International Conference Call
JBS S/A
Third Quarter 2015 Results
November 12th, 2015

Operator: Good morning everyone and welcome to JBS conference call. During this call we will present and analyze the results for the third quarter of 2015.

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 conference call we have Mr. Wesley Batista, global CEO of JBS, Mr. André Nogueira, CEO of JBS USA, Mr. Gilberto Tomazoni, President of Global Operations, Mr. Tarek Farahat, President of Global Marketing and Innovation, and Mr. Jerry O'Callaghan, Investor Relations Officer.

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

Mr. Batista: Thank you. Good morning everyone, thank you for being on the call with us today. So we are reporting our 3rd quarter numbers.

I'm going to refer to the presentation and the pages for you to be able to follow what I'm going to present here today.

So page 1, JBS at the glance so to talk a little bit about where we are. So JBS we have R$150 billion in last 12 months revenue, we are today the 2nd largest food company globally, we have a global and diversified platform operating in different segments, different countries and regions, we have a broad value-added product portfolio with strong brands in different countries that we operate.

So we are today over 230,000 team members that we are very proud about our team and we consider this team a high-performance team and I would like to use the opportunity to thank each one of our team members that has been in this journey with all of us.

So we are a company that we are very focused in operational excellence, our culture… we have a strong culture that we believe we need to be very focused in things that we control, so we control how efficiently we can operate our business and we are very focused to operate our business as efficient as we can.

More than being focused on market because market is market conditions is for everyone, so we are a company very focused in things that we control.

So moving to page 2, just to give you a flavor when we say… sorry, pages 3, when we mention that we have a global platform and we are a global company today you can see here our revenue by each country, but each region.

So we have a very diversified platform today, can we can access through each different business unit any country around the world in terms of market access, so we are very happy with our global platform.

So moving to page 4, a little bit about the evolution of our company and where we came from, where we are and where we are looking to go. So we are a company that basically in 2007 before we did the IPO in JBS we were a Brazilian beef company with a small operation in Argentina, so we have been working this last 8 years transforming this Brazilian beef company in where we are today; the largest global protein player globally.

So we have been able in these last 8 years in this journey to transform this beef company, this Brazilian beef company in the largest global protein player.

So a lot of times I have been getting questions to where we are going and where we see ourselves in the coming years, so we have a strong focus and a strong view that as we were able to transform the company in these last 8 years we can look ourselves being a global protein player in the coming years transforming to a global food player with operation, with a very strong product portfolio, with strong brands.

So the last acquisitions that we did in the last year or so is clear in this direction, you know, adding more value-added product in our portfolio and as well brands that we can connect ourselves with directly consumers or consumers around the world.

So moving to the next page, the page 5, I think we have been showing this for a while this graphic here and the strategy. So we started JBS looking to build a strong production platform and we did; today we have over 300 production units in more than 15 countries, so we were also looking to expand our sales and distribution platform and we have been doing so; today we serve more than 350,000 customers, directly customers to more than 150 different countries.

So, again… and in the last few years we thought that our production platform was really well-organized, our sales and distribution capability also and it was time for us to start investing more in putting more energy in expansion, in our portfolio, expanding our portfolio and as well investing in our brands.

So we have been doing… we are in this journey and we are very happy where we are, we still have a lot of opportunities to keep improving and expanding our business through this direction.

So moving to pages 6 in our presentation to talk about our historical performance, I think it's very important. We put here in the last 2 years we grew our business 77% in revenue, but we expanded 124% our operating… our margin Ebitda…

Mr. O'Callaghan: Ebitda margin.

Mr. Batista: … our Ebitda margin.

So it's clear that with our team we have been able to expand more our margin than our sales, even though our sales expansion has been very strong in these last many years.

And also I think it's important this point here: Even if we have inside of our company different segments like the beef business, the chicken business, the pork business, the packaged food business and in different countries, we see seasonality and we see volatility inside of our business units, but when we consolidate our numbers and we strong believe that JBS we built a platform and lots of diversification in terms of segments, in terms of countries, in terms of portfolio that gives us a strong confidence that we can deliver a stable earnings even though we have seasonality inside of different business units.

So it is important for us, we have been very focused on that and this is clear here; you can see that in the last 2 years we have been delivering consistent earnings, and again even though inside our business units we saw some volatility.

So moving forward on our presentation and going through our numbers, 3rd quarter's numbers, so on page 8 our revenue for the quarter was R$43 billion; that represented 40% growth compared to the same quarter last year that was R$30 million, so 40% growth, strong top line growth.

Our Ebitda we delivered R$3.8 billion in Ebitda with 8.9% margin comparing to last year R$3.6 billion; so 6% expansion. And the margin last year it was 11.8; quite a hard comparison because when we see our 3rd quarter last year we had our beef business with a margin that was very very strong and stronger than the normalized margin for the quarter in the US, our beef business in the US.

So… but when we look at 8.9% is in line with our performance more recent performance in a consolidated basis.

So our net income we reported R$3.4 billion in net income; that was a strong growth, over 280% growth comparing to last year that the net income was R$1.1 billion.

Our earnings-per-share this quarter was R$1,19 per share, and we put here a normalized net income that if we normalize our net income it goes from R$3.4 billion to R$4.2 billion. And why we are talking about a normalized net income up? It is because R$800 million is deferred tax that is part of the goodwill that we are amortize here in Brazil that is never going to have cash impact; it's only an account impact.

So true net income in terms of cash impact is 4.2, so this R$800 million in deferred tax is not going to end up being translated in cash or being paid as accounting rules to amortize the goodwill that we have; this is the way that we need to book this in our books.

So free cash flow we end up the quarter delivering R$5 billion in free cash flow comparing to R$2.1 billion last year; again, strong growth comparing this quarter and the same quarter last year. I think it's important to mention that this R$5 billion in free cash flow was after the acquisition of Moy Park in Europe that we spent R$6 billion.

So over the acquisition or over the payment of the acquisition we generated R$5 billion. So before the acquisition, actually the free cash flow was R$11 billion. So it's strong and we are happy with the amount of cash that we were able to generate in the quarter.

So moving to page 10 in our presentation, talk about our debt. When we look our debt in dollar – and every day we look our numbers more in dollars term as the majority of our business is dollar-denominated business and is more appropriate to look in dollars –, so when we look our net debt in the 3rd quarter in 2014 was $10.5 billion and this quarter the net debt is R$10.5 billion; so flat year-over-year.

But in these last 12 months we spent and we did $3.5 million in acquisitions, so bottom line; we generated $3.5 billion and free cash flow as our debt is stable and we acquired or spent R$3.5 billion in the acquisition; that brought R$5 billion…

Mr. O'Callaghan: Dollars.

Mr. Batista: ... Sorry, dollars, $5 billion in revenue in our company.

So looking our leverage, so last quarter… the same quarter last year, sorry, 3rd quarter 2014, our leverage was 2.5 times and this quarter, the 3rd quarter 2015, is flat: It is 2.5 times leverage, the same. But it's important to mention that no one of Moy Park's number is included in our earnings or in our presentation and also 6 months of Primo is not included here.

So when we *pro-forma*…

Mr. O'Callaghan: Annualize.

Mr. Batista: ... annualize the numbers including the Moy Park results and 6 months on Primo, so actually our leverage drops to 2.2 times leverage… 2 times leverage.

So keep moving in our presentation, page 18, about our hedging strategy .

Mr. O'Callaghan: Eleven.

Mr. Batista: ... page 11, sorry, our hedging strategy and policy.

Look, we are a company that we have been saying this for a long time and for quite a while; we don't believe in natural hedge – nothing against to who believes in natural hedge –, and why we don't believe in natural hedge is very simple: Because in our view revenue don't pay debt. So what pays debt is earnings.

So as a lot of times I hear people saying "Oh, but natural hedge… as you are exporter you have revenues in dollar, you have a natural hedge". We don't believe that this is applicable in our business. And why? Again, because revenues don't pay debt, what pays debt is earnings, net income and free cash flow.

And as currencies devaluate it's difficult to guarantee that you are going to have the same earnings or free cash flow in dollar because normally – like here in Brazil in the real – only reminding everyone, the real closed December 2014 at 2.6 and is today around 3.8. So in 10 months or 11 months the currency moved a lot, so it's natural that you have pressure in the input cost because of grain and a lot the input cost is dollar-denominated type of cost because it's an international market, and at the same time when you see a big devaluation like we saw here in Brazil you see pressure in the sales price of our products.

So, as we don't believe in natural hedge, our way to see this is very simple: Here you can see our net exposure that has impact in dollar; it's R$43 billion, and we have… we were in the end of the quarter with R$41.4 billion in hedge.

So we were fully hedged and we see this hedge in a very simple way: It's like an insurance, you know, and when you feel that the risk is high enough that the cost for insurance worse to pay the insurance, and we look our strategy this way.

So we were fully hedged and our strategy is always keeping looking the cost to… this insurance cost, how much is the cost and how much is the risk of present in terms of market.

We're still cautious about the currency in Brazil as we still see quite a big amount of risk not only in Brazil, but also outside of Brazil. I think China is still a question mark in terms of the China economy, this can impact more in commodity price globally and this can have more impact as I think the market is figuring out where exactly the China economy is today or is going.

So we see outside risk the increase in rates in US is another risk for emerging markets and we think this is coming, the question is only time; if it's December, January, February, but we clearly see this getting close to us.

And another; we still have challenges in the Brazilian market, in the Brazilian economy, in the politician side of, you know, Brazil, and with these risks we are still being cautious and we are still placing heads against to our exposure in dollar.

So I'm going to stop here and I'm going to ask Jerry O'Callaghan to go through each business unit to discuss more with you the details of our business units. Thank you very much.

Jerry, please.

Mr. O'Callaghan: Thank you Wesley. Thank you and good day to all of you.

So continuing in our presentation and again using the pager numbers so that you can follow exactly where we are in the presentation, I'm going to start talking about page 14, which is our JBS Foods business in Brazil.

So if you look at net revenue associated with this business compared with the same quarter last year net revenue went from R$3.37 billion up to above R$5 billion in the 3rd quarter of 2015; almost 50% increase year on year.

Ebitda also from 576 million to above R$1 billion in the same comparable periods. Ebitda the margin going from 17.1 to 20.7%, so that's quite an expressive increase in revenue, in Ebitda and in Ebitda margin, obviously Ebitda growing above 80% when revenues grew just under 50%.

We saw during (this period that we are comparing) expressive organic growth and also we made some acquisitions in the period obviously, but at the same time we see the Ebitda performing well.

And we continue to be committed to improve performance of this business, we are seasonally coming into the last quarter of the year, there are lots of Christmas items on the JBS Foods portfolio, so there is an expectation that our 4th quarter numbers will reflect those additional items that are traditionally sold during the period.

We continue to have a focus in quality, innovation and in brands in this business.

Moving on to page 15 in our presentation and if you look at the evolution of this business since basically we acquired Seara at the end of the 3rd quarter 2013 and other businesses performance since then, we see net revenue consistently growing, period on top of period and we see the Ebitda margin also… the Ebitda and the Ebitda margin also very consistently growing.

So again something that Wesley mentioned earlier the consistency of our numbers, the lack of volatility regardless of some of the items being seasonal there is a lack of volatility in these results and a constant performance over the period.

If we look at operational excellence at JBS Foods, making reference to slide 16, our on-time in full (OTIF) improved 23%, out of stock at the point of purchase 24% improvements, the number of active customers over the period 29,000 additional active customers, a 26% improvement in the quality of drivers of the products, an increase of 400 basis points in our operational efficiency index.

Moving on now to talk about JBS Mercosul, our beef business in South America, beef business and other related businesses, such as the buy products associated with the beef business. Primarily in Brazil (but with operations in Paraguay, Uruguay and also in Argentina) we had revenue in the 3rd quarter this year of R$7.15 billion; that was up above 10% in relation to the same period last year, which was at R$6.47 billion.

Ebitda went from 555 million to R$641 million in the same period and Ebitda margin improved year-over-year from 8.6% in the 3rd quarter last year to 9% this year.

A couple of highlights with regards to this business in the recent past: We saw recovery of exports and particularly during the 3rd quarter we saw the opening of the Chinese market, recently just this month we've also seen some other markets opening up, more specifically the Saudi market in an announcement made very recently.

We see a better supply and demand dynamic in this business and we continue to invest in adding value to our products domestically in Brazil through the Friboi brand, so we continue to invest in that brand and obviously there is potential when you look at this business unit in South America that there would be trade between Brazil and the US, and this would be a value-enhance for this business going forward when this trade starts up.

The new business unit that we will be reporting the results of from now on – we call the JBS Europe, which is basically the Moy Park acquisition together with smaller business we had in Europe prior to the Moy Park acquisition –, revenues in reais over the last couple of years just to give you an idea about the growth of this business… this is prior to the acquisition, so R$4 million in revenue in 2012, R$6.4 billion LTM to prior to the acquisition.

Operations in Northern Ireland, Ireland, the UK, France, Holland and Italy 15 production units, 12,000 people working with us in Europe and 450,000 tons of products processed in these different 15 production units annually.

On page 21 a little bit about the type of products that Moy Park produces; *in natura*, prepared and breaded products and convenience and others, we can see the percentage of each; 42% is *in natura*, more than 50% is prepared and breaded and 7% in the convenience and other categories.

And in terms of the channel mix, 62% isn't retail, 27% in food service and we’ve got some of the brands in both retailer and the food-service on the side on page 21.

Innovation and benchmarking Moy Park has a very large team of R&D, more than 70 people working in the R&D department, each looked upon as a reference company with regards to its R&D capabilities and it works jointly with its customers, both in the retailer and in the food service sector in developing products under private labels and under the company's own labels as well, it's also a company that has been a reference in terms of antibiotic-free products, free range and organic products in Europe.

Moving on now to our business in North America starting with the JBS USA beef business. And in this business unit although we call the JBS USA beef there is business in Canada and quite a substantial business in Australia as well.

So when we look at revenues in the last quarter, 3Q15, $5.75 billion in revenues – so the numbers here now are in dollars, not in reais –; down marginally from $5.85 billion in the same period last year. Ebitda was down from $505 million to 197; under $6.8 million year on year coming back from a 8.6% Ebitda margin to a 3.4, but it's more about the fact that the Ebitda and Ebitda margin at JBS USA beef last year was above the average curve, so in terms of comparable it's a little bit of a comparable that reflects the performance of the quarter in 2015 a little bit more negatively than perhaps it should be demonstrated.

We see lower cattle availability in the US, and obviously this is a consequence of higher heifer and cow retention, we've seen big retention numbers reported by the USDA; 6.5% more heifers this year than last year and also more cow numbers.

The Australian dollar within this business the Australian business is quite a substantial business, so the devaluation of the Australian dollar affects this business; it reduces the revenues when we convert them into US dollars, but maintains a very competitive environment for the products exported out of Australia, so it boosts the margins out of Australia.

We have no management in our Primo business, which we started in the 2nd quarter of this year, so 6 months of the management there and we are working on the process of re-organization, integration and the synergy capturing associated with that business.

We’ seen a big expansion in our value-added products in the US or consumer ready or case ready products; up 30% this year in relation to last year, and we are making investments and gearing towards having another 60% increase in this value-added type of category for 2016, reaching about 340 million pounds in production in this category in 2016.

The Primo business is a value-added business in Australia, very strong brands, the Primo brand and Hans brand in Australia and the Beehive brand in New Zealand, reference brands there and we exhibit some of the products in the slide in page 25 and then on page 26 we can see some of the market share of these brands in both of these geographies; Primo with 40% market share in Australia – and well above that in some categories, this is the average – and then the premier Beehive brand in New Zealand having a similar market share in the New Zealand market. Very strong market share locally there and the potential to produce these value-added products in these markets and export them out into some of the South Asian countries.

JBS USA pork business. So pork revenues were down because pork prices were down in the US from $938 million in the corresponding quarter last year to $785 million this year; down 16%.

Ebitda was also down from 113 to just over $48 million; 12.8 Ebitda margin to 6.2. Perhaps the fell 0.1 was a little bit above the average and the 6.2 potentially is a little bit below the average because of an oversupply of product particularly into the US this year.

We've seen an increase of products and clients portfolio through the acquisition of the Cargill pork business – we have a slide on this, the next slide talks a little bit more about this –, we again increased sales of our value-added products within this business unit as well, and we've defined our management already for the new JBS USA pork business after we finalize the acquisition of the Cargill pork business, right at the end of last month.

So just 15 days ago we finalize that business and we paid for that business. So the new company, the financial highlights of the new company would be $6.3 billion in sales, 6.3 billion annually, a *pro-forma* Ebitda we are estimating at about $565 million and that is pre-synergies and we see substantial synergies in this business and that would give us a 20% market share and very relevant market share in the US pork business.

The operational highlights of this business capacity to process 90,000 hogs per day across the 5 processing units, 5 million pounds of prepared value-added products per week and 2 million pounds of bacon also possibility to produce per week.

Besides the downstream there was also some upstream capabilities coming to us with the acquisition where we would be able to produce a portion of our own hogs and thus customize some of the light hog production for specific customer demands, about 15% of the hogs we will process going forward will be raised on our own farms.

Now onto Pilgrim's Pride, what we call JBS USA chicken, which is Pilgrim's Pride, which I already reported these numbers at the end of the last quarter so I will go through this quickly here.

$2.1 billion in sales in the quarter; down from 2.26 – and again as a result of the decline in the average price of the product, there was also decline in the average cost of the product produced because of declining particularly in feed costs.

Ebitda went from 435 million down to 275 million; down 37% and Ebitda margin, which was close to 20%, came down to a level of 13%. Nonetheless we saw robust cash generation at Pilgrim's, and just to take into account for this quarter there was a $30 million nonrecurring cost in the quarter to do with some operation adjustments as we did… we closed some operations over the period and do some upgrades and investments, so there was a 30 million nonrecurring costs associated with the 2nd quarter... with 3rd quarter, excuse me.

We also announced at the beginning of the year a $200 million operational improvement and that is going to plan through 2015. There is a challenging environment for exports of poultry out of the US; I think that is well known because of the outbreaks of the avian influenza in the 1st half of 2015.

We haven't seen any cases recently and we've actually begun to see some of the markets reopening; South Korea recently announced the reopening for US poultry products, which should help boost the prices of dark meat, particularly the chicken leg quarter product, which is primarily exported.

A little bit about Pilgrim's in Mexico. At the beginning of the 3rd quarter, just 4 and a half months ago, we finalize the acquisition of the Tyson business in Mexico and we merged that business with the Pilgrim's business in Mexico, so a little bit of the highlight with regards to our Mexican business on the slide on page number 32: Six production units and 17 distribution centers, $1.6 billion in revenues out of Mexico, 28% market share in the Mexican market and the synergies associated with the acquisition we announced $50 million and potentially we can go above that number, but they are in progress – after a quarter we can report that they are in progress – and the integration is already fully done, 10,000 team members there, processing 1.3 million birds per day and we have some good brands, one brand particularly, which is very well known in Mexico, the Del Dia brand – that's a good strong local brand – and then we have a new complex, which we are investing in in Veracruz, we will start initiating that business in December of this year, we will have the 1st business out of that new complex in Vera Cruz in December of this year.

So with that I will hand you over to our global Marketing and Innovation President, Tarek Farahat, and he will talk some about our marketing and innovation on the slides from page 33 onwards. Thank you.

Mr. Tarek Farahat: Thank you Jerry. Good morning and good afternoon to everyone.

Building on Wesley's earlier comments that we were evolving to become a food company, this is a strategic choice and what I'm going to talk about is basically to exemplify and support that choice we are making.

We are creating brands around the world in order to create value for our consumers, create value for our customers and our shareholders and that strategic choice is very important for us because of the geographic footprint that we have with the multiple portfolio categories that we have, this would enable us to deliver consistent results and become much less exposed or much less vulnerable to external environment.

So if you are on chart 34 just showing a couple of our brands that we are building and we are innovating on. We used as a reference here the water market; 30 years ago everybody was drinking tap water, today it's a gigantic branded business anywhere you go in the world, so we believe that these things happen and are possible and we have a lot of tools in our hands to make it happen.

If you move to the next chart, if you go to chart 36, I'm going to touch base on 2 brands just to give you an example of a brand that we have repositioned from being a low tier player to become a flagship creating a lot of value by focusing on quality, which is Seara. And then later I'm going to talk about Friboi, which is a market that we are de-commoditizing here in Brazil.

So the story behind Seara is pretty straightforward; it was a brand that was playing in the mid-tier, it was focused on football it has only one tier, had only one tier of product and what we have done on top of significant improvement in the operation and the execution and quality of the product, we have repositioned the brand to become a flagship focused on quality.

We saw that this is a huge market for us here in Brazil and we have all the capacity and the tools to be able to win in that market. So what we have done basically is repositioned the brand and make it focus on quality. We created an advertising campaign – unfortunately you will not be able to see it, we played it in the morning to our audience here – and it basically tells the story about how the brand is positioned on quality.

So our basically idea was that you try Seara and the quality is going to surprise you.

If you move to the following chart, which would be on page 38, this is what happened to consumers after they have been exposed to our improvement in quality, our positioning of the brand: We are seeing that the preference of the brand has increased to 3 times, the brand became among the top-of-minds in consumers – this is based on quantitative research –; 90% of the consumers consider Seara when they consider purchasing the category.

The brand is being repositioned in the brand equity data that consumers see as a modern brand for the modern woman. So it's a major facelift for the brand and together with that we managed to make the brand play in the upper tier and the flagship segment, which is quite significant.

We are talking here about the big business of $4 billion plus and this has happened over quite a short period of time. Now what has driven all those changes? Basically there is one number on the following chart, which I want to zoom in, is the repeat rate; the repeat rate of 67% is quite significant.

What does that tell us? It basically tells us that every time consumers that have tried the product 7 of them, or about 7 of them would go back and buy it again. That basically speaks for the quality of the product and that basically makes our work cut out for us, which is, you know, we got to make more people try the brand, which is basically what we are doing.

So we have increased the number of penetration in households by about 3.5 million households; that's quite significant in couple of years. This is 46% increase. We have managed to increase the volume per purchase by 7% and we have managed to increase the frequency of purchasing of Seara by about 12%; very robust numbers here.

Now, as a consequence, the share has gone up, so we have managed to grow shared by just focusing on driving quality, trading up and repositioning the brand to become a flagship brand that stands for quality.

So that's briefly the story about a Seara. The story about Friboi is equally exciting.

If you go to slide number 42, beef basically was a commodity business in Brazil and there was very little marketing investment behind it, but we believe that we have a point of difference, and our point of difference was the origin of our product and the way we treat the product. So we felt that we can have a competitive advantage by going out there in the market and telling that story, telling that story on TV, telling that story digital.

So we have increased our marketing investments, we have contracted a famous celebrity to become our spokesperson and basically we created the selling line and that is ask for beef that, you know, they can have confidence in.

And we in our advertising – which unfortunately you will not be able to see, but we have shown it also in the morning – there is a big picture in the advertising and it is consistent throughout our advertising campaigns and this is something that consumers highly remember and that is the visual of our factory showing people with white coat, very clean, it's an environment that you can actually trust.

So what happens as a result of that is that the brand equity has grown much stronger and it has manifested itself in the pricing in the market. So before we started that campaign the average price of Friboi was 2% lower than the average price in the market; today is 3% higher.

Another important indicator is that within the Friboi or within our meat sales, the meat without bones used to represent 80%, and within this Friboi was less than half of that; today Friboi is about 90% of that. So they are seeing that consumers are actually going for the brand and we're seeing categories grow up and customers are satisfied with that.

So basically this ends our opening remarks, and now I want to thank you very much and I want to open for Q&A.

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 1st question comes from Brian Hunt, Wells Fargo.

Mr. Hunt: Good morning, it's actually David Kucon for Brian.

Mr. Batista: Good morning Dave.

Mr. Kucon: Good morning. On your hedging position you are fully hedged at the end of 3Q, I saw. Can you talk about how that hedge position relative to your exposure compares to prior periods?

Have you strongly been fully hedged or did that increase or decrease based on where you thought the real was moving relative to the USDA?

Mr. Batista: No, in the 2nd quarter we were fully hedged also and you can see in our financials in the end of the 3rd quarter we let a portion of the hedge position expire, so we reduce some of our hedge position so we reduced by $2.5 billion our hedge position, but the 3rd quarter, during the 3rd quarter compared to the 2nd quarter was the same strategy to be fully hedged.

Mr. Kucon: Okay. And then on the USA beef in pork segments we had expected some better numbers just based on cattle and hog costs and selling prices throughout the quarter.

Can you talk about how this performed relative to your expectations and what way on profitability given the further depreciation in Australian dollar versus the US dollar? We would have expected that to help the numbers as well.

Mr. Nogueira: Dave, let's divide this into 2 parts. Frist the beef. The beef was in line with our expectations for the point of the cycle that we are now. We still have a very tight cattle supply, it's a lot of volatility in the cattle price and the cattle price during the quarter.

So considering all this qualitatively and the early-stage that we are to see better numbers and more cattle available was in line with our expectations the overall beef performance, and you are right; the 20% depreciation of ozzy dollar compared to US impact the number that you translate to US dollars. This was part of the (0:50:03 unintelligible) beef, export was a challenge over the quarter, continue to be a challenge overall, JBS is doing well, but the whole market is exporting less.

We are seeing a very strong cattle retention in US to rebuild the herd and we believe that we are going to see a better offer of cattle especially starting the 2nd part of next year and in 2017 and 18 combined with the reduction that we saw in the capacity of production in US – that was with the shutdown of 9 plants in the last 2 years – reduced the cattle, the capability of last quarter's 3.5 million, I think that will be a very good position balance in the industry in 16, 17 and 18.

So this is about beef. Pork was below expectations. Again, we saw a lot of volatility in the quarter, pork price was much lower, pork demand was good, was an unusual quarter for us and I think that we are going to see in the 4th quarter this come back to more the normal level for JBS US pork.

And if you look year to date we are still 8.8%, close to 9% and that's the way we think that we will close the year; between 9 and 10%.

Mr. Kucon: Okay. And then looking forward to 2016 can you talk about the profitability you guys expect from those 2 segments? Do you expect (0:51:52 unintelligible)?

Mr. Nogueira: We just need to… in the pork considering that we just did acquisitions and we have a lot of work to do to integrate these businesses.

If I don't look the original JBS pork business I'd say that it will be in line with this year; there is no reason to be any less margin than we saw during this year in the pork business.

We are just… it is 2 weeks now that I managed the new business, we need a little bit more time to see how long will take for us to put that business in the same level for margins that we are running JBS pork business.

In the beef, we expect that the year overall for the industry and for JBS should be better; we are going to see more cattle available, especially in the 2nd part of the year, I think that we are going to see US going back to normal margins in the beef in the 2nd part of the year above the normal margins.

So the expectation for beef over all is better, is considered much better than this year.

Mr. Kucon: Okay, and the last one for me. I just wanted to touch on the value-added mix. What is your current mix of value-added products by volume in beef and pork?

Mr. Nogueira: I'm not sure if I understood what you are asking about mix. I put here the volume that we are doing now, we did a lot of investments in the last 2 years in terms of capability in case ready, consumer ready product, we bought a plant in Lenoir, North Carolina, we bought the plant in Riverside, we did the investments and we just started to run 2 months ago in Tolleson, Arizona. So we are going to achieve with the group this year 30% in beef and we are going to grow again 60% for next year.

So we (0:53:54 unintelligible) to believe that we still despite of being already a… will be a very important volume next year, we still have a lot of space to continue to grow in that area.

In the pork we did the investments in Marshalltown, we started to run the plant this year in the consumer ready product with 4 lines, now I run 2 lines, next we will put the 3rd line and we are going to see much more consumer ready pork with the Swift brand in the stores in the US.

It’s been very well accepted by the retailers for our customers and we expect that to continue to grow.

The mix beef now represent 150 times net tons. It's a very important volume.

Mr. Kucon: All right.

Mr. Batista: To add a little more on your question and adding on what André said, so in JBS overall all of the business units together so a quarter of our revenue is prepared products and value-added products, and we see this going to half in a short period of time.

So this is our internal goal; going from a quarter of our revenue to half of everything that we sell in prepared, in the packaged food side of our business, in our brands, carrying our brands and connecting our products and brands directly with consumers around the world.

Mr. O’Callaghan: Thank you.

Mr. Kucon: All right, very helpful. Thanks for your time.

Mr. Batista: Thank you.

Operator: The next question comes from Farha Aslam, Stephens.

Ms. Farha: Hi, good morning.

Mr. O’Callaghan: Hi Farha!

Mr. Batista: Hi Farha!

Ms. Farha: Just a follow-up on your last answer, where you said that a quarter of the revenue goes from value-added to half. Do you have any targets of how much that would be achieved internally organically versus how much from M&A in a time horizon for that target?

Mr. Batista: Farha, I clearly see us moving from this quarter to 50% of our revenue in the value-added, in packaged food side of our business in the next 2 years or 3 years maximum.

So I think this is doable, we can deliver that the proportion in terms of organic and through acquisitions or M&A is 50-50.

We have huge space to grow our business organically, especially in the Friboi brand, in the Seara brand, in the Primo, in the Beehive brand in Australian, New Zealand and as well is Moy Park in Europe, Swift in the US, with the acquisition of Cargill pork is going to give us a good start and a good base in the bacon segment.

So this is how we see ourselves going forward.

Mr. Farahat: Just to add to Wesley's comment here, we're just fresh back from Australia where we spent more than 10 days there and we took a deep dive into the Primo business; it's clear that we have a huge opportunity to grow organically, so the 50% goal is actually quite achievable.

The Primo business is a large business, we acquired it, we think that we can accelerate growth by investing a little bit further, the investments that have been made on the brand recently have been quite shy, so we think with our know-how, with the capacity that we have, the scale that we have in Australia, the quality of the operations and people that we have there we would be able to really drive this and also take it beyond Australia, I mean, North of Australia there is very very big countries with very large populations, and we think that Australia can be an excellent springboard for us to those countries.

Ms. Farha: That's very helpful. And then just one quick follow on, again going back to US beef and pork business.

It looks like the strong US dollar is here to stay with us for quite a bit of time. So it was pretty interesting that you were so constructive, particularly on your US beef business.

Is that something because of your particular product mix because Australia factored into that? Could you just give us a little bit of a deeper color on your optimism regarding your US beef business?

Mr. Nogueira: It's a combination, I think that for sure because Australia is part of the mix we are going to see less production of Australia next year and if you look at the most important market for US export is exactly the market they compete with Australia.

So we are going to see more cattle available, cattle price will go down, you can see that already in the futures that in the (0:59:44 unintelligible) it's a little bit ahead of the real, but anyway, it's there, and with a little bit less production in Australia is the perfect moment for US to recover some of its market.

And I'm talking about 2 or 3% more production in US next year and I think that the export would grow much more than that because if you consider the position of the US compared with the countries that are relevant for the US in terms of exports the currency, but the more competitive price of beef that we are going to see for US put US in a position to grow exports again, and because Australia will produce a little bit less.

And production of beef in these markets are going down, if you look the domestic production in (1:00:37 inaudible) is down, if you look at domestic production in Korea is down; so it's the perfect environment for the US to grow again exports.

Ms. Farha: That's very helpful. Thank you very much.

Mr. O'Callaghan: Thank you Farha.

Mr. Batista: Thank you Farha.

Operator: The next question comes from Luca Cipiccia, Goldman Sachs.

Mr. Cipiccia: Hi, thank you. Good afternoon everyone.

Mr. O'Callaghan: Hello Luca!

Mr. Cipiccia: Hi! One on Brazil and a follow-up on the US.

On the Brazilian business, especially for JBS Foods, my question was: How much of the gross margin expansion or the margin expansion we're seeing also reflects some of the, let's say, ramping up of the acquisition or lower dilution from the acquisitions that you made also partially contributed to the revenue growth, and where do you stand in that process anyway, how much, you know, there is a cover convergence dynamic there happening?

And then the 2nd point maybe on competitive environment and market share – I'm not to go back to pricing and some of the things you've already discussed, but – I was curious to understand: Where do you see the market will land at equilibrium between the market leader and yourself?

I'm not saying whether you have a target, but where do you think the equilibrium should be or will be just by a natural rebalance? And that would be my questions on Brazil.

And then if I can follow up with a quick one on the US as well.

Mr. Batista: So on the margin… let me go thought the margin here and Tarek can talk also about the market share.

So on the margin this is coming from 3 areas: We are capturing some operation improvements in terms of cost reductions, in terms of being more efficient in our supply chain, so this is still opportunity for us, also product mix – mix played a big role on this quarter –, we have been very focused and we put a lot of effort in this last quarter as the market was more competitive to improve our product mix, to improve the mix of our sales channel.

So the product mix, the improvement in sales channel, improvements in costs and also ramping up the more recent acquisitions is delivering and translating a stronger margin.

So this is where the improvement is come from and we're still very focused on that. Since the beginning when we acquired Seara we have been very consistent in our approach, how we are approaching this business and the market.

We were, we are still very focused on our results and our profitability, you know. Market share is consequence for us, is consequence of what we're doing. We are growing, but we are not focused on that; we are focused on return in profitability and the consumer is deciding and we were able to manage our product mix and portfolio in this last quarter and we are going to keep doing so.

So, Tarek.

Mr. Farahat: Hi, this is Tarek.

Mr. Cipiccia: Hi.

Mr. Farahat: Market share is really not our objective here, we are not in a race for market share. Our philosophy – and you know that's what I also tried to explain a little bit in the presentation – is that we want to win the consumer through innovation and in the process we want to create value. Market share comes as a consequence of the consumer choice.

So we want to continue to improve the quality, we want to trade up, we want to give consumers the best quality, we want to create cost structure that would create financial growth in the whole category result, clients also support the category.

We have plenty of opportunities with the consumers, beginning from the number of households where we can increase going to the number of SKUs in each household, going through innovating and introducing more products.

So when we do that consumers will decide whether they will buy us or not. So that's really our intent.

We are not a price competitor, we don't want to be, this is not good business; we want to be an innovator and we want to win at the top.

Mr. Cipiccia: I will ask the question a little different, I understand that there is no target share… sorry, market share target per se; that's not what you are worrying, but even when you look at the Brazilian market as a whole with the type of offering and the type of the structure that you have now I don't think it's fairly concentrated market with essentially 2 large players, you know.

Where do you think fair equity would be even compared to other markets a bit given that I would assume there is no structural reason why, you know, that part of equity that shouldn't through a time be reached?

I don't know if you can answer that question, but it's not more in terms of target, but like, you know, where do you think the market will be balanced? Even from a retailer’s perspective or from consumer's perspective in terms of choice given that now both the 2 largest companies are pretty much on track and delivering own strategy or executing own strategy that's quite clear.

Mr. Farahat: I think Luca that there is market for everyone, there is huge potential for category growth, customers would like to see categories grow faster and in a more profitable way, there is a huge room for innovation, really big, and the beauty in this type of business you can really innovate at fast cycle, so that's what we're focused on.

I don't have any magic number, neither do I think about it on what they could (1:07:19 unintelligible) would be. What we just want to do is to gain the hearts of minds of consumers, win at the top, innovate and try consumers, you know, to try our product because we really believe that they will like our products and then 7 out of 10 when they try it they come back and buy it.

So that's our focus really.

Mr. Cipiccia: Perfect. Thank you, very clear. And then just a quick one not to take too much time for everyone else, but just on the US margin beef you made a reference that, you know, 2016 and 17 may go back to normalized levels and may be exceed it.

What do you consider internally a normalized level given the product mix and the business you have there?

Mr. Nogueira: Well, if you just talk about US beef we always said that it is between 4 and 5%.

I think that with the improvement that we did in the business in the last 2 or 3 years in terms of the investments in the consumer ready product we can expect that the normalized can be at this level or a little bit above that.

If you put on top of that the Australian business with the Primo business in Australia now and again without the improvement we did in the business you should expect something (1:08:34 unintelligible) of that.

Mr. Cipiccia: Okay. Thank you, thank you very much.

Mr. Nogueira: Thank you.

Operator: The next question comes from Ms. Lauren Torres, UBS.

Ms. Torres: Yes, hi everyone.

Mr. O'Callaghan: Hi Lauren!

Mr. Batista: Hi Lauren!

Mr. Torres: Hi. I guess this is a follow-up to some comments you made to the prior question and I do appreciate you highlighting, you know, what you're focusing on what you can control, but I guess my thought is going into next year.

Particularly 1st focusing on Brazil, you know, there has been a lot of questions and concerned about pricing power in the food category and as you talk about being somewhat disciplined here in having other advantages beyond pricing, I was just curious to get your thoughts about the ability to pass through pricing, acceptance of pricing if the consumer continues to struggle or potentially get worse, and once again, this is in Brazil.

And then if you can also just talk about pricing in (1:09:33 unintelligible) because I guess in this past quarter we saw a lower domestic and export prices, so, you know, if you can kind of explain or thoughts going into next year what you think the pricing ability or capacity could be. That would be helpful. Thanks.

Mr. Batista: Lauren, let me start to answer the 1st part of your question. You know, even though we are seeing the Brazilian economy under pressure and we're seeing a contraction in the Brazilian market and, you know, we are… this is not impacting our business and the food business overall in our view in the same magnitude.

So actually we are seeing consumers and volume stable and growing despite market share gain. If you look the numbers, if you look year over year, the packaged food category actually is growing in Brazil even though there is challenge in the Brazilian economy.

So, you know, we see the industry and we are going to be focused to pass through the increase in the input cost to our products. Of course we are not alone in the market, the market is the market, the market speaks by itself, but we see ability to pass the input price increase through the system.

So, Tarek can add more.

Mr. Farahat: Yes, just one more thought also to what Wesley said here. We think we have also a lot of opportunity to price with innovation, and we have done that and it's actually quite successful.

We have recently launched a chicken which is antibiotic-free and when you compare the prices is 30% higher price.

So consumer and customers will continue to accept pricing through innovation and we really see that that's going to be also one of the strategic, so that's what we will continue to do.

Mr. Batista: So Lauren, can you repeat your question on the US?

Ms. Torres: Yes, it's similar on the pricing; this quarter we saw lower domestic and export prices, so thinking about your ability to take pricing and then maybe recover some that was lost this year, how do you feel about the environment in US next year?

Mr. Nogueira: Lauren, what you saw price lower in US, especially in beef and pork, was because of more production; pork was very very high last year, this year came back to a more formal level.

So hog price was very high, and pork meat was very high last year with a little bit more production this year, 7% more, they came back for normal level.

This really doe not impact our margins. It's the other way around; I think that with more availability over time we can put this margin in the high level.

Ms. Torres: Okay, and then if I can ask one other just on M&A. Obviously JBS has been quite active, it sends from your language today that there is still high interest for expansion.

Could you just talk about that with respect to the regional expansion or within protein, I mean, what does particular interest you at this point?

Mr. Batista: Lauren, look, even though we have been expanding our business and doing acquisitions and being active in M&A, we have been also disciplined in terms of using our balance sheet and, you know, keeping improving our metrics in terms of leverage, in terms of rating and we are going to be disciplined on that. So this is clear for us.

On the other hand, we are a company that have been growing our business and we are going to keep looking opportunities if this doesn't jeopardize our financial metrics, and where and in which sector in regions that we already are; North America, Australia, South America and Europe, these are the places we see opportunity to keep expanding our business and we are not going to be out of these regions.

And in this segment, you know, it's in line with our strategy to grow in more prepared, more packaged food products, value-added products and branded products. This is where we are doing to concentrate.

But to make sure we're not going to engage as we speak in anything; we just did 2 large acquisitions – Cargill and Moy Park – and we are going to keep following our free cash flow generation and being disciplined with how we are going to use our cash.

Ms. Torres: Okay, very good. Thank you.

Mr. O'Callaghan: Thank you Lauren.

Mr. Batista: Thank you Lauren.

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

Mr. Robarts: Hi everybody, thank you for taking the question. I was hoping 1st to ask…

Mr. O'Callaghan: Hi!

Mr. Batista: Hi!

Mr. Robarts: … hi! I was hoping 1st to ask about the cost in poultry and secondly on free cash flow.

I mean, I think just looking at the drivers in your poultry business both in the US and in Brazil a lot of it has come from structural cost reduction, but there is the component that is more cyclical, which is grains, and I guess that's really the question when I think about the outlook and the US.

It seems that there is a benign outlook in the 6 months horizon and in Brazil we haven't seen the soy and corn move up because of FX related move, so, I mean, are you seeing or can you comment on your 6-9 months you on grains in both US and Brazilian poultry?

Are you feeling any pressure on the margins in Brazil right now as we come into the holiday seasons?

So the 1st question is really about any color you can give us on grains that is related to the poultry businesses.

Mr. Batista: So Alex, we don't see the grain market changing, we don't see pressure in the input cost coming from grain in dollars, you know, I'm referring in dollars terms.

Of course in reais we saw an increase in grain price as the real got weak, but in dollars term it is still in the same level that it was moths and quarters ago.

So we don't see a risk on input cost coming from grains, and one thing more, Alex, you know, I mentioned in the presentation, you know, even though we look each business unit and we have volatility inside of our business units, but, you know, I'm very confident that JBS in a consolidated base we are going to see ups and downs inside of different business units, but in a consolidated base I'm very confident that we're going to keep delivering stable earnings, consistent margins and still improvement that we can get from our business, and I'm confident that JBS is a company that when you add all the business units and different segments we are company that is already proving that we have stable earnings.

Mr. Robarts: Okay. Fair enough. Thanks for that. I just secondly wanted to ask a question about free cash flow.

I mean, in the quarter if we take a look at the payments for Moy Park, the financial gain on the hedge, I mean, free cash flow was positive, but, I mean, in the end there was a nice – I think it's fair to say – nice windfall and cash set from the hedge in this quarter that I guess might make you think a little bit about deployment of cash in the short term.

And I'm wondering if that's fair to think or it might be a consideration to increase investments in some of the new assets, Moy Park, Cargill pork, you might be interested in lowering some of the investments in your new marketing, your global marketing?

Should we think a little bit about, you know, now that you have this extra financial cash effect, might you deploy that in the short term in certain businesses or areas?

So that was last question. Thanks.

Mr. Batista: Alex, look, we generated a strong amount of free cash flow last quarter, so R$5 billion after we paid for the Moy Park acquisition. Either Moy Park or Cargill no one of those acquisitions need or is the type of acquisition that require, you know, significant amount of Capex investment; all these assets were well invested, so we don't see need to invest.

We are going to deploy the free cash flow that we are going to generate going forward to keep improving our balance sheet, this is one area clear for us, to keep investing in innovation, in our brands, is another clear, improving our product portfolio, and analyzing opportunities; we just approved a new buyback program a month ago and we have a buyback program open in JBS that is quite reasonable size, but we are going to be looking these opportunities inside of our company through share buyback, you know, and our brands and our product portfolio. This is where we are doing to deploy the cash.

Mr. Robarts: Got it, okay. Very helpful, thank you for that.

Mr. O'Callaghan: Thank you.

Mr. Batista: Thank you.

Operator: The next question comes from José Yordan, Deutsche Bank.

Mr. Yordan: Hi good morning everybody.

Mr. O'Callaghan: Hi José!

Mr. Batista: Hi, good morning.

Mr. Yordan: How are you? Now my operation questions were all answered and I think everybody's happy with the performance of the different divisions, I think, you know, the recent market concerns on pricing power, especially after your competitor released their earnings, you know, are really turning it back to them as the concern of, you know, their vulnerability, let's say, but having said all that, your stock is up basically $.09 today, I think because investors are finding it hard to get past your great operational performance because of this hedging issue, right?

I mean, I agree with your skepticism about natural hedge, etc., and the need to protect the dollar debt in Brazilian subs, however, I mean, you're defining exposure as the total debt including the debt in US subs and it opens you up to, you know, what many people are saying is that you are speculating on FX, right, and so investors are willing to overlook a great operating performance because they see you as half a food company and half a macro hedge fund at this point.

And I guess the question is: How concerning is this to you that at a time when you are performing very well in the market that more and more investors are beginning to be concerned about the size of the hedge, not necessarily the presence of one, which I think they agree is quite a prudent thing to do at this point given the uncertainty in Brazil.

Mr. Batista: Look, I got your point, we have been consistent in our strategy; we clear don't see… clear don't work in our business to generate our earnings coming from anywhere different than from our core business, our operation. We're not a hedge fund; we are a food company.

We are confident that our strategy has been prudent even we hedge our debt in our subs, we are hedging our leverage doing that as you update the total amount of debt every quarter, but the earnings, you know, you report the earnings and you don't update the earnings.

So, you know, in our view, we are one of the few Brazilian companies that has the end of the quarter delivering a solid strategy in terms of our hedging policy and not being, you know, hurt by currency or putting our leverage in place that we don't control.

So we are being very consistent in our view and we still consistent in what we do in our business and this is what we are going to keep doing and running our business.

Mr. Nogueira: And the reality, José, is JBS balance sheet is in reais, so we publish in reais despite of our operational size of Brazil and the company decision when we started the cycle of more risk of exchange rate was block the leverage.

So despite where will be the currency JBS leverage would be around 2.3 or 2.5 times. For me speculative are the companies that take the risk that this leverage can come back to 1 or can go to 4 because we publish in reais and we need to translate our results in reais.

Mr. Batista: It's interesting José because, you know, in our view when we have debt in dollar and you don't decide what you were going to go with that, you know, this for us is that you are speculating because if you don't decide to do you are putting ourselves… the market is going to decide for you.

So, you know, we are happy where we are, we are confident in what we are doing, fortunately the market is looking to our strategy and I think fortunately we have been able to show that we have consistence.

Mr. Yordan: Okay, that's great. And I guess you're still reviewing this size of the position on a monthly-basis because obviously as the real keeps moving the risk reward changes, regardless of what your overall hedging philosophy is.

I mean, at some point you may come to the conclusion that the real has gone far enough. Is there something…?

Mr. Batista: Yes, you are 100% right; we are revising this actually in a weekly-basis, we have a committee that our team discuss this in a weekly-basis and we analyze the risk reward and, like I mentioned in my remarks, will expire in the end of the 3rd quarter $2.5 billion in hedge because, you know, for sure the real already devaluates in a magnitude that reduce the risk.

So when we are reassessing this in a frequently base and we are going to keep doing that.

Mr. Yordan: Okay, sounds good. Thanks a lot.

Mr. Batista: Okay, thank you.

Mr. O'Callaghan: Thank you José.

Operator: 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'd like to thank each one of you to be in the call with us. We are pleased with our result, with our strategy, where the company is going.

I'd like to again thank each one of our team members for their passion, for their commitment and their involvement with the JBS family. So thank you very much to each one of you.

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