International Conference Call
JBS S/A
Fourth Quarter 2016 Results
March 14th, 2016

Operator: Good morning everyone and welcome to JBS conference call. During this call, we will present and analyze the results for the fourth 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.

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

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

Mr. Wesley Batista: Thank you. Good morning, thank you for joining us this morning to discuss the results of the our 4th quarter 2016 and the full year.

I'd like to start discussing with you the acquisition that we announced last night about Plumrose. We agree to acquire Plumrose from Danish Crown in Denmark, Plumrose is a company that is operating in the US for many decades and is a company that operates in the packaged food business producing ham, bacon, and value-added products.

We agree to acquire year Plumrose for US$230 million. Plumrose is a company that has a revenue of US$500 million annually, this acquisition is fully aligned, 100% aligned with our strategy to expand our presence in the packaged food business in the US, we are pleased that we agree on this transaction with Danish Crown. We expected between 25 and US$30 million in synergies to be captured, and we continue our strategy and, once again, this acquisition is 100% in line with the strategy to expand our presence in the packaged food business and, you know, expand our presence in the branded business in the US.

I'd like to give you an update about our processes to do the IPO in JBS Foods International. We were waiting to release our 4th quarter and our 2016 results to incorporate all the 2016 numbers in the filing, and as we speak, we are working to incorporate all the numbers for us to refile and we expect to do that shortly, and the process is moving as expected.

So, talking about the 2016 results, before I handle to Jerry to discuss with you more in detail all the numbers, I'd like to tell you all that we were very focused during the whole 2016 to consolidate several acquisitions that we did in 2015 –

only to remind you all, we acquired Moy Park in Europe, we acquired Primo in Australia, we acquired the pork business in the US, and we acquired chicken business in Mexico, and as well we did several acquisitions in Brazil expanding our business in the prepared foods business and the Seara business –, so, we were fully focused in integrating all this business and we were able to integrate all this business and to capture all the synergies that we were looking to capture.

Our strategy, like I mentioned in the beginning, is still to expand our presence in the packaged food business in the markets that we operate today, especially our biggest focus is to expand and to grow the packaged food business in the US. We see opportunity to keep expanding and to keep growing this business in US doing acquisitions like the Plumrose acquisition.

Last year, clearly our diversification in terms of the regions that we operate as well segments that we operate, being a global player in the protein sector, clear proved to be an important competitive advantage for JBS, and when I say that I mean when, you know, we face some macroeconomic challenges or when we face some challenges in some sectors, operating a global platform like we operate today allow us to be able to deliver solid and consistent results.

For 2017 we are optimistic about what we are going to deliver in terms of results, we are optimistic about each part of the business, and I'm going to go through, walk through each region quickly and each segment to discuss with you why we are optimistic about the performance of our business during 2017.

When we look Brazil, you know, we have 2 sizable business in Brazil: we have the beef business and we have the Seara business. Looking in the macro side, in terms of the Brazil economy, clearly, we believe that, you know, the worst in Brazil is behind, we believe that the economy is recovering and is going to recover every quarter during 2017 and going forward.

So, we believe that the most challenge moment in the Brazil economy is behind.

When we look our business specifically, in our beef business we are clearly in Brazil starting a positive cycle like in the US: we are seeing more cattle available, Brazil the last 2 years we saw a quite sizable cattle retention and now we are seeing more availability in cattle to process in our plants and we are optimistic that with that (and the industry capacity today) we are going to see this year and in the coming years a positive moment for our Brazil beef business.

Looking Seara, as you all know, we had a pretty challenge in 2016 year in the Seara business, mainly due 3 factors:

- One, corn price almost doubled in 2016 comparing to 2015, and was a movement that was not a normal movement in terms of the corn price in Brazil, and now clearly the projections and what we are seeing, we are [0:09:29 unintelligible] big harvest in Brazil, and grain price (specifically corn) is already declining and going to the direction to a more historical price, and this is going to help to improve margin in the Seara business during 2017;

- The other component last year that was quite challenge was the international sales price for Brazil chicken products and, again, the industry is more balanced now and we are seeing prices in the international market recovering and improving, and this is also going to help to improve margins back to a more historical or more normalized level in the Seara business;

- Also, the real appreciated a lot last year and, you know, the industry was not able to adjust the appreciation of the real in the sales price in the same magnitude, and now the real is more stable, so we also see this positive.

So, in Seara believe that we are going to see during 2017 every quarter one quarter being better than the previous quarter due these factors that I described before.

We keep expanding our customer base in the Seara business, we keep investing in the brand and we are making good progress, service level is in a pretty good shape, and we keep focused to serve our customers better every day.

So, moving to describing block Paraguay, Uruguay, and Argentina (we call the Cone Sul business), we see also positive trend during 2017. Paraguay, we just built a brand-new plant there, we are investing in Paraguay, the herd size in Paraguay is growing, Paraguay is very competitive today, Uruguay we have a very stable business, and Argentina the country by itself is improving and the macro scenario in Argentina is more positive now comparing to the previous years. So, we are positive on our business in the Cone Sul.

So, discussing our business in the US, and I'm going to go through beef, pork, and chicken, but overall the US economy is going well, consumers… protein price is more affordable now than it was before, we believe consumer is going to demand more products. Export overall in US is growing and important is declining. So, net availability especially for beef in the US is going to be substantially less this year comparing to last year, and we see this positive.

So, unemployment in the US is low and people income we believe is going to keep improving. So, overall, macro scenario in US we are positive.

So, more specifically in each part of our business, the beef business we have been discussing this in the previous quarters, clearly, we got in the positive cycle, we are seeing more cattle available, the herd size grew in the US around 5 million heads of cattle, that is going to… we are going to see more cattle available in these coming years.

So, we had a pretty positive 4th quarter and we expect to see positive 2017 and the coming years in our business beef business in the US and as well in Canada, that the dynamic is pretty much the same.

So, in our pork business we are very satisfied, after the acquisition that we did recently we incorporated this business, we captured the synergies that we were looking to capture, and we are still seeing opportunities to capture more synergies in our pork business, and we believe we have a well-run business in our operation in the US today in pork, in beef, and as well in chicken.

So, Pilgrim's, Bill already discussed with you about the outlook, how we are seeing the business. In summary, we believe the business is going to keep performing in line with how the business has been performing in these previous years, and we are working to recover volume in our prepared foods business and to improve the profitability on this segment in our chicken business in Pilgrim's Pride.

So, in prepared, I already mentioned, so the Plumrose acquisition is 100% in line with what we want to keep doing in US and what we are going to keep looking for to expand the packaged food business inside of our portfolio.

So, describing prickly about Mexico, we are very satisfied, we have a pretty sizable business in Mexico, we are the 2nd largest player in the chicken sector in Mexico, we are investing in our brand, in prepared food products, and it's going really well, and we believe we had a lot of opportunity to expand our prepared foods business, our packaged food business in Mexico as well.

So, in Australia, we acquired Primo, we are on track on Primo, the addition… the Primo addition in our portfolio in Australia is working very, very well, we have been able to mitigate some challenges in the Australian beef business, especially last year, and still some challenge the beginning of this year, we believe that this is going to improve going forward, but the portfolio in Australia with the Primo business is much more balanced now to deliver sustainable and consistent margins.

In Europe, we acquired Moy Park, we are satisfied, we improved margins in Moy Park almost by 100 basis points comparing to the previous year (before we acquired), and we still opportunity, we believe we can… our target is to run this business in a double-digit margin, and we believe we have opportunities to capture synergies and to improve our business to put us in our margin target level.

Moy Park has very, very innovative products, and products that we definitely are going to leverage to use the Moy Park knowledge in terms of innovation to launch some products in the US market and as well is in the Brazilian market, again, using Moy Park expertise.

So, to finalize to handle to Jerry here, I am confident, I definitely believe that we have an extraordinary team, we have been only able to be where we are due this great team that we have, and we definitely believe that we are going to continue generating value, create value for all of our shareholders, team members and all of our stakeholders.

So today, JBS is a truly global enterprise with more than 235,000 team members across 5 continents, and to finalize I'd like to thank each one of them for their effort and complete dedication to our company. I also want to thank our business partners, clients, suppliers, shareholders, and investors who have always believed and trust in our company.

So, with that, I'm going to handle to Jerry to discuss more in detail about our 4th quarter numbers and our 2016 numbers. Jerry.

Mr. Jerry O'Callaghan: Thank you, thank you Wesley, thank you very much. Pleasure to be with you again today here.

We put a presentation up on our site this morning to detail the numbers regarding the 4th quarter and last year, so I'm going to go through this presentation briefly and make some comments about the consolidated numbers and then a little bit about each individual business how it performed last year.

Starting on page 6 of the presentation, the consolidated highlights for the 4th quarter 2016. First is the net sales, R$41.6 billion; that was down just under 12% from the same period last year. There is a big FX component in these numbers when we convert into reais, basically if we use the same FX of the 4th quarter 2016, the same average FX of the 4th quarter 2016… 15 for the 16 numbers, we would've had almost R$5.5 billion more revenue. So, the FX is really a big component, and if we exclude that there was practically no decline in sales in the period. Gross profit was R$5.9 billion; up from R$5.69 billion in the 4th quarter of 2015 with margin going from 12.1 to 14.3%.

Moving on to page 7 in our presentation to speak about Ebitda and net income, Ebitda was practically flat year-on-year again. Again, taking into account the FX, we would have had an incremental almost R$500 million if one were to use the same translation that we used in 2015.

Also with regards to Ebitda, we had none recurring, which we've excluded here from these numbers, nonrecurring expenses totaling R$260 million. So, take that into account as well. Net income in the 4th quarter was R$694 million as against negative R$275 million in the corresponding quarter in 2015.

Moving to cash flow, operational cash flow in the 4th quarter was R$4 billion; well up on the R$300 million of the corresponding quarter in 15, and fit free cash flow was R$2.9 billion. Again, an expressive improvement when compared with the same quarter in 2015.

Moving on to talk a little bit about our debt and our leverage, we ended the 4th quarter in 2016 with cash of R$9.35 billion, and if we add to that US$1.67 billion in fully available lines that we have in the US, which would be an incremental R$5.4 billion, our total liquid at the end of the year was close to 15 billion. We had a reduction in our net debt of R$2 billion when compared with the 3rd quarter 2016 reducing from 48.8 to R$46.9 billion, and leverage consequently declined from 4.32 times to 4.16 times. This is quarter-on-quarter.

Our debt profile, page 10 in our presentation, briefly to discuss the breakdown by currency and by source and by company, almost 92% of our debt today's in dollars and 9% in reais, just under 9% in reais, with an average cost of just above 5% in dollars and just above 14% in reais. The breakdown by company basically just under 10% at Seara and the balance split between JBS S/A and Brazil and JBS USA.

Short-term/long-term very stable in relation to previous quarters, 32% of our net debt in the short-term and 68% in the long-term. Always bearing in mind that due to the fact that we are the largest exporter out of Brazil, we use a lot of trade finance lines, all of which are in the short-term, and if we look at our short-term debt 75% of the composition of our short-term debt is trade finance.

Moving on to the consolidated results for 2016 now, the full year 2016 (going to page 12 in our presentation) our net sales for the full year R$170.4 billion as against R$162.9 billion in 2015; an increase of just under 5% year-on-year. Our gross profit from R$22.6 billion down to R$21.3 billion with our gross profit margin going from 13.9 to 12.5%.

Onto the next page, Ebitda for the year was R$11.3 billion; down from R$13.3 billion in 2015 with our Ebitda margin declining from 8.2% to 6.6%. Net income for the full year 2016 R$376 million or 14 cents per share; down from R$4.64 billion, our real 60 per share in 2016.

Now to speak briefly about the performance of the business units in the 4th quarter of 2016, starting with Seara. Seara had net revenues of R$4.68 billion in the 4th quarter of 2016 as against to R$5.37 billion in the corresponding quarter in 2015.

Ebitda declined quite substantially from R$926 million to 200… practically R$300 million quarter-on-quarter. We had a decrease in revenue due to lower volumes and prices in the export market on top of the FX, the negative from the FX from the appreciation of the real. We increased our sales in volumes in the domestic market, we also increased quite substantially our customer base (Wesley mentioned this already) and we reached 149,000 active customers at Seara at the end of the quarter.

And the reduction for the Ebitda in the quarter (again, we mentioned this earlier) was driven in large part by the increase in the input cost, particularly in grain prices.

JBS Mercosul, we had R$7.2 billion in sales in the 4th quarter against the 7.5 in the corresponding quarter in 2015. Ebitda declined from R$921 million to R$143 million, and here the nonrecurring R$260 million we should consider it in this business, and so, if we were to consider that the Ebitda margin in our Mercosul business would have been 5.6% and not the 2% we are reporting.

Moving on to our business in North America, the beef business in North America for the 4th quarter (including Australia and Canada here) we had sales of US$5.3 billion (now we move from reais to dollars); up from US$5.25 billion in the 4th quarter of 2016, and as we mentioned earlier, the Ebitda improved quite substantially from a negative US$25 million in the 4th quarter of 15 to a positive US$388 million; a 7.3% Ebitda margin in the 4th quarter of 2016.

We had growth in volumes both in the domestic and in the export markets, and the increase in exports were quite substantial with the major destination at all times being Asia; we've seen strong demand coming out of Asia, and as Australia's exporting less and less to the US as well, US is exporting more, particularly to Asia. We've seen a greater availability of cattle, which contributes towards these better results.

Australia within this business unit, it continues to be impacted by the cattle cycle, but it is operating positive margins. Our pork business in the US, we've seen quite a substantial increase in revenues as a result of the incorporation of the acquired assets at the end of 2015, our net sales went from just over US$1 billion in the 4th quarter 2015 to 1,370 million in the 4th quarter of 2016. Ebitda from 141 to US$171 million with an Ebitda margin of 13% in the 4th quarter of 15, 12.5% in the 4th quarter of 2015.

We've been integrating the pork asset, which we acquired as I mentioned, and capturing synergies, and as we integrate the assets we increase the number of hogs that we are processing in the period. Ebitda was positively impacted by increased exports, and again, the destinations for our pork meat are very similar to our beef business; primarily Asia.

JBS USA chicken (Pilgrim's Pride Corporation) Pilgrims already reported their numbers and Pilgrims management already talked about those numbers, but just briefly here: sales declined from US$1.96 billion in the 4th quarter of 15 to just north of US$1.9 billion in the 4th quarter of 16. Ebitda went from 150 to US$172 million, Ebitda margin going from 7.6 to 9%.

We've seen a positive performance in the domestic fresh poultry business, particularly in our case ready business, we've also seen on Mexico operation contributing positively to these results, and again, similar to the other proteins in North America we've seen strong exports in our poultry business.

Briefly and finally, talking a little bit about our European business and the performance of the 4th quarter of 2016. Here we speak in pound sterling: we had a decline, a minor decline in revenues from £278 million to 372, Ebitda increased from £30 million to £36.5 million, Ebitda margin went from 7.9 to just under 10%; 9.8% in the period.

Again, we’ve see increased exports in that business, we've seen improved Ebitda and Ebitda margin, and obviously, we acquired this business about 18 months ago, so we are implementing operational synergies there and we are enhancing our focus on cost control. And not to mention (and repeating what Wesley already said) a great innovation team at Moy Park, a lot of new products being launched in the partnership with the retailers and food service in the United Kingdom, a lot of which we can leverage in other parts of the world in the US and in Brazil for we have poultry operations.

So, with that, that ends our prepared comments, and now we would like to open for Q&A. Thank you very much.

Question & Answer Session

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

Our 1st question comes from Betina Roxo, Bank of America Merrill Lynch.

Ms. Roxo: Hi, thanks for the call.

Mr. Batista: Hi Betina!

Mr. O'Callaghan: Hi Betina!

Ms. Roxo: Hi. I have 2 questions. On Seara, could you please provide us more visibility on the performance of Christmas sales and the impact expected for the 1st quarter? And on beef Brazil, how do you see margins going forward and the current levels of the BRL currency? Thank you.

Mr. O'Callaghan: So, the 1st part of your question was about Christmas sales, seasonal sales…

Ms. Roxo: On Seara.

Mr. O'Callaghan: … At Seara.

Ms. Roxo: Yeah, yeah.

Mr. O'Callaghan: … Very good, okay.

Ms. Roxo: Thank you.

Mr. Batista: Look, we are making good improvements in Seara overall, and was not different in the Christmas sales. We had a pretty good performance in terms of volume, and as well in terms of our product presence in the stores, but even with Christmas season, the result was impacted by what we described before: grain price, international sales price, and as well the FX, there real. But performance in terms of qualitative was pretty good.

So, about your question on beef, like I mentioned in the beginning of our call, we believe that we are starting a positive cycle in the Brazil beef business, and you now, seeing more cattle available is going to allow us to look for margin improvements, and we believe we are going to see this during the year.

I'm not going to give guidance in terms of margin level, but we are optimistic about an improvement in our beef business, and as well in our Seara business. And like I mentioned in the Portuguese call, this is going to be gradually during 2017, so we believe we are going to see a gradual improvement quarter by quarter in both segments.

Mr. O'Callaghan: Betina, just to add to that a little bit, when we look at the export performance of the beef business in Brazil, last year was a year when there was a lot of product, there were [0:34:54 unintelligible] stocks during a major portion of the year because of the excessive exports in 2015. We are starting 2017 we produced stocks globally, and demand is quite strong and that something which is also positive towards having a better balance of supply in the domestic, and on the export market it's another factor which would help improve those margins.

Ms. Roxo: Offsetting the BRL appreciation you mean?

Mr. O'Callaghan: Yes, offsetting… prices are picking up…

Ms. Roxo: A more appreciated BRL.

Mr. O'Callaghan: BRL in our view has become more stable, and stability is important in order to improve the export environment.

Ms. Roxo: Okay, thank you.

Mr. Batista: Thank you.

Mr. O'Callaghan: Thank you Betina.

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

Mr. O'Callaghan: Hi Pedro!

Mr. Leduc: Hi, good morning again. Question then on US beef. The margins here, could you explain a bit what led it to the 7+? Was it more your actions that you've taken throughout the year, was it more exogenous?

And then, from what we should see in 2017, if you expect still a good year there and how we can balance maybe the seasonality at the 1Q with Australia improving in a later half. More or less, what is your outlook for this margins in this business? Thank you.

Mr. Batista: Thank you Pedro. André, if you can answer Pedro, please.

Mr. André Nogueira: Yes. So, Pedro, it's a combination. Of course, the dynamic in the US margin is much better since the 2nd part of last year, and our expectation is that this will continue respecting the normal seasonality of the business, but this will continue.

If you look the number of cattle that we expect to process this year compared to last year, it's a growth again and 19, so we process around 20 million cattles in 15, 30 million in 16, obviously, we expect to process around 21.2, and it will be 32 in 18. So, it's more cattle available, we process more, utilization of the plants is much better, export demand has been very strong for US beef, we are replacing domestic reduction in Asia.

So, the dynamic and the US market, with low unemployment, with the growth of the income (especially the growth of the income for the low-income people) and to the price of beef now is more affordable, so the dynamic of demand in the domestic and export is pretty strong. So, the dynamic of the market is really good, and the improvement that we did in the business.

We suffered in the 2nd part of 15 and the 1st quarter of 16 not only with the situation of the market, but our performance was not the level that we expected at that point. We improved the performance, our internal performance, cost, yield, mix of sales, and we continue to grow each day more, each quarter more, more value-added type of product, case ready, ground beef, we are the largest producer today of a lot of that still niche product that is growing very fast, like *in natura* beef with Aspen Ridge Brand and the Cedar River Brand, with grass, with grass-run farm.

So, growing all the segments that are growing very fast, they are not commodities, we are growing more value-added product, and the dynamic of the market is better for us.

Mr. Batista: So, Pedro, just to add on top of what André said, it was not anything exogenous in our 4th quarter numbers, so it was a combination of better market condition and as well we believe that we are running our business better, we pass… we did some change, some restructuring in our beef business during 2016, and a combination of better market condition and as well how we are running the business, we are very confident that now we are on top of the business, running the business really well.

Mr. Leduc: Thank you Wesley and André. If I may have a follow-up on the Australian side. I understand that it's running still [0:39:36 unintelligible] around zeros nor break evens. When we should expect this to improve? We've seen cattle there falling slightly.

And a follow-up as well on the 1Q… I mean, we are more than halfway into it, but now hopefully not seen the negatives we saw last years, but just any color on the seasonality impact would be appreciated. Thank you.

Mr. Batista: André?

Mr. Nogueira: Australia is still in the retention mode, we don't expect that we are going to see more cattle this year compared with last year. Last year reduction was pretty dramatic compared with the previous year. So, the business will be challenging, I think that we expect that we will improve during the year, but the recovery in the heard in Australia I think that we are going to see more in the 18.

Keep in mind that we have a very diverse business in Australia, we have the beef, we have the lamb, we have prepared food, so it helps the total margin for Australia. So, I think that our diversification not only inside of the beef (we have the Andrews meat, we have the prepared food, we have Primo) help the margin in Australia.

But I think that we are going to see some recovery during this year, but more relevant for next year.

Mr. Batista: Just one more comment about what André said: the margin is not negative in Australia, is not in the same level of US actually, the margin in US is higher than in Australia, was higher in the 1st quarter and it's still higher, but it's not negative. Australia is running positive, but not in the level that we would like to see our business in a consolidated base in Australia running.

So, the last part of your question was about color on the 1st quarter. We have limit of what we can say, but we are going to see the performance of our beef business in the US completely different than the same quarter last year. So, we are going to see positive numbers and respecting the seasonality. We are in the 1st quarter, respecting the seasonality we are going to have a good quarter, positive quarter in our view.

Mr. Leduc: Great, thank you very much.

Mr. Batista: Thank you.

Mr. O'Callaghan: Thank you Pedro.

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

Ms. Aslam: Hi, good morning!

Mr. Batista: Hi Farha!

Mr. O'Callaghan: Hi Farha!

Ms. Aslam: Two questions. The 1st one is on the Seara business down in Brazil. You were seeing a strong harvest out of Brazil and Argentina, when should we expect lower grain costs to filter through Seara numbers? And could you provide us some outlook on export opportunities on Brazilian poultry given we have avian influenza in many parts of the world, particularly Asia and Europe?

Mr. Batista: Farha, we are already seeing grain price declining, so if you look, so historical Brazil corn price average (of course we have a big difference by each state) … but in average, you know, in 15 grain price was US$20 per bag…

Mr. O'Callaghan: Reais.

Mr. Batista: … R$20 per bag, and last year went to almost R$60 per bag, and now it's already close to 30. You know, big decline from 50 to 30, and we see this price keep going down to be back in the R$20 range during 2017.

But we need to, you know, remember that as our industry is a fully integrated industry in the chicken business, of course, the chickens that we are processing today we see them with higher grain price and this is going to keep declining as we go through during 2017.

So, we expect average price for 2017 more than R$10 per bag cheaper than last year. But of course, it's a lag because the chickens that we are processing now we see them with a higher cost.

But we believe Brazil, the forecast in terms of corn production, is the…

Mr. O'Callaghan: 37% up year on year.

Mr. Batista: … yeah, it's pretty optimistic about the size of the harvest, and we believe we can see corn by midyear (June and July) back to this R$20 range.

Mr. O'Callaghan: Remembering that the big harvest in Brazil is exactly June and July, so that's when we expect to realize prices at the bottom end of the curve.

Ms. Aslam: That's helpful. And the export market?

Mr. Batista: Yeah, good question Farha. We are seeing a pickup in Brazil export market, more so in price than in volume because in the end of 2016 when the real went to 4…

Mr. O'Callaghan: 15.

Mr. Batista: … the 15, sorry, the real went to 4, this put a lot of attractiveness on the industry to increase volume in the export market and, you know, pushed price down in the export margin.

Now we are seeing a recover in prices and we believe Brazil is going to benefit from some disruption that we're seeing in terms of chicken supply due the fact that we are seeing even influenza happening in some countries.

So, it's positive for Brazil and, you know, I think it's important to touch already in this point, you know, when we see some sanitary problems or restrictions, I'd like to remind you all, so operating in Brazil, operating in Mexico, operating in the US, operating in Europe, so this is clear a unique position that JBS has in terms of being able to compensate or to offset or to mitigate risks around this, because all the time when something happens in one country, in the other hand, end up benefiting the other country. So, we are positioned to handle any disruptions that we see in front of us coming from the market.

Ms. Aslam: Great, thank you very much.

Mr. Batista: Thank you Farha.

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

Mr. O'Callaghan: Hi Brian!

Mr. Hunt: Thank you, I just have 2 questions. I was wondering if you can talk in general terms about the supply/demand balance in the US pork business going in the end of 2017 as we have the 6 new plants come online and whether you expect profitability in 2017 to be impacted by that increased supply? Thanks.

Mr. Batista: Thanks Brian. André?

Mr. Nogueira: Hello Brian. I think that we have 2 relevant plants that are planned to be open in the 2nd part of this year, there is another one relevant plant planned, but I'm not aware they started construction yet. The other is pretty small, almost irrelevant for the footprint of the industry.

But if you look how much US has been growing hog production in the last several years and what we have in sows now, it looks for us that is more than enough to balance that. So, in terms of the supply of hogs and production, I think that it will be pretty balanced.

Even more relevant than that, if you look the demand for US pork meat outside of US continue to grow, 20 years ago US export was almost zero, and today we export almost 25 to 30% of the total production, and if you look how the demand continues to grow and US is growing, continues to grow export, I think that we are going to be balanced in terms of the supply of hogs and production capability and demand in US pork continues to grow.

So, we are pretty confident that we can handle this growth in production in US.

Mr. Batista: So just to add a quick comment here Brian, so like André said, the herd size in US has been growing, US today produces the amount of hogs that is going to be enough to supply these plants that is going to start in the 2nd half of this year and next year. But 2 things I think is very, very important, you know: the export market (only to give you a color, the 1st months of this year pork exports is 30% up comparing to last year, so it's a pretty sizable number in terms of volume that is going out of the US); and the other very important point is US today is by far, by large, the most competitive country to produce hogs, so the US industry is going to, in our view, is going to keep growing, is going to keep taking market share on the export, on the global export market.

And the other comment that, you know, we believe that we may going to see are more long ramp-up process of these new plants due the constrain on labor.

Mr. Hunt: Thank you.

Mr. Nogueira: One more… more specific in terms of the exports is the very important dramatic change that we're seeing in hog production in the Chinese market.

Chinese is the largest producer and the last consumption of hogs and pork meat globally, and we saw a very important reduction in the sow numbers in China, and more recently a very… the government's tight a lot the capacity of the market to produce: they are reducing the capability to produce near the cities, near the rivers. So, there is a lot of changes going on in the production side now in China that is open.

Again, if you look last year, US almost doubled the export to China in one year, and there is a lot of change now in the domestic production in China that all the changes point for US to become each date a bigger player in that specific market on top of Japan, on top of Korea. US is already a big player.

Mr. Hunt: And my 2nd question is: You guys had a significant investment in Scott Technology for over a year now, can you talk about, you know, any progress that you made in 2016 and using their technology throughout your facilities and whether you should see a bigger ramp-up in 2017 as you've increased your learnings about their capabilities? Thanks.

Mr. Batista: André?

Mr. Nogueira: So, as you know, we bought 50% of Scott almost a year ago, the good news is it's a public trade company and the shares on this year almost doubled the value. But we bought this stake of 50% in Scott for strategic reasons: they have 300 engineers, the company is very focused and very strong in the combination of image and robotics, and we have a group of production people inside of JBS that's worked with the team in Scott to define what's the priority that we should put these 300 engineers to look and to bring efficiency.

What we have until now? We have 2 plants that we are applying the robotics for lamb, one that is already working, one that will be working at the end of this year, we have technology, specific technology that is more in the safe side that we are implementing in several of the JBS plants, but it's a long-term view and a long-term transformation for our business.

The view is to work with the technology that they have, with the capability of the 300 engineers to bring efficiency to our plants, build systems, build the solutions that can be applied in several different plants, and the most important focus will be saving labor, as labor become a big issue in US, in Australia. So, we should work with Scott team to save labor inside of the JBS plants.

But this is long-term. We're not going to see quarter by quarter an important evolution. It's a long-term view solution that we can bring to JBS.

Mr. Hunt: Very good, I appreciate it. I'll hang up for now. Thank you.

Mr. O'Callaghan: Thank you, Brian.

Mr. Batista: Thank you, Brian.

Operator: The next question comes from Victor Saragiotto, Credit Suisse.

Mr. Saragiotto: Hi everyone, good morning.

Mr. O'Callaghan: Hi Victor!

Mr. Batista: Hi Victor.

Mr. Saragiotto: Just a question on the pork business in the US. Our tracking data here indicates that the US pork margins have contracted in the 1st quarter of this year. So, I would appreciate if you could, please, provide more details on this. Thank you.

Mr. Batista: André?

Mr. Nogueira: Victor, the 1st quarter, again, has some seasonality, but pork margins continue to be very healthy, we continue to believe that in 17 we are going to deliver in the same level that we delivered in 16. On top of that, growing these prepared foods will help the margins over all.

So, we are not seeing any relevant reduction in the pork margins and we do not expect any relevant reduction 17 compared to 16. Maybe I'll expect the same level.

Mr. Saragiotto: Perfect, thank you.

Mr. Batista: Thank you.

Mr. O'Callaghan: Thank you Victor.

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: Thank you. So, again, thank you all for joining our earnings call this morning.

We are going to keep running JBS globally very focused on operating more efficient our business, focused on expanding our business, our portfolio in the high value-added products, in the packaged food business we see big opportunity to build a sizable and a meaningful packaged food business in the US and in some other regions where we operate. We believe we have a very, very strong team to run the company to achieve these objects.

So, to finalize, I'd like to thank again the 235 team members…

Mr. O'Callaghan: Thousand.

Mr. Batista: … 235,000 team members that we have in JBS, that we are only here due the fact that we have this great team. So, thank you all and good morning.

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