

International Conference Call
Marfrig Global Foods S.A.
Marfrig announces US strategic transaction
April 09, 2018

Operator: Good morning ladies and gentlemen. At this time we would like to welcome everyone to Marfrig Global Foods S.A. conference call.

The audio for this conference is being broadcast simultaneously through the Internet in the website www.marfrig.com.br/ir. In that address you can also find the slideshow presentation available for download.

We inform that all participants will only be able to listen to the conference call during the Company's presentation. After the Company's remarks are over there will be a Q&A period. At that time further instructions will be given. Should any participant need assistance during this conference please press star zero for an operator.

Before proceeding, let me mention that forward-looking statements are being made under the Safe Harbor of the Securities Litigation Reform Act of 1996. Forward-looking statements are based on the beliefs and assumptions of Marfrig's management, and on information currently available to the Company.

Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions because they relate to future events and therefore depend on circumstances that may or may not occur in the future.

Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of Marfrig and could cause results to differ materially from those expressed in such forward-looking statements.

Now I will turn the conference over to Mr. Martin Secco, Marfrig Global Foods CEO.

Please Mr. Martin you may now begin the conference.

Mr. Martin Secco: Good morning, good afternoon to everybody. We would like to thank you to join us for this call. Today we want to share with you some important notices here in Marfrig

with me other colleagues Eduardo Miron, our CFO; Marcos Molina, the chairman of Marfrig; and also Tim, the CEO of National Beef, will be listening and waiting if you have any questions for him.

Today Marfrig wants to share with you that we are redirecting our growth strategies for the two divisions and we want to concentrate in our core business regarding beef and also in parallel we decided to review our strategy about Keystone.

Today we want to share with you two projects: one that is the main topic of this call is the acquisition of the majority stake of National Beef that adding the Brazilian strategy that is a very good complementary fit. We are very, very proud about this operation.

And the second one on the Keystone we want to share with you that we decided to sell Keystone and for that we have J.P. Morgan to lead this process with Rabobank. Both projects we will finish on the next months.

We want to show now a little about the operation of the acquisition of National Beef. The acquisition is for 51% stake of National Beef for a value of 969 million USD. The enterprise value of the company is 2.3 billion USD and that means the transaction is a 4.4 multiple regarding the Ebitda 2017.

There are some important topics regarding this transaction, but one of them is Leucadia, who will sell part of this stock for Marfrig and will remain as an important shareholder of the company with 31%; and also USPB will remain 15% of the company. That is very important for us that both joined and continue with Marfrig for the future. All the investors have a lockup period for five years since the closing date.

National Beef is the fourth leading processing company in the US and the most profitable and efficient company in the country. They have two facilities in Dodge and Liberal that make to thousand head per day both. The slaughtering of National Beef is more than 3 million head per year, more or less 13% of the US slaughtering experience.

There are many points that we will have a strong complementary between National Beef and Marfrig. Some of them like Marfrig will be a strong position in the most important areas regarding commercial and production beef around the world and that is the Americas region; and will become a stronger global supplier of around the world.

There are important topics to be explored for our teams in the future like efficiency, operational efficiency; commercial this donation; leather production; integration with farmers; adding value for our product; food service and e-commerce like a sale channel; and also the incorporation

of the grass fed and organic products in South America in the NB or National Beef commercial channels.

All these topics will be relevant and fundamental for our strategy in the future; but I want to stop for a minute in two that we think are very, very unique in this transaction. The first one is the integration with farmers that NB has a long than strong experience. Today 25% of the animals that National Beef slaughters per day, per year coming from this agreement and this is a very good agreement for both parts, a really win-win strategy aligned between the company and the farmers. It is a model that we want to explore because always here in South America we dream with this kind of agreement.

And the second point that is very important is the access to the US market and Japan market. The US market for South America now we are attending from Uruguay and we hope to attend in the near future from Brazil. As you know we have a complementary production with the production that we have now in the US and for that will be a challenge for our commercial team to work together in this market. In the near future also, in the next months we expecting to be open to Japan from Uruguay and of course the experience of National Beef in this market is very important to us. They have a commercial office for more than 25 years over there with a long experience regarding the products that we need to produce to serve this country.

Also National Beef have... The leaders of the exports in the US and the exports of them are absolutely complementary for the exports that we have in South America. They have a different focus and I think this is another opportunity to be close and to work together.

I want to ask Eduardo to share with you some figures regarding this transaction.

Mr. Eduardo Miron: thank you Martin. I would like to go to the next slide. In this slide we want to show to perspectives of this transaction for Marfrig. The first one is how material it brings to the beef division, how material the impact is for the beef division. If you look at the chart in the upper left the impact on sales is 250% growth coming from 9.7 billion BRL to 35 billion BRL.

On the right you can see the impact on Ebitda with the growth of 210% from 800 million BRL to something close to 2.6 billion BRL. This provides an idea of how material this acquisition is for the beef business.

The other perspective is based on the year-over-year comparison of these pro forma figures. The main take away is the improvement in the beef cycle that is happening in both the Brazilian and the US markets.

Let us move to the next slide. In this slide we will talk about the financing of this operation. The total amount to be paid upon closing is 969 million USD. It is granted by a credit line approved by Rabobank. It means private money from a finance partner, globally recognized for its expertise in the industry and therefore their support means a lot to us as it shows a belief in the transaction and in the strategy.

Back to the financing it is divided in two operations: the first one is a bridge loan of 900 million USD for one year and will cost initially Libor +550 bps. We will borrow it at the new entity formed to be the holding and the acquirer of the 51% participation.

The second financing will come from an increase in Keystone via a term loan of 100 million USD. This term loan matures in 2022 and has the cost of Libor +220 bps.

It is important to mention that the liquidation of these loans shall be done through the sale of Keystone as previously mentioned by Martin. The detail of the two loans is on the top of this page.

Moving to our debt situation and leverage the acquisition of 51% of National Beef will allow us to consolidate the whole company in Marfrig's financials. We are controlling shareholder.

So we put together this chart comparing in a pro forma basis our position at the end of 2017 and the same position impacted by the consolidation of this new company and impacted by the loans I just detailed to you. Important to highlight that this calculation does not include the proceeds from the sale of Keystone.

So net debt would increase from 8 billion BRL to 11.8 billion BRL; Ebitda will materially increase from 1.7 billion BRL to 3.5 billion BRL and with that our leverage would move from 4.55x to 3.35x - again already including new loans.

It is very important to demonstrate that this operation impacts positively our leverage levels; but - and that is very important to stress - the new model for Marfrig is based on lower leverage, and this operation does not change our nonnegotiable target of achieving 2.5x leverage by the end of 2018.

With that I pass the word back to margin for his final considerations.

Mr. Secco: thank you Eduardo. Marfrig becomes the second world's largest beef company consolidating the American production platform. This transaction will not change the company's financial discipline both strengthens the leverage part. After Keystone sale Marfrig will be the company with the best financial health in the sector.

Now I will pass the call to Marcos for his final comments.

Mr. Marcos Molina: Thank you Martin.

Gostaria de dizer a todos que estamos muito felizes com a compra do controle da National Beef, uma empresa de enorme qualidade.

Mr. Miron: I would like to say to everyone that we are extremely happy with the acquisition of the controlling participation in National Beef, a company that is recognized for its quality.

Mr. Molina: *Com essa aquisição nos transformamos numa plataforma global no setor de beef, com acesso aos principais mercados do mundo.*

Mr. Miron: With this acquisition we create a global platform in the beef sector with access to the most important markets.

Mr. Molina: *O mais importante: a compra da National Beef reflete nossa estratégia de crescimento sustentável, e disciplina financeira.*

Mr. Miron: More importantly this acquisition reflects our strategy of sustainable growth with focus on our financial discipline.

Mr. Molina: *Gostaria também de dar os parabéns principalmente para nossa equipe financeira.*

Mr. Miron: I would like to take the opportunity to thank our financial team...

Mr. Molina: *Que viabilizou a aquisição com uma excelente estrutura, e agradecer a confiança e apoio do Rabobank em financiar 100% da transação.*

Mr. Miron: ... That made that happen with the support of Rabobank.

Mr. Molina: *Também agradecer a Leucadia,*

Mr. Miron: I would like to thank Leucadia,

Mr. Molina: *USPB...*

Mr. Miron: USPB...

Mr. Molina: *Tim e toda a diretoria...*

Mr. Miron: And officers...

Mr. Molina: *Em ter a Marfrig como sócio e a confiança depositada em nós.*

Mr. Miron: And allow us to be partners and believe on us.

Mr. Molina: *Também reafirmamos o nosso compromisso na forte desalavancagem para dar sustentabilidade a essa nova fase da Marfrig.*

Mr. Miron: I would like to reinforce our belief that... On the low leverage in order to support our growth strategy.

Mr. Molina: *Esperamos finalizar as operações ainda nesse semestre.*

Mr. Miron: We expect to close both operations still in this semester.

Mr. Molina: *Muito obrigado e passo a perguntas e respostas.*

Mr. Miron: Thanks again to everyone and I would like to go back to the Q&A session.

Q&A Session

Operator: Ladies and gentlemen we will now begin the question-and-answer session. To pose a question please press the star key followed by the one key on your touchtone phone and to remove yourself from the questioning queue press star two.

Our first question comes from Diogo Silva with Action.

Mr. Diogo Silva: hi guys thanks so much for the call. I actually have three quick questions; the first one is regarding the leverage calculation you do in the presentation and the targets. My understanding is - tell me if it is correct - is that on the leverage of 3.35 that you show in the presentation you are still including the Ebitda of Keystone, so it is before the sale of Keystone; and you are putting 100% of the Ebitda of National Beef and not just a 51% stake that you have. Is that correct?

Mr. Miron: you are correct. So we are... a pro forma of 2017 where Keystone is still there. So there is no positive impact of the sale of Keystone in those numbers. In terms of National Beef it includes not just that, not just the Ebitda but it includes the debt as well. So it is a full consolidation.

Mr. Silva: understood. So I mean I think we can agree that you are basically... You are going to have a significant minority in that Ebitda and the rating agencies the adjusted for those minorities right? So the leverage that probably the rating agencies will calculate on you is going to be different from that.

I guess my question is once you sell Keystone, which hopefully will deleverage you further, more than half of your Ebitda is not going to... Roughly actually half of your Ebitda is not going to belong to you because it is going to be a minority. Is the 2.5x ratio calculated it in the fully consolidated basis? So with that Ebitda that does not belong to you or is the 2.5x going to be already adjusting for that?

Mr. Miron: the 2.5x is based on the consolidation as it is from an accounting standpoint.

Mr. Silva: understood... My first question. My second question was I understand part of the rationale of buying the business, I understand why this is a great business; but there is... I just do not understand on the one hand why it was... You know in a moment you were supposed to be deleveraging I do not really see the rationale of making more acquisitions, that is the first thing.

And because you are going to get to the target of 2.5 but with Ebitda that is not fully yours now, that is the first question.

And the second question is: are there besides being different markets... Is good from... Risking perspective are there any synergies that you are going to take from here? I mean do you actually think you are going to make a higher Ebitda on National Beef than you must have been done before because you are going to operate it better? I mean what is really... I just do not really get why doing this deal now.

Mr. Miron: okay Diogo this is Miron. So the first part of your question so you are referring to the deleveraging of the company? Yes. So... our process to deleverage is a process that we have been talking to the market for a while and it includes, and we have always said that, it includes the M&A operation of sale of a portion or total Keystone right? So that is... and so it has not changed; what has changed is there was a redirection being in our strategy and had we sold Keystone first we would have the money to make the acquisition.

Now what happens is that the opportunity happened first and so therefore we had to go through a bridge loan. So therefore I think that is one of the reasons why when we are talking about acquisitions we are not talking on the acquisition alone and we are putting both together, because on one hand we are changing the direction of the company towards beef.

But the second one we are absolutely not changing, and that is why we are using the word nonnegotiable, our belief that the future of this business is based on a very low leverage; and the decision to sell 100% of Keystone is a good example of how serious we are towards that target.

Mr. Silva: you would agree that... The 2.5x Ebitda without minorities is not the same thing of the 2.5x with a lot of minorities right?

Mr. Miron: yes; but again the 2.5 is a measurement based on total debt, total Ebitda according to the consolidation. I agree with you in terms of... From an economic standpoint there is minorities that will be taking... dividends themselves; but at the end of the day the consolidation we are measuring is based on the consolidation figures.

I would like to pass for... Of your question to Martin related to synergies versus how National Beef complements our business – but that is all right... I think you had another comment so I did not mean to stop you sorry.

Mr. Silva: go ahead, there was another question yes.

Mr. Secco: okay. As I mentioned at the beginning of the call that are different topics that we are planning to work with the management of National Beef that we hope will bring a lot of synergies for both companies. Some of them will be a very important amount of money; but there are others that will be very important in our concept to run the business.

But it is not serious or for us or for National Beef management team to talk now about the numbers or something like that.

Mr. Silva: understood and... actually one last thing, which is - and am assuming the answer is going to be that you cannot answer - but then you have any kind of guidance you can give on... It seems you are quite advanced on the process of the sale of Keystone because Rabobank is also the one helping on both sides. Can you give us a glance of what kind of valuation are you expecting for that? Meaning are you actually going to get... Because you basically almost swapping one business for the other. Are you actually selling a business for more than you are buying or the other way around?

Mr. Secco: Diogo no, no. We are not going to share any guidance now, it is not the moment and this is the answer and I ask you to give for other analysts that want to make other questions.

Mr. Silva: thank you.

Operator: our next question comes from Lauren Torres with UBS.

Ms. Lauren Torres: hi and good morning. I guess my question is still a follow-up continuing on the rationale discussion. I think just thinking back on discussions we have had in the past with respect to divesting businesses and having this two-front approach with Keystone and your beef business as complementary businesses.

I am just curious to get more background on this with respect to visit because of the opportunity was there with National Beef that this is a better opportunity than realizing the benefits of keeping Keystone and beef together or is something with respect to that complementing each other no longer the case and you decided to focus on beef that is more in the way to go? I am just curious if this is... opportunistic based on the sale of National Beef or there was something with respect to the concerns about the two-front approach that you established before was the right way to run the business, forward?

Mr. Secco: thank you for your question. You are absolutely on the same line of our rationale. We will have a very strong company, big also regarding revenues, much bigger than today and even still with Keystone. And of course it is a completely different model of business and for that our targets regarding the debt of the company and the cost of the debt of the company.

This is a strategy that started last year when we decided to anticipate our plan to reopen some plants in Brazil and this complementation with National Beef is perfect for support our growth plans, thank you.

Ms. Torres: just my second follow-up then. I know you cannot be specific on synergies at this point; but being different markets are these more just profit sharing or there is actual realization of synergies between the two companies that you expect to realize?

Mr. Secco: it is very soon to talk about the specific plans. As you know on this moment of the business or until yesterday only the top directors and management of the company was involved in the transaction. We need to share this opportunity with our teams; but of course on the big pictures we are seeing a lot of opportunities and we are going to work very deep on the next time.

Ms. Torres: okay all right thanks.

Operator: our next question comes from Barbara Halberstadt with Bank of America.

Ms. Barbara Halberstadt: hi thanks for the Q&A session. I just wanted to understand a little bit better the terms for the bridge loan, if you could give a little bit more color on that, thanks.

Mr. Miron: I think the term of loan... The operations we had they are described in this slide that I went through. So the first one is a bridge loan with maturity of one year, it is 900 million USD, Libor +550; and the second one is a term loan, maturities 2022, 100 million USD, Libor +200 bps.

Those are all financed by Rabobank.

Ms. Halberstadt: okay thanks.

Mr. Miron: you are welcome.

Operator: our next question comes from Ivan Fernandes with Pictet Asset Management.

Mr. Ivan Fernandes: hi guys a quick question. Can you give us than an update on the Keystone sale process? What is the timing and why did you decide to change from an IPO to a full sale?

Mr. Miron: Ivan the change is obvious. So the IPO is a tool that was without was appropriate for a partial sale under a specific strategy and as we are changing the strategy we are changing the way we are approaching this operation with Keystone.

We believe that the potential buyers they would prefer a private company. We believe that they would prefer this route instead of the other. We believe this route is going to be extremely quick and as we mentioned before we expect this to happen still during this semester and there are two banks already working on it: the first one is J.P. as a leader and the second Rabobank as a coleader.

Mr. Fernandes: and when did the banks started to work on the private sale?

Mr. Miron: I think I would prefer not to share all these small details if you do not mind.

Mr. Fernandes: and can you give us a sense of the valuation, what kind of multiples you would expect, a range...

Mr. Miron: I do not think it would make sense for us to provide price for company we are selling. I think the whole point of bringing this issue and even mentioning the sale of the company was a long board to provide a whole picture of our strategy instead of just showing one part of it; but I think going through the details of this I do not think it would be appropriate.

Mr. Fernandes: okay thanks.

Mr. Miron: you are welcome.

Operator: next question comes from Botir Sharipov with HSBC.

Mr. Botir Sharipov: good morning and thank you for taking my questions, just a couple of quick ones. First again on the timing on those transactions do you plan to close both in 1H 18 and also when you change your strategy from IPO in Keystone to selling did you say that you are going to sell it to a private party or is it just a private transaction and they could be public companies acquiring Keystone?

And the second part of the question what is your view on potential Chinese tariffs on beef exports from US is there a contingency plan? What would you guys do given that almost 14% of the National Beef exports are to China. What was the contingency plan to deal with that? How does that impact the profitability of National Beef and potentially where would the volumes be redirected?

Mr. Secco: okay thank you. We do not have any condition regarding the acquisition of Keystone. This is something that we are going to manage with J.P. Morgan in the next term and regarding the second maybe Tim can explain more at the end of the Q&A session; but we are not planning to have any impact regarding the commercial issues with China.

The most of the exports to China from National Beef are leathers and they are not beef involved or too much beef involved and for that what we checked with them is this situation.

Mr. Sharipov: thank you.

Operator: the next question comes from Eduardo Vieira with Deutsche Bank.

Mr. Eduardo Vieira: hi thanks for the call. I have a couple of follow-ups on the Portuguese call. The first one is can you tell us how much debt National Beef has right now?

Mr. Miron: well I will not provide more numbers. I think the numbers that we utilized for the pro forma they were based on 2017 and the number was around 200 million USD.

Mr. Vieira: okay. Just because when you do 2.3x... 2.3 billion USD EV minus 969 million price paid for 51% it implies a brass debt of 400... Or net debt of 400 million right? So I do not know if there is additional liabilities that you included or that was included in the EV?

Mr. Miron: yes they had some dividend payments and they made this public today.

Mr. Vieira: okay great and also you mentioned that National Beef is the most profitable among the top beef producers in the US. I believe you mentioned your partnership with farmers as being one of the reasons. Could you give us any other reason or any relevant reason you

believe they may have to do with that? And also can you give us a little bit more color on like that kind of... Those partnerships? Do you have contracts, do have contracts expiring? Can you give us a little bit information? I am just trying to understand the rationale for your being much more profitable than other guys.

And also if you could share some light on why you think this deal came at a 4.4x multiple, which seems quite low compared to other companies in the sector, particularly with you being a premium player as you mentioned, thank you.

Mr. Secco: okay thank you for your question. Our plan is to use Tim to make some final comments at the end of the call; but I think that it is the moment that Tim is going to share with you your points regarding National Beef and the National Beef relation with the farmers.

Tim could you help us with these comments?

Mr. Tim XXX: yes. Would you like me to do that now?

Mr. Secco: yes please.

Mr. Tim XXX: all right. Good morning everyone. It is a pleasure being on this call. To the question on why National Beef is the most profitable in the US I look at it in several different reasons. First of all our two plants are two of the most efficient plants in the US it with the capacity to process 6000 head per day. So our operating costs are very low.

As Martin suggested the unique cattle supply arrangement that we have with US premium beef allows us to attract the highest quality cattle available and use those cattle to build value-added beef programs here in the US and also for the export markets. We are because of that the leader for... In value-added beef, whether that be in the US or across the globe.

One of our other advantages is that we have a very long tenured management team that have been with the company many, many years and a tremendous amount of experience that we have. So we benchmark our results against the industry leader in the United States, which is Tyson, and quarter in, quarter out each year we outperform them.

Mr. Secco: thank you Tim.

Mr. Vieira: thanks. Would you mind sharing some color on the multiple and the motivation for the sellers to sell at such a low multiple?

Mr. Miron: I think it is... The terms of the operation are the ones that we calculated based on the 2017 results. So therefore I think it would not make much sense for us to discuss how much we paid. I think what was paid was the right value for both parts.

Mr. Vieira: okay thanks very much.

Operator: our next question comes from Gustavo Gregori with Bradesco BBI.

Mr. Gustavo Gregori: hi good morning. My question is where do you plan to leave the leverage in the company? Particularly when we look at the US operations it is going to be very un-levered and in the Brazil operations you still are going to have a lot of debt that you are going to be caring.

Do you guys plan to shift this around as part of the liability management or is the idea to keep the US operation that is very low leveraged going forward?

Mr. Miron: thanks for the question. I think the way we see this business this business should be based on low leverage; so therefore our direction is to reduce the leverage that we have in Brazil and that is going to be achieved through the second operation with discussed during this call related to Keystone.

Mr. Gregori: yes; but once... Let us assume once Keystone is sold and you have reduced your leverage to 2.5x net still implies a higher leverage than the one National Beef currently has; so would you guys consider increasing the leverage that National Beef considering the lower costs leverage in the US or would the idea still be something similar to what we have seen from Marfrig over the last couple of years, where you had the Keystone operations in the US, the Keystone operations always had very low leverage while the Brazilian operation had the higher leverage?

Mr. Miron: I think the intent is to keep both companies at low leverage ratios, and thank you for this... any... in the market to improve our returns and reduce our debt. So it is part of our liability management. So it is hard for us now to define how we will play in the future; but one thing is for sure: we will keep the leverage very low, which is the base for this type of business. It is the secret for success in our opinion.

Mr. Gregori: perfect understood.

Operator: Now would like to invite Mr. Martin Secco to proceed with his closing statements. Please go ahead Sir.

Mr. Secco: Thank you. Maybe there is not enough time to attend all the questions; but Roberta and all the RI team will be pleased to receive your call or answer in this afternoon.

I would like to finish saying that this transaction will not change our financial discipline and we want to use this call to give them more warm welcome to National Beef team in Marfrig, especially to Tim and all the top management of National Beef. We are very pleased to have you on board with Marfrig and to share with you... To share with us this challenge. For that Tim if you want to make some comments to finish for this part? We want to finish the call.

Mr. Tim XXX: thank you Martin. I would like to say that I am very excited to be partnering with Marfrig. I am one of the partners in National Beef and I did not sell any of my interest in this transaction. I believe the combination of the two companies is very powerful as we look at how we can leverage our capabilities and strengths across the globe as we move forward. And I speak for the rest of the management team and all believing that same thing that this is a great combination of two really great companies and we are very excited for the future.

Mr. Secco: okay Tim thanks for your words, special regards for everybody over there and we keep in touch next days. Thank you all to joining us.

Operator: That does conclude Marfrig's conference call. Thank you very much for your participation and have a nice day.
