International Conference Call
JBS S/A
Third Quarter 2016 Results
November 16th, 2016

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 2016.

As requested by JBS, this event is being recorded. The recording will be available 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, Mr. André Nogueira, President of JBS USA, Mr. Gilberto Tomazoni, President of Global Operations, Mr. Russ Colaco, CEO… sorry, CFO of JBS Foods International, 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 you all. Thank you for joining us in our 3rd quarter earnings call this morning.

So, I will give you an overview about the performance of each part of our business in the 3rd quarter and as well the outlook in each business unit going forward.

Starting with Pilgrim's Pride, that already reported their 3rd quarter results, so when we look Pilgrim's Pride it's the 3rd year we are operating Pilgrim's Pride in double-digit type of margin. We have been doing a lot of things inside of Pilgrim's, we completely changed our portfolio; today we have a very good and very well set portfolio that is giving us a differentiation for our operation.

We are satisfied where we are, but we still have a lot of work to capture more, benefit from our internal operation, Bill and the whole team is very focused on getting more results inside of each part of our business.

When we look the dynamic of the chicken industry, we are very positive going forward, when we see demand that is still growing around the globe we see grain prices favored, so, overall, we are satisfied where we are, but we think we even can deliver strong results going forward.

I am very positive when I look ahead for the 4th quarter – and even beyond the 4th quarter –, in 2017 I definitely think we are going to be collecting good results from Pilgrim's Pride.

So, moving to pork, we have a very strong 3rd quarter in our pork business, so 14% margin. I think it's important to reemphasize after our last acquisition our pork business today's a US$5.5 billion-business that can deliver over U S$500 million Ebitda and it is going to deliver around this number.

Again, we are also very positive on the outlook for our pork business.

When we see today, US is the most competitive market to produce hogs and to produce pork meat, is very competitive, Europe is declining their production, China is importing more and more, US pork price today is in a very, very competitive place, even we delivered this result with 14% margin, we strong believe that our pork business is going to keep delivering very strong margins going forward.

This business has been a stable business over the last past years, the integration of our last acquisition has been very good, we have been able to integrate this business very, very well, actually, capturing more synergies than we actually we anticipated in the beginning, our team is doing an outstanding job in this division, and with all the dynamics that is going on in the market around the world, this business we are very confident that in 17 is going to be a double-digit margin business and is going to be very positive for JBS.

So, moving to our North American beef business – actually includes Australian in the results of our North American beef business –, we have been discussing for a while in terms of the cycle of this business and definitely we believe that we got in a positive cycle now; we had a good quarter, 5% margin, a lot of things going on around this business, so we are seeing more cattle available in the US.

US import is declining, so actually decline this year, year-to-date, 14% import, and in the other hand, export is growing. The US market grew 8.5% this year export, that this is also very positive.

Inside of JBS, our export growth is over 30% this year compared to last year, so the combination of more cattle available, less import and more export is definitely giving a very positive dynamic for the US beef business now.

So, we are very satisfied and very well organized internally. We did some changes in our beef business in North America in the past 12 months, and we are very satisfied where we are today. We believe we have a very strong structure and very strong team to be able to capture all the benefits that we can capture in our beef business in the US.

You know, looking forward, we are very positive that the industry and we are very positive about our capability to deliver very strong results in these coming years. I am very positive, we are already in the middle of the 4th quarter and the 4th quarter is, you know, performing even stronger than the 3rd quarter, and that is very positive, and I see 2017 that we are going to be able to deliver margins in the top of the range.

When we say top of the range, we mean 5% in our analysis, in our projections. We are going to shoot for higher than that, this top of the range, and we think we have a very strong business and a very strong team that we can even deliver above to the top of the range in terms of margins.

So, moving to Australia, you know, the Australian beef industry reduced a lot the amount of meat available due the fact that we are seeing less cattle available to be processed. This is positive midterm and long-term that we're seeing rebuild in the herd in Australia, but also this is benefiting US because Australia meat is more expensive, so you US is importing less meat from Australia, so when we see for JBS all-in is very positive, and on top of that we are very satisfied with our Primo acquisition in Australia.

You know, adding the Primo business inside of Australian business change dramatically our portfolio there, and this is very beneficial and we are seeing better margins in the 3rd quarter already comparing to the 1st and the 2nd quarter, that the performance was quite weak in Australia, and we believe the worst got behind in our Australian business and we are going to see better performance going forward overall there.

So, Moy Park, we acquired Moy Park just a year ago, we have been able to improve the margins in Moy Park. Still more work to be done, we are looking to run this business in a double-digit margin and we believe we can do that. It's going to take some time for us to get there, but definitely we believe this business we should be able to run in a double-digit margin. We are well-positioned in the UK market and very satisfied with our team there and we believe Moy Park is going to keep improving the margins and the results going forward.

Now moving to South America, and just talking more about Brazil, we are facing some challenge moments in the Brazilian market. Seara specifically is suffering 3 things, 3 main things: The appreciation of the real, that was around 4 in the end of last year and now is around 3,20/3,30, our Seara business is about 45% exports, so this has been putting pressure in the export margin due the fact that the real appreciated a lot; and also corn price in Brazil this year almost doubled the price comparing to last year; and on top of that the chicken international sales price was low due the fact that real went to 4 last year and, you know, the industry increased volume in the international market last year and put pressure in prices.

So, all these 3 things is putting challenge on the performance of Seara.

We believe that the worst just got behind us in the end of this 3rd quarter, basically because, you know, we are already seeing a lower corn price and a recover in international sales price, and we believe this is going to be progressively improving grain price and international sales price.

So, we are positive for 2017, we believe that Seara is going to be back in a normal margin level. We call a normal margin level 15% margin, and we believe during 2015 we are going to be able…

Mr. O'Callaghan: 2017.

Mr. Batista: … 2017, sorry, we are going to be able to put margin back where margin was before in Seara.

Moving to our beef business – and to finalize our business unit –, also is getting pressure in terms of margin, we are seeing contraction in our margin in the beef business, and basically the main… pretty much the same as I said in Seara; exchange rate is hurting our export business, our export beef business and as well international sales price, that was lower and is recovering prices in the international market.

So, again, we have a very competitive beef business in Brazil and we believe this business is also going to be back to a normal margin level in 2017.

We are very confident that, overall, in South America and in Brazil, in the Brazilian market, things overall, the economy and all that difficulties in the Brazilian economy also is getting behind and, overall, the mood is much better in the Brazilian market and this, of course, is going to benefit our business overall in South America.

So, our biggest focus now on and during 2017 is going to be cash generation. We believe we are going to be able to generate a strong amount of cash and we are going to be able to deleverage our balance sheet.

Only to remind everybody, so we did a lot of acquisitions in the last 18 months, we acquired Pilgrim's Pride… sorry, we acquired Moy Park in the UK, we acquired Primo in Australia, the Cargill pork business in the US and the chicken business in Mexico and in Brazil. So, we did a lot of acquisitions, over US$5 billion in acquisition in the last 18 months, and now we are very focused on, you know, generating cash and deleveraging our balance sheet.

We are very optimistic. When we will JBS, overall, we definitely think we built a unique platform globally in terms of our diversification in segments and as well our geographic diversification. So, we are very optimistic when we look each part of our business and we are confident that we are going to have a very, very strong 2017.

So, with that, I'm going to stop here and pass to Jerry to go through the numbers and each business unit performance as well. Thank you.

Mr. O'Callaghan: Thank you, Wesley, thank you and good morning to everybody. As I go through these numbers, I'm going to make reference to our presentation, which is on our website and available, and I will mention page numbers to facilitate people accompanying my conversation here.

So, starting with page 3 in our presentation, the consolidated highlights for the 3rd quarter, starting with net sales, net sales declined by just over 4% to R$41.16 billion from 43… just over R$43 billion in the same time last year. Always bearing in mind the FX associated with these numbers.

Gross profit declined from R$6.24 billion in 2015 to R$5.34 billion this year; a decline of just over 14% with gross profit margin declining from 14.5 to 13% in the period.

Moving on to the next page, and speaking of Ebitda and net income, Ebitda declined to R$3.14 billion; a decline of 18% from R$3.83 billion in 2015 Ebitda margin, declined from 8.9 to 7.6%.

Net income in this quarter, in this 3rd quarter 2016, was R$887 million or R$0.32 per share; a decline of 74% when compared with the same quarter in 2015, where net income was R$3.44 billion or R$1.19 per share.

Moving on to cash flow, operating cash flow in this 3rd quarter 2016 was R$1.83 billion as compared with just over R$3 billion in the same period last year. Free cash flow in this quarter was positive R$782 million against a negative R$8.5 billion in the same period in 2015.

Speaking of net debt and leverage a little bit, and moving on to page 6 in our presentation, leverage, as Wesley mentioned, has moved up; it’s 4.32 times net debt to Ebitda at the end of 3rd quarter. Net debt, actually, declined from R$49.2 billion to R$48.8 billion when compared with the previous quarter, with the 2nd quarter 2016, but leverage moved up because of the lesser Ebitda in 3rd quarter of 16 when compared with 15.

Our debt maturity is also on page 6, more than 1/3 of our debt are maturing after 2021. Having a little bit of a closer look at our debt profile, on page 7 of our presentation, the breakdown by currency firstly, almost a 92% is in US dollar and just over 8% in reais. The cost per currency is just over 5% in dollars and 14.45% in reais.

By source, almost 60% coming from commercial banks and 40% coming from the debt capital market, and in the breakdown by company, it's almost 47% at JBS S/A at parent, 44% at JBS USA, and the difference at Seara here in Brazil.

Short-term debt is at 31% of the total debt, which is similar to where it has been in previous quarters, and we always highlight the fact that the major portion of short-term debt is trade finance, and that's because of the volume of exports that we have out of Brazil; by far the cheapest source of financing in Brazil and for that reason we have that portion of our short-term debt in trade finance.

Now, speaking of the business units, and moving on to page 9 in our presentation, Seara net revenue was down 8.6% to R$4.57 billion against just over R$5 billion in the same quarter last year, Ebitda, as Wesley mentioned, declined quite a bit in this business unit; Ebitda was down to R$334 million against just over R$1 billion in the same period last year. Ebitda margin declined from 20.7 to 7.3%.

In fact, we had growth in our domestic sales due to an increase in sales prices and in volumes domestically, and what really jeopardized this business was the FX variation, as again we mentioned earlier, and the cost of grains, which impacted the quarter quite a bit although we do see an improvement in the input cost of feed.

We also saw an improvement in service levels and a growth in our customer base in Brazil, reaching 143,000 active customers in the domestic market in Brazil. We also introduced the Seara Gourmet line and we also innovated with an organic line in Brazil under the Seara da Granja brand.

Moving on to our Mercosul business, page 10 in our presentation, again revenues declined here again FX is a factor and reduced our revenues from R$7.14 billion in 2015 to R$6.78 billion; a decline of 5% and revenue. Ebitda down from 640 million to R$340 million. Ebitda margin from 9% margin at this time last year to a 5% margin this year. We saw a reduction in the revenue primarily due to a decrease in export volumes in reais, and this was partially offset by an increase in prices in volume sold in the domestic market. Again, we had higher raw material cost and again the FX variation.

And in this business unit, we inaugurated right at the end of the 3rd quarter a new processing facility in Paraguay, which will increase our capacity in that country by 75%, and I'd like to highlight the fact that the fastest growing heard in South America is actually in Paraguay.

Now moving on to our North American business, JBS USA beef, which includes Canada and Australia, in dollars here we had revenues of US$5.36 billion in the quarter against 5.75 in the same quarter last year. Ebitda increased from US$197 million to US$270 with Ebitda margin going from 3.4 to 5%.

We had a good increase in cattle availability in the US, we had a decrease in revenue due to a decline in beef prices in the US market as a result of a decline in cattle prices, and we had a growth of – and Wesley mentioned this – a growth of over 30% in our US exports due to strong demand coming particularly out of the Asian market.

Our pork business in the US, JBS USA pork, we had a big increase in revenue due to the integration of the acquired assets at the end of last year; revenues going from US$785 million in the 3rd quarter of 15 to US$1.35 billion in 2016. Ebitda went from US$48 million to US$190 million with an Ebitda margin going from 6.2 to 14%. Primarily, we had higher export prices again boosted by strong demand coming particularly out of Asia and an improvement in efficiencies with an increase in productivity and the capturing of synergies from the integration of the assets we acquired at the end of last year.

JBS USA chicken, Pilgrim's Pride, which already reported its numbers, so briefly just over US$2 billion in sales; down from US$2.1 billion in the same quarter last year. Ebitda was US$211 million in the period against US$274 million in the same quarter last year with an Ebitda margin declining from 13 to 10.4%.

We had lower sales due to a reduction in volumes sold of processed products, we had a decline in sales when we convert into dollars in Mexico due to the depreciation of the Mexican peso, which was partially compensated by higher prices and volumes sold domestically in Mexico.

Ebitda was impacted by a lower capacity utilization in one of our largest prepared foods plant, as the company modernizes that facility.

JBS Europe, Moy Park, basically – and now in pounds sterling –, revenues increased marginally to £352 million sterling from 350 million in the same quarter last year. Ebitda went from 36.8 to £31.4 million sterling with an Ebitda margin increasing from 7.6 to 8.9%.

We had a decrease in volumes of prepared products sold in the domestic market, which was offset by an increase in prices in the international market, and we also had a growth in our exports from our Moy Park business. We also saw an improvement in margin results… resulting from synergies to increase operational efficiencies implement by the management after the acquisition in September of 2015.

That concludes our remarks about our business units, so thank you very much and we now open for Q&A. Thank you.

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 Farha Aslam, Stephens.

Ms. Aslam: Hi, good morning.

Mr. Batista: Hi Farha!

Mr. O'Callaghan: Hi Farha!

Ms. Aslam: Two questions, both longer-term and nature. The 1st one is on your pork business, your pork business performed very well in the quarter, but in the US, you are having 4 to 5 new processing facilities that are coming in mind over the next 3 to 4 years.

How are you thinking about your pork profitability over that period of time and how are you preparing your business in light of the increase capacity in the industry?

Mr. Batista: André, can you answer Farha's question?

Mr. Nogueira: Yes, good morning Farha. So far, there is 2 important sizable new pork plants under construction right now, another one is pretty small. I think that the growth in the hog availability will be enough to supply these plants and I think that the most important thing is the global demand, how will be the global exports, and I think that if you see what's going on right now US is recovering market share in the important markets for US, I think that you have the reduction in the sow numbers in China, you have the reduction in production in Europe, and US pork price is very competitive in a global base.

So, as long as we continue to grow in export – and that's what is happening now – and I think we have a long way to go to recover all the export markets that we lost during the PDV virus in US, I think that we expect that profitability in the business will continue in a healthy level.

What we're doing is the thing that we have been doing during the last several years: I think that investing in our operation, making sure that our operation, our plants are working in a very efficient way, have been outperforming the industry for a very long time now with a very healthy gap between ourselves and the industry, create the customer relationship, differentiate our products to make sure that each day we are less in the commodity, that our products deserve a premium and have the preference of the customer.

That's what we are doing, we're being very successful doing that. If you see the level that we sell our products, the quality of our products, both the domestic and international market we are clear different from most of our competitors, and that's the way that we are prepare ourselves for that, and I think that the global demand, you know, seeing that are producing more right now and demand continues to be in a very good level in a global basis.

Mr. Batista: Farha, just to add one comment on André's comment, so on top of everything that André already said, you know, in our view the ramp-up of this new project, these new plants in US is going to take much more time and it's not going to be fast like was before due labor constraint.

We believe that this is going to take longer than before, and even than the market is anticipating, you know, how this ramp-up is going to happen. And on top of the competitiveness, in terms of how you ask and produce hogs today, we believe the market is going to demand… demand is going to be there to absorb more production from US.

Ms. Aslam: That's helpful. And perhaps just one follow-up. Recently, we've had a big political change in the US with Trump being elected, and one of the campaign promises is increase tariffs of products from Mexico and particular in China.

Are you concerned about a trade war brewing and that impacting US protein exports?

Mr. Batista: No Farha, we are not concerned about any change in government. In the end of the day, you know, we are going to compete in the market with everyone else, and we are very focused to be very good in what we are doing in what we do.

You know, we are not concerned at all about any change in government.

Ms. Aslam: Okay, thank you.

Mr. Batista: Thank you.

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

Mr. Cipiccia: Hi, good morning. Thanks for taking my question. I wanted to ask 2 things. One is, if you can comment on the current and expected competitive environment for Seara in Brazil. Maybe as you go into the 4th quarter, you know, what type of strategy, commercial initiatives you are putting in place, value relative to mix. We are seeing a little trading down, we're seeing a lot of dynamics. Maybe, you know, what type of competitive environment do you think you we will see in the 4th quarter, how disciplined or not as well as looking out in 2017?

And then secondly, on the beef, recovery beef division, US beef division, can you quantify given the swings in currency and relative performance what is the contribution of Australian now, and the net profitability of that unit combining beef and Primo, was it higher or lower than the consolidated margin that you reported? That would be my questions. Thank you.

Mr. Batista: Look, I'm going to take the 1st part of your question about Seara. Look, we have been working since grain price went almost to the roof in Brazil this year, and also when the exchange rate dropped so much, you know, to recover price in both markets, in the international market, and we have been able to get some price increase, and also in the domestic market we are working to reposition price given the fact that the cost is different this year comparing to last year.

We are going to keep working on that, we have planned to pass more price in the international market and as well in the domestic market. So, the 4th quarter is usually a better quarter overall; we have Christmas that we sell a lot of products, we sell a good amount of products to the Christmas period, we are going to have a better 4th quarter and we are more positive for 2017 due to the fact that we are seeing corn price declining, and as well export and domestic price picking up.

And, you know, we saw the market quite challenge in the 3rd quarter, but we are seeing a better outlook already for 2017, so we are going to be focused.

In terms of market trending down, actually, we are working in an opposite way; we just launched a product line by the name Seara Gourmet, and we are actually pushing to trend up our portfolio, and we have been able, in some extent, even with all the challenge in the Brazilian economy, we have been able to hold our mix without seeing a big trending down due these initiatives that we are doing, launching like the Seara Gourmet and the organic chicken, and we believe this is going to keep happening.

Some I'm going to pass to André to comment about your question on beef. André, please.

Mr. Nogueira: Luca, when you look our segments inside of the beef US – that you have Australia, you have Canada, you have the regional business that's more the cow business, and we have the fed –, the best performance of the quarter was the fed business, the others performed in a similar level, but a little bit less, including Australia.

Of course, instead of Australia Primo was the highest performance and the land business in the South was the lowest performance. It's kind of the seasonal low for the land anyway, we are going to see a better performance in Australia in the 4th quarter compared with the 3rd quarter because it's the time that that land business will improve, but Primo is performing in a much better level than the average of Australia, of course.

But the best performance in the quarter was the fed business in US. The gap between the business is much smaller than it was in the 1st quarter and the 2nd quarter.

Mr. Cipiccia: Okay, very clear. Thank you.

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

Mr. Hunt: Thank you for your time this morning.

Mr. O'Callaghan: Morning Brian.

Mr. Hunt: You gave us a lot of good color with regards to issues of divisions in terms of margin prospects or what do you felt like Seara and the Australian business was bottoming out. Do you feel like this is peak leverage for the company at the current time? And what type of leverage target would you have for 2017 given the earnings outlook?

Mr. Batista: Yes, we see leverage in the peak now in the end of 3rd quarter. If you look our LTM results by each quarter, 4th quarter, 1st quarter 2016, so the quarters that we are going to replace is weaker, then we definitely believe we are going to delivery.

So only due the fact that we are going to replace stronger quarters against lower quarters is going to improve leverage, and on top of that we are very confident the amount of cash that we are going to be able to generate going forward, and on top of that, you know, we have been spending pretty strong amount of money inside of our business in the last many years, we have been acquiring these businesses, some of these businesses have been performing well and was a pretty big need in terms of capital in a lot of business that we acquired.

And we, when we look forward, the need in terms of investments is going to be smaller because all the plants and all the assets is in a very, very good shape now due this amount of money that we put over the past many years.

So, the combination of, you know, strong amount of free cash flow and strong results, yes, we think that this is the peak of our leverage and this is going to decline quarter by quarter, and we believe we are going to see this leverage much lower than it is now by the end of 17.

I'm not going to go specifically about where the leverage is going to be, we are closing to finalize all of our projections for 17, but it is going to decline substantially.

Mr. Hunt: My next question is: When you look at your last couple of acquisitions, like Moy Park and Cargill pork acquisition, can you… just isolating those 2, can you talk about the synergies that you've gardened so far and how much may be left for both of these businesses?

Mr. Batista: Yes, sure. André, can you go on the Cargill acquisition?

Mr. Nogueira: Yes. Brian, you probably remember, when we announced the acquisition we said the synergy was around 100 million, then after we assumed the plants we updated the number for 150, and that's what we believe is the possibility of the total synergy.

We are now just completing one year that we did this acquisition, we already captured 100 million, over US$100 million. So, we have 50 million more to go, and this is more in the yield side and a little bit in the sale side. The cost side of the equation is pretty much done, but we have a little bit more opportunity in the yield in the sale side.

But, again, we are very proud of the work that the team has done here, in less than a year… in reality, in 4 to 5 months the business was running absolutely inside of our systems, IT, form of operation, form leadership, with integrated team. We did that in 4 or 5 months, and now with a year we captured most of the synergies, to sum to go that we did investments, as Wesley said, in the 2 plants to capture these yields, and we believe that we will capture that in the next 6 months.

Mr. Batista: So, on Moy Park, if you look the historical Moy Park results comparing to our latest quarters, you know, we have been already able to improve 1.5% margin in Moy Park, and we believe still 2% more to go, and we are well on track, you know, to capture this.

Mr. Hunt: All right. And my last question: I know you all made a significant investment in Scott Technology, and I believe you've been testing some robotics in [0:41:23 unintelligible], you touched on maybe of some of your competitors would have a tough time getting access to labor with their new plant construction.

Can you talk about the initial tests of Scott Technology and what kind of cost savings you may be seeing from using robotics in either hog processing and/or on the beef side? That's it for me, I appreciate your time.

Mr. Batista: André?

Mr. Nogueira: Well, 1st, the investments are not significant; a relatively small investment around US$40 million to buy 51% of the company and the control of the company. But it's too early, it's too early, Brian, to see any big impact.

Of course, we having a land plant in Australia, a full robotic system of cut the carcass and deboning, we are implementing this in a 2nd land plant, we are working with Scott in several different areas, one in the safety; that have the great and developed in the last few years a very good system that improves the safety in this sows that we have in the plant dramatically, and we are implementing this in a lot of our plants, that's the big saving in the cost of any safety issue that we have in the plant.

But to start to elaborate robots, possible savings in the pork and in the beef business is too early for that. We are working on that, but it's too early to anticipate any number.

Mr. Hunt: Thank you so much. I appreciate your time.

Mr. Batista: Thank you.

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

Mr. Robarts: Yes, hi everybody, thanks for taking my question.

Mr. Batista: Hi Alex!

Mr. Robarts: Hi. Listen, I was keen to actually go back and see if we could drill down into some of the factors that you've described about beef USA that, you know, we are seeing farming this recovery get both in the cycle, but also operational with you guys as you've given us interesting guidance also for 4th quarter and next year.

So, around beef USA, it was just kind of 3 related-questions. You mentioned 1st in your prepared remarks that last 12 months you've executed some changes in that business, and I was wondering if there was 1 or 2 you could highlight that you think was particularly relevant in getting us up into this a little higher than what we would have expected margin in the 3rd quarter in beef USA, and kind of this pretty high conviction guidance that you've got over the next few quarters.

And secondly, it seems Australia has kind of been a drag in the 1st half of the year on beef USA. You've outlined the case that Primo has been helping Australia, and I'm wondering around Primo is it safe to think that this can be a sustainable double-digit marking business and can be scalable and exportable the brand in products that other markets that you've got in the JBS platform?

And the 5% [0:45:10 unintelligible], this is the 3rd… the 5% kind of higher end of the range margin guidance for beef USA next year. What kind of industry or I should say cattle price range are you thinking about for next year, as you said out that guidance?

So, kind of 3 related-questions on the beef USA margin recovery outlook. Thanks very much.

Mr. Batista: Thank you. André, can you answer the question, please?

Mr. Nogueira: Yes. Alex, the 1st you asked about the change, the most important change that we did more than 12 months ago, we used to run the beef business in US as one business. We separated the beef business in 2 businesses, that's the fed business and the regional business, and we are starting to collecting the benefits of that with more focus, both in the operation and in the sale side, that they are different businesses, they have different dynamics and was the right move.

We had some pain initially when we did the move; separate the teams, create the folks, create the ownership, set up the team, but we are starting to collect.

Again, we had a relative in terms of operational 4th quarter last year was weak, the 1st quarter of this year was weak, below our expectation, start to improve in the 2nd quarter and improve a lot in the 3rd quarter. We are not there yet, we have space to continue to improve, and we are working on that.

But, for sure, we feel now that we are in the right direction. But most important change was the set-up of the business and divided the business in 2 teams and the right people in place.

About Australia, specifically about Primo, no question; we bought this business to be a double-digit business, and the direction for us is in the high double-digit, not in the low point of that. So, that's the direction we are working, we are very confident.

Again, the team is in place there, since we bought the business we have a new head of the business, a new leader for sales, a new leader for operation, and we are starting to collect the benefits of the team in place and the structure.

So, absolutely no question; we will be very unhappy if this business is run in the next 1-2 years below anything… below 15%. We believe that between 15-20% margin business, the Primo business there.

On the cattle price, I think that we are back to the normal level, and we are going back to the normal level of cattle price in US in historical price. So, if you look how was the historical price before the drought and before the big reduction in heard that we had, so if you go back in 2009, 10 and 11 more in the normal cycle that start to change dramatically in 2012, 13, 14 and 15. If you go back there, it’s between 85 and 100, and that's probably what we are going to see in the next few years, between 85 and 100.

Mr. Robarts: Okay, fair enough. Very clear. And just, I mean, is Primo something [0:48:48 unintelligible] that you feel will just be dealt in Oceania or is it something that you could perhaps start exporting or is it going to pretty much remain a domestic business there in Oceania?

Mr. Nogueira: Again, the business in Australia and New Zealand we already have some level of export. We believe that's possible, used to grow a lot, but we need to do a lot of work on that. We are not there yet. But, yes, we believe that this is a business that can have an important presence in Asia.

Mr. Robarts: Okay, fair enough. Thank you.

Operator: The next question comes from Lori Torres, UBS.

Ms. Torres: Yes, hi, good morning everyone.

Mr. Batista: Hi Lori.

Mr. O’Callaghan: Morning Lori.

Ms. Torres: Hi. I just have a follow-up on Seara. I appreciate the level of detail that you are giving with respect to the pressures that you're seeing, and it does appear going into next year a lot of these pressures will abate, so will see recovery in margins.

I guess I just have a bigger picture question on the margin contraction that we’ve seen this year. Seems that being the branded business that you have there should have been less variability in margins, meaning this 21% margin a year ago going down to 7 seemed quite of a wide drop and, once again, having some pricing power in good brands under this platform, you know, maybe that drop was more than you thought.

So, I guess just thinking even though with the environment improving next year, if you feel there's kind of been lessons learned about, you know, maintaining a better more sustainable margin even in light of market or industry pressures?

Mr. Batista: Yes, we agree Lori, and, actually, the margin declined more than we anticipated in the beginning of this year. The biggest pressure came from corn, you know, more than anything else, even though the real appreciated a lot. But we were following what is going on and, in some extent, was in the account that the real was going to appreciate, but corn going from R$25 per bag to 45 or even the R$50 per bag was something that I think no one anticipated that this was going to happen.

And, you know, the reality is the industry was not able to pass price in the velocity and in the same magnitude that we saw in pressure in terms of cost.

So, definitely, it's a lot of lessons for us that we learned from this big change in the market, and I think the industry is going to be much well-prepared for next year, you know, to be able to recover margin.

We are working very focused on improving our portfolio and we have been able to do that, we are well satisfied the work that we are doing around the Seara brand, you know, the expansion that we are seeing in our customer base, in all these fronts. We are very satisfied,

But, in reality, the industry was not able – and we are part of the industry – to pass the pressure in cost in the same magnitude, in the same velocity, and again, I think we are just going to start 17 in a much positive scenario when we look forward.

Mr. O'Callaghan: Just to add to that, we had the appreciation of the real from about 4 to about 3,20 in the middle of the year, so that was quite a rapid appreciation adding that on to the corn issue.

And just projecting for 2017, we just had a look at the most recent projections for corn production in Brazil, think it's kind of interesting to have this one year ready as well, Lori, and the early harvest, which is in January and February now in 2017, we have a projected increase of about 7.5% in this harvest when compared with the harvest of early 2016.

But more importantly, in the 2nd harvest, which we call in Portuguese the "*safrinha*", which comes out in the middle of the year, projections are indicating that we will have an increase in production of corn of close to 40% in the middle of the year.

So, we should have a bumper harvest. Climate has been favorable up until now, and that would give us a complete different dynamic in terms of feed and the feed cost for2017.

Ms. Torres: Okay. That's very helpful. If I can just ask as a follow-up to that on Seara, you know, you mentioned that there are or there is room for further pricing going into next year. I'm curious to get your perspective on the consumer in Brazil.

We are hearing about maybe a gradual recovery or at least a more stable environment, but are you seeing this, and do you feel there is room for further pricing in light of how the consumers are behaving right now? I mean, is it something that can be well absorbed or we should be cautious going into next year?

Mr. Batista: No, look, we believe that the worst on consumers' confidence and as well in consumers' ability to spend on food is definitely behind.

We believe that we are just starting in the last 3 months a more positive sentiment from consumers, and we are slowly seeing this in our business overall that demand is starting to, not in a big way, but starting to be better, and we believe this is going to keep improving in Brazil, and we are very focused on, you know, improving our portfolio and our mix.

We just launched the Seara Gourmet and it's going very, very well, and all these initiatives is to have a better portfolio for us to be able to capture better margins, and we are… and we believe consumer's going to be there to buy very, very good products, with a good value proposition, even if we are trying and working to push up the trend.

Ms. Torres: Very good. Thank you.

Mr. Batista: Thank you.

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

Mr. Yordan: Hi, good morning everybody. My question is about PPC. I'm just wondering to what extent this modernization of the prepared food plant is… what role it's playing in your sales declines, because obviously, I mean, in the US it's been I think 6 quarters of sales declines.

So, I'm wondering if you can tell us, you know, when this stops becoming a factor and whatever other factors are causing it, which are namely perhaps substitution from lower beef prices and just that.

So, it would be great to get a little color on when you see sales growing again and what a normalized sort of production and sales growth number we should be looking at?

Mr. Batista: André?

Mr. Nogueira: So, 1st, sales overall you have the impact of the sales price for the whole industry, that has been affecting not only for Pilgrim's, but for the whole industry.

Specifically for Pilgrim's, yes, volume in the prepared foods was affected in the last… especially in the last two quarters, and on top of that we did and we are doing some transformation in some plants, we are transforming one of our plants in an organic plant, we are transforming another plant from 6 feeds to a better mix for specific customers; that impact the last quarter and will impact the 4th quarter a little bit.

So, it's a combination of sales price for the overall industry and volume during the transformation that they are doing inside of the company.

Pilgrim's, we expect that the plant will be in full run, that this prepared food plant will be in the full run at the end of the 1st quarter, and to the transformation that we did in the other 3 plants will be done and will run in the 1st quarter.

So, in terms of a volume, we will have a better position in volume in the 1st quarter.

In terms of trade down or trade up, demand in retail continues to be very strong for chicken, despite of being very good in beef and pork too, but chicken demand in retail is still in a very, very good position. So, we don't see any impact of any trade down. In fact, if you look the per capita consumption in US has been growing in the last several years and we expect that to continue to grow.

Mr. Yordan: Okay, that makes sense. Thank you.

Mr. O'Callaghan: Thank you José.

Operator: The next question comes from Pedro Leduc, JP Morgan.

Mr. Leduc: Good morning. Thank you for the question and the call. In respect to your US operations and then across the board, you've been mentioning very strong exports helping your profitability. In this respect, we've seen, let's say, in the last few weeks or so a dollar-strengthening or other currencies losing a lot in respect to the dollar.

So, we are wondering if you see room for perhaps to retain your dollar pricing or how you're seeing clients behaving in that respect?

And then, in the 2nd movement we know that Mexico is a relevant source of US protein exports, right? 200% of pork, poultry [0:59:48 unintelligible] beef you operate on both sides of the border obviously. And so, we are wondering if you can help us understand how you're perhaps preparing for a trade shift, if at all, and if it were to happen, how do you believe it can affect your operations outside of the US as you reroute these former Mexican volumes, again, if it were to happen? Thank you.

Mr. Batista: So, Pedro, I'm going to ask a portion of your question and ask André to add on my answer.

So, you know, we are not seeing any change yet in export volume our customers' interest in terms of buying US protein because of the appreciation of the dollar, that has been happening the last 2 weeks and I think it's too early for, you know, a call that the US dollar is going to be much stronger or not.

So, we are, you know, like I mentioned before, we are not doing anything, we are not preparing to any change because any change in government. We don't have any control on that and what is going to happen.

In the end of the day, US produces protein in a very competitive way, pork is very, very competitive, chicken is very competitive, and even beef now is back to be very competitive.

So, we are very focused on our business internally and we want to make sure that we operate our business – regardless anything that is going to happen in government – very, very well, and, you know, we think Mexican consumer's going to still be there and they still are going to be looking to buy protein to meet their needs, and not only Mexico, in Japan, in South Korea, in China and, you know, if you look the 2 main places around the globe that is very, very competitive and produce a meaningful amount of protein is North America and South America, and we are glad that we are in both of these regions, well-positioned to what is going to happen.

So, I do know, André, you want to add anything more?

Mr. Nogueira: I just want to add that Australia is very important too in beef and lamb. Don't forget them. But in terms of price and dollar impact, if you look especially in beef at Japan and South Korea, the 2 most important markets for the US beef, and US is growing a lot in these 2 markets this year, it's much more related with how competitive US is with the domestic production, and domestic production in these 2 countries are so much higher the costs compared with the import beef that, unless the currency moves a lot, 30-40%, US will continue to be extremely competitive with the domestic production there.

I'm saying the domestic production because we are seen a big increase of the US export at the same time that Australia is keeping the same volume for these 2 markets. In reality, for South Korea sale is even growing. So, US is growing, Australia is growing, so we are replacing domestic production there.

Mr. Batista: One more comment Pedro that, you know, I am going to repeat what I said in the beginning, so we believe we built a unique platform and, you know, only to remind, a strong dollar is actually pretty good for us overall.

So, overall, seeing the dollar getting a little stronger is not a bad thing for JBS overall. So, if you see the amount of [1:03:53 unintelligible] that we generate in dollars and as well the amount of product that we export from Brazil, actually, is pretty positive.

So overall, actually we would like to see this dollar getting a little stronger.

Mr. Leduc: Okay, thank you.

Mr. Batista: Thank you.

Mr. O'Callaghan: Thank you Pedro.

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

Mr. Batista: I want to thank you all for being in the call, the 3rd quarter earnings call. I look forward to speaking with you again in our coming quarters. Thank you. Thank you very much. Bye-bye.

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