International Conference Call

Marfrig S. A.

3Q18 Earnings Results

November 6, 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 its results for the third quarter 2018.

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 session. 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. Marcos Molina, Marfrig Global Foods Chairman.

Please Mr. Molina you may now begin the conference.

Mr. Marcos Molina: *Bom dia a todos. Antes de passar a palavra ao Miron, que comentará sobre nossos resultados, gostaria de fazer alguns comentários.*

Interpreter: Good morning, good afternoon everyone. Before he had the call over to Miron, who will comment on the quarter results, I would like to make a few comments.

Sr. Molina: *Eu considero esse trimestre, um trimestre especial, porque é o 1T que inclui 100% da National Beef*

Interpreter: I consider this a special quarter because it is the first one that includes 100% of National Beef

Sr. Molina: *e mostra recorde de vendas e Ebitda.*

Interpreter: and with record of revenue and Ebitda.

Sr. Molina: *O mais importante, o retorno de geração positiva de caixa.*

Interpreter: and more importantly the resume of positive cash generation.

Mr. Molina: *também mostra forte receita em dólares,*

Interpreter: it also shows strong math revenue in USD,

Mr. Molina: *o que nos dá um hedge natural*

Interpreter: which provides is natural hedge

Mr. Molina: *mesmo com alta expressiva dessa moeda nossos índices permanecem estáveis.*

Interpreter: even with a strong appreciation of the USD our indexes remain stable.

Mr. Molina: *Continuaremos focados na execução de nosso plano estratégico*

Interpreter: we will continue to focus on the execution of our strategic plan

Mr. Molina: *crescimento orgânico,*

Interpreter: with organic growth,

Mr. Molina: *produtos de valor agregado e com isso gerando valor sustentável para nossos acionistas.*

Interpreter: value-added products and therefore generating sustainable value for our shareholders.

Mr. Molina: *Parabenizo todo o time da Marfrig pelos resultados alcançados.*

Interpreter: I would like to congratulate the entire Marfrig team for the results achieved.

Mr. Molina: *Passo a palavra para o Miron para o início da apresentação.*

Interpreter: so now I pass the call over to Eduardo Miron, who will begin this presentation.

Mr. Eduardo Miron: Thanks Marcos. I want to start by thanking everyone for participating in our earnings conference call of Marfrig Global Foods. Today in addition to commenting on the results for 3Q 18 we also will provide an update on the strategic field.

With me today are Marco Spada, CFO and Investor Relations Officer and given the important moment of our company with the ongoing transition we also have with us Tim Klein, CEO of the North American operation and Miguel Gularte, CEO of the South American operation.

Let us turn please to slide number three where we will begin today's presentation. As for our strategy, as we presented in our conference call on Marfrig new structure we shared with you the five pillars that will support the creation of sustainable value for the company.

I want to reinforce with a diversified production platform spanning the Americas and access to key consumer markets our mission is to produce and supply the best quality beef to the world. To achieve that we have forged strategic alliances and partnerships with producers, industry associations and government agencies to ensure best practices for the entire process.

Our firm commitment to food quality and food safety is part of our culture and permeates our entire value chain. In addition to operational excellence we also are focusing on continually improving our capital structure, which will help to transform Marfrig into an industry leader with consistent generation of profit and free cash flow. On the next slide you can see the status of the actions that will make our global… Our goal of creating value sustainability a reality.

On the Keystone sale in additional to the approvals by BNDES and the regulatory authorities in the United States and Japan yesterday we announced the approval by the authorities in China and still pending is the approval by the authorities in South Korea, which should occur by the end of this year. Once this transaction is concluded the funds will be released, which will enable us to move forward in yet another phase of our liability management process, which is aligned with the goal of ensuring our financial strength. In the near-term we have the payment of the bridge loan used for the acquisition of a controlling interest in National Beef, without abandoning our commitment to maintaining a robust liquidity position, given this scenario marked by volatility that persists in Brazil. We also expect to sell other short-term liabilities. More sales will be forthcoming soon.

In the specific case of Marfrig I should remind everyone of how this year has been particularly challenging. As part of our strategic shift towards growing in the beef market we had two major projects with the Keystone divestment now in its final phase. This led to the important transformation throughout the company that in our view is just in the initial phase.

In September the senior management of the North American operation National Beef visited some of our industrial sites in South America. They focused on the southern part of the continent, which is the origin of the products exported to the United States. They visited our further processing plant in Rio Grande do Sul in Brazil, the Taquarembo plant in Uruguay and our portion and that products plant in Itupeva, São Paulo.

This initial phase supported the creation of in opportunities map focusing on the sales and production areas. For each opportunity analyzed the company identified those responsible in each operation and the actions required to transform that into reality. Some examples include the expansion of the processed products portfolio for sale in the US market; other example is the sale of products from South America to Japan and South Korea using the sales team that already exists in North America and finally a change in the best production practices across operations, from equipment, processes and training.

Turning to the quarterly results let us go to slide number five. I want to commend our team for the exceptional results that we managed to deliver, with new records set for sales volume, Ebitda and cash flow. This 3Q was not only the first quarter in which we consolidated 100% of the results from the North American operation; but it also marks the first quarter in which we resumed positive cash generation. Free cash flow, even though we were in a scenario in which we did not consider our capital structure normalized, was 271 million BRL.

Net revenue despite one fewer week of cattle processing in North America grew 21% and reached a new record level of 11 billion BRL. We also set a new record for the quarterly Ebitda of 1.1 billion BRL, which attests the success of our strategy of focusing on beef with geographic diversification.

With the receipt of the proceeds from the Keystone divestment we will be able to deleverage by nearly 50% and we will have one of the industries with the lowest leverage ratios, 2.57x if using LTM 3Q 18. When measured in USD given our level of exposure to the international market the leverage ratio would be even lower at 2.3x.

So we are on the path of becoming a simple and focused company with the capital structure adequate to the industry we operate. I will now handle the call over to Marco Spada, who will comment on our 3Q results.

Mr. Marco Spada: thank you Miron, good morning and good afternoon everyone. I would like you to please turn to slide number seven where we will resume our presentation. On slide number seven you can see the variation in Marfrig's consolidated net revenue from 3Q LY to 3Q TY. As you can see in the chart we adopted three basis to show the main factors that led to this variation, which are sales volume, sales price and exchange rate. And specifically for this quarter we also eliminated from this analysis the impact from the fewer weeks of results reported in the North American operation.

Marfrig's net revenue in the quarter reached 11 billion BRL representing a growth of 21% YoY. The higher volume and sales, which was due to the slaughter volume in South

America, supported a positive variation of 857 million BRL while the average sales price, which followed the market downward trend, generated a negative impact of 377 million BRL. The effect of the BRL depreciation on exports from Brazil and also on the translation of the result from the international operations had a positive impact of 2 billion BRL. This reinforces the current profile of international expansion that marks Marfrig.

Another important factor was the fewer weeks of operation in the North American operation in 3Q, which was 13 weeks compared to 14 weeks in the same period of last year. The difference resulted in a negative revenue impact of 576 million BRL.

The net revenue from the North American operation, which accounted for 67% of Marfrig's 3Q net revenue was 7.5 billion BRL, a 16% growth compared to the previous year. This revenue growth is explained by the effect of FX depreciation between periods. In USD net revenue fell by 8% due to the lower cattle slaughter volume with the decline explained by the fewer weeks in 3Q 18 compared to 3Q 17 as I have just explained.

Meanwhile in South America net revenue in 3Q was 3.6 billion BRL, 35% higher YoY. This growth is explained by the higher sales volume and local currency depreciation, which offset the lower average sales price. Note that despite the challenging political and economic scenario in Brazil we have posted double-digit sales volume growth in the domestic market of 25%.

In exports we delivered volume growth in all markets. This led our exports volume mix to register a higher share of countries from the so-called general list, which does not require specific certifications and has a lower sales price. Important to mention that these certifications for the recently reopened facilities are still in the approval process.

Let us move to next slide. Complementing my previous comments this slide shows Marfrig's global profile. Our geographic diversification enables us to serve the largest and most important beef consumer markets in the world. As you can see the US domestic market accounted for 58% of our revenue in 3Q; China including Hong Kong, Japan and Europe combined accounted for 20% of our revenue.

With a production platform concentrated in the Americas and the daily primary processing capacity of 32,000 heads Marfrig today is the leading global beef supplier.

Moving to the next slide I will comment on the evolution of Marfrig key operating indicators in 3Q compared to the same quarter of last year. We have process of 1.8 million head of cattle in 3Q, 4% more than 3Q LY. This growth is explained by the higher processing in South America due to the expansion of the production capacity of our Brazilian operation. Another highlight was Uruguay, where we moderately increased our share of the countries cattle processing to 22%. Note that the global slaughtering growth would have been even stronger if not for the difference in the number of weeks reported for the North American operation as mentioned earlier.

In 3Q Marfrig posted consolidated gross profit of 1.5 billion BRL and adjusted Ebitda of a bit above 1 billion BRL, setting a new quarterly record. This performance is explained by the operating result in North America, where margin expansion accompanied the industry trend reflecting the positive phase of the countries cattle cycle and also by the company's global profile, which was benefited from the weaker Brazilian BRL of attaining results that offset the higher raw material costs in South America and in comparison to 3Q LY, which had benefited from factors external to the industry.

Please let us move to the next slide. Here we show our debt profile and some key financial indicators after the conclusion of the strategic divestment of Keystone. On September 30 Marfrig net debt including the figures for Keystone stood at 16.9 billion BRL, up 4% against 2Q 18 influenced by the stronger USD in the comparison periods.

Considering the entry of the proceeds from Keystone sale Marfrig's net debt would stand that 8.3 billion BRL, which represents a decline of nearly 50%. On the same basis as you can see in the chart on the right part of the slide financial leverage measured by the ratio of net debt/adjusted Ebitda LTM ended the quarter at 2.57x. It is important to note that this Ebitda of 3.2 billion BRL already excludes the result from Keystone Foods.

Given the company's growing international exposure with dollar-denominated revenue and debt accounted for a higher share, we believe that as of this quarter a good metric for evaluating financial leverage is to also report the ratio in the same currency. Calculating Ebitda based on the historical USD of each quarter the company's leverage ratio would be even lower at 2.3x. In other words after the recent strategic transactions Marfrig will become the Brazilian company in the sector with the lowest leverage ratio.

Moving to the next slide I will comment on cash flow. It is important to note that this is the first quarter which reflects National Beef result in full for the three months, and the transaction was concluded early June this year. I also would like to note that this does not consider the cash flow from Keystone. On this basis Marfrig's operating cash flow came to 804 million BRL, reflecting the strong performance of this operation of its operations in a more normalized environment for working capital, following the negative impact from the truck drivers’ strike in 2Q 18.

Capex which came to 198 million BRL was influenced by the effect of the BRL depreciation on the international operations and by the investments in maintenance and in the new projects, such as expanding further processed and portioned product portfolio.

Interest expenses amounted to 336 million BRL. The sharp appreciation of the USD against the BRL of 10% and the nonrecurring increase in the line of interest arising from expenses with the bridge loan for the acquisition of National Beef in the amount of 77 million BRL were the main factors. Note that we have highlighted the 77 million on interest expenses in the chart because it is a figure that should decline immediately after receiving the proceeds from the Keystone sale.

As a result free cash flow in 3Q was positive 271 million BRL, marking our lead term to positive cash generation. This positive free cash flow corroborates Marfrig's strategy of maintaining a diversified production platform focus on beef protein.

Today we are a company with a better capacity to generate cash and with an asset portfolio capable of serving our debt costs, which remain high. Once the Keystone process is concluded, in addition to repaying the bridge loan and other short-term liabilities we also will have the challenge of reaching an adequate depth cost for this new company. In other words one of our goals is to continue improving Marfrig's capital structure by reducing our average depth cost. I will now handle the call back over to Miron for his closing remarks.

Mr. Miron: thank you Marco. Today as you know we have a simpler, more focused business model with a production platform that is diversified geographically to serve the world's key consumer markets. With an ample supply of cattle and driven by strong demand in both the domestic and international markets, the US beef industry has delivered record result and the expectation is for the cycle to last at least for the next three years.

In Brazil the outlook for the beef cattle cycle is also positive and the country's importance as a platform for serving growing global demand is irrefutable. And to add to this scenario the expectation is for the Brazilian economy to resume its structural growth with rising consumer confidence and growing consumption of beef.

In this context as a commented at the start of our presentation our focus will be on the quest of operational excellence and sustainable value creation. Once again I will emphasize that one thing we will not change in this entire process is our nonnegotiable commitment to financial discipline. That concludes today's presentation, so let us go now to the Q&A session, thanks everyone.

Q&A Session

Operator: Thank you very much. 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 now. To remove yourself from the questioning queue press star two.

Our first question comes from Leandro Fontanese, Bradesco BBI.

Mr. Leandro Fontanese: hi good morning thanks for the opportunity. So I have two questions, the first one is since 1Q where we see the results really reflecting the new Marfrig post the transactions that you did I was just wondering if you could comment in terms of the cash flow if it would make sense to assume a similar level that we saw on working capital consumption and also Capex for the following quarters.

And the second question is if it would make sense for us to assume that we could see some improvement for the Brazilian market in terms of margins, given we could see some improvement in supply/demand dynamics with the recent lifting of the Russian band and also you have been mentioning some potential new markets that could open like China and Europe for new plants, if it makes sense for us to assume that we could actually see an improvement for the Brazilian operations, thank you.

Mr. Miron: Leandro thank you very much. Let us see step-by-step. So in terms of cash flow yes, so we believe that we will continue generating positive cash flow. Certainly FX is a component, so for example we mentioned this quarter that our Capex is a little bit higher because there is the conversion of the investments made in the US to BRL and therefore we always have this type of impact. In terms of working capital consumption after of the issues we had in 2Q we believe that we are moving more towards a normalized level of working capital.

Our target is always to have a flat impact; but as you know it changes depending on specific Inventory building that you have to do. For example if you are putting some inventories towards the end of the year to meet specific commands so that we can have some volatility; but we do not expect any major fluctuation in this item.

And we back to the margin in terms of Ebitda we continue looking at the margins at the range that they mentioned before between 8 to 10. This quarter was a very positive one with the margin towards the end of this range; but we believe that this range is not, should not be changed. So we continue expecting results of those levels.

So the other question you had about was about potential improvements because of new markets or new destinations that we could have and you mentioned Russia and you mentioned China. Russia is not a material this nation for us. Just to give you a little bit of information we had less than 2% of our sales when this market was opened for us and even Uruguay, where we can support that business it is less than 5%, and certainly it is not a market that provides the best profitability. But we always want to have more markets open, so do not take me wrong.

On the flipside the Chinese market is a very important market and we are… It is important for South America. We have… They participate in a material way for our work in our sales from that region. We have a visit to Brazil from a Chinese group and we are pretty excited and we expect to have more plants opened for that market and with that yes, we could potentially see improvement in our margin as we mentioned this quarter, because of the growth and because we did not have all habitations for all the markets that we want to have, prices are a little bit lower. So therefore when you have those habilitations we would in theory have margin in the business. I hope I was clear in my answer.

Mr. Fontanese: thank you it was very clear thank you very much.

Mr. Miron: you are welcome.

Operator: the next question comes from Alex Robarts, Citigroup.

Mr. Alex Robarts: hi everybody good morning. I had a clarification and then a couple of questions on Uruguay. You said earlier this morning on the Portuguese call that in the international beef business you are expecting or looking for a lower margin in the 4Q sequentially to 3Q and I just wanted to clarify if that was purely about seasonal reasons or would some element that you are seeing a the export market or the domestic market that will explain the cautiousness for the sequential quarter margin there.

Uruguay you talked about the map of possible opportunities and such between the Latin business in the US business. I guess as you have done more work on the possibilities and opportunities Uruguay has a kind of been exporting fresh beef to the United States through a sales force associated with Keystone or perhaps its own smaller sales force. Now with National it seems that that is going to be very interesting opportunity.

I am wondering if you can give us some color about the day mention of that and the timing of getting more fresh Uruguayan beef into the National Beef sales force and then the second piece of the Uruguay question is you have talked about perhaps a Japan opening for Uruguay and I am wondering what could the timing be there and the dimension of that opportunity. Thanks for much.

Mr. Miron: okay a lot about Uruguay. Let us go step-by-step. So Tim is… Tim Klein, the CEO of North America is on the line so I will ask him to maybe talk a little bit about the opportunity from Uruguay but let me tackle most of your question if you do not mind. So the first thing is related to the performance in Uruguay in 3Q that is seasonal, so we always have lower margins in 3Q in Uruguay given the climate. It is not unique, it is something that happens over and over and that was our reference about the Uruguayan results. Yes we expect next quarter to be better than this 3Q and that is what normally happens.

In terms of the potential to Japan yes, things are moving pretty fast and we absolutely expect this will happen in the short run. It is hard to define a specific date; but we believe that it is going to be very soon.

Still about Uruguay and the map, opportunities map, for our perspective that I mentioned during my speech was National Beef…the South of Brazil and the South of South America many Uruguay, because there is already a cooperation trading between those regions to the US. National beef has a very strong position commercial operation over there and so we truly believe that we can take advantage of this and therefore do more business together and we expect to add to National Beef portfolio products that they currently do not have, for example the organic and the grass fed products from Uruguay, and we expect from our industrialized business in the South of Brazil where we have a dedicated plant in the South that we can avoid brokers and have direct sales using the commercial strength of National Beef. So having said that I will ask Tim to provide some inputs as well.

Mr. Tim Klein: yes thank you Miron. The demand for US beef, for organic beef in the US, is the fastest-growing segment and so there is a significant opportunity to leverage the supply of organic cattle from Uruguay with the demand we have here in the US with our existing customer base at National Beef. So we are exploring what those opportunities are and we believe that this will continue to be a significant growth opportunity for our business in North America and the organic beef.

Mr. Robarts: okay thanks a lot.

Mr. Miron: thanks.

Operator: our next question comes from Botir Sharipov, HSBC.

Mr. Botir Sharipov: good morning and thank you for taking my questions. Two questions for me, one if you could maybe clarify for us but do you think the sustainable Capex is going forward for the consolidated business standards…integrating National Beef 200 million is a sort of the run rate we could assume or do you expect it to come down in the next few years?

And my second question is on division by division Ebitda margins. I was wondering if once you complete the deal with Keystone and release your 4Q5 result if you would be disclosing separate segment data for each division, thank you very much.

Mr. Miron: thank you. Regarding the first question the Capex we made a comment that our… The number for the whole year for Capex was between 550 to 600 million BRL. That was the number that we had been working with. When we talk about the BRL you always have a little bit of exposure and volatility, because it can fluctuate a little bit even the volatility of FX; but we are still under the same range and so we are not changing and so you should not expect any major impact in 4Q for Capex.

For the coming years we are not providing any forecast at this point. I would like just to the opportunity of your question to mention that we, as we mentioned before, we will get together at the beginning of next year to have our Marfrig Day where we are going to discuss the five-year plan and provide little bit more disclosure of our plans for the businesses. So at this point we cannot comment on that and on what kind of level of Capex we have for this coming years or next year.

Regarding the breakdown we know there was an expectation from the market to have this breakdown between the South and North American businesses. As we mentioned in the past we are at the beginning of this transition. We are studying in making sure that we do not make any mistakes in terms of what to be disclosed and how to disclose it. We understand that the demand from the market; but without that for this year it would be something that we would need to study with a bit more time to fully deep dive and fully understand before we provide the breakdown. So it is something that is in our top priority list in terms of analyzing but at this point we are not ready to provide.

Mr. Sharipov: okay thank you.

Mr. Miron: you are welcome.

Operator: our next question comes from Theo Lasarte, Insight Investment.

Mr. Theo Lasarte: hello good morning. I was just wondering if you could tell us your expectations to the Keystone sale. You may have mentioned this before in the call, I apologize if I missed it. Area still expecting the entire process and the proceeds from the sale to come through by the end of 4Q or is it early 2019 when you expect it to happen?

Mr. Miron: thanks for the question. You remember that when we closed the deal we had the expectation to have this done by the end of the year. That was our initial estimation, initial forecast and we still believe that it will happen in 4Q 18. As you noticed we have had most of the approvals, yesterday we released the information regarding China. So therefore in terms of antitrust approvals we just had South Korea so therefore we are still positive that it can be done until the end of this year.

Mr. Lasarte: okay and given the liabilities you have next year - I am referring to the 2019 bond - is it the case that you would expect to redeem it only when you finalize the sale of Keystone or is there a possibility that you would redeem this bond because the actual proceeds coming?

Mr. Spada: hi Theo this is Spada speaking. Well, regarding the call back for 2019 we also have the situation regarding the cash position. We are holding the cash due to the uncertainties regarding the Brazilian current scenario here. That is a determination from our board, we are waiting. So definitely before receiving, including Keystone sale we want to be doing anything on this matter.

Mr. Lasarte: okay thank you.

Operator: Excuse me ladies and gentlemen. As a reminder to ask a question please press star one. 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: First of all thanks for you all for attending this call and for supporting the company. We continue committed to generating sustainable growth. It was again a special quarter and we look forward for the next one, thanks a lot.

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