International Conference Call
Marfrig Global Foods S/A
Extraordinary Call – Keystone Sale Transaction
August 20th, 2018

Operator: Good Morning ladies and gentlemen. At this time, we would like to welcome everyone to Marfrig Global Foods S.A. conference call to present and discuss the Keystone Sale Transaction.

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 guarantee 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. Eduardo Miron, Chief Financial Officer of Marfrig Global Foods.

Please Mr. Miron you may now begin the conference.

Mr. Eduardo Miron: Good morning everyone, thank you for your interest and for attending another conference call of the company, especially in such a short notice. I have with me today Roberta Varella, our Investor Relationship Officer.

Back in April, we announced a shift in the company's business strategy to focus on beef, and with this decision we launched 2 major projects: The first one, which we have already discussed extensively with you, was the acquisition of the control interest in National Beef, which we concluded in June, 2 months ago; and the second project, the sale of Keystone Foods, which is the focus of our presentation today.

Let's turn to slide number 3, please. Last Friday, we signed an agreement with Tyson Foods for the sale of Keystone Foods. It did not include our beef operations in the US, which is run out of our beef patty facility in North Baltimore, Ohio. This plant is one of the largest beef patty plants in the United States at annual capacity of 91,000 tons of processed products and is dedicated exclusively to the food-service channel.

Last year, we invested around $13 million in 4 new fresh beef patty lines, which gave us the capability to meet the industry’s growing demand for this kind of product. The retention of this operation will add value to the portfolio of our North America operation and is aligned with our strategic growth plan.

So, excluding this business from this transaction, we arrived at an enterprise value for Keystone of $2.4 billion, which implies a transaction multiple of 10 times based on the ratio enterprise value divided by Ebitda of the last 12 months.

This is a healthy multiple and it's worth mentioning that is higher than the current multiple from the buyer, as well as higher than the multiples estimated by the market when assessing the value of Marfrig using the sum of the parts.

In our review, this value represents not just the quality of our assets and business model, but also the value of an exceptional team committed to excellence and to meet the most demanding customers of the market.

Moving on to slide number 4, the divestment of Keystone contributes to Marfrig's vision of becoming a singular, more focused company with a capital structure adequate and aligned with the industry it is in.

The proceeds from the sale will enable Marfrig to achieve its goal of reaching a leverage ratio of around 2.5 times and to become one of the companies with the lowest leverage ratios of the industry in Brazil, a company that is diversified geographically with a production platform spindle in the Americas and with focus on beef protein.

In this context and with the goal of adding more value to Marfrig's portfolio in the United States, we have opted to keep the US beef business and the plant in North Baltimore, which is one of the country's largest beef patty plants with annual revenue of around $300 million.

This transaction conclusion will strengthen Marfrig's position as a global leader in beef protein without forgoing its commitment to the financial discipline.

Moving to slide number 5, this slide shows in numbers what I have just mentioned in the first slide of today's presentation. During Marfrig's leadership, Keystone value more than doubled, we concluded the acquisition of Keystone by the end of 2010 for $1.3 billion, we divested the logistic assets in 2012 in non-core asset for $400 million, and in 2014 we sold to Moy Park (a subsidiary of Marfrig by that time with headquarters in United Kingdom) the European assets of around $60 million.

During our management, we kept the commitment with investments and Keystone delivered record results. Considering this transaction value of $2.4 billion, Keystone generated close to $3 billion as of today, as you can see on the graph on your right, and this amount without considering the US beef business that we retained.

And I would like to emphasize that this strong value creation would not have happened without the employees of Keystone, who made of it a successful story; a high-performance team committed to the excellence in serving our customers, seeking to bring in innovative solutions and adopting best practices to ensure quality and food safety.

Let's go to slide number 6, please. This slide shows our debt profile and key financial indicators after the conclusion of the key strategic transactions, the National Beef acquisition and Keystone divestment. As recently released, Marfrig ended second quarter 2018 with a net debt of R$16.3 billion, or $4.2 billion, as shown in the first bar of the graph.

Considering the cash amount raised with this transaction of $2.2 billion after a few adjustments, such as exclusion of noncontrolling shareholders, we reached a net debt of R$7.9 billion, or $2.1 billion; a decrease of around 50%.

On the same basis, as you can see on the right graph of the slide, leverage ratio measured by the relation between net debt and adjusted Ebitda of the last 12 months decreased to 2.6 times. It's worth mentioning this Ebitda of 3 billion already excludes Keystone Foods result. With the 2 projects completed, Marfrig becomes the Brazilian company of the sector with the lowest leverage ratio.

And what is Marfrig after closing these 2 strategic projects? As you can see on slide number 7, if we analyze the second quarter 18 data recently disclosed, Marfrig becomes today a company with a net revenue of R$40 billion. On the same basis, adjusted Ebitda is around R$3.7 billion.

And what does that mean in terms of value of the company? Here is a theoretical calculation: If we consider the enterprise value Ebitda historical transaction multiple of the sector, we got the average of 5.5 times. [0:10:15 unintelligible - muffled sound] this 5.5 times and the Ebitda of 3.7 billion, we reach an enterprise value of more than R$20 billion. Excluding from this amount the net debt after the transaction and the minorities of the North America operation, which value was estimated based on the recent acquisition, Marfrig's market cap is around R$9 billion.

Moving to slide number 8, this slide reflects Marfrig's outlook for second half of 2018. The global demand of beef protein remains favorable. In North America, the margins are expected to continue healthy, sustained by both strong demand and availability of cattle. The South America usually in the second half of the year we have higher demand, and considering the positive scenario for cattle, we expect an improvement in margins compared to the first half of 2018.

With this, we should have an increase in revenue to R$20 to 21 billion with an Ebitda margin of 9 to 10%. This result will contribute to an additional reduction of the leverage ratio of the company reaching our goal of 2.5 times.

I'd like to go now to the last slide for my closing remarks. Marfrig has concluded another phase of its strategic business plan, very important to its goal of creating value for our shareholders. Having completed its 2 major strategic projects, Marfrig moves towards a capital structure appropriate to its business model/ diversified geographically on the Americas and with access to the main consumer markets.

The company consolidated itself as one of the largest beef companies in the world, with an ample supply of cattle and driven by strong demand in both domestic and international markets, the US beef industry has delivered record results. In Brazil, the beef cattle cycle remains favorable and the country's importance as a platform for serving a growing global demand is indisputable. Brazil, which is the world's largest exporter, was recognized by the World Organization for Animal Health as free of foot-and-mouth disease through the vaccination, and we recently mentioned it in our earnings call.

And this certification could further expand the possibilities for accessing international markets, and in this entire process what has not changed is our unnegotiable commitment to the financial discipline and the creation of value for our shareholders.

Before I finish, I want to highlight and thank our teams for their full commitment and effort; over the last 6 months we embraced 2 important projects that combined represent enterprise value about $4 billion. And if we were not working as a team, believing in the contribution that this transaction would make to transform Marfrig into a more solid and profitable company, we would not be year.

That concludes my presentation, so let's go now to the Q&A session.

Question-and-Answer Session

Operator: Thank you. 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. To remove yourself from the questioning queue, you press star 2.

Our first question comes from Marcel Moraes, from Santander.

Mr. Moraes: Hey Miron, how are you? First of all, congratulations on the sale of the asset. And you've answered most questions in the Portuguese conference call, so I'm going to focus on the value of this transaction and how you're going to kind of correct this over time.

In the contract that you signed with Tyson, do you expect any adjustments to this price, the $2.4 billion in terms of working capital, or have you hedged this amount, or you expect to accrue interest? Because as you mentioned in the Portuguese conference call, you expect to receive the proceeds in 2 months or 3 months or something, so you know, just to understand how the number could change over time. Thank you.

Mr. Miron: No, we don't expect any major change to this number. As you know, normally transactions of this type it is common that we have to measure variance of working capital over time. But no, we don't expect any major adjustment to this number. So, this number should be the same at the end of the transaction.

The time when we are going to receive the cash it will depend on the approval of the antitrust process, and we cannot precise when that will happen. Certainly, we expect this to take place until the end of the year. But again, it not something that we have full control.

Mr. Moraes: Okay, thank you very much.

Mr. Miron: You are welcome.

Operator: The next question comes from Benjamin Theurer, Barclays.

Mr. Theurer: Hey, good morning and thank you very much for taking my question. One follow-up as I didn't catch up properly on the Portuguese call. Can you explain a little bit about the level of integration you're going to have with the Baltimore beef patty operation from the recently acquired National Beef and what kind of synergies you are expecting by maintaining that and what is the Ebitda you attached to this operation? Just the beef patty operation in the US that would be much appreciated. Thanks.

Mr. Miron: Yes, so what we mentioned was that this operation in the US, the US beef operation of Keystone will be led and coordinated by our US operation National Beef. The specifics about this we don't have at this exact time, so in our view, the beauty of this is that it will amplify the portfolio of business, of National Beef in the US.

I would just like to emphasize that this plant and this business is fully dedicated to the food service, so value-added product, and therefore for us it will be a very important addition to the portfolio of National Beef. How exactly this would take place, that's part of the next phase of this project.

Mr. Theurer: Okay, thank you very much.

Mr. Miron: You are welcome.

Operator: The next question comes from Soumo Mukherjee, Mizuho.

Mr. Mukherjen: Hi, congratulations for the sale. I missed the Portuguese call, so sorry if you answered these questions already, but in terms of the use of proceeds, what I have in my calculations is that you have about 1 billion in terms of the RBC bridge loan and then you have about 850 million at Keystone to pay with what's left over. Is that more or less correct?

Mr. Miron: Yes, the way we see it, Soumo, is that if you go back to our slide number 6 we have around 4.2 billion in debt and the 2.2 cash will be utilized to liquidate this. You are right about the size of the bridge loan because that was exactly the amount we utilized for the acquisition of National Beef. The debt of Keystone fluctuates, so it depends, it may very up and down depending on the future, but it's important to mention that for us what we see is total debt that will be liquidated with total cash that we are receiving. That's the way we see this math happening.

Mr. Mukherjen: Okay, thanks. And just one additional question in terms of the debt prioritization. You have the 20-21 bonds and you have the 23, which has a higher coupon, and the 2019. Are you giving any color in terms of how you're thinking about the liability management process with these proceeds?

Mr. Miron: It's a very good question. I think the liability management, as we mentioned during the Portuguese call that you probably did not attend, is? It is a next step for us. So, we need to first make sure we finalize this and receive this cash and in the meantime we are going to be planning the next steps of this liability management.

I think this liability management that we plan to put into motion will be based on a different profile of the company, so average of 2.5 and maybe less depending on what happens until the end of the year, we put up a range between 2.2 and 2.5. We believe that we will be able to have a very robust process of liability management, so we can address the liability management in several different ways.

But, as you know, one of the key components of the liability management is the reduction of interest, so therefore, today our carrying cost per month as a whole is between 6 to 7, so something in the middle of this range, and we expect to reduce this cost, at the same time we expect better conditions in terms of terms and maybe extend the terms a little bit.

We are absolutely comfortable with the current profile of our debt in terms of how much we have in the long-term, but I think we always can do better. So that's obviously going to be our next focus after the conclusion or the payment of the sale.

Mr. Mukherjen: Okay, thanks. And just one very last one. On the 19's, I believe that you had intended to have paid. Anything happened in terms of the planning they haven't paid the 2019 yet?

Mr. Miron: As you know, we've been very very focused on these 2 large transactions, I think the middle of everything that was going on I think our main focus was dedicated to that. I think now we can review and have better discussions about what we are going to do next on the liability management, as I mentioned.

Mr. Mukherjen: Thank you very much.

Mr. Miron: You are welcome.

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

Mr. Lasarte: Good morning and congratulations on the transaction. My question in terms of your strategic for the second half on a consolidated basis. Are you expecting some free cash generation in the second half to get to that 2.2-2.5? If you can just give us a little bit of color in terms of what we should expect in cash generation for the second half of the year. That's my first question.

Mr. Miron: Yeah, great question, thanks for asking. I don't know if you remember, during the second quarter when we talked about our cash flow we mentioned that that cash flow did not include the whole quarter from National Beef, we had just 4 weeks of cash flow in that position, and we mentioned that the cash flow was impacted by factors that you all were very aware of, like the strike. But at that point when I made this comment, I stated that had we had put together the full *pro forma* for the second quarter for the cash flow, we would have reached something like a flat cash flow in the quarter, even with everything that I just mentioned.

So therefore, having said that, that's the base for my next point. So although I will not provide any guidance in terms of the cash flow for the second semester, we absolutely see the cash flow as very positive given that we are going to have a stronger second half, we are going to have the full consolidation of the

National Beef business and we are going to have a better, as you see, the first half we had the FX of something like 3.4, and how FX is more towards the 3.8 and it should continue that way until the end of the year. At least, that's our view given everything that is going on in Brazil.

So, yes, we have a positive perspective for that. In our projections for the 2.2-2.4, we kept our debt unchanged, so we took a little bit of a conservative position saying that the debt would be flat until the end of the year.

Mr. Lasarte: Okay, and if I can ask the second question, I mean, would you look at, for example getting, to that 2.2 to 2.5 by the end of 2018 and at that point consider refinancing some of current outstanding bonds, or perhaps going back to the bond market on more favorable terms? Are you guys looking to sort of improve on the back of your current leverage in the second half before looking at any sort of potential refinancing? Any comments you can make there.

Mr. Miron: Sorry, you broke up a little bit. So, what was your question again? Do you mind repeating?

Mr. Lasarte: Sure. You got into a leverage level that is lower by the end of the year compared to the 2.6 you have now after this transaction, so my question is: In terms of looking at a potential refinancing of your current bonds, which as you said have quite a high interest, would you consider winning until the end of the second half of the year to show stronger performance before you try to refinance in the bond market, if that's your intention? If you can make any comment on that point.

Mr. Miron: Well, to be honest, I don't have a specific answer for this. Our focus has been pretty much on finalizing these 2 large transactions, and now, I mentioned before in the other call, we need to get to think of how we are going to address the liability management.

So, we are open to debate options, we normally tend to be quick to the market to take advantage of the windows, so therefore I don't have a specific answer, but we are very attentive to the movements in the market, and our objective is to, as you mentioned, given the profile of the company of a low leverage price, I think we should benefit in our liability management somehow. We will test the market, we will discuss with our banks, we will discuss with our treasury and we will create a plan for this.

Mr. Lasarte: Okay, understood. Thank you very much.

Mr. Miron: You're welcome.

Operator: The next question comes from Gustavo Gregory, Bradesco BBI.

Mr. Gregory: Hi good morning, thanks for the follow-up question. My question is related to the hamburger factory in North Baltimore that's going to stay with Marfrig. I just want to better understand, in the reported figures from first and second quarter results were the operations from this factory included in the assets that were set aside for sale, or have these assets been included in the continued operation results in the first and second quarter?

Mr. Miron: No, they were totally out, they were considered as assets for sale, so they were not part of the numbers.

Mr. Gregory: All right, perfect. So right now, they are being included in the company’s guidance for the second semester. Is that correct?

Mr. Miron: So, let me ensure we are clear. So, you asked about Keystone, is it right?

Mr. Gregory: Yeah, specifically the operations in North Baltimore that you do the hamburger patties.

Mr. Miron: Yeah, so you are right that the Keystone business was not part of the business until the sale, and for the future, because they are not an asset that is going to be sold…[0:28:20 line dropped]…

Operator: Ladies and gentlemen, please, hold.

Please, hold on, we will soon resume the conference call.

Mr. Eduardo, you can go on.

Mr. Miron: Yeah, so Gustavo I was trying to answer your question, I don’t know if I was clear or not?

Mr. Gregory: Yeah, the line got cut off, so just going back to it, I guess I'm just trying to understand what would be the impact of the hamburger operations on the numbers? If they were excluded when we were calculating the leverage ratios in the second quarter if the Ebitda from those operations were excluded or not and then, you know, if this will go back in now that Marfrig is going to keep those operations, and also if those operations are going to come with any form of debt or anything like that that might get adjusted from the value.

Mr. Miron: Yeah, so you are right, so in the first half until the second quarter everything from Tyson was discontinued business, so nothing was included there. And for the future we will have to add the results in the sales from this plant back to our projections for the second half.

And as a reference so you have the annual sales that we provided the $300 million annual sales.

Mr. Gregory: All right, perfect, that's very clear.

Mr. Miron: Thank you very much.

Operator: This concludes today's question and answer session. I would like to invite Mr. Eduardo Miron to proceed with his closing statements. Please go ahead, Sir.

Mr. Miron: Well, I would like to first of all thank you again for taking the time to listen to our story, to our plans, to give us the opportunity to clarify this important step, which is the sale of Keystone, for you guys to proper trust in the company and we hope that we will continue delivering on our promises.

Thank you all and have a great day.

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