International Conference Call
JBS S/A
First Quarter 2018 Results
May 15th, 2018

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 2018.

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. Gilberto Tomazoni, Global COO of JBS, Mr. André Nogueira, CEO of JBS USA, Mr. Wesley Batista Filho, CEO of JBS Brazil, 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, ma'am, thank you. Good morning everybody and welcome to this call to discuss our results for the first quarter 2018.

Before I hand you over to Mr. Tomazoni for some opening remarks, I just wanted to mention that we posted a presentation on our website just 10 minutes ago, we've got a disclaimer on that, so please bear that in mind, and we will make reference to that presentation during our prepared comments here, so we will reference page numbers to facilitate the communication with you.

But before we get to the presentation, I would like to hand you over to Mr. Tomazoni for his opening remarks here. Tomazoni.

Mr. Tomazoni: Good morning, thank you everyone for being part of this call. We show now, it's a great quarter, net revenue up almost 6% to R$40 billion, Ebitda up more than 40%, net income up more than 40% and leverage was down, and we are pleased to announce the agreement with the bank in Brazil regarding our debt in Brazil. This showed the confidence of the financial Institute has demonstrated in the company.

I want to point out even the advance in compliance and Jerry will keep you more details later. Jerry, please go to the financial details.

Mr. O'Callaghan: Okay, Tomazoni. Thank you, thank you for your comments. So making reference to our presentation and jumping in on slide 5 on our presentation regarding our results, net revenue estimates, as Tomazoni just mentioned, came in at just under R$40 billion, R$39.8 billion, up 5.8% in relation to the corresponding period last year, gross margin came in at R$5.2 billion, that was up 16.5% in relation to the first quarter of last year, gross margin increasing from 11.8 to 13%.

Moving onto the next page in the presentation, Ebitda came in at R$2.8 billion with an Ebitda margin of 7%, up from 5.7% or R$2.14 billion in the same period last year. Net income also substantially up 43.5%, from R$353 million up to R$507 million with earnings-per-share going from R$.12 per share up to R$.18 per share.

With regards to cash flow, page 7 in our presentation, operational cash flow came in positive R$163 million, free cash flow came in negative R$110 million in the quarter. Our leverage in our cash position, page 8 in our presentation, net debt reduced by R$2.3 billion when compared with the first quarter of last year, leverage came down quite substantially quarter on quarter, from 4.23 times in the first quarter of last year down to 3.24 times at the end of the first quarter in 2018.

Our cash position at the end of the period was R$10.8 billion, and if we at that the US$1.3 billion, or R$4.3 billion, of the committed lines available to JBS in the USA our total liquidity reached R$15.1 billion, which is more than R$2 billion above the total short-term debt of the company.

Also on page 8 in our presentation, just briefly to mention, the reduction in short-term debt as a percentage of the net debt of the company. We are down from… it being 1/3 of the total net debt a year ago to 23% at the end of first quarter, 95+ percent of our debt is in US dollars and 4.7% in Brazilian reais, and the average cost of that debt is 5.8% in dollars and 9.2% in reais.

Now given to each business unit briefly and going through the presentation by business unit, starting with Seara in Brazil, page 10 in our presentation. Revenues almost flat year on year down 2.7%, from R$4.08 billion down to R$3.97 billion. Ebitda was up from R$216 million, up to R$330 billion, that's 53% increase in Ebitda. Ebitda margin went from 5.3% to 8.3%. The processed products category in Brazil posted an increase of 1.9% in pricing, basically reflecting the company's strategy to prioritize higher value-added products and profitability.

We also launched a new marketing campaign for our Seara branded businesses in Brazil just recently, at the beginning of this month.

Moving on in our presentation, let's talk about JBS Brazil, and just to remind everybody who is on the call, JBS Brazil is our Brazilian beef business, our leather and hides business, which is primarily in Brazil, but there are some units outside of Brazil, and all of the other related businesses we have which are quite substantial; bio diesel production, collagen production, there are quite a number of other businesses, all of which are part of this business unit.

Net revenue came in at R$5.91 billion, that was down 4.7% in relation to the same period last year when it came in at R$6.2 billion. Ebitda also was down negative at R$92.5 million in the first quarter with a negative margin of 1.6% and down from positive 59 million in the corresponding quarter last year, which was a 1% Ebitda margin then.

The number of livestock processed and revenues in Brazil are back to the historical levels, and basically in line with the company's processing capacity. We saw a pressure on more material cost mainly in regions where the industry as a whole has increased its processing capacity. Relevant increase in some of the states in Brazil.

We are focusing on value-added products and on more profitable export markets, and we're also are beginning to observe an improvement in the fundamentals around the leather and the hides operations, which indicates we will see a reversion of the negative trend in margins in that business over the last couple of quarters.

Moving on to JBS USA beef, we saw revenues up almost 3%, to US$5.06 billion (now we will be in dollars from now on in the presentation), up from US$4.92 billion in the corresponding period last year. Ebitda came in strong at US$380 million, up 60% from US$183 million in the corresponding period. Ebitda margin going from 3.7 to 6.1%.

North America operations, the improvement was driven by the company's focus on product diversification and customer segmentation, by the improvement in the US economy and by the increase in demand in the international market.

In Australia, we saw an improvement in beef operations in relation to the previous year although there was still a limitation on improvement due to less availability of cattle in Australia.

Primo, which is the market leader in prepared foods in Australia, had relevant operational improvements and better yields in its prepared foods business.

Moving on to page 13 in our presentation, JBS USA pork. We saw revenues up 5%, US$1.46 billion against 1.39 in the previous year. Ebitda was also up US$178 million, up 11.5% in relation to the US$160 million of the first quarter of 2017. Ebitda margin going from 11.4 to 12.2%. We saw a growth in volume and in revenue in the export market boosted by selling products into diversified regions, much increase sales into Columbia for instance in South America and also to the central American countries, on top of the traditional markets like Mexico and the Asia, particularly Japan, which are traditional markets for our pork products.

JBS pork continues to increase its volume and portfolio of higher value-added products in the domestic US market associated with commercial partnerships and with key customers. We also brought in Mr. Lopez, Tom Lopez at the beginning of the quarter, he came in from Kraft-Heinz, and his job is to, together with the team, improve the segment of prepared foods in the US under the Plumrose brand. This is the Plumrose business, which JBS USA acquired in May of last year. And obviously he's focusing on synergies in addition to increasing the performance of the Plumrose business.

Our chicken business, Pilgrim's Pride (remembering in the US and Mexico and also relevant operations in Europe), we saw revenue increasing 10.8%, going from US$2.48 billion up to US$2.75 billion in the comparable periods. Ebitda margin was up also from 9.2% to almost 10%, Ebitda increasing from US$228 million up to US$272 million, an 19% increase in actual Ebitda.

Net revenue of the US operations grew by 6% when compared with the corresponding period last year due to increase in volumes of prepared products and pricing, and that includes obviously the GNP acquisition, which Pilgrim's completed in January of 2017.

In Mexico, our operations performed beyond our expectations mainly due to an increase in volumes and the normalization of that market and the aftermath of the earthquake at the end of 2017.

In Europe, the company already sees positive results from the integration with Moy Park and from the operational improvements that are generating synergies ahead of original expectations.

Couple of other slides to go through before I hand you over for Q&A, just to cover a couple of nonoperational aspects here. We have talked in previous calls about compliance, we hired a global compliance officer who's been boosting our team out of Brazil in the middle of last year. Just recently we hired… we appointed a head of ethics and compliance for our operations outside of Brazil, Lance Kotschwar was appointed to that position, he will lead the code of conduct, whistleblowe hotline, global anticorruption policies, antitrust and competition law, trade compliance and conflict interest policies, assuring JBS global operations will implement and conduct its business in the highest ethical standards.

We also, having approved our global code of conduct on ethics at board level at the end of March, we launched that code at the beginning of May, there is very relevant internal communication to all of the team around the world. This is a global code of conduct and ethics contemplating legislation and regulation in all parts of the world where we operate, so we took a lot of time and we put a lot of effort into coming up with a very comprehensive code of conduct and ethics.

And we also launched in parallel a business associate code of conduct on ethics comprising of specific rules for our relationship with vendors and third-parties.

Page 17 in our presentation, we've been raising the bar in food safety and quality assurance, we pay a lot of attention to this, JBS has been a global standard bearer for food safety and quality assurance. Alfred Almanza, whom we appointed from his very long experience at the USDA, he's over level head of food safety and quality assurance, he’s been traveling the globe and meeting with government officials in several countries to stress JBS ongoing commitments to food safety and quality assurance.

We have a good safety and quality assurance team, a global team coordinating the best global practices in all our business units around the world. Also, to reinforce that team, Anne Knapp, a former government contractor for multiple agencies in the USDA joined that team to strengthen that team recently and joined us earlier this year, and we've also been working very hard in standardizing our lab test around the world and improving our relationship with service providers in this category.

Just finally before we hand you over for our Q&A session, just a little bit about Seara. Recently launched a national campaign in Brazil associated with the Seara portfolio of products where quality is the key word. Basically, this campaign is very visible in Brazil and across all of the media channels in Brazil.

We have also seen at Pilgrim’s in the US a relevant investment in the brand, which is called “Just Bare Chicken”. Just Bare brand in the US, there has been relevant growth in online sales with Amazon under this brand, Just Bare is outpacing the road of Amazon fresh products generally, and it's in the list of top 50 best brands of Amazon, and we are also supplying Just Bare to traditional retailers nationwide in the US.

So just to run through the priorities briefly for JBS going forward here, page 20 in our presentation, I`m speaking in the name of Tomazoni here, a continues focus on operational efficiency, basically these are the pillars, which we are focused upon across all our operations? Organic growth, organic growth through increased utilization of capacity and also through improved product mix; investments in innovation and quality, we are tireless in our investments across all the geographies and innovation and quality; deleveraging, we mentioned on our previous call a goal to be under 3 times leverage by the end of 2018 and to be around 2 times leverage by the end of next year 2019. We continue to focus on that and, as I mentioned, we put a lot of effort into being a world-class global compliance program across our businesses around the world.

So with that, that completes our prepared remarks today, we would like to open for questions and answers, please. Thank you.

Question-and-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 2.

Our first question comes from Farha Aslam, with Stephens.

Mr. O'Callaghan: Hi Farha!

Ms. Aslam: Hi, good morning. Your report results were quite notable, especially given you had new pork slaughter capacity opening up in the US. Could you share with us any changes in sourcing that you made that allowed you to get the results that you got, and your outlook for that business, particularly any color you can provide about hog availability versus slaughter capacity in the US?

Mr. O'Callaghan: André?

Mr. Nogueira: Hi Farha, good morning. No change in any supply of hogs for us, we have the same balance that we had before, we have a pretty good mix in terms of how we source hogs, we have a piece of that it's our own production, we have a piece that is based in some form of basin grain price, we have some piece that is based in future of hogs and we buy hogs in the market. So we are pretty happy with the diversification of the mix, how we source the hogs and how we price the hogs.

I think that our team is doing a fantastic job in terms of operational excellence, Farha. Our cost of production per hog this year is below how it was last year despite of all the inflation, despite we have been raising compensation, especially for hourly employee, way ahead of this shortage of labor in the US, we started to do that 4 years ago. So despite of all this, we finished the quarter with a cost per hog that was lower than last year.

As you know, we integrated, finished the integration of the plant that we acquired, we captured all the signatures that we planned, in fact, we got a little bit more. Our exports continue to perform extremely well and, as you know, we now have a piece that is prepared food inside of the pork business with Plumrose and with the bacon operation that are performing in a very strong way.

So, our outlook for the pork I think that in terms of supply and demand is being good balance despite of the new production that you are aware. I think that the hog producing has been growing, that heard in the US ahead of this growth of capacity, so I think that it will be a good balance.

The big question for the future is if US will be able to continue to grow exports to absorb this new production, and it's a fair question. Until now is working well, US is growing exports, probably not in the speed that it should be, that I think it's more a question of time, I that demand will be there, I think that the US is extremely competitive.

For all business, as we anticipated last quarter, we think that it will be a strong year for our pork business, I think that it will continue to be double-digit margins for the year, we do not anticipate that it will be as strong as it was last year, so I think it will be a little bit less than last year, but still in the double-digit margins.

Ms. Aslam: That's helpful. And just as a follow-up on US beef, currently you have very ample supplies of beef and very high processing margins. Could you share with us your outlook for the cattle supply, particularly given that we are seeing dry weather in the West and we are starting to hear about cows going to slaughter. Any concern about cattle supplies going into next year?

Mr. Nogueira: No, not at all. I think that the cattle supply for next year is already done. In reality, the cattle supply for the next 2-3 years is already done with the amount of cow herd that we have in place, we are not seeing any relevant caw liquidation or heifer liquidation. I think that the US expanded at a pretty strong pace in the last 2-years, I don't think that they are going to continue to expand the herd in the same pace, I think that it will be stable, but we do not anticipate any liquidation.

Margins profitability continue to be pretty strong in the whole chain for the cow calf producer, for the feedlots and for the packing industry. So I that the supply for the next 2-3 years is done, if we stop to grow the herd, then it will be stable, we will continue to grow production next year, I think that production this year will be 2 or 3% higher than last year, and another 2% for next year, and probably stable for 2020.

I don't anticipate… I'm not seeing and do not anticipating any relevant liquidation. I think that the margin will be pretty strong, the US… North America demand is very strong, but both Mexico, US and Canada export is doing extremely well, we grew our exports last quarter in 21% in sales, so I think that very good supply of cattle for this year, for the foreseeable future and great demand, both inside of the US and in all the countries that we export.

Ms. Aslam: That's helpful. Thank you.

Mr. O'Callaghan: Thank you Farha.

Operator: Our next question comes from Teo Lasarte, with Insight Investments.

Mr. Lasarte: Hello. I was wondering if you can comment a bit on what you see the outlook for Brazil beef, first of all given the moves and effects, but also what you said about level of competition.

Mr. O'Callaghan: Yes, Teo.

Mr. Batista: Teo, this is Wesley. So, what we've been seeing is our volumes are back at the same level as well we had last year, so volume-wise and efficiency-wise we are back at our normal volume, the volume of our plants, the capacity of our plants. But as we mentioned in the release, we see increased competition in some states, especially Rondonia and Mato Grosso, in the North of Brazil. Those estates we saw a significant increase in competition for cattle procurement.

We see that competition staying in the medium term, we don't see any changes to that, but we see a few other things that are improving in the market that makes us a little bit more optimistic. So we have the leather business in Brazil, which had a relevant negative effect on our results for this business unit, we see this coming back, we see the positive signs in the future, we also see export demanding in some of the main markets of China, it has been very strong for us and we see some of the Middle Eastern countries as well, in Europe as well as has been very strong for us, so we are focusing very much on those markets.

And with the currency here in Brazil that's going to support the exporting of more beef out of Brazil.

And in the domestic market we've focusing a lot on further value-added products, so on one hand through our brands and different types of beef here in Brazil, but also on the processed beef, so burgers and the [0:27:22 unintelligible] and all of that we are seeing a good margin and good improvement there. So summarizing, we see cattle supply and competition for cattle procurement in the medium term tough, but we see an upside on the export and for the value-added products here in Brazil.

Mr. Lasarte: Okay, that's helpful. And should we see Q1 of this year being kind of a drop in terms of Brazil margins? Do you think you have another couple of difficult quarters to go before we see an improvement?

Mr. Batista: No, we see that we have more positive signs in the future, like I mentioned before, not necessarily that it's going to come back right now to the normalized margin that we expect out of this business, but we are working hard to bring it back to a more normalized level in the future here.

Mr. Lasarte: Okay, thank you.

Mr. O'Callaghan: Thank you Toe.

Operator: Our next question comes from Guilherme Haguiara, with UBS.

Mr. O'Callaghan: Hi Guilherme, good morning.

Mr. Haguiara: Hi. Thanks for taking my questions. I have a couple of questions here. The first one is a follow-up on JBS Brazil. We have seen another quarter of negative Ebitda margin and we appreciate your comments on the impact of cost pressure, but we were wondering if you could provide us some color on how was the margin progression through the quarter, I mean, where we left off by end March and what are your expectations for the remaining of the year, and if you're seeing industry capacity adjustments following this cost pressure.

And my second one would be on: below your operating line, we saw a positive contribution from the income packs line supporting your strong net profit growth despite the lower pre-tax profit year-over-year, and we were just wondering what drove this positive income tax effect in the P&L, and what should we expect your effective tax rate should be in this year on a more normalized basis going forward?

Mr. Batista: So I'll speak here about the follow-up question on Brazil. So, we don't disclose the month by month margin, but the trend is more positive on the end of the quarter than at the beginning of the quarter. So we see a positive trend here in the future.

Now when we talk about adjustment, we've seen nothing very relevant on capacity adjustment to be in line with the cattle supply, but what we are seeing is that (on our side especially) we have been adjusting… we are in line with the same slaughter and same processing rate same time last year, but we are adjusting within our plants, we have increased the production in plants that have more approvals for exports and we have reduced, for example, plants that have more commodity mix, so we have been changing the mix of plants that we have been producing, that's a huge focus of ours as well.

Mr. O'Callaghan: Regarding the other question on tax, the improvement in the tax rate at JBS S/A is due to the fact that JBS Brazil incurred losses, so that improved the tax rate, and obviously there was a new tax regime in the US also, which is quite relevant towards our business. I don't know, André wants to make any comment about the tax in the US?

Mr. Nogueira: Hi Jerry. No big comments here, just the change in the regime that represents that the tax rate in the US came from 34 to 21% and will represent for us in the consolidated base US$200 million in savings for the year.

Mr. O'Callaghan: Okay, thank you.

Mr. Haguiara: Okay, thanks. That's clear. Thank you for your answers.

Mr. O'Callaghan: Thank you Guilherme.

Operator: Our next question comes from Andrew De Luca, with Barclays.

Mr. De Luca: Hi, good morning and congrats on getting the bank negotiation completed. I just had a quick question on that. You mentioned that you've rolled 78% of that debt for 3 years. Can you just provide us with an update for the remaining 22%?

Mr. O'Callaghan: The remaining debt it will be decided upon in bilateral conversations and negotiations with the other banks that were not involved in the package, the normalization package that we announced.

Mr. De Luca: Thanks Jerry. And those are also set to expire in July or this month?

Mr. O'Callaghan: In principle, yes, but obviously there are ongoing conversations with all of these financial institutions well before the deadline.

Mr. De Luca: Sure. And then just on the debt that was rolled, can you let us know if… I remember there was a previous extension, there was a leverage target of 3.5 times by year-end 18 and 3 times by year-end 19. Are those still there or have those been revised?

Mr. O'Callaghan: Those have been revised, Andrew. Those have been revised. André, did you want to comment on that?

Mr. Nogueira: Yes, we are now much closer to [0:33:28 unintelligible] and the bonds level with the same language that is in the bond. So there is no covenant, that's the default covenant, so gives the company much more flexibility than the previous covenants.

Mr. De Luca: Great, thanks. Thanks André, thanks Jerry.

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

Mr. Hunt: Thank you for your time. My first question is continuing on the balance sheet question that was just asked. You know, considering that you got your short-term debt issues in Brazil settled, when you think about reaching your leveraged targets of 3 times, it seems that you begin to pay down debt in pockets and regions where you haven't in the past, like the US. Could you just talk about how you plan on achieving your 3 times this year and your 2 times next year?

Mr. O'Callaghan: Brian, obviously there are 2 manners of reaching the leverage target: Increasing Ebitda, there are good indications for strong year; and generating cash to pay down debt. We will look across all the geographies where we have debt expiring or that is payable that is scalable to focus on the most expensive debt by region and paid down that debt in order to reach those leverage targets.

Mr. Hunt: Thank you. My next question is what your new executive from Kraft-Heinz looking at Plumrose and gardening initial synergies, can you talk about his initial evaluations and what additional synergies he's found so far?

Mr. O'Callaghan: André, I think you wanted to make a comment about leverage and then can you take up the question as well, please?

Mr. Nogueira: Yes, so about that the leverage, the agreement with the banks in Brazil is that the lines of credit will be guaranteed for 3 years, but there is no penalties for us to pay or accelerate that payment. So that can be paid faster, and as Jerry pointed very well, we are looking each region what's the most efficient use, and probably pay debt in all the regions that we have operations today considered the amount of free cash flow that we expect to generate in the next 1 or 2 years.

About Plumrose, not only the executive, we have a full team in Plumrose now, so Tom Lopez already set up a new head of operation, the new head of marketing, a new head of innovation, so we have the full team in Plumrose that are reviewing the plan and putting a very aggressive plan of growth and for increase in margins.

I think that's a little bit too early to put any target on that, the team is onboard in less than 2 months, but we are very excited with the quality of the team that we put in place and we are very excited with improvements that we saw in these 2 months that the team is working together.

Mr. Hunt: And then, my last question is: Pilgrim's on their conference call talked about new automation that they we are putting in place in light of the tightening labor markets in the United States. Can you comment on anything you may be doing on the JBS USA to shield yourself from shortage in labor as well as escalating labor rates? That's it for me. Thank you.

Mr. Nogueira: So, Brian, I think that the labor is a big topic of conversation. It's a big topic of conversation in the US, I'm very happy with the improvement that we did, I can tell you that our turnover rate in the US for the first quarter of this year is lower than last year, despite of all that tight in the labor market. I think that we saw that coming. We prepared ourselves for that, we have the best turnover ever in the company in the management teams, supervisor up, and even the hourly turnover is lower than it was for the company combining US than it was in the first quarter of last year.

So the first thing is: stay in the right level, be a little bit ahead of the competition, have the right management team in place, that's the most important thing to face the tight labor market in the US. On top of that, the investment that we are doing, as you know, with the partnership and the ownership that we have in Scott, we have a lot of projects in place, I that probably in chicken the projects can deliver results faster because the technology is closer to be available and deliver the yield that needs to be delivered, and the other business you have more that is not a full technology that we can implement, but in area by area.

Scott technology we just did the acquisition, it's a company that will help us to accelerate the improvement and the technology in the back of the plan, it's a German company that we did the acquisition a few months ago and we will continue to invest in that: Invest in Scott, and invest that Scott helps the whole JBS to improve the use of the technology to reduce labor.

But for this year and next year, it's much more treat the labor in the right way, all the investments the JBS did in the last several years at the facility level, in parking lot, in restrooms, in the cafeteria, all the investments that we put in all these plants are now paying off, because I think that we are way ahead of our competition in all things that matter for the elderly people and that's why we're seeing that, despite of a very tough labor market, our turnover was lower this year than it was last year.

Mr. Hunt: Thank you for your time.

Operator: Our next question comes from Botir Sharipov, with HSBC.

Mr. O'Callaghan: Hi Botir!

Mr. Sharipov: Hi Jerry, how are you? Hi everyone. I'm asking couple of questions on behalf of Carlos [0:40:13 unintelligible]. Jerry, are you guys are still on track to start preparing for your second change listing later this year I guess? And do you see that the DOJ, CVM and forensics audits in the rear view mirror at some point in the second half of this year? That's my first question.

Mr. O'Callaghan: So Botir, with regards to the events that you mentioned, all of those events are progressing, we reported to you constantly the question with the authorities in Brazil and in the US, there was good dialogue and we are progressing well on these matters and others, and the conclusion of those issues will determine us going to the market on an eventual IPO process, it will be conditional to how all of these events progress, but I can tell you they are progressing well, within the time line that we expected and we don't expect to see any reversion of those trends until we are in a situation where we can make a decision about the IPO process.

Mr. Sharipov: Right. But I guess as far as the entire plan is concerned, your expectation is to be done hopefully with all of those investigations maybe before the end of the year, in next few months, would that be are fair assumption?

Mr. O'Callaghan: It's difficult for us to determine a timeline, but like I said, everything is progressing well towards a satisfactory conclusion, and our expectations are that those conclusions will be reached by the end of this year.

Mr. Sharipov: Okay perfect, thank you. And I guess the second question would be on a similar topic: Is BNDES kind of still resistant to assume your [0:42:11 unintelligible muffled sound] listing originally contemplated, or are they [0:42:16 unintelligible muffled sound] by the terms and the restrictions that you guys have to implement, or you have done so far?

Mr. O'Callaghan: The BNDES is a relevant shareholder of the company, there was a shareholders' agreement, which is a public document, and obviously all of the shareholders, including the BNDES, are interested in seeing the enhancement of the value of the company and we feel that everybody would support any initiative to unblock value, and we believe that the listing process outside of Brazil would definitely be an event which would unblock relevant value.

Mr. Sharipov: Perfect, thank you so much.

Mr. O'Callaghan: Thank you Botir.

Operator: Our next question comes from Julia Rizzo, with HDI capital.

Mr. O'Callaghan: Hi Julia!

Ms. Rizzo: Hi. Hello, how are you doing Jerry? My question is: I would like to know an update on how much exports represent from each of the business, especially in Brazil, in Seara.

Mr. Tomazoni: Seara is 50% of the revenue, and the beef is around 40%.

Ms. Rizzo: And in the US, can you give me an update as well?

Mr. Tomazoni: André, could you help with this answer?

Ms. Rizzo: Procurements in the beef.

Mr. Nogueira: Beef exports are around 18%, for Pilgrim's is less than that, around 10% export, and import is around 15%.

Ms. Rizzo: Okay. André, it can you give me a little bit of update on the beef, what is your outlook for margins for this year? I understand that 1Q is not the best for the company. And also, since exports are growing that much for the US overall protein, from who are you taking shares and how much you think that is sustainable?

Mr. Nogueira: So normally, in beef the first quarter for the company, overall outside of Brazil, the first quarter is the weakest quarter and I believe that this year will be the same, the first quarter will be the weakest quarter.

I think that the margins will increase in the beef, in the second and third quarter will be pretty strong margins in the historical level, probably the record quarter for the historical level in the second and third quarter, a lot of cattle available, good demand in the domestic market and very good demand in export.

I'm not sure if we are taking share from anyone, I think that's just more demand. Demand is growing. If you look the countries that grew more exports in beef, it's Japan, South Korea, Mexico, China, I think that it's just growth in demand. Probably for Japan, South Korea and China it's replacing domestic production, I think that if you look domestic production in Japan, South Korea and China, all went down during this time.

So I think it's a replacement of domestic production. We are not taking market share of Australia, Australia continues to be pretty strong in all these markets, it is just more demand and less domestic production.

Ms. Rizzo: One last question. Do you have anything that would prohibit the company to do more M&A's this year? Especially using other vehicles, perhaps Pilgrim's?

Mr. Nogueira: Could you repeat the question? I'm not sure if I understood the question.

Ms. Rizzo: Is there anything that would avoid making the company because of the holdouts or the leveraging target goals that would make the company less willing to do M&A opportunities around?

Mr. Nogueira: I that Tomazoni commented that the priorities for the whole company is to deleverage and organic growth. So for the whole JBS, we are not looking at acquisitions.

Pilgrims is a different situation, Pilgrim's is a public trade company that will do what's the best for the company, so if they have the right opportunity in place and they have… I think that they have the financial capability to do, Pilgrim's will do what makes sense for Pilgrim's.

So, Pilgrim's is a different story inside of JBS. For the whole company, we are looking for organic growth and we are looking for deleverage, it's a very clear target to achieve below 3 times at the end of this year and around 2 times at the end of next year.

Ms. Rizzo: Thank you.

Mr. O'Callaghan: Thank you Julia.

Operator: This concludes today's question-and-answer session. I would like to invite Mr. Gilberto Tomazoni for his closing statements. Please go ahead Sir.

Mr. Tomazoni: Thank you everyone to be part of this call, and I hope we can deliver next quarter a good result like this one. Thank you.

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