International Conference Call

Marfrig Global Foods S.A.

3rd Quarter 2019 Earnings Results

November 12, 2019

Operator: Good afternoon ladies and gentlemen and thank you for standing by. At this time we would like to welcome everyone to Marfrig Global Foods SA conference call to present the results for 3Q19.

The audio for this conference is being broadcast simultaneously through the website www.marfrig.com.br/ir where the slideshow presentation is also available.

We inform you that all participants will be in listen-only mode during the company presentation. Ensuing this we will go on to the Q&A session. Should any participant require assistance during this conference call please press star zero to reach the operator.

Before proceeding we would like to mention that forward-looking statements made during this conference call referring to the company perspective, financial and operating goals are based on the assumptions and beliefs of the company as well as on information currently available. These forward-looking statements are no guarantee of performance as they refer to future events and therefore dependent circumstances that may or may not occur.

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

We now turn over the floor to Mr. Marcos Molina, founder and Marfrig Global Foods Chairman. You may proceed sir.

Mr. Marcos Molina: Good afternoon to all of you. I would like to thank all of you for the participation in one more conference call for Marfrig. This quarter was a special quarter with a record of results confirming that we have resumed our operations with better indicators.

Our operations presented successive strive and terms of profitability and performance. Marfrig has a highlighted position and is well-prepared to face the growing demand and also to position itself in the new global scenario. Now this scenario shows a much stronger demand from China when it comes to beef. Our operations are strategically very well positioned.

In North America we have a highly efficient operation that is acknowledged for its excellent production as well as the quality of its products. The operation of South America finds itself in a privileged position in Brazil, in Argentina, in Uruguay as well as in Chile. We have significantly enhanced exports to China.

Another important highlight for the quarter is the announcement of a partnership with an American company, ADM, one of the greatest beef producers of vegetable protein throughout the world. We began our production and the marketing of our plant-based products in Brazil with the launch at Burger King.

We are also in a final stage enabling us to launch this in other countries as well as and other food networks. As the greatest hamburger producers worldwide we have the obligation of supplying to our clients one more option. It is part of our portfolio and allows consumers to decide. We would like to thank all of our associates, our clients for another quarter of good performance and partnership. With this I would like to give the floor to Eduardo Miron, our CEO.

Mr. Eduardo Miron: good afternoon. I would like to thank all of you for your presence at one more conference call for Marfrig Global Foods. Here we have Miguel Gularte, our CEO for South America and Tim Klein, CEO for North America besides Marco Spada. For this quarter for the first time we are carrying out the conference call in Portuguese and English with simultaneous translation.

Let us go therefore to the results of 3Q 19. For the fourth consecutive quarter we achieved net profit of more than 100 million for the quarter, which shows a resumption of profitability and a better financial situation. Net revenues were up 12.7 billion, a record in the company; adjusted Ebitda was also a record attaining 1.5 billion BRL, growth of 11.8% vis-à-vis 3Q 18; the margin was 11.8%.

Another highlight for the quarter was the operating cash flow of 1.3 billion and 844 million for free cash flow to reinforce the positive trend for the year and compliance with the guidance that was disseminated for 2019.

We maintain our commitment to sustainable value generation and I would like to highlight the issuance of our sustainable transmission bond and the signing of a protocol of intentions with the HDI with the objective of developing a long-term project for the production of cattle and Para and Rondonia, in the Amazon region and we want to be sustainable all the way from the raw material to calf production. The idea is to offer technology to these producers to improve their profitability. Nowadays these producers are seeking more area and the cause different station, and the idea is to enhance productivity in their respective areas.

We now go on to slide number four to speak about our strategic highlights. We announced the agreement with Archer Daniels Midland for plant-based products. ADM is responsible for the sourcing of raw material used in the process and Marfrig produces and distributes these plant-based products.

The first product is being sold through Burger King called Rebel Whopper, once again made from Marfrig's vegetable burger. This is aligned to the customers' needs and other vegetable products will be launched soon. I would like to give the floor to Marco Spada to remark on our results.

Mr. Marco Spada: thank you Eduardo. In the coming slides I will refer to the highlights and we begin with North America. To explain the variations the values reported here are in USD and they also include the pro forma results for 3Q 18, which includes the Ohio sale and the purchase of Iowa as comparison.

In 3Q 19 we had growth in volume and revenues, revenue reaching 2.249 billion USD, an increase of 6.2% vis-à-vis 3Q 18 and this because of the average prices in the domestic market driven by the solid and consistent growth in US beef demand and also due to the gap in terms of our competitors.

Gross income was 374 million USD, an increase of 25% vis-à-vis 3Q 18. This better performance is explained by an improvement in prices in the domestic market and the average cattle. Now the average cost was of 2.03 in 1Q 19 compared to 1.85 in 3Q 18.

We go on to slide number seven where we will speak about the South American highlights. Before we begin speaking about the figures it is important to recall the situation we had in 3Q 18. The truck strike had recently ended and we had a concentration of volumes in 3Q with a positive impact on results. Therefore the basis of comparison for this quarter is not the best.

Having said that net revenue for South America was 2.5% lower compared to 3Q 18 due to lower sales volume and the reduction in the primary processing plants and a lower availability of animals in Uruguay. Simply as information, if we compare this with 2Q 19 to eliminate that impact we have an increase of 10% in revenues when compared to this year.

In 3Q 19 gross income was 404 million BRL, down 8.2 vis-à-vis 3Q 18 and if we compare this to 2Q 19 the improvement was of 2%. I would like to remind you that this quarter we still do not have the benefit of the new sales we will carry out to China.

We now go on to slide number nine where we will speak about the consolidated performance of the company. We had record performance during the quarter: net revenue posted growth of 3.6% reaching 12.7 billion BRL, record for the company. Now this performance can be explained mainly through the increase in revenues in North America and higher prices in the domestic market and for exports in South America offsetting a drop of 3% in the total volume sold.

Adjusted Ebitda was 1.5 billion… Million BRL, once again a record and growth of 28.6% vis-à-vis 3Q 18 with margin of 11.8%.

Another highlight is positive net revenues for the fourth consecutive quarter. We recorded profit of 100 million in 3Q 19 vis-à-vis 126 million in 3Q 18.

We now go on to the next slide where we will speak about our cash flow. After the prophet mentioned previously the non-cash and working capital allowed us to reach operating cash flow of 1.3 million BRL. Now the resources destined to CapEx for maintenance and small enhancements represented 131 million BRL; interest over debt totaled 286 million BRL impacted by the additional cost due to the issuance carried out in August.

Thus operating cash flow before M&A in the payment of dividends was of 844 million BRL. This was used for the payment to third parties and reduction of indebtedness.

We now go on to net debt and leverage indicators of the company for the quarter. In BRL we had an important component which was 9%, directly impacting the total debt of the company.

In USD because this makes sense because 98% of our debt is in non-BRL and impacted by a percent of our revenue. So net income was 2.4% better than the past quarter explained due to the generation of free cash flow mentioned before.

In this quarter we paid 79 million in dividends to the partners at National Beef. The non-cash index measured by Ebitda LTM of 2.43x in USD with the reduction of 0.26 as compared to 2Q 19.

In the next slide you will see more in detail our debt. As mentioned before the growing evolution of our positions, which brought us an improvement in Ebitda, is causing our deleverage and we attained 2.43x this quarter as compared to 2.59 in the past one. Another point is our liability management performed last quarter and the issue of sustainable once in this quarter, the first in 10 years of the company.

Now in the next slide let us talk about the guidance for 2019. Based on the accumulated results up to September this year and the positive trend we expect for the coming quarter we reaffirm our guidance given in 1Q. As we foresaw the second part of the year is very strong. In this quarter we attained another all-time record in revenues with 49 billion BRL with an important accumulated sum. 11.8% was a clear evolution as compared to 1Q TY.

Free cash flow attained it hundred 44 million BRL, over twice as much 1Q and in this quarter we did not have a contributions of the results of the two new plants which were authorized to exports to China in September last. This gives us more confidence as to the excellent results we expect for 4Q. Now I give back the floor to Miron for his final remarks.

Mr. Miron: thank you very much Spada. Now we will share with you our expectations for 4Q. As to the USA our 3Q was spectacular moved by the improvement in the sprouts and due to the cutout ratio as mentioned. These spreads will continue strong at year end because local demand is still heated and we do not have any problems with the availability of cattle.

In Brazil we had the impact of Chinese authorizations occurred in September and we had a record of volume in revenue in our exports made to China; and today we had the confirmation of two new plants approved for China, increasing Thus the impact of 20%, our new capacity of exports to China from Brazil. Now we will have more plants: more 7 in Brazil, 4 in Uruguay and 2 in Argentina exporting to China.

Uruguay this last quarter is seasonally the weakest because of cattle unavailability and strong exports demand and the country should now have a better improvement. In Argentina despite the new political scenario, which is a point of attention, they have an evolution of margin and making use of the scenario of exchange devaluation.

Now going to final considerations I am reinforcing again our optimism to achieve all the targets disclosed in the guidance for the year. We remain focused in our operational excellence and the continuous evolution of the best footprint for the company's strategy.

The low leverage and the commitment to financial rigidity remain nonnegotiable and our strong point is the generation of results for the company. All of our teams are engaged and I thank this opportunity to thank the work of all of you doing the last journey. Now I open for Q&A reminding you that today we have the presence of the South America and North America CEOs with us.

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 one and to remove your question press star two.

Our first question comes from Isabela Simonato, Bank of America.

Ms. Isabela Simonato: thank you very much. Good afternoon, good afternoon Miron and Marcos. I have a question, two questions in fact focused in South America. First I would like to understand better the improvement in margin in the quarter because I understand that Uruguay has a more challenging scenario; but offsetting this we saw the balance data for bovine and in Argentina we understand that they have a very healthy export margin.

So I would like to understand the gross margin performance in 2Q and 3Q because last year it was a difficult comparison margin; but this would be of help, the recent situation.

And also speaking about the exports and are in South America when we think on the new authorizations for China and how much this will now represent and the type of margin gain we can expect from this higher exposure to China, thank you.

Mr. Miron: Isabela thank you for your question and as we mentioned and you repeated very well, the comparison is not the best one. When you consider our 2Q and the strength and growth of margin towards 3Q, which for us represents a bit more, the quarter effect that you see has the impact in volume because in terms of price and cost this was very well managed and therefore we did not have the price effect in this variation.

And lastly in terms of China obviously this is a market with a very strong profitability. We did not have the privilege of making use of this in 3Q in full, and I repeat here that with the authorizations we had in September and now the new ones we have material growth. This is what reinforces our conviction of good results for 1Q, as good as they were in 3Q or even better than what we just had. Miguel Gularte is also in line with us. So if he wants to add something that I missed I will open up for you, Miguel. Would you like to say something on that?

Mr. Miguel Gularte: good afternoon Isabela and adding to what Miron said we really had an effect which we expect for 4Q because we had two new authorizations, Tangara and Varzea Grande, and today or participation with two new plants: Sao Gabriel and also another one in Mato Grosso.

This effect of more exports to China also has a consequence in our internal market, in the domestic market and this offer will make us increase prices in Brazil, because or domestic market today had more restricted offer and therefore we hope to change this in 4Q. And this also points to an improvement in the operating margin and increase in costs and productivity, all this for 4Q. Did I answer your question? I hope I did.

Ms. Simonato: it is very clear thank you Gularte.

Operator: now our next question comes from Thiago Duarte, BTG Pactual.

Mr. Thiago Duarte: hello good afternoon to all. I would like to pose three questions, first going back to the topic of discussion with Isabela’s question in terms of the margins for South America. I think it was very clear the dynamics which is more positive for Brazil in 4Q with the authorization of new plants, and of the price dynamics seems to be more favorable then in 3Q.

But I would like to help us think on this margin in the consolidated of South America, how would it evolve and how could you breakdown for us even - if it is only in number order - how was the margin that that you disclosed of 10.6% margin, how can you unfold it or break it down between Brazil, Argentina and Uruguay. I think that the one who leads this margin down is Uruguay. Could you explain a bit more this breakdown in order to be able to think better on the consolidated and South America for 4Q?

The second in terms of CapEx. The CapEx informed came below what we understood to be a maintenance level in the first three quarters of the year. I would like to understand if this level of CapEx you understand as sustainable for the next quarters; and help us understand this cash flow in 4Q and next year.

And the last question I also that it was quite clear your optimistic tone towards the US, US and North American market. But when we see the historic performance of North America last year and the history of other players in the same area, the seasonality was slightly worse than in last quarter. It does not mean to be about one, but lower.

I would like to see, understand how you understand that and the problems you had with the fire in one of your plants and I would like to understand if you can maintain this 3Q level in 4Q, thank you.

Mr. Miron: thank you Thiago, thank you for your three questions and starting with South America as you know in any average it will always prevail. So the 10.6 but we fight for every cent; it is 10.7% and this number is more towards the center of Brazil, which is our largest part where we have our largest operation. And you are right, Argentina generates more than that, more than what you are seeing. And 3Q as a mentioned with Uruguay, which is our second operation among the three we have in South America, having the worst performance and therefore it pulls down the figure. But take into account Brazil was once more our plants that direct the results. So this is something that we have very clear ahead of us.

Now CapEx we had discussed before since the beginning of the year that the normal curve for any business, and ours is not different, naturally we start higher in the beginning of the year to benefit from improvements and investments to words yearend. We have operations, it is part of Varzea Grande and part of Tangara as well, and in the beginning of the year there is the trend of being more active in the beginning of the year and with think that this 131 current level as compared to the 130 million is the adequate figure for us in terms of CapEx in maintenance and small improvements, therefore that is the response to your second question.

In terms of your third question the exception the results that we had at National Beef and the outlook for 4Q, the outlook as a mentioned in the final remarks continues to be very good. We believe that performance will be as good as it has already been. We do have seasonality that happened in 3Q and naturally tends to be a strong quarter; and we did have additional impact that was already mentioned.

Not all of these factors remain very strong in 4Q as well as demand; however nothing better than the CEO of National Beef to complement and this question. So I will give the floor to Tim Klein to speak about this and hope he can give you a more complete answer. Tim you have the floor.

Mr. Tim Klein: thank you. As Eduardo mentioned the fundamentals are very much in our favor. We expect they will continue to be in our favor for at least the next five quarters. In terms of the fire and the impact it had on our markets there was a very short impact. There was a shortage of products in the market for a period of a few weeks and over that time other… Lost volume and Marfrig… Expended during that time period we will return to pre-fire level in about four weeks after the fire. Was there anything else?

Mr. Duarte: no that is very clear thank you very much.

Operator: our next question comes from Lucas Ferreira from J.P. Morgan. You may proceed sir.

Mr. Lucas Ferreira: good afternoon. My first question refers to the guidance. When you offered the guidance if I am not mistaken the exchange rate, the benchmark was 3.90 and you still did not have authorizations from China. I do not recall if the Tyson incident had happened or not; my question is the following: by looking at the guidance are you ever more confident that you will attain the high point of the range? This makes sense in terms of Ebitda, revenue and if you think you will be able to deliver more than half of all the range of the guidance.

The other question is about the price of cattle in Brazil. Prices have begun to soar to react and the authorizations of course changed; but the increase is 15% to 20%, if this is a reason of concern, if you still have spreads improving if you look at the margins at China; and the issue of availability of cattle is a concern in Brazil? Thank you.

Mr. Spada: hello Lucas this is Spada. When it comes to the guidance when we offered the guidance at the end of 1H there was absolutely no problem with the competitors plant in the US and the exchange rate was somewhat lower and be based ourselves on a reference of 3.94 calculations, which meant that a great deal of the things we had forecasted ended up not happening; and what we did not expect, for example the fire, helped and aided on our favor offsetting the problems. Our projections expected the recovery of the domestic market in Brazil much before what has truly happened and a resumption of prices in Brazil is only beginning to happen now. Our expectation is that this would have happened way back.

And one thing offset the other and yes, we are reaffirming our guidance. We do have confidence that we will attain the guidance; but I do not believe that we will hit the roof of the expectations of guidance in terms of cash flow for example. We will fully comply with the guidance; perhaps in terms of margins we can get to the upper hand, revenue without a doubt will surpass the base. But in terms of cash flow we will have a higher expectation but not the top of the range.

To address your question along the price of cattle, yes there has been an increase in the price of cattle. This is happening in Brazil. We have been following up on this along with what is happening with the sale prices to China. The result very direct relationship with the exchange rate that has also increased. So what do we see that the exports to China are very strong, at high prices and…

Mr. Gularte: … of the production in Brazil. What is important is that sale value and we have to complement the sale value when it comes to the exports to China. Of course this will increase considerably in 4Q, thank you very much

Operator: our next question comes from Tiago Melo from Bradesco bank. You may proceed.

Mr. Tiago Melo: good afternoon and thank you for taking my question. I have two questions, in fact the first referring to the plant baseline that was recently launched. I would like to know if we could have a few more details in terms of the financials to understand which has been the behavior in terms of margins and your outlook of growth and how representative this will be in the coming years.

The second question is a follow-up in terms of the US operation and regarding the incident at the Tyson plant. I would like to better understand what will happen with the gross margin subsequent to this event thank you.

Mr. Miron: Tiago there is a question that speaks about what happens in a contingency; but I will return first to the question on the plant-based products. This is a very recent as you know. The beginning, the launch was in September, we have made the decision to increase the business segment. We have several plants connected to that, a product line that will be further explored during the coming months until the end of the year.

Which means that we are highly motivated and as to the initiative, the financials of course are not the main driver for our decisions. We have no doubt whatsoever that this is a business that will generate significant returns. It is something that the customers are demanding; but perhaps it is too early on to speak about financials regarding this business.

Very possibly 4Q will show us more material data and we will be able to better separate the information at this specific point in time. What I can say is that we are highly satisfied with sales evolution and with the acceptance of this product that has truly exceptional quality.

Your second question refers to something that would happen. It is a complicated question because evidently an impact of discontinuity will have a material impact as well, especially in operations where we do have a significant short as in North America. Our concern of course is to maintain all the possible controls and measures in place for the protection of our equity so that this will not happen. Now if this happens we know there will be a material impact.

We are extremely proud of all of the processes that we have put in place. Whenever something happens this is a new call to attention, a warning and we reinforce our controls and work strongly to show how important the controls are in our day-to-day work, which means that we have been quite successful in terms of this.

We had a bad experience at the plant, it was not material; but it has taken us some months to come back again. So we are working on prevention, on enhancement, on education and prevention.

Mr. Melo: thank you that was a very clear response.

Operator: our next question comes from Luciana Carvalho from Banco do Brasil.

Ms. Luciana Carvalho: good afternoon and congratulations for your results. My question is geared to the domestic market of Brazil. You showed the reduction of volume button evolution of 10% QoQ. If you could give us more details on the sequential increase, which are the categories that had the greatest impact and if there is any outlook for 4Q compared to 2018 given that sequential improvement we saw a QoQ, thank you.

Mr. Spada: Luciana this is Spada and I would like to ask Miguel to respond to your question referring to what is his outlook for the domestic market and which are the main drivers that we expect to see in place. Miguel you have the floor.

Mr. Gularte: Luciana, regarding the quarter we are trying to see what will happen with these new authorizations to China considering that we do have price income and we have to continue moving forward. In this specific case of Marfrig we are working with what offers us the best added value and we are working with branded products that are very strongly the market and once again gearing this to some customers when sometimes the average price is lower. We are working with hinterlands of Sao Paulo where the economic situation of course is felt with lower intensity and we are working with different procedures in that case compared to our exports.

And we have to be very careful and take into account the segments that we work with. This is a practice that we adopted when we begin to see growth and now obviously it will be intensified and this began in October and now in November and of course we are carefully thinking about the destination of our products and the correct pricing.

Ms. Carvalho: thank you very much. We have another question on Argentina. Could you give us a follow-up of the situation? We know that the results are benefiting from exports and now with the recent elections how do you see this market from now one? Some risk associated to it? Could you explain a little bit more on Argentina to us?

Mr. XXX: well Luciana what we see as to Argentina is that today as you said we are very much benefited from the exports with the exchange devaluation that is taking place and our Argentina operation today is well divided in two different operations: we have the "in natura" beef for exports which is benefiting from the situation; and processed food with hamburgers, beef patties, all of that turning to the domestic market.

And the return of Kirchner to the government with that we expect new taxations of exports to take place and we think that the country will remain in the situation we see today; but with do not believe that they will penalize or bring such a bad situation as in the past. So we are confident that the situation will remain positive for us. And I do not know maybe Miguel with you have something to add to I said already?

Mr. Gularte: well in the case of Marfrig we have a program in Argentina of improvement and this enables us to choose our products; but in Argentina the operations are very well balance between the external; and the internal markets and in Argentina today we do not have a constant offer of raw materials and there was no impact on the Peso and dollar different operations. But the price of raw materials in Argentina was quite competitive.

And I think that this will remain like that in our Argentina operation and the challenge that can happen with the political situation is that the fact that we have this good balance between the foreign market and the domestic market.

Ms. Carvalho: thank you very much.

Operator: our next question comes from Gustavo Troiano with Itau BBA.

Mr. Antonio XXX: good afternoon, my name is Antonio. I have a question on the cattle offer for next year. We know that demand will be quite strong due to the problem with … beef and when we analyze cattle as was mentioned recently we look at the future prices around 200 BRL/arroba and we see here the great discussion on the reduction of female primary processing and also with the calves. In Argentina it is difficult to say what will happen with the political environment and Uruguay is already in a negative cycle.

But my question is when you analyze this combination of factors I do not remember such a favorable situation vis-à-vis all their cattle breeders in the world. How do you think that this environment will to some extent contaminate the operations? Because the margin consider is the cutout ratio and the contamination of this export environment.

I would like to understand from you to what extent you think this is important, because exports represent a small part in your North American business. How do you think? This this contaminate the US margins or not since we are seeing such a favorable offer prices around the world and the offer of cattle as well? If you could give your opinion I would be very thankful.

Mr. Miron: Antonio how are you? So you said it very properly. We have going back to our contacts, we have two operations that cover the Americas and not necessarily they behave in the same way. We have the South American environment with one behavior and the America's behavior that is geared more to the domestic market.

Our guidance has been on one side of the movement of exports, which is led by China and on the other hand the economic strong movement that tries to look for increase of value due to the spot prices in the US. And I think that the communicating vases can be challenged here to see how much one would affect the other. On our side with think that in our current environment the issue of the price of cattle is more than compensated and offset by the price paid for the products due to the market dynamics, which we think will go on like that and therefore the dynamics in the US is also undergoing a similar situation; and there is a very large offer, which makes margins to be maintained and we foresee for the next few years the continuity of this environment.

So in common these two communicating vases we have environments where the demand for products is equally strong and also in the two environments we have equal offer of cattle that is balancing the cost price. It is important to mention - and I think we did mention that in a more subtle way - that given the fact that sales are focused, concentrated on some markets the price of cattle tends to adjust to the price because in these specific markets the price also adjusts itself.

And as to FX in South America also there is an adjustment. So we see that there is the dynamics of this market due to a stronger USD, which enables or creates a higher motivation for markets to direct to exports. Therefore, what we already have as a trend in our export market in South America is maintaining itself. So our export potential tends to continue improving as we have this demand, and this demand probably going to continue.

So on one hand of comments what we think of cattle demand and the expectation of markets that are communicating vases, Miguel is in line with us and he can say how he sees the cattle market and Tim Klein is also in line and so he can speak about the cattle offer in the US to supplement. Miguel please. It seems we have a problem and the line, so we will speak first to Tim. Very well, it seems Miguel Gularte is back.

Mr. Gularte: complementing the response given by Eduardo Miron I would say that in the case of Marfrig because of its geographic position in Brazil, Argentina and Uruguay we are able to mitigate some factors. We are able to year products to one or another market.

Now in the case of China, which is one of the big moves we now have in the market, it is not only in export market but also important for the domestic market. We think we will have a very reasonable quarter. Some say that this will soar in one year, some say it will soar in a five years; now when we think about the production of pig this is a very family oriented business and we believe that processed there will be much longer.

Now when it comes to our choices for export destinations and when we think about China spearheading our exports, we are working with very significant products and the domestic market is also important for this. When it comes to the price of cattle only 30 or 35% of our primary processing plants are being geared for the production of products to China; and there is a trend therefore that everything will balance out. So we have to be careful making these choices. We have to focus on productivity and of course segmentation as mentioned before.

Mr. Klein: yes this is Tim Klein. In regards to North America the fundamentals of our business as I said earlier are very much in our favor. The relationship between the supply of cattle and the capacity in the industry to process those cattle is very tight. So as cattle supply increases the industry is able to process those and maintain very profitable margins.

In the US only 13% of our volume goes exports. So the export markets do not have as big of an impact although as China buys more products from other countries and there is demand for use beef to make up the loss volumes. So that overall improves the cutout in the US and improves the margin structure.

Mr. XXX: that is very clear thank you very much.

Operator: With this we would like to conclude the question-and-answer session. We will return the floor to Mr. Eduardo Miron, the company's CEO, for the closing remarks. You may proceed Mr. Miron.

Mr. Miron: Once again we would like to and by thanking all of you for participating in this conference call and thank all of those who have helped us come up with these spectacular figures for the quarter. We continue to be very optimistic and 4Q should be equally spectacular and we are ready for the challenges of the industry throughout our operations. We are herewith Marcos Molina and Marcos would also like to make a closing remark and with this we will conclude our earnings results call.

Mr. Molina: Simply to speak to you about our general strategy. The demand from China has surprised all of us, especially myself from the chairman in terms of strategy. We have tended to be more conservative and it was only when we saw the demand that we believed in it. Now what is happening is that beef competed a great deal with for processed products, sausage, ham, everything that comes from pork meat. These processed products of course had much lower cost than beef.

What has happened at present is that with the increase of pork in all of the markets including Brazil as well as other markets, there is greater consumption of beef and the consumption of beef has had an enormous increase domestically, as well as in terms of exports.

And the demand of China has increased the demand from all other countries. Now South America exports a great deal of meat to Chile, we are now exporting to Argentina and Uruguay and this demand from China from Argentinian, Uruguayan meat has increased the price in Chile and other markets in a way it we have never seen before.

So with think that 4Q20 will be very positive for the sector. Besides the United States I would like to remind you that the United States has no authorization to exports to China yet; last week there was the approval of Canada for exports to China and Canada also has a healthy beef production for the United States. It should have a positive impact on the US market and if there is that agreement between the US and China this will open up the market for US beef, which would further leverage the business in the United States, which means that this scenario for beef is very positive and statistically we are convinced that we did make the right moves in the past.

When it comes to processed meat, hamburger meat represents 10% of our production at present. We have had a growth and processed meat. We do not have the figures for the plant-based hamburgers, we also do not have a forecasts; this is a business where we could grow considerably because of our production. We are using our idle capacity for production and we are also using our sales and distribution to bolster this, which means that we have a very positive scenario and for 2020 we are going to begin thinking about paying out dividends. As you can observe National Beef has paid out a great deal of dividends to its shareholders and we would now like to transfer this for the Marfrig shareholders. Once again thank you very much again and hope to see you in the next call, thank you.

Operator: Thank you. The conference call for Marfrig SA end here. We would like to thank all of you for your participation, have a good day.