International Conference Call
JBS S/A
First Quarter 2017 Results
May 16th, 2017

Operator: Good morning everyone and welcome to JBS conference call. During this call, we will present and analyze the results for the First Quarter of 2017.

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, President and CEO of JBS, Mr. André Nogueira, President and CEO of JBS USA, and Mr. Jerry O'Callaghan, Investor Relations Officer.

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

Mr. Jerry O'Callaghan: Thank you. Thank you, good morning everybody. Welcome to our earnings call for the first quarter of 2017.

We posted a presentation on our website a little bit earlier this morning and I will follow the slides in the presentation as I speak about our consolidated results and also about our results by business unit.

So, to get started, and on page 3 of this presentation, we have the first numbers, which our consolidated net sales and gross profit for the period of the first quarter 2017. Net sales were down from R$43.9 billion in the first quarter of last year to R$37.6 billion; a decline of 17%, which is explained basically by the FX and the translation of our results outside of Brazil into Brazilian reais.

The Brazilian real had an average value of R$3.91 to the dollar in the first quarter of last year and R$3.14 to the dollar average in the first quarter of this year, so there is quite a substantial appreciation of the real, which affects the translation of all our numbers from outside of Brazil. Gross profit also was down 7.2%, R$4.42 billion; down R$4.76 billion, gross margin was up from 10.8% to 11.8% in this first quarter 2017.

Moving on in our presentation to page number 4, Ebitda was flat year on year, basically R$2.14 billion this first quarter of this year against R$2.13 billion in the first quarter of last year, but again Ebitda margin was up from 4.9% to 5.7% in the recent period.

Net income came in at R$422 million or 15 cents per share; substantial difference in relation to the negative income that we had in the first quarter of 2016.

Moving on to page number 5 in the presentation, a little bit about our net debt and leverage. The company ended the quarter with R$10.7 billion in cash that is excluding about US$1.4 billion that the company has in fully available lines in the US, it's not contemplated in the R$10.7 billion. And just bear in mind also that in the first quarter of 2017 we disbursed about R$1.1 billion for the acquisition of GNP, in the upper Midwest of US.

Net that at the end of the quarter was R$47.8 billion, so leverage flat from 4.16 times at the end of the year, last year, to 4.2 times at the end of the first quarter.

Moving on to the next page and a little bit more about our debt profile, at the end of the first quarter in 2017, 92% approximately of our debt is in US dollar, 8% in Brazilian Reais, average cost in dollars just north of 5% and the average cost it reais at 12.45%.

The breakdown by source, 62% approximately in commercial banks, 38% in the debt capital markets, and by companies, balance between JBS USA JBS S/A with 11.5% of the debt at Seara.

In terms of short-term and long-term, very similar to previous quarters, 31% in the short-term, 69% in the long term, and as we always mention, the short-term that is made up of primarily of trade finance, primarily out of Brazil, it is the cheapest sort of financing out of Brazil and we are very relevant exporters out of Brazil, 75% of that short-term debt is made up of trade finance in Brazil.

Moving on now to our business units, speaking about each one of them individually for the first quarter 2017, starting with Seara in Brazil – just to remember, Seara is poultry, pork and prepared foods business in Brazil –, net revenue came in at just over R$4 billion for the period, down 4.7% from the same period last year, Ebitda came in at R$216 million, down from R$580 million in the first quarter of last year, basically as this is a relevant export business the 24.4% appreciation of the real impacted not only the net revenue, but also the margin around our export business.

We had increases in volumes in all of our segments in the domestic market, especially the prepared foods category, which was up 11.5% in the comparable periods. We also had a relevant increase in our customer base, in our active customer base in Brazil, we now serve 152,000 customers actively on the domestic market in Brazil. We had lower export volumes as a result of the appreciation of the Real and the lack of competitiveness of the Brazilian product as a result of that.

Moving on to the next page, JBS Mercosul, which is our beef business and related activities in all of South America, primarily in Brazil but it also includes Paraguay, Uruguay and Argentina, net revenue came in at R$6.2 billion; down from R$6.98 billion in the first quarter of last year, again FX is a big factor here down 11.1%. Ebitda came in at just under R$60 million; down from R$761 million in the comparable period last year. Ebitda margin at 1%; down from 10.9% in the first quarter of last year.

Basically, net revenue was impacted by the decrease in sales prices bought in the domestic and in the export markets. The exchange rate variation, again, just mentioning it from R$3.91 to R$3.14 when we compare the average rate of the first quarter of 17 against the average of FX rate of the first quarter of 16.

Moving on to our North American business, JBS USA beef, which includes our Australian business and our Canadian business (and these numbers are all in US numbers now), we had a net revenue of US$4.92 billion in the first quarter of 17; up almost 6% from US$4.65 billion in the same period last year. Ebitda margin came from a negative US$214 million to a positive under US$83 million with Ebitda margin of 3.7% in the first quarter of 2017.

We had an increase in our sales volumes in both the domestic and the export markets. A greater cattle availability during the quarter favored a reduction in the cost per head although we had an increase in the spread as a result of beef prices remaining more stable.

Beef exports grew by 25% in the period, the North American cattle situation and the availability of beef in North America is making that market more competitive on the international market.

In Australia, we had an increase in prices and in volume the domestic market as a result of the operations and of the investments we've made in Primo, which is our branded business in Australia, and also in Andrews Meats, which our fresh meat distribution business domestically in the Australian market.

Our pork business in the US, on page 11 of our presentation, revenue for the quarter came in at US$1.4 billion; up from US$1.25 billion, 11.2% increase when comparing the first quarter of this year with the first quarter of last year. Ebitda came in at just US$160 million, up from US$102 million in 2016. Ebitda margin at 11.4%; up from 8.1%.

We had an increase in the number of hogs processed in the period, we had higher sales price in the both the domestic and the international market and we had an increase in our Ebitda due to continuous improvement in production, product mix and our customer relationship.

We also concluded the Plumrose acquisition on the 2nd of May, so it's a subsequent event which will be reported in our second quarter earnings later on.

JBS USA chicken, our Pilgrim's Pride business, already reported, but just quickly here the numbers, just over US$2 billion in revenue for the period; up almost 3% from the same period last year. Ebitda margin, Ebitda came in at

US$204 million; down from 233 in the first quarter of 2016 with Ebitda margin of 10.1% against 11.9% last year.

We had an increase in our net revenue, due to higher poultry sales prices as well as the inclusion of the net revenues for GNP for the maturity of the quarter. The GNP acquisition was closed on 6th of January.

Ebitda was impacted by costs and G&A expenses related to the GNP assets and higher marketing expenses associated with the launching of prepared, further processed products in the US.

We had lower operational costs in our Mexican operations and we are perceiving an increase of US$10 million annualized in the synergies associated with the GNP acquisition, we had initially indicated US$20 million in synergies, we are now upping that estimate to US$30 million.

With regards to our European business, JBS Europe, which is basically our Moy Park operation (and these numbers are in pound sterling), we had revenue of US$370 million in the quarter; up from US$347 million… sorry, pounds in the corresponding quarter last year; an increase of 6.6% year on year.

Ebitda came in at £30.2 million; down marginally from £30.6 million in the corresponding period last year, Ebitda margin at 8.2% this year against 8.8% last year. We had an increase in volume and strong operational performance of this business, so the reduction in Ebitda that was basically due to nonrecurring expenses associated with Sox compliance in that business, we have a focus as always on cost control, stronger customer relationship and we were very strong innovation center in our European business.

So, with that, that concludes our prepared remarks on our consolidated results, and on our performance per business unit. I will now hand you over to Wesley Batista for his comments.

Thank you.

Mr. Wesley Batista: Thank you Jerry. Good morning to you all, thank you for joining our first quarter earnings call this morning. So, like Jerry mentioned about our consolidated numbers and our consolidated results and as well about each one of our business units, I'm going to discuss with you here about what we saw in the first quarter and what we are seeing in this second quarter and going forward during 2017.

So, as you saw, we are still facing challenges in our Mercosul business in both business, Seara and as well in our beef business. Seara you all have been following the challenge that the industry and as well our business Seara is facing, challenges since last year due many different factors: grain price went up a lot in Brazil last year; and exchange rate is going down and getting stronger the real (and this this hurting the export margin); and as well the domestic market is not strong as you all know in the Brazilian domestic market.

So, we post 5% margin and what we are seeing now actually is much more positive going forward, we strong believe and we are seeing margin getting better, we expect quarter by quarter we are going to see improvement in our Seara margin, we expect the second quarter being better, third better than second and, you know, effectively each quarter being better, and basically because grain price now is in a more normalized level in Brazil, especially corn.

Only to remind you all, corn went to R$50 per bag and now is about… between 25 and R$28 per bag. But, given the fact that we are fully integrated industry, so the animals that we are processing now still with a higher feed cost that we fed these animals.

So, going forward we are going to see the benefit of this much cheaper corn price and as well we are seeing a recovery in international sales price, so chicken price in different markets is getting to… is recovering, we are getting better price for our chicken export sale.

So also, the Brazilian industry, the chicken industry in Brazil is, you know, taking volume down, is reducing volume and this is also going to benefit price in both markets, domestically and internationally.

So, we are positive about Seara even though we recognize and we know that the first quarter was not in the level that we expect them, the level that we believe the industry needs to run and is going to run.

So, I fully expected by second half of this year margin back to a double-digit margin and I think is doable and possible.

So, moving to our beef business in South America and primarily Brazil, you all know that we had a problem in March due to the fact the operation, you know, by the name "*Carne Fraca*" (or weak meat), and this hurt our Brazilian beef business. We reduced volume, cost went up and we incurred in a lot of expenses due these problems.

So, we still… not still, but April we were impacted and now, you know, our businesses in a normal level, is back in a normal level and we expect that we are going to see a recovery in margins from now on for us to be able to put this business in a more normalized margin level.

So, this is the Mercosul business. The good news and the good thing: our international business (US, Mexico, Canada, Australia and Europe) is performing pretty well, we are satisfied with the results of the first quarter, but more so we are pretty optimistic going forward, second, third and fourth quarter.

When you look our numbers in dollars term we prefer much better the first quarter comparing to first quarter last year, when we translate the results on our international business due the fact that the real appreciated a lot, the magnitude of the improvement is not that great, but in dollars term we prefer much better this quarter comparing to the same quarter last year.

So, going specifically here, our beef business we did 3.7% margin, seasonally the first quarter is not the strongest quarter during the year, so we came in as we expect that 3.7%, we believe that is in line with our expectation and we believe that we are going to see margins improving during the year and probably the third quarter is going to be the strongest quarter for the year in our beef business.

So, pretty optimistic, pretty positive about the performance of what our beef business is going to deliver this year.

So, our pork business pretty stable, double-digit margin, we don't see any change during the year, we believe that we are doing to keep delivering this kind of margin in our pork business, we have a well-established pork business in the US and, like Jerry mentioned, we just closed the Plumrose acquisition, this is going to add on in our pork business and it's going to bring more value-added business to our US business and our portfolio in the US.

So, Pilgrim’s already reported the numbers, came in double-digit margin, satisfied even though we see space for stronger results and we are seeing a very positive outlook for the chicken industry for the rest of the year, second quarter is signaling that is going to come very, very strong and we believe that it is going to last for this whole 2017 very, very strong margins in our chicken business.

So, our European business, Moy Park, is performing as expected, in line with our plans, we are making improvements and we see opportunity to keep improving the Moy Park business.

So, overall, when we look our business in a consolidated base, we came in with R$2.1 billion in Ebitda, R$488 million in net income (impacted by our Mercosul business) and in the positive side our international business performed well.

So, we expect strong numbers in these coming quarters in our consolidated numbers, leverage came in flat compared to fourth quarter to this first quarter, 4.2, and only to remind you all that we acquired GNP that we paid US$350 million, that is about R$1.1 billion. So, we are confident the amount of cash that we are going to generate in these coming quarters and we are confident that we are going to be able to deleverage our balance sheet in these coming quarters and being able to generate cash and reducing our leverage profile.

So, with that I'm going to stop here and ask the operator, please, open to the Q&A operator. 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 first question comes from Brian Hunt, Wells Fargo.

Mr. Hunt: Thank you very much for your time. Hello! I was wondering if you could potentially quantify the impacts from the Weak Flesh investigation on the quarter and whether their impact in the month of April was greater or less than what happened in March.

Mr. Batista: Brian, basically, you know, we are not going through each part of the breakdown on the cost that this whole "*Carne Fraca*" impacted our business, but when you look, volume went down, cost went up, the sales price went down. So, the combination of all these impacts put the normal margin that I consider for the first quarter, you know, from about mid-single digit to 1%, so you can calculate the amount of impact that we got here in the first quarter.

And in April, basically, was similar to the first quarter. Now May, the business is back to a more normalized level. So, I expect, you know, that we are going to see an impact again in the second quarter and I expect in the second half of this year the business back to a more normalized level with the environment that we have today in the Brazilian beef market, that the real was pretty strong so this is in some extent… not in some expense, in a lot of extent, is hurting export and as well the Brazilian domestic market is not strong as it was in the past years.

Mr. Hunt: Okay. My next question is, you know, we had some recent storms and late-season storms in the Midwest here, a lot of snow inspected the movement of cattle to slaughter facilities. Can you talk about the potential impacts from those storms or whether you saw any delays capacity utilization in your facilities?

Mr. Batista: André? Can you answer?

Mr. Nogueira: Yes, so, Brian, I think the storm is really painful for the ranches and farms and feedlots that lost cattle, so we feel pretty sorry about the producers that were involved on that. But, in reality, for the industry at think that the impact is not meaningful.

It's a little bit of disruption for few days, but the amount of cattle that was lost is not relevant for the industry, so I don't expect any material impact for the supply of cattle.

Mr. Hunt: Right. And then my last question, when you look at the Plumrose acquisition, could you talk about: 1, the amount of synergies you could see out of that and then; 2, the potential new channels and products that brings to the business? That's it for me. Thank you.

Mr. Batista: André?

Mr. Nogueira: So, it's a great acquisition for us inside of the strategy to grow more in the value-added branded business, so as we announced it was acquisition that brings sales of US$500 million, Plumrose was independent in the US, so the connection of the raw material will bring synergies, the connection, the procurement side will bring synergy, the relationship with customers in the US considering the size that we have and the strong relationship that we have with some key customers I think that will be beneficial for Plumrose, and for the business that they sell we already have bacon business inside of JBS that came with the Cargill acquisition that, combined with Plumrose, put us as strong, strong player in the bacon business.

So, I think that we announce around US$20 million synergy, and we believe that can be even more than that. So, we are just started, it's the second week after the acquisition is complete, but we are very excited with the opportunities, we are very excited what this business opens to others in terms of more value-added, more brand and for sure the combination with the supply in JBS, the combination with the strong procurement team that we have in US and the combination of the sale side will be pretty positive for us.

Mr. Hunt: Thank you for your time this morning. Best of luck.

Mr. Batista: Thank you, Brian.

Operator: The next question comes from Carla Casella, JP Morgan.

Ms. Casilla: Hi, I'm wondering if you could give us the number of cattle slaughter but how that in the US business how that trended year over year? And the pork as well.

Mr. Batista: André, please, can you answer?

Mr. Nogueira: Yes, we are not releasing anymore, Carla, the number of cattle process in US, but was higher than the first quarter of last year, a little bit higher. The volume came more when compared to the last year same quarter, in Canada was much higher, we run our business this year in the first quarter in a much more efficient way and the margins were much better, so we run 10% more than last year in Canada, so that influenced the total cattle process over all.

So, we run higher volume in the last year, but the big driver in the total volume that we announced here that was 5% more in sales was more coming from Canada and a little bit more from Australia than come from US.

Ms. Casilla: Okay, that's helpful.

Mr. Nogueira: Import, the volume is higher too, a little bit higher than last year, but the big driver was sales.

Ms. Casilla: Okay, great. And then you mentioned your focus on debt reduction, and you also recently repriced your term loan at Pilgrim's Pride. Are there other opportunities to reduce the cost of vendors? So, do you think the cost just comes down as you pay down higher costs debt over time?

Mr. Batista: André?

Mr. Nogueira: Carla, I think that the maturity of the bonds that we have that is possible to refinance some point they will help us to reduce the cost. So, in the right time we are going to look at the next maturity that we have, I think that the term loan we did a pretty good job when we financed the term loan in the first quarter of this year in JBS, we just did again in Pilgrim's extended maturities of the term loan and review the cost and the next step will be the bonds.

I do not anticipate that these will be short-term, but in some point this year we are going to look the bonds and look the opportunity to refinance the bonds that we can refinance now.

Ms. Casilla: Okay, great. Thank you.

Mr. Batista: Thank you.

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

Ms. Aslam: Hi, good morning.

Mr. Batista: Hi Farha.

Mr. O'Callaghan: Hi Farha.

Ms. Aslam: I'm wanting to focus on the pork business, the margins were quite good. Could you talk about the sustainability of those margins, particularly given that we have increased slaughter capacity coming online in the US?

Mr. Batista: André?

Mr. Nogueira: Hi Farha. If you look the increase in the supply side, Farha, that happened in the last year or so and what is projected to come online for the next 6 months, it's more than enough to face the new production that we have in the slaughter side.

So, I think that we are more than keeping the pace of growing the hogs compared with the new capacity. The big driver would be: Can we sell all this pork meat and the strong demand that we are seeing for the US pork globally at this moment? the answer: Yes, we can.

We are growing export in a very strong base, US is more competitive than ever in the global market, demand outside US is in pretty good shape, so we grew the industry, grew export in the first 3 months of this year, 17% compared to last year. So, US is exporting, US is importing less, so pretty good balance.

So, I think that in terms of the hog supply, I think that it's growing in a pretty good pace, more than to offset any growth in the capacity in the slaughter side. The question for the future would be: Can we continue to grow export in the level that keep this supply and demand in a good shape? The answer at this point is: Yes, it seems that we can grow.

And I think that the industry will be… I think that the margin in the industry inside of US will be very different player by player, I think that we are going to have some players that have a lot of capacity to create new products, to create more value-added, we have one level of margin. The players that are more commodities will have another level of margin.

I think that the margin in the industry will be very different, and if exports continue as a strong as it is now, demand globally continues as a strongly as it is now, it's absolutely sustainable.

Ms. Aslam: That's helpful…

Mr. Batista: Just one comment, Farha, that I think we should think about and take into account is how the ramp-up on this new capacity is going to… you know, how fast this ramp-up due all the labor constrains in US, all these things, so in my personal view, I think this is going to take longer than before to ramp-up volume in these new plants that is coming in the market.

Ms. Aslam: [0:34:09 unintelligible] on the pork side. And then if we just to move on to beef, the US looks like we might get access to China and our beef exports over all have been strong. How do you expect that to impact or benefit your US business versus Canada, Australia and Brazil?

Mr. Batista: André?

Mr. Nogueira: Look Farha, I think China opened will be important for US in terms of margins, I don't think that the volume would be any dramatically because China just take care of the ractopamine-free and that's a small part of the cattle slaughter in US, it's just a natural beef, we are the largest supplier of natural beef for the US market, we have 2 very strong programs that sell natural beef, but the number of natural cattle in US is relatively small and I don't think that this will change dramatically anytime soon.

We sell from Canada, Canada sell directly to China today, but with the same constraints: only the natural beef. So, it's important in terms of margin, these cattle help you to balance well that carcass, for sure we have some incentive to grow that a little bit more, but I don't think that in terms of volume strong US that would be dramatically. It will have the margins, but will not be a game changer for the industry in the near future.

Ms. Aslam: That's helpful

Mr. Batista: Farha, just to add on André's comments, so looking our business over all, you know, Brazil or Canada or US or Australia, we see positive, this is going to be positive for margin over all because if you look Brazil and US, Brazil and US is not going to compete in China, it's going to be different segments where US is going to sell the US beef and Brazil, you know, is different type of beef, it's a grain-fed beef and Brazil is a grass-fed beef.

So, all in, we see this positive overall for JBS.

Ms. Aslam: That's helpful. And my final question relates to Mexico. We start to hear about high [0:37:42 unintelligible] in Mexico. Is that a factor for your Pilgrim's business in Mexico? Is that a benefit or risk?

Mr. Batista: André?

Mr. Nogueira: At this point, it's no impact, Farha. I think that the margins, as we said in the conference call in the 2Q, will be very strong. There is constrain in the production, but in our operation, I think it's more positive than negative at this point, and it's not widespread, so we have some incidence, but not widespread.

And if it becomes widespread, again, because of our capacity to produce there and because of our capacity to export from US, probably more positive than negative. But at this point, it's not affected. What is affected is the second quarter normally is very strong in Mexico and this quarter is showing very strong.

Ms. Aslam: Okay. Thank you very much.

Mr. O'Callaghan: Thank you Farha.

Mr. Batista: Thank you Farha.

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

Mrs. Torres: Yes hi, good morning everyone.

Mr. Batista: Hi Lauren.

Mrs. Torres: My first question… Hi. My first question is just the housekeeping. I noticed… I think it is the first time in this release you are not giving some segment volume and pricing data by division. I'm just curious if this is something that we won't be seeing going forward and why you made that decision?

And second question has to do with the IPO. I know, we are seeing headlines this morning about proceeding and maybe more of a second half of that. But can you talk a little bit about your thought process on proceeding, where you are in the standing? And once again, not to bring it up, but in light of investigations and other things that are going on, how do you feel about progression of the IPO?

Mr. O'Callaghan: Lauren, on your first question we've reported compress financial this quarter for the first time, which is in line with our peers internationally, and our press release basically reflects our financials, so this will be standard practice as it is with most of our peers around the world the disclosure we make about each business unit.

Mr. Batista: Yes, basically Lauren we decided to report more in line with our peers in the US and, you know, we compressed the report. And also in any point when we are a public company and reporting in the US we are going to do this anyway to be in line with our US peers, so we decided to start right now.

So, the second part of your question, about the IPO, about timing, you know, like I mentioned in the Portuguese earnings call, we are… the intention to list JBS Foods international is to create value for our shareholders, so the timing to do that is going to be the time that investors don't have in front of them any doubt about what is going on and, you know, due this "*Carne Fraca*" and some of these things that are going on, we decided to… we keep working but now the first part of this year is not realistic anymore.

So, we are going to see a window for the second part of this year if the market is there, if investor is comfortable, yes, we are going to be ready and prepared. But the timing the market is going to tell us… not tell us specifically, but, you know, we are going to be looking the market to decide the right time to go.

Mrs. Torres: And where are you now in the process with the SEC?

Mr. Batista: You know, we did not refile our first quarter, and also, we did not refile… after the "*Carne Fraca*" we did not refile our first quarter and they are waiting to finalize this to refile in the moment that we are ready to file. But we are keep working, implementing Sox, we are keeping working internally here and all that we are doing is the PCOB compliant and all these things to update the file any time that we decide to do so.

Mrs. Torres: Okay. All right, thank you.

Mr. Batista: Thank you.

Mr. O'Callaghan: Thank you Lauren.

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

Mr. Batista: Thank you. I'd like to thank you all for joining our earnings call this morning and, like I mentioned in the beginning, we are very positive about all of our international business and the earnings capacity on all of our international business, and we are very positive that Seara is going to get back in a more normal margin level and as well even though the impact on our beef business, and we expect second half of this year being in a more normalized level as well.

So, we are looking for a good year overall and we are going to keep looking opportunities to create and add value to our shareholders.

With that, thank you all and good morning.

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