International Conference Call

JBS

1st Quarter 2013 Earnings Results

May 15, 2013

Operator: Good morning everyone and welcome to JBS S.A.'s conference call. During this call we will present and analyze the results for 4Q of 2013. As requested by JBS this event is being recorded. The recording will be available to listeners this afternoon and can be accessed by following the instructions posted on the company's website at www.jbs.com.br/ir.

Taking part on this call would have Mr. Wesley Batista, President and CEO of JBS S.A.; Mr. André Nogueira, CEO of JBS USA; Mr. Eliseu Fernandes, Administrative Director and Mr. Jeremiah O'Callaghan, Director of Investor Relations.

I will turn the call to Mr. Wesley Batista. Mr. Batista.

Mr. Wesley Batista: Good morning everybody with us at today's conference. We will analyze our results for 1Q13. Let me start by thanking our management team for their immense dedication and commitment to our business. This dedication and commitment has contributed towards a constant improvement and sustainable progress in the results of our business.

I would also like to extend a warm welcome to the members of our fiscal council and our board of directors, those that were reelected and also newly elected members, so welcome.

Our 1Q results, some highlights here and I will pass to Jerry O'Callaghan to go and to discuss in a more detail each of our segments and business units, but some highlights here: our net income was R$ 19.5 billion, an increase of R$ 3.5 billion comparing to 1Q12 or 22% growth comparing this quarter to 1Q12; our Ebitda was R$ 879 million, an increase of 26.3% over 1Q12; our adjusted net income for 1Q was R$ 374 million that also is an increase of 55% over 1Q12.

We generated R$ 58.6 million in cash from our operating activities. We have some highlights in terms of the acquisition and the closing of the acquisition that we did in Canada, XL, and the plant in the US; we also are expanding our chicken business in Brazil, so we did an acquisition of a company by the name Agrovêneto and also we rent another chicken plant in Brazil from a company by the name Tramonto.

Jerry will discuss with you in more detail about each of our segments and about all the highlights in this quarter and also what is going on after this quarter. I will pass to Jerry and I will be back with you after Jerry's presentation. Thank you. Jerry.

Mr. Jerry O'Callaghan: Wesley thank you very much, thank you. Good morning everybody, it is a pleasure to be with you again. We filed the press release last night just after the market closed with our numbers and put on our webpage this morning the presentation and I will follow that presentation as we talk about our business this morning. So I recommend those of you who are listening if you have not downloaded the presentation I think it would help us as I will make reference to the pages as we go through the presentation.

And starting just a quick disclaimer on page 3 of our presentation. I recommend all of you who are listening to us this morning please read the disclaimer which explains the risks involved in these presentations.

Wesley has gone through the highlights, the main highlights of our business and if you look at our presentation those highlights are on page 4, so I am not going to repeat the same highlights again and I will go immediately to page 5 of our presentation when we look at each one of these numbers so that we can analyze them a little bit more graphically and in a little bit more detail.

Wesley mentioned net revenue. We had R$ 16 billion in net revenue in 1Q12 and that reached R$ 19.5 billion in 1Q this year, so R$ 3.5 billion and I emphasize the R$ 3.5 billion, 22% increase in revenues in comparable periods; Ebitda comparing the same periods went from just under R$ 700 million to R$ 880 million, again an increase of 26% in Ebitda and our Ebitda margin in 1Q went from (on a consolidated basis) 4.4% in last year, 4.5% this year, remembering that the seasonality of our business there was an improvement in 1Q this year in comparison with last year.

Net income - and here we mention adjusted net income because we need to make a provision for income tax in accordance with regulation - but effectively that income tax is not payable, and so would make a point in highlighting only our adjusted net income and it went from R$ 240 million in 1Q last year and we reached R$ 375 million, over 50% increase there year on year in terms of adjusted net income. Separately we have reported an income, an income per share for your analysis also.

On page 6 of our presentation we have a look at our business over the last five quarters just to see how the trend is and I emphasize the seasonality of the business. The beginning of the year is always in terms of revenue and cost generation the weakest quarter; but we have seen our revenues go from R$ 16 billion in the beginning of last year, it was higher almost R$ 2 billion in the last quarter of last year and we are getting started this year with the revenue north of R$ 19.5 billion.

Ebitda we see the same curve, the same seasonal curve going from just under R$ 700 million in the beginning of last year peaking at 1.38 billion and starting this year at R$ 880 million and the expectation is the trend will be similar year on year.

We divide our business up into four business units and so we have the analysis of these business units in our presentation and I will go through those analyses one by one keeping it as short as possible so that we can get back to our CEO's comments and to your questions.

So we break it down in JBS Mercosul; our big business in North America which includes Australia; our pork business in the US and our chicken business in North America which is basically North America and Mexico, Pilgrim's Pride Corporation for many of you.

Look at each one of these businesses individually starting with our Mercosul business - and we have an analysis on page 8 of our presentation - firstly just to remind you this represents 26% of our revenue base; our South American businesses is 26% of our revenue base and it is more substantial in terms of cash generation but in terms of revenue 26%.

We have seen revenues expand quite a lot this business because of the acquisitions we have made and announced to the market in the past, so we went from R$ 3.8 billion at the beginning of last year, we picked up north of R$ 5 billion at the end of the year and at the beginning of this year we started 1Q with R$ 5 billion in revenue, and as you can see that is a 30% increase when we take 1Q last year versus 1Q this year, quite substantial.

And in terms of Ebitda we have seen some oscillation but within a range, double digit range, going from Ebitda margin from 11.3 to north of 14% in the last five quarters; in terms of real Ebitda from R$ 508 million at the beginning of last year to R$ 562 million 1Q this year, so some expansion and maintenance of the Ebitda margin within double digit range for which we have generally been expecting and have discussed with many of you in individual meetings.

Our USB business is next on page 9 of our presentation and it represents 44% of our revenue base, just to put that in perspective 44%. We have had some increase in revenues, a 6% increase in revenues when we compare 1Q last year to 1Q this year but we can see that it was quite some substantial growth through last year and the expectation is that it would be similar in 2013.

Ebitda in this business was negative US$ 25 million, an improvement over last quarter next year which was negative US$ 45, so an improvement but still an environment where we would expect still some improvement through the year in this business unit.

Then going to our pork business which is, again, it is a US business that is just under 10% of our revenue base. That business demonstrates a very constant trend over the last quarters, five quarters. We see very little variation in terms of revenues and also very little variation in terms of Ebitda and of Ebitda margin.

Basically our comment is always we expect margins to the between the 5% and 7% range and pretty much they have been within that range - Ebitda margin as Wesley has been reminding me here - so within that range. That is what we have seen and Wesley will make some comments about this business going forward.

Our chicken business which is Pilgrim's Pride Corporation basically the US, Mexico and one facility in Puerto Rico. We have seen this business grow from US$ 1.9 billion in revenues in 1Q last year to north of US$ 2 billion in 1Q this year. We have seen some very robust cash generation regardless of grain prices. We had an Ebitda of just over US$ 100 million in 1Q last year and it was up to US$ 118 million in 1Q this year with the emphasis on the fact that we had an incremental cost of US$ 141 million due to grain prices when we compare the same periods, so the performance of this business has been highlighted.

And then moving forward on our presentation and talking a little bit about exports, which we always talk a bit about because it is quite relevant to our business. We had US$ 2.6 billion in exports in 1Q13, so as we analyze that we look at a number north of US$ 10 billion in meat exports in 2013, that is a very substantial number.

And if we look at the destinations which are the main destinations number one is China and China's neighbors (Hong Kong, Vietnam); number two is Mexico; then come to Japan; then Africa and the Middle East and then South America (Venezuela). Russia; South Korea and there is a big emerging market component to our exports and we think that is important because we see good potential growth in our businesses to those markets as those markets continue to emerge and continue to grow: US$ 2.6 billion in 1Q of the year.

And we have some analysis in the next couple of slides about exports generally, so we have overall export numbers by each protein, by each meet (these are USDA numbers estimated, they were recently updated) and what we would like to demonstrate here is the fact that JBS is in the countries that provide the biggest volume of exports.

If you look at beef exports - excluding India, which is mostly a buffalo meat business to its neighbors - it is Brazil, Australia, the US and the other South American countries where we are present that are real drivers behind the exports, this is where most of the exports come from and Brazil leading with just over 18%, Australia quite substantial 17%, the US just north of 13% of global exports coming from these countries. And from a strategic point of view not forgetting Canada, also one of the 10 largest beef producers, it is also a relevant exporter.

When it comes to our pork exports again we see there is a degree of concentration in exports out of the US and Europe, and we see US exports have grown while European exports have become somewhat less competitive on the global market and that is a trend that we see going forward. So one third of all pork exports globally come out of the US.

And then when it comes to chicken, chicken exports are really concentrated in the two countries where we are active: in the US and in Brazil, 70% coming out of these two countries and that gives us an idea of how strategically important it is to be in these countries and to expand exports as we see those emerging markets improving diets and eating more meat.

And then there is a little bit about prices on pages 14, 15 and 16. It is just worth to see where prices have been going and where volumes have been improving. If we look particularly at beef on page 14 we have had a relative expansion of Brazilian beef exports 1Q this year, 34% up on 1Q last year. A little bit of price decline but nothing substantial in relation to the devaluation of the real and really relevant here is the volume that Brazil has put into the international market when compared with the same quarter at the beginning of last year.

And we have seen in the US some stability in volumes but we have seen some price improvement, which is a constant over the last number of years, of quarters. US exports have been improving in volume except for 2012, but increasing pricewise as well. So the re-conquering of the markets that the US had prior to 2004, we are back to 2004 numbers basically.

And then if we look at Australia, Australia has been very stable and constant in terms of its exports over the last number of years; but we have seen an uptake at the beginning of this year: volume is up almost 7% and prices are up about 2%. That is quite relevant and that is particularly to Asia and to China, which has become a major destination for Australian beef exports.

On the chicken front looking at prices it is interesting to see what has happened out of Brazil: volume is down a little bit, production volume in Brazil is down through last year. There was a decline in production but prices in Brazil improved quite a bit: prices are up 12% 1Q13 compared to 1Q12 and volumes are down 7.5%. Those are healthy numbers from the point of view of the business and the profitability of the business.

If we look at the US chicken exports prices have been improving, volumes have been improving (marginal improvement in volumes for 1Q this year) but prices are up as well and that is a constant out of the US.

And finally on pork a big decline in the US pork exports 1Q this year down 18.5% and prices flat basically and we have seen Brazil - which is not a very relevant player because of its lack of market access - a price increase of 3% in volume just about flat comparing 1Q12 and 1Q13.

Moving on to page 17 in our presentation just to mention a couple of events subsequent to the closure of 1Q which we think are relevant to bring to attention of those that are listening to us today: we did a retap of that bond that we issued in January (a 500 million bond issued in January) we did to retap at a more competitive yield in April. That started off at 500 million and with the retap US$ 775 million that yield went from 6 in the quarter to 6.5%.

Very relevant to our Brazil business we had an approval, unanimous approval by the Brazilian antitrust authorities of all the acquisitions and leases and rentals we did over the last four years. So there was a great shift on that regard and there are no pending issues regarding the activities we have had in Brazil over the last four years. That came out in April and we think it is quite relevant to the valuation and profitability of our business.

We recently announced also, and we did a press release at the time, the acquisition of a pork facility in the South Brazil which we got from BRF for R$ 200 million and we have detailed that business. It is not only the production facility itself but it is also the genetics and the live hogs around that business (almost 500,000 live hogs coming with the business) and we announced and we are waiting for regulatory approval for that business and we announced it last month.

And then also subsequent to the closure of 1Q we also announced the finalization of the acquisition of the US facilities of XL Foods, the Canadian company XL Foods, a slaughter facility in Omaha Nebraska, another one in Nampa in Idaho (the one in Nampa and the one in Omaha operating).

Moving on to the next page of our presentation, very briefly in Brazil we have been doing a groundbreaking advertising campaign for our beef business under our most famous local brand, the Friboi brand.

We have been emphasizing the quality of our products, the quality of the processes where we produce our products and also the whole supply chain, the sustainability around the supply chain of products in Brazil. This company has been on the air since mid-March, is still on the air and it has substantially improved our relationship with consumers, with retailers, with food service. It has really been a groundbreaking campaign in Brazil and we would like to highlight that to all the investors.

Talking a little bit about our debt profile now, this is two pages about our debt profile before I hand you back to Mr. Batista here. Our leverage remained flat quarter on quarter, last quarter 2012/1Q13 regardless of the startup of some of those businesses I just mentioned, then the working capital requirements out of those businesses.

So we see as an achievement maintaining leverage at 3.4x net debt/Ebitda. I mentioned the US$ 500 million that we captured in January at 6.5% per annum and I think it is also very important to mention the fact that we have R$ 5.5 billion in cash or cash equivalents and plus we have US$ 1.2 billion in pledged and committed lines in the US unused at the moment. Without summing those pledged lines the US our cash and cash equivalent position represents almost 94% of our short-term debt requirements. So we think that is a very healthy relationship there, almost 94%.

And on page 21 there is a little bit of details around the cost of our debt: 78% of our consolidated debt is in the US dollar currency; it has an average cost of 7% per annum and an average maturity of just under five years; the other 22% of our consolidated debt is in local currency, in reais, at an average cost of 8% and an average maturity of 3.6 years.

So we have got the breakdown of our debt by company, JBS S.A. and subsidiaries, (bonds and others) and the breakdown by currencies and the cost per currency demonstrated in that presentation.

So with that we finalize this presentation and I will hand you back to Mr. Batista and he is going to further elaborate on our ongoing businesses. Thank you very much.

Mr. Batista: Thank you Jerry. So when we look our consolidated numbers I think we are making very strong progress: our topline growth was 22% compared to the same quarter last year; our Ebitda went up 26% and that is also a meaningful improvement comparing quarter by quarter; and our net income went up also 56%.

So overall when we look and our management analyzes our internal numbers we believe that we are making good progress in many different fronts of our business and we believe considering the seasonality of our business that we are going to have a very strong 2013.

Going into a little bit more detail about each part of our business and talking about the beef business in Brazil like Jerry mentioned we had some important events in these last three, four months in the beginning of this year. We got all the acquisitions that we did in the last four years approved by Cade (the antitrust department in Brazil) and for us this is an important thing that we put this behind us and so we do not have any deal that has been analyzed or that are being analyzed by the antitrust department. So this is something that is behind us.

The campaign that we are doing on the Friboi brand is also something that is very, very important and we believe that we are just starting changing the mentality of the Brazilian consumers when they buy beef. We are seeing a lot of interest from retailers, from end-users, to be close to our brand and buying more products from us. So our distribution network is growing in Brazil in a big way, we are very satisfied about the campaign we are doing.

Exports is another important point to mention here: Brazilian exports, Brazilian beef exports went up 33% comparing this quarter to 1Q12, so it is a big change.

Another thing that we are seeing as a positive thing for the Brazilian beef business is that the real is getting a little weaker, so this of course helps a lot the exports. We believe that going forward in the middle and long term the dollar will get stronger comparing to the emerging economy currencies. This is a positive thing for our Brazil, Uruguay, Paraguay and Australia businesses.

We are in a positive cycle in the beef business in Brazil. We are still seeing this business performing very strongly and we believe this business will keep being running in a double-digit type margin, so we are confident about what this business can deliver to JBS and to our company going forward through this year.

Some other business that is part also of our Mercosul business that is the hide and leather business. This is a very important business in our portfolio, we are the largest hide and leather processor around the world. These businesses have been performing very strongly and last year was strong and this year is still very strong running in a double-digit type of margin and so we are also very optimistic about the outlook for the hide and leather businesses going forward.

The chicken business as you know we got in the chicken business in Brazil in the middle of last year and we have been expanding this business through the

Agrovêneto acquisition and through the Tramonto lease. Our business model in the chicken business in Brazil we believe is the appropriate model for JBS. We are seeing strong numbers coming from this business and we believe the grain price is declining (not only in Brazil but also in the US), so we believe this business will perform strongly through this year.

Moving from Brazil to the US I would like to go through the pork business first, and the pork business like Jerry mentioned our pork business is a stable operation. We believe it is a very competitive business, well-run business, and we have been seeing margins fluctuating between 5% to 7% in Ebitda and so we are confident that this business will keep being stable through this year, even though exports declined, pork exports declined in the US; but we believe in our ability to keep running his business with the same kind of margin that we have been seeing in the previous quarters.

In the beef business in the US, moving to the beef now, the beef business in the US 1Q12 was a weak quarter in this year, also not a good quarter. Some things that changed, that happened in the US, some plants that shut down and also the change in Japan in terms of exports... We really did not see this in the first quarter, so this happened more through the middle of 1Q and in the end of 1Q.

So we are starting to see an improvement, margin is better now in the beef business and we believe we will be able to deliver our budget in the beef business for 2013. We believe we can run our beef business and in 2013 we believe we can deliver 3% margin Ebitda, so this is our call for the beef business even though 1Q was not a positive quarter. So our alt look is a positive outlook, we think the beef business is getting better and I think the industry is getting more balanced in terms of supply and demand and also exports we believe will help the US beef business through this year.

Part of our business in the US is our Australian business. I think I should highlight here that our Australian business we are making a lot of progress, we are improving our performance in Australia. The business in Australia is in a positive moment. The cattle cycle in Australia is positive, so we are seeing more cattle available, actually the cattle price has declined in Australian dollars terms through this last month. And the exchange rate also is getting weak in Australia, so that helps our margin in Australia. So we are very positive about the Australian operation and we believe it will be a very good year for our Australian operation.

So we got in Canada through the acquisition that we did in XL. I think it is important to mention that the acquisition that we did in XL, the Canadian plant plus the US beef plant in Omaha plus Agrovêneto acquisition in Brazil plus Tramonto, we paid around R$ 271 million for those acquisitions and also we increased our need of working capital because we were ramping up our volumes on these plans, on these businesses that we acquired. We have a positive view about what Canada can also deliver for JBS.

Finally here in terms of our segments Pilgrim's Pride, a publicly-listed company in the US, you already saw Pilgrim's Pride's results. So we are seeing the grain prices in the US what is going on and we believe the grain market will be favorable for the chicken business in the US and we believe we will see much less cost in terms of feed costs in the US, this will help results.

And also not only feed prices will help our chicken business in the US but also our way that we... Our improvements that we are making and doing in Pilgrim's Pride. We are improving our business in a very, very meaningful way: we are getting better costs, we are getting better in mills; our plant is running more efficient and so we have a very, very strong view for this business this year. I think we will be surprised what this business... The results this business will deliver going forward in 2Q, 3Q and 4Q. So we are very positive and very excited about the results that Pilgrim's Pride will deliver to us.

So again, overall we are very optimistic. We believe that more than ever we are well set to have a very strong 2013 and we believe we will see a very strong free cash flow generation in 2Q, 3Q and 4Q.

In terms of working capital we do not see an increase or... An increase in terms of working capital needs in this coming quarter, so we will see a stabilization and on the other hand we believe we will see a strong free cash flow generation in this quarter. We are still committed and we are still confident that through free cash flow generation we will keep deleveraging our balance sheet: our target is to be below 3x leverage by the end of 13 (between 2.5 and 3), this is our target and we are confident that we will see this number.

Like Jerry mentioned we issued a bond in January of US$ 500 million, we did a retap last month of US$ 275 million, a 10-year bond, 6.5, 6.20 in a quarter. We think this is an important move for JBS.

Again we are totally confident about our structure, about our team. I am very happy where we are and I think we have a very, very well-set structure and team to deliver strong numbers in this coming quarter.

With that I will stop here and we will open to Q&A. Please operator open to Q&A. Thank you.

Q&A Session

Operator: Thank you. 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. If at any time you would like to remove yourself from the questioning queue press star two.

The first question comes from Alan Alanis with J.P. Morgan.

Mr. Alan Alanis: Hi Wesley, hi Jerry, thank you for taking the call. I have a quite strategic question and it has to do with the uses of cash capital deployment and the level of leverage. In 1Q this year you indicated that you were expecting to reach 2.5x net debt/Ebitda by the end of 2013 and now you are saying it is below 3x.

That is fine, things change and so on, and I think that part of the thing that changed is this opportunity for acquisitions. We know that there was a working capital need at XL which you had a very good price but you had to invest in working capital, and that is the thing you were very clear that there will not be any more increases in working capital in the short term from those operations.

But my question is if there were more opportunities to arise – and Marfrig yesterday said that they would be selling some assets and I think that some of those assets particularly in the poultry side in Brazil you might be interested.

So how should investors and analysts see JBS, Wesley and Jerry, in the sense of this balance between further acquisitions and opportunities that may come and the priority of reaching this new target of 3x net debt/Ebitda by the end of the year? That would be my question.

Mr. Barbosa: Alan let me tell you one thing: first of all to tell you that we did not change our target. Our target is still to be at around 2.5 - and I mentioned 3 to have a range - but I am confident; I did not change anything in my view that we will be able to be much closer to 2.5 than to 3.

I want to make sure that it is clear: I am still confident that we will see a very strong cash generation in these coming quarters. Our business in the way that it is going we already passed a month and a half in this quarter, so we are seeing what is going on and we are very positive in terms of the ability to generate cash and to be much closer to 2.5 than to 3. This is one thing.

A second thing about the companies that you mentioned names I will apologize but I will pass your question, because you mentioned about some of the competitors here. I do not know what they will sell, I do not know exactly what kind of assets they are going to sell or if they will sell, if they really will sell any business. Because of this I will not speculate about maybe what they would be interested to divest for this kind of thing. So I apologize.

Mr. Alanis: No, it is ok. Forgetting about that specific company, just in general on what is depending on you if you have to say: I want to prioritize more reducing gross debt (not only net debt but gross debt) this year or I am going to keep exploring and if there is some more opportunities in the market coming.

Regardless of who is the seller, should we continue... JBS seeing doing acquisitions on a case-by-case basis if they arrived like opportunities that would be all. It does not matter who is the seller as you said; but I am just trying to understand if yes, the company will continue to do acquisitions if there is good opportunities or no, this time we are going to be bit more focused on reducing gross debt.

Is there any change right now in that or there will be a continuation of what we have seen in recent years that we saw or in recent quarters like we saw with XL and likely saw with... I guess I just want to understand your thinking, that is all.

Mr. Barbosa: Ok Alan let me tell you one thing: it is very hard to say, because you never know what is available and who will be for sale or not or what is the opportunity that can be in front of us. So it is hard to speculate at this.

We have been running our business in 2011, 2012 looking to reduce our leverage and we have been able to reduce our leverage and we will not do things that will compromise JBS as a whole, as we have been doing always in a prudent way in our business.

We will keep running our business looking to grow our business organically - and we have been growing in a big way, growing our business organically - and we are in the market and we see opportunities. But we are still very much looking, and if we are not confident about our ability to generate cash we will not do anything that will compromise our business.

Mr. Alanis: That is very clear, thank you so much Wesley.

Mr. Barbosa: Thank you.

Operator: The next question comes from Wesley Brooks with Morgan Stanley.

Mr. Wesley Brooks: Hi Wesley, Jerry.

Mr. Barbosa: Hi Wesley, how are you?

Mr. Brooks: Good, just trying to understand a little bit deeper Mercosul results. Can you give us an idea please of how Brazilian chicken margins progress in 1Q as one of your competitors saw a bit of a margin squeeze in exports? And also how much of a margin impact there was from nonrecurring things like acquisitions and things like that? I am just trying to get a feel for where margins could be in 2Q or 3Q ex-seasonality.

Mr. Barbosa: Well Wesley basically our chicken business in Brazil we have been seeing very strong results, actually higher than some players in the market and I believe that it is because our cost structure. We have a very, very lean operation, it is a very competitive operation and we are seeing strong margins when I compare our numbers to other players in the market. So we believe we have a well-ran chicken business in Brazil.

I believe... Look, our business is performing double digits margins, so well above some of the Brazilian chicken players, and I believe our chicken business will keep running delivering very strong margins and double digits margins through this year. I do not see a change on the outlook for our chicken business in Brazil.

About beef you are right: we are incurring in some costs in terms of startup costs. We reopened four new plants in the last six months and of course, when you reopen a new plant you incur in new costs, in ramp up costs, in training people, the yield is not the same, the plant is not efficient, these plants are not efficient in the same magnitude that the other plants that we are running for five, ten, fifteen years.

So we are seeing some impact in our Ebitda margin in the beef business because of the ramp-up of these plants and what you can think about is that our margins should be improving through this year because these plants will be getting better and we will be seeing less impact on these operations.

Look Wesley, we have a positive view about the beef business in Brazil, we believe we are in a positive cycle. We believe that the currency in Brazil we believe that the chance is to get a little more weak than to be stronger, and this for sure will help margins. So we have a positive view.

Mr. Brooks: Ok. So do you think it is possible to get near last year's margins in that mix of businesses, a sort of 3Q?

Mr. Barbosa: I think so Wesley. I think the market can expect and I would not be surprised to see margins back into 13, 14 and moving around these levels changing, of course, quarter by quarter because of seasonality; but I think this is possible.

Mr. Brooks: Excellent thank you. My second question was just around the US beef business. To reach that 3% Ebitda margin like you are saying it seems like spot margins have just turned positive in the last week or two; so presumably 2Q is still going to be in the 1% or 2% range. Does that suggest you think you can do a good 4% or 5% margin in 3Q for the US beef business?

Mr. Barbosa: Wesley I think combining.... Remember we report on a combined basis with our Australian business. I think it is possible. I think we can see margins picking up, 2Q better, 3Q even better and 4Q... So I think from here to the end of this year I am confident that the beef business will pick up and I think we will see a gradual improvement in margin and also, to be fully disclosed here, also our Australian business should help and will help in our beef margin in a consolidated basis.

Mr. Brooks: Excellent sounds good, thank you very much.

Mr. Barbosa: Thank you.

Operator: The next question comes from Farha Aslam with its Stephens Inc.

Ms. Farha Aslam: Hi good morning.

Mr. Barbosa: Hi Farha good morning.

Ms. Aslam: Hi. You always have a great kind of global view on exports given your numerous locations. Wesley, with China and Russia putting restrictions on US beef and pork exports regarding ractopamine is that why you are still confident about your Australian business and did you see a benefit to your Brazilian beef exports as a result of those restrictions?

Mr. Barbosa: Farha yes. I think this is something... Look, we have been saying in a lot of occasions that we believe we have a very well diversified operation in terms of geographic location: we operate in Australia, Brazil, Uruguay, Paraguay, Argentina, the US, Mexico, Canada.

So I think it is proving to be a benefit for JBS because the market is global, it is a global market and if China is buying less beef from the US they will buy from someone. They are buying a lot of products from Australia and I think this will benefit Australia and also Brazil. We are selling more products around Asia to other markets, Vietnam and Hong Kong.

So this will benefit some markets and I think China in some point they will be buying more pork. And I think if you look at the pork competitiveness the US is a country that can produce hogs cheaper than anyone else. If you compare the hog price in the US it is more competitive than any country around the world. So I think the US, even though the ractopamine issue and some pushback on these markets, I think these markets will be back buying products, pork meat from the US.

Ms. Aslam: Ok and one follow-up to that: your Australian business has been benefiting from exports and the US is importing record amounts of Australian meat. Do you think that that additional Australian meat is pressuring the US beef profitability but it is ok because you have operations on both spaces; is that why you are generally constructive overall on your US/Australian beef margins?

Mr. O'Callaghan: Jerry here Farha. I think regarding Australian exports to the US we saw quite a big decline in 2011, 2012. I think what we see now is a more normalized volume getting back to pre that drop. So I do not think that is anything which indicates a trend in terms of Australian beef causing any margin concern in the US. It is just back to normality.

Mr. Barbosa: And I think Farha - this is Wesley - one thing that is important: André that is in the call can elaborate a little more to give you a better view about the volume that is going from Australia to China, it is huge. I tell you what: China is buying more beef in Australia than ever. I do not know André if you can give Farha some idea on our... Not ours but Australia's growth in China in the beef sector.

Mr. André Nogueira: Two comments here Wesley, the first one is in fact if you look at this year, the first part of this year, the US imported much more beef from New Zealand and this for a very specific reason: New Zealand had a draught there that provoked some liquidation of the herd and the US brought a lot of trims from New Zealand to the US that now is going back to the normal level, so it will decline a lot just because of the normal season in New Zealand that is the time that they produce much less and the draught is not so severe as it was one, two months ago. The growth in terms of imports was from New Zealand.

Australia in fact in terms of the total pound exports to the US this year is a little bit less than last year and why? Because China is buying much more in a very strong price. So it makes more sense for Australia to export to China than to export to the US. As Wesley said China came from almost zero two or three years ago to now the third largest market to Australian beef. The first one continues to be Japan, the second one is the US and China is now the third largest market for Australian beef. So the big growth for Australia this year is China by far.

Ms. Aslam: Great, thanks for the added color.

Mr. Batista: Thank you.

Operator: The next question comes from Bryan Hunt with Wells Fargo.

Mr. Bryan Hunt: Good morning.

Mr. Batista: Good morning Bryan.

Mr. Hunt: I was wondering when you talked about your outlook in being to 2.5x lever across the total business and a very strong financing market for the United States, what is your outlook for refinancing your high-coupon debt at Pilgrim's Pride as well as the short-debted bond at JBS USA?

Mr. Batista: I will give you a part of the answer but André also can jump, André, and talk more about this. But Pilgrim's Pride I think to be short in our answer I think we will generate enough cash to pay a lot of debt now without need to refinance anything in Pilgrim's Pride.

About JBS, André, you can mention about the 2014 bond.

Mr. Nogueira: Bryan we continue with our initial thought that we continue to look at market opportunities and we continue to look with most of cash we expect to generate during this year to see the right moment and the right size of the transaction that we expect, and of course it is always a possibility that we will use some of the liquidity from Brazil to pay down this debt.

So we are not in a hurry to do something. We continue to look at the market, we continue to look at the expectation of cash generation for the next nine months of the year to decide the right moment to take the movement.

Mr. Hunt: And then my next question is when you look at the North American market overall across all your proteins could you talk about growth of food service versus retail? There is definitely a lot of mention that that there has been a mix shift away from beef to poultry and there is a lot of promotion on poultry at retail. Just if I could get your qualitative comments that would be great, I would appreciate it.

Mr. Nogueira: André we do not see this kind of shift that was talked about from food service to retail. I think that in our sales we continue to grow in the food service area. Of course chicken demand has been very strong and production is low levels. So if you compare the production of chicken today with the average production of chicken over the last five years we are in the lower level.

And beef demand in my perspective we are producing almost the same amount that we produced last year. We are selling more beef because we produce almost the same amount than last year. We are importing a little bit more and so the net availability in the US is a little bit higher and we are selling this for a higher price. So I cannot see that demand can be weak in a scenario that we are selling the same amount in a higher price.

Mr. Hunt: And my last question: out of the US you did make some comments earlier on that the opportunity Japan is sizable. Could you just talk about what your outlook is in terms of volumes growth in Japan from the United States on beef exports for 2013 versus what you did in 2012?

Mr. Nogueira: If you see what happened in March, the exports from the US to Japan was 70% higher and I think that this gives a perspective of the possibility in terms of the Japanese market. So it continues to be very strong in April, so the expectation is Japan will go back in terms of the level of exports from the US.

Even with all this growth we are still much more than it was before 2005. So the US continues to export around 50% of the amount it used to export before. I am not sure if we can go back to the full level that was before; but I think that March indicates a good number in terms of the possibility for the US to export from the US to Japan.

Mr. Hunt: Thank you for your time.

Mr. Batista: Thank you.

Operator: The next question comes from Carla Casella with J.P. Morgan.

Ms. Carla Casella: Hi, how are you? You talked about your beef margins for the year and the US going to 3% margin. What would you say is a more normalized beef margin and has that change is given... I guess with the normalized margin over the next few years the supply will be a bit tighter?

Mr. Batista: André.

Mr. Nogueira: I think, Carla, the supply is a little bit tighter. It is not as tighter as we projected for the end of last year. If you divide the US market in two (the fat cattle and the cows), cows have been much larger than our original expectation just because the dairy business has been selling the cows much faster than they used to do, so the availability is in a pretty good level to be honest.

And remember that we had one plant that shut in Canada at the end of last year? So we see much more dairy cows coming from Canada to the US to help the supply side in the US and other plants that were shut.

So I think if you look the reduction in the amount of cattle available that is less than our original expectation because of cows and you look the reduction of capacity anywhere and in Canada that helped the US, I think that we are going to expect that beef margins will go back to the normal, historical level and now even more with Japan reopened to the US, which brings another perspective and increase in value that we can realize for the whole carcass.

Ms. Casella: Ok and so more like the 3% to 5% or 4% to 6% range?

Mr. Nogueira: I think it is between 3.5 to 5.5. That is the historical normal level and I believe we are moving in the direction to go back to that level.

Ms. Casella: Ok great and you have done a good job in raising debt to pay out with your short-term debt. Can you just give us an idea what is the average savings or what is the interest on the short-term debt that you will be paying down so we can project cash flow savings?

Mr. Batista: Carla basically it is not a lot of savings in terms of total dollars; the improvement is more in maturity because when you look the short-term debt that we are paying here Brazil there is not a meaningful difference when you look the yield that we issued this bond that we issued in the US (6.5 and 6 in a quarter). So it is not a lot of... I do not think it is a meaningful number to be considered; but of course it is a big improvement in terms of the maturity of the debt.

Ms. Casella: Ok great and this current quarter on XL did you say would you expect that to contribute to Ebitda or revenue for 2013?

Mr. Batista: André.

Mr. Nogueira: Sorry Wesley, I could not hear the question.

Ms. Casella: Can you say how much XL Foods should contribute to revenue or Ebitda for 2013?

Mr. Nogueira: In terms of revenue it is over US$ 2 billion. In terms of Ebitda you have two operations here: you have a cow plants in the US and a cow plant in Canada. I think we can consider that in the US level or a little bit higher; but we are just starting in Canada, I think it is too early for us to give a full perspective on that.

Ms. Casella: Ok great, thanks a lot.

Mr. Batista: Thank you Carla.

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

Mr. Batista: I would like to thank you all to participate in our conference call, our earnings conference call. I would like to thank you for the confidence in our company and the interest in our company. Like I mentioned before we are very confident. I can say that we are more confident than ever that we are moving to have strong results in improving our business and generating a substantial amount of cash.

So again thank you everybody and have a good day.

Operator: That does conclude the JBS audio conference for today. Thank you very much for your participation and have a good day.