



## International Conference Call

Marfrig

2Q17 Earnings Results

August 15, 2017

27:56

### 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 now. To remove yourself from the questioning queue press star two.

Our first question comes from Lauren Torres with UBS.

**Ms. Lauren Torres:** hi everyone a quick question and I appreciated the color you gave on your free cash generation and your debt, with your leverage target at the end of next year; but I am curious to get your perspectives on the short-term impact of this. Seeing the investments that you have to make to reopening of the facilities how much we drag if you could help us better understand the investments that you have to make in 2H and what impact that would be on your cash flow.

And then I do know if there is any target that you can give for this with respect to leverage that would be helpful thank you.

**Mr. Eduardo Miron:** thank you Lauren. As you know we are in a moment where we are trying to capture the opportunities, and this opportunity is now. As you know we have not provided guidance and so I probably will frustrate you in terms of providing guidance for the end of the year. Our guidance continues to be more in 2018 as I mentioned before.

As I mentioned before our cash flow will continue pressured because of the growth opportunities and the Capex that we will continue to invest.

At the same time, and I think we have to consider this as well, we are going to grow in volume and therefore our operational cash flow shall increase. So the combination of this in addition to the continued reduction in our interest shall provide an overall situation that we feel is still under full control.



**Ms. Torres:** can I just ask as a follow-up you give this level of detail; but the investment next quarter will be higher than what we see I assume in 2Q?

**Mr. Eduardo Miron:** again Lauren as Martin started the call or this last phase we would love to have the Marfrig Day providing guidance for the end of the year; but because of several different circumstances including the IPO project we were unable to do that. So we absolutely understand the question, absolutely, totally pertinent; but we are unable to give you any guidance at this point.

**Ms. Torres:** thank you.

**Mr. Miron:** you are welcome.

**Operator:** the next question comes from Pedro Leduc with J.P. Morgan.

**Mr. Pedro Leduc:** thank you very much for the call, thanks for my question. Still on the turning on of beef plants I do sense a change of strategy and now you are talking about capturing a growth opportunity in beef. Before there was a lot of talk on bigger focus on deleveraging.

So just to make sure I understand the rationale before turning it on, what are the cash payback periods of any plants returning on today? In other words when will it be cash positive versus the money that you are employing to turn it back on?

And then second at what price of cattle does it not make sense for you to have these plants back operational and invest less not least not away of further capture the good moment in the industry would not be perhaps to monetize some of these plants now that we have other players looking to consolidate? Did you consider this alternative as well? Thank you.

**Mr. Martin Secco:** Pedro this is Martin, how are you? Really we took the decision in 2015 because we had the information, the feeling, that we needed to close a couple of plants with a small capacity because we have the information that the cattle available for slaughter would be less than in the past.

As we shared with you and the market we have the opposite feeling, the information that this year will be more animals available for slaughter and we start a new cycle of beef for the next two years, 18 and 19; but a lot of events happen in this 1H making Marfrig take the decision to accelerate this process.

As you know we keep these factories ready to work. We mentioned in many calls that we maintain the factories, we take care of all the issues of the slaughter plant to have the factories ready and with a high-performance and very high professionalism. The beef team opens these factories very quickly, one factory per month with the same team that we are handling the beef business.



So that is why we are opening these five factories in strategic places around Brazil and we decided also to have some number of factories in the same position that we had during 2015 and 16, because as I mentioned on the call we have more than 100,000 animal more on capacity we can open. But these factories are strategically located in different regions of Brazil and we have the expectation of a big performance.

About the price of the animal now, which will be I can say that the spread that we had this quarter was very, very good as June. Of course we know that the prices of the animal are cheaper than we expect; but also the markets are performing very well and for that if the animals or the cattle go up a little on the price the reactions of the markets are very good - Brazil and exports.

And also you need to know that during this month of July, August we are in the lowest part of the season of Brazil and we have a lot of expectation for the last quarter. I will ask Eduardo if he can comment something else.

**Mr. Miron:** I think Martin covered the most important aspects of this. As he mentioned those plants would operate immediately and they would start generating results.

**Mr. Leduc:** and Miron still on the payback you are putting say 100,000 more heads capacity and this is going to require maybe 100, 200 million additional working capital here at first; how much Ebitda do you expect these additional five plants to generate in the first year when is fully operational? What is the payback in terms of cash flow vis-à-vis the initial ramp up?

**Mr. Eduardo Miron:** I am afraid I will frustrate you on this one; but our guidance for beef is still the same between 8 to 10 and this guidance we have not changed. As Martin mentioned we see that Marfrig is improving and the acceleration is necessary. So there is an opportunity in the market. We see margins very robust and we feel prepared to capture this opportunity. So the teams are focused on getting the best results out of those plants.

**Mr. Leduc:** all right I follow-up later, thank you.

**Operator:** the next question comes from Thiago Duarte with BTG Pactual.

**Mr. Thiago Duarte:** hi thank you. I have a question on volumes in the beef division. We saw an acceleration on slaughtering volumes as you guys mentioned in the release, I think we are talking about 4% increase YoY; but still we saw almost a 5% decline in the overall volumes for the beef division.

So I just wanted to understand whether this was for some reason maybe concentrated in the beginning of the quarter after the weak flesh operation, and whether these volumes recovered so that we could see some improving volumes in the end of the quarter.



And of course and the outlook for the next quarter in particular - again you guys are restarting another three plants. So I just wanted to get a sense why the volumes were so weaker compared to the slaughtering volumes that you guys mentioned? I guess that would be interesting to understand if there is a demand impact, if there was a punctual impact? I guess some light on that would be helpful thank you.

**Mr. Secco:** Thiago, Martin. Maybe the picture of the end of the quarter is not the best; but also I try to explain also on the speech some reason about that. We have a ramp up on the factories that we opened and also we have in the middle of this period also some problems with the US market as you know; but we keep with some product on the stock that also does not make a good picture on figures relating volume of slaughter, sales and stock. This is the reason.

**Mr. Duarte:** that explains and helps a lot thank you. And I know you guys cannot talk so much about it; but just make sure that on the IPO of Keystone you guys are reiterating the guidance for having it done before the end of the year. I do know if you can give us any more color on that or if the process is going on as expected or any more color would be very helpful.

**Mr. Secco:** of course. Frank can you answer Thiago this question?

**Mr. Frank Ravndal:** sure hi Thiago. There really is not anything else we can add. The teams are working on completing everything we can to complete the process, and as you know it is a big and complicated process and we continue to work towards a 2H 17 transaction - and that is really the same general timing that we pointed to when we first made the announcement about initiating the IPO process and we will continue to work at it.

**Mr. Duarte:** but it is not any different or nothing has changed vis-à-vis the scenario we had like three months ago when we spoke for the last time on the call right?

**Mr. Ravndal:** we are still looking and optimistic about completing the transaction in 2H 17.

**Mr. Duarte:** perfect thank you.

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

**Mr. Teo Lasarte:** good afternoon. Regarding your comments on the beef division given the declining cattle prices in Brazil would you expect an improvement at all in margins in 3Q and 4Q or is the effect of the decline in cattle prices already pretty much reflected in your 2Q results?

**Mr. Secco:** we do not have the expectation to increase the margin if we can see the margin we had at the end of 2Q, I mean about June. During this semester the margins are very good and we have expectation to have a good margin also on the full quarter with the animals that



is for production on the feedlots today that will increase the offer of cattle ready to slaughter at the end of the year.

**Mr. Lasarte:** ok. In terms of thinking about your Ebitda margin for the beef division just over 8% that is a realistic level to expect then for 2H?

**Mr. Secco:** as Miron mentioned a couple of minutes ago we expect a range between 8 to 10.

**Mr. Lasarte:** okay understood thank you.

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

**Mr. Secco:** Thank you. I would like to thank you again all of you to join us and we keep in touch through our IR Department if you have more questions about the call, thank you.

**Operator:** Thank you. That does conclude our Marfrig conference call for today. Thank you very much for your participation, have a nice day.

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