synergy, and going forward in the commercial area that we did not account on this is $50 million is the area that probably we are going to be looking more synergies because, you know, we have been investing in our brands and growing in the value-added part of our business, investing in marketing in all the parts of our business, like South America, like Brazil, the Seara brand, the Friboi brand.

But we did not put any number on these commercial activities and being able to help Moy Park to be in a more value branded type of company.

Mr. Hunt: Wesley, I appreciate your time. Thank you.

Mr. Batista: Thank you.

Operator: The next question comes from Alex Robarts, Citibank.

Mr. Robarts: Thanks, hi everybody. Congrats on the deal.

Look, it's kind of a big picture question, but this is not the first time you've been in Europe, as you mentioned, you've been out for several years.

Why now and was this something that came up, but you were actively looking for a (0:29:47 unintelligible), kind of a market access into Europe? Or is this something that perhaps was more of an opportunistic event that you wanted to seize?

And kind of how does Europe, in the larger scheme of things with the global platform that you have, fit exact? You seemed to mention this is a platform and I am not sure if that might suggest that you could over the medium term look for further both arms around in Europe and… so if you can kind of give us the context of Europe within the global JBS platform that will be helpful.

Mr. Batista: So Robarts we are all seeing the European economy recovering, especially in the UK, Germany and some other countries in Europe are recovering quite well and, as you mentioned, we were much focused on expanding our business in North America, South America, Australia and we have been thinking about Europe in this last, I don't know, last year and we have not been chasing anything are actively trying to do something in Europe, but we have been putting quite a fair amount of thoughts about Europe and when was going to be the right time for us to get in Europe.

So the Moy Park opportunity came out and I have a relationship with Marfrig, and in a normal discussion this opportunity came and we saw a great opportunity to get in the European market and especially in the UK market.

The entering door being the UK market put more attraction for us. We have been seeing other opportunities in Europe before, but it was not the right opportunity, the right size or in the right country or, you know… and Moy Park was a combination in terms of their portfolio, in terms of value-added and prepared products and the size, and the management, and the platform, the scale that Moy Park has and, again, being in the UK put a great attraction to us to be interested in the transaction. And we saw this great opportunity at the great time.

We are a company that is very focused, Robarts; timing for us is very important, I think fortunately we have been right on our time in terms of expansion, we came to… actually I am in the US, so I'm saying that we came to the US in a moment that we believe that was the right moment and as well in Australia. Now we believe the time will speak by itself if we are right or not, but we believe and we strong believe that the time to get in the European market is the right one.

Mr. Robarts: Fair enough, thanks. I think that the last thing is on the leverage. When we calculate this transaction bringing Europe to around 2.5 times net debt Ebitda trailing toward the end of the year, you mentioned that level as I guess the word has been a comfortable level, a target level, a level where you see you guys being for the near term.

Is that fair to kind of keep on thinking that 2.5 times is a level that you'd like to be and then aim at, or is there a change and you are thinking of pace of deleverage and any comment around that would be helpful. Thanks.

Mr. Batista: Robert, 2.5 times leverage is comfortable leverage in our view, it is a comfortable level so moving around this range is a comfortable level in our view.

So of course we want to keep focus on generating more cash and keep being able to generate cash to deleverage or to use the cash to keep supporting our growth, and we still have the same view and our business is performing well across-the-board, our North American business is extremely strong and our Australian business is extremely strong, our South American business is very strong, the beef business – that was weak in the first quarter – we are seeing improvements in our beef business.

So overall, we are comfortable about how our business around the world is performing and, again, the Moy Park opportunity in our view is a great opportunity.

Mr. Robarts: Got it, thank you.

Mr. Batista: Thank you Robert.

Operator: The next question comes from Max Louis, J.P. Morgan.

Mr. Louis: Hi there. I guess my questions are really just following on to some of the questions you've already been asked this afternoon about the Moy Park and the future for that business unit going forward.

I suppose firstly how do you envisage that unit being financed to moving forward? And is this an entity which moving forward you may want to, let's say, raise leverage again in Euros or Sterling to fund some kind of acquisitions in Europe?

And could you give us a little bit more color on what you see as the scope for further acquisitions in Europe?

Mr. Batista: Look, like I mentioned, we did the acquisition with the assumption that we are going to use and we have enough cash in our balance sheet and the assumption is to use the excess of cash that we have in our balance sheet to fund the acquisition.

But also we will be open to hear, to be analyzing other opportunities in terms of (0:37:09 unintelligible) debt in Euro or in Sterling, but, you know, at this point we did not count on that; we count on our cash that we have today to fund the acquisition.

But, again, we should be open and looking where is the opportunity to be analyzing.

Mr. Louis: Thank you. And just kind of on that second point around further acquisitions in Europe right now, do you see any assets which you may consider buying here in Europe?

Do you think that further acquisitions in Europe might be a near-term priority for the group or is this perhaps something which could be a longer term priority, an area where you may act more opportunistically?

Mr. Batista: Look, it's too early to be looking to the other opportunities in Europe. Europe we will get in through Moy Park to work with the management there and to analyze what we can do in the current business in Moy Park.

But like I mentioned before, Moy Park definitely will be for us a platform for further expansion in the European market going forward, but we don't have any other thing short term in mind.

We are not going to be putting ourselves to be looking other things instead of first getting there, digest and work with the team and explore the opportunities that we think we have Moy Park as being part of JBS.

Mr. Louis: Okay, thank you very much.

Mr. Batista: Thank you.

Operator: The next question comes from Tomas Mannion, Guggenheim Partners.

Mr. Mannion: Good morning, good afternoon gentlemen. Most of my questions have been answered, it's really in relation to the Moy Park bonds and the future acquisitions in Europe if they would be done out of that entity. I think you've answered this already. Thanks.

Mr. Batista: Okay, thank you.

Mr. O'Callaghan: Okay, thank you Thomas.

Operator: The next question comes from Sarah Salam, Stephens.

Ms. Salam: Hi.

Mr. O'Callaghan: Hi Sarah!

Ms. Salam: Congratulations on Moy Park. It's just a quick question: A portion of your cash at JBS is held at the Pilgrims level. In an effort to fund Moy Park would you again do a special dividend out of Pilgrim's?

Mr. Batista: No.

Ms. Salam: Okay, so no special dividend out of Pilgrim's this time around?

Mr. Batista: No, no.

Ms. Salam: Okay. Brilliant, that was my question.

Mr. Batista: Okay, great, thank you Sarah.

Mr. O'Callaghan: Thank you Sarah.

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

Mr. Batista: So, I'd like to thank you all for being on the call with us today. Like I mentioned during this call, we are very glad that we agreed on this transaction with Marfrig.

I'd like to thank everybody that participated in the transaction and I'd like to thank Marfrig and we are really looking forward to work with the Moy Park management team to create value and to add value to our shareholders and our stakeholders.

Thank you very much and have a good day. Thank you and bye.

Operator: This concludes JBS audio conference for today. Thank you very much for your participation and have a good day.