International Conference Call
JBS S/A (JBSS3)
1Q22 Earnings Results Call
May 12th, 2022

Operator: Good morning, everyone and thank you for waiting. Welcome to **JBS SA and JBS USA first quarter of 2022** results conference call.

With us here today we have **Gilber Tomazoni, Global CEO of JBS, Guilherme Cavalcanti, Global CFO of JBS, André Nogueira, President of Operations in North America, Wesley Batista Filho, President of Operations in Latin America, Oceania, and the global plant-based business, and Christiane Assis, Investor Relations Director.**

This event is being recorded and all participants will be in a listen-only mode during the Company's presentation. After **JBS'** remarks, there will be a question-and-answer session. At that time further instructions will be given. Should any participant need assistance during this call, please press *0 to reach the operator.

Before proceeding, let me mention that forward-statements are based on the beliefs and assumptions of **JBS'** management. They involve risks and uncertainties because they relate to future events and therefore depend on circumstances that may or may not occur.

Now, I'll turn the conference over to **Gilberto Tomazoni, Global CEO of JBS**.

Mr. **Tomazoni**, you may begin your presentation.

Gilberto Tomazoni: Good morning, everyone. Thank you very much for joining this first quarter 2022 results.

We will highlight throughout this presentation we ended the first quarter of 2022 with significant results, we posted strong numbers, which give us immense satisfaction, showing our resilience in such a challenging market. The strong performance of our beef business in North America, the pork business in the United States and Pilgrim's Pride, the business improvements in Australia, the brand advanced in Brazil, the focus on manage what was under our control, our capability for innovation and our relentless pursuit of operational excellence were our key to posting very strong numbers during the quarter.

We had double-digit revenue growth in all business units, we also made advance in EBITDA margin in practically all areas. As Guilherme will detail later, we increased our net income to US$982.7 million with net revenue of US$7.4 billion in adjusted EBITDA of US US$1.9 billion. We continued to invest in growth, our Capex was US US$418 million with more than 50% of that in organic growth projects and another US US$204.5 million in M&A operations. We also delivered a significant shareholder returns in the short-term returning

US US$346 million in share buyback in the first quarter and an additional US US$204 million share buyback in April and we just announced 400 to US US$425 million in dividends. This represents US$1 billion in shareholder returns. This allowed us to deliver short-term return and continue of our growth strategy, all this ended up in dollar, our leverage fell from 1.67 times to 1.63 times in dollar. In Brazilian reais, the decline was even more significant, from 1.76 times to 1.36 times in the period.

One of our key trends you can see on the map on the slide 2, our platform diversified by region and by protein types. When we face challenging environments and cycle in specific business and regions, we can compensate across other business thanks to our geographical platform. This was shown once again in the results for this quarter.

Our platform is very hard to replicate, if not impossible, even more if you consider we are constantly strengthening and further with new growth avenues; that is the case of the aquaculture business, we want to grow this business at the same way as we made in poultry and pork. We acquired a company to serve as a platform for expansion in seafood sector, the fastest-growth protein worldwide.

Plant-based is another growth avenue, we already have a global alternative platform offering products in Europe, the US, Australia, and Brazil, we don't know yet how the full potential of this market, but we believe that plant-based protein can play important role in closing the protein gap and meeting the global demand for food.

Cultivated protein also has a role to play, last week we announced the completion of our biotech food acquisitions, our focus now is to scale the technology with investment in a new industrial plant in Spain. We also announced our new JBS Biotech Innovation Center Brazil to develop our own cultivated protein technology. On top of this, we have improved our ability to innovate, offer high value products and new brands, all to get closer to our custom. With more than 150 brands worldwide by the end of 2025, our goal is to achieve 10 brands with a revenue over US$1 billion.

JBS is a unique competitive position to continue delivering strong results in the short-term while continues to invest in our growth. sustainability is at the core of our strategy aligned with our ESG and net zero commitments, we believe that no company can operate independently from the world around it, that's why we are contributing to the social and economic development in the region where we operate. We have included some of these initiatives in our presentation.

Having the best people in the right place and strong company culture is also the key. Our team is the driving force behind the success of our multi-protein platform worldwide. To reinforce our missions, values, and our beliefs among our leaderships from supervisor to C-level executives, this year we are rolling out JBS culture events around the world. Our people and our culture have brought us here and are central for our continued success. We are a people-company.

Thank you and now I will pass to Guilherme.

Guilherme Cavalcanti: Thank you, Tomazoni. Let's go over the operational and financial highlights for the first quarter of 2022 starting on slide 24, please.

I'd like to start by highlighting 2 important debt issuances at the beginning of this year, which are: the JBS first 30-year bond; and the first agricultural receivable certificates in dollar for the retail. Both the bond and agriculture receivables had a much higher demand than initially offered, which demonstrates the company's credibility with the capital markets and the recognition of the work that we have done in terms of liability management.

These issues made JBS to increase its average maturity debt from 6.3 years in the first quarter of 2021 to 8.2 years in the first quarter of 2022. For the same period, our average cost of debt dropped from 4.9% to 4.4%, and financial leverage in dollars remained at a very comfortable level at 1.5 times net debt to EBITDA.

We have invested US$1 billion in the first quarter 2022 with the following breakdown: we returned US$346 million to shareholders through share buybacks, if we include the share buybacks made in April 2022 the return was US$550 million. I would also like to point out that last night we announced the cancellation of 26.7 million treasury shares that they bought in April and a new buyback program of 113 million shares. Additionally, we also announced the distribution of interim dividends in the amount of R$1 per shares, totaling approximately US$425 million; we concluded the acquisition of King's Group, one of the market leaders in the production of Italian charcuterie and Rivalea, the leader in hog breeding and processing porks in Australia. The total investment considering the 2 acquisitions was US$204 million. This week we also announced the acquisition of the control of the Spanish company Biotech Foods, one of the global leaders in the development of biotechnology for the production of cultivated protein. The investment in the new facility is estimated US$41 million. We also invested US$418 million in modernization, expansion and maintenance of our production units and we invested more than US$90 million globally in ESG initiatives. Hence, considering the share buybacks in April, the dividends in May and Biotech, the total invested was US$1.7 billion.

Finally, I would like to point out that the return on invested capital was 26% considering the first quarter of last of months, being the best quarter of the company's history, the best first quarter.

Now move to slide 25, where represent the financial and operational highlights for the quarter. In the first quarter of 2022, we achieved net revenues of US$17.4 billion, which represents an increase of 21% in the annual comparison. The adjusted EBITDA for the quarter was US$1.9 billion, which represents an EBITDA margin of 11%. Net income was a total of US$983 million in the quarter, which represents earnings per share of US$0.44.

I would also like to highlight that considering the first quarter 2022 last 12 months, once again, we reached record results. Net revenue was US$68.7 billion, adjusted EBITDA was US$9.2 billion and net income US$4.4 billion and earnings per share of US$1.83.

To conclude this slide, the company's Board also approved in the first quarter the cancellation of 129 million shares in treasury added to the cancellation of 26.7 million announced last night, totaling approximately of 156 billion shares cancelled as well as a new buyback program with the objective of maximizing the value generation to the shareholder through an efficient management of its capital structure.

Please, now move to slide 27. The operating cash flow in the quarter was US$66 million, free cash flow for the quarter was a negative US$542 million. It is worth mentioning that the first quarter of the year has the characteristic of consuming cash due to the concentration of payments to suppliers and the buildup of the inventories. First quarter 2022 last 12 months the operating cash flow was US$4.9 billion, free cash flow was US$2.3 billion, and excluding non-recurring payments of US$719 million and the expansion Capex of US$1 billion, the free cash flow for the year would have been US$4 billion with a conversion of 45% from the adjusted EBITDA.

We have also increased the investments in the company's organic growth. In the graph of the bottom of the slide we have our Capex in the quarter totaling US$480 million, of which 57% is related to investments in modernization and expansion.

Now please, let's move just like 28 where we have the evolution of our debt profile. Net deb in the first quarter was US$14 billion, which represents an increase of US$1.7 billion in the annual comparison due to share buybacks in the amount of US$1.7 billion, M&As of total of US$1.9 billion, US$1.4 billion in dividends and non-recurring payments of US$719 million. These events were partially offset by the cash generation of US$2.3 billion and the positive impact of the exchange rate variation of US$2 billion. Net leverage was 1.5 times in dollars and 1.4 times in reais while interest expense coverage increased from 8.5 to 12 times in 2022.

It's important to highlight our comfortable liquidity position, we ended the quarter with a cash position of US$3.6 billion together with the revolving line of US$2 billion allowed JBS to end in quarter with a total availability of US$5.6 billion.

Moving to the bottom of the slide, I highlighted our average cost of debt in dollars of 4.1%. Considering the issuance of the agriculture receivables in April of US$253 million, the average debt maturity went from 6.3 years to 8.2 years.

Now let's move to the business units' performance. Starting with Seara on slide 29, net revenue grew 21% in the first quarter, posting growth in both volumes and prices. Sales in the domestic market, which accounted for approximately 48% of the units' revenue for the period, the prepared products category maintained its growth trend and record an increase of 17% in average sales price and 0.6% in volume. It is worth mentioning an important achievement: according to Kantar in the Brand Footprint Brazil 2022 ranking, Seara is among the 5 most chosen brands by Brazilians. This important achievement is the result of intense work with the objective of increasing brand preference and solidifying leadership in several categories.

In the export market, net revenue increased by 25% in relation to the first quarter 2021 due to a 13% growth in sales volume and a 10.5% growth in average prices despite the temporary suspension for exports to Saudi Arabia and the recovery of the Chinese swineherd. The scenario for production costs remained very challenging in the first quarter with the average cost of corn and soybean meal rising 13 and 4% year over year respectively, remaining at high levels according to the ESALQ data.

Now moving to JBS Brazil on slide 30, we see the revenue for the quarter growing 24% year over year reaching US$2.7 billion. In the domestic market, the macroeconomic scenario remains very challenging putting pressure on beef consumption, which has already reached one of the lowest levels ever recorded. The profitability of this unit continues to be impacted by the average price of cattle, which according to the data published by CPR ESALQ it increased around 11% in the average price for the quarter, being R$340 per arroba.

The export market was the highlight of the quarter with net revenue reporting a significant increase of 45% when compared to the last year mainly due to the growth of 17% in volume and 20% in the average sales prices for beef *in natura* in reais mainly driven by the resumption of Brazilian exports to China at the end of 2021.

Moving to slide 31, at JBS Beef North America, and now speaking in dollar terms and in USGAAP, JBS Beef North America revenue reached US$5.5 billion in the first quarter, an increase of 27% year over year and the adjusted EBITDA totaling US$792 million and a margin of 14.3%. These results do not include JBS Australia, which is now reported separately.

In the domestic market, the demand contributed positively to the net revenue growth driven mainly by the recovery of the food service channel and the sustained performance of the retail compared to the same period of the previous year. in the international market, despite of the continuous slowness of American ports, the volume export was more than 6% higher compared to the previous years.

The Asian market continues to be the most important market for the American beef exports. On the cost side, results were impacted by the increase in relevant inputs, such as labor and logistics.

Moving on to slide 32, we have JBS Australia. As of this quarter, we'll be disclosing the results separately, therefore it's important to provide a little more detail on the business unit. Briefly, JBS Australia is the largest meat and food processing company in the country with operations in the beef, sheep, pork, fish, and prepared foods. JBS Australia produces a wide range of high-quality beef and lamb products, the business unit is also the largest Australian manufacturer of ham, bacon, salami, and cold cuts under the Primo brand.

JBS recently announced the acquisition of 2 companies in the region: Huon Aquaculture, a salmon producer, and Rivalea, which produces high-quality pork for Australian markets.

Now talking about the results, net revenue was US$1.4 billion, an increase in 36% compared to the first quarter 2021 and adjusted EBITDA was US$93.2 million with a margin of 6.6%. Both the domestic market and the exports contributed positively to the results even in the face of a very challenging cost scenario that puts pressure on the region's profitability. As a result, the EBITDA margin grew by 5.8 percentage points from 8.8% to 6.6%.

Now moving to JBS USA Pork, in first quarter 2022 net revenue was US$1.9 billion, an increase of 18% year over year, adjusted EBITDA reached US$187 million with an 9.8 EBITDA margin. In the domestic market, the strong demand for pork supported price during the quarter, favoring the segment's margins, which were at higher levels in the annual comparison. On the other hand, higher operating, and live animal costs partially pressured results.

In the international market, USDA figures showed that US pork export volumes were down 20% year over year in the first quarter mainly expanded by the China's domestic pork production, which recovered after the African swine fever outbreak. The reduction in exports to China were partly offset by the good performance of Mexico that increased 42%.

Pilgrim's Pride on slide 34 presented net revenue of US$4.2 billion in the quarter, an increase of 29.5% year over year, adjusted EBITDA reached US$502 million with an EBITDA margin of 12%. In the US, the food service channel recovered to the pre-COVID volume levels while demand in the retail chain remains strong despite the challenging inflationary scenario. In Mexico, the food profitability is explained by the seasonality of the period, investments of the period, investments in brand products and good management of the supply chain despite the rise in grain prices. In Europe, the scenario is still quite adverse despite a slightly recover in the quarterly comparison.

To finish, I would like to move to slide 35 that shows that our exports totaled US$4.5 billion in the first quarter with approximately 180 countries taking part of these exports.

With that I would like to open to our question-and-answer session.

Question and Answer Session

Operator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. If you have a question, please press star key followed by the one key on your touch tone phone now. If at any time you would like to remove yourself from the questioning queue, press start two.

Our first question comes from Ben Theurer, with Barclays.

Ben Theurer: Perfect, good morning and thank you very much, and obviously congrats on the strong results. Two questions if I may, so first, Seara obviously was pretty much under pressure during the quarter and we've seen other companies struggling in January, but could you give us maybe a little bit of more detailed granularity within the quarter how things moved from January into March and what you've been seeing so far in the second quarter and what's your expectation on Seara's margin, which obviously is not at a level I guess you are pleased to see the margin? That would be my first question.

Gilberto Tomazoni: Thank you, Ben, for the question. I will ask for Wesley to answer this question to you.

Wesley Batista: Morning, Ben. So, yeah, absolutely, we don't see the first quarter result for Seara as a result that will be our result going forward. We had a quarter that started off in January very, very tough, we had a domestic market that was under a lot of pressure, but we saw that recover during the quarter in the domestic market and also in the export market. We also had within the quarter the exchange rate devaluing, the US dollar devaluing against the real, that was another important pressure in our results for the quarter, we did increase prices in US dollar to counter effect the devaluation of the US dollar, but the effect of that we saw more in March and starting here the second quarter.

So, again, started the quarter with a result that was very difficult in January, and we saw a gradual increase throughout the quarter until March and we see the beginning of the second quarter actually better than March. so, we are optimistic that this result for Seara won't be repeated in the second quarter and throughout the rest of the year.

Yeah, that's a little bit about Seara.

Gilberto Tomazoni: And, Ben, let me add. I think one important thing to look at the Seara results is: Seara results even under pressure they keep growing, and this is mainly because of increased preference of the consumer, and then there is 2 indicators that link to the preference: is the penetration and the repurchase.

Seara is growing very fast in these 2 indicators and that means you can predict the future of the company, the future of the brand.

Ben Theurer: Perfect. And then my second question is very similar, but actually more on the opposite side of things. In beef North America, obviously was an exceptionally strong quarter with a margin in the almost mid-teens, but what we saw more recently, at least industry data is indicating, a little bit of more of a choppy right. So, could you share maybe some initial thoughts on the current environment and what your expectations are heading into summer, into the grilling season? On one side, obviously cattle availability, but one thing is if they're available the second thing is price, so maybe a little bit about that and what you're seeing on the demand side, be it for beef, but then aside from that for all the drop value the height, the [unintelligible] and so on, which obviously has been quite attractive market recently.

So, just to understand a little bit the dynamics input cost versus output, what you're getting. Thank you.

Gilberto Tomazoni: André, I think you are in the best condition to answer this question.

André Nogueira: Hi, Ben, thanks for the question. You're right, first quarter stood very strong, the key fundamentals for the business continues to be very positive, if you look the USDA importable of cattle unfed we are in a record level, higher than last year by 1.7% for the same period, global demand is very, very strong, especially coming from Asia, for us here in North America, China continues to grow in a pretty strong pace overall, Japan that for quite a period of time came back too strong, we think that Japan and Korea both have very low inventory, and as we go back to normally, should be big, big buyers, and they're very relevant again for North America.

Domestic we're seeing that retail price is still in a pretty high level, I think that retail have all these incentives to promote much more beef as we start the green season, we’re talking with our retail partners, and we see that. So overall, we’re very positive. When you look at the industry data, you need to remember that it’s a very [unintelligible] industry data and our portfolio of products are very different than that with much more value-added products, with much more programs that are not captured by that industry data. Just to give you a few examples, our CVA at beef and pork value added business marinated, cuts, branded we grew 40% in volume compared with the same quarter of last year of Swift brand, that's very strong in pork and become very strong in beef in the retail, we grew more than 20% compared to the same quarter of last year.

So that's all what's not captured in the market data. On top of that, you already commented and you’re absolutely right, what we call [unintelligible] credit, that's all the byproducts, things that we take out in the harvest floor, has been going up in value year over year, quarter over quarter, and we are over US$50, US$6 more in Q2 2022 compared to the same quarter of last year value, so that goes straight to the bottom line, and this is because of all the renewable fuel, what's going on in grain. So, we don't see any weaknesses in that coming any time soon, and that's not captured by the industry data that only look the commodity cattle with the commodity cut-out.

So, I expect that we're going to see a movement in the cut-out price as we start the green season, as demand start to kick up in the domestic market both here and in Canada, we will continue to see pretty strong demand for the export.

What we need to wait and see is with all this inflation that's impacting the people globally, for sure here in the US and in Canada, with price of gas, price of rent, how this will impact the net income of population, especially the low-income population, the population that can change more in terms of consumption that they can trade off in beef to chicken or from middle cuts to ground beef, because they are seeing a high inflation overall in several areas of their life.

On the other hand, this low-income is the one that in the US have been seeing the biggest increase in compensation in the last 2 years and continues being a very tight labor and we will see an increase in wage for this population. This increase in wage vis-à-vis a higher cost in inflation, what will be the net disposable income and how this will impact beef, especially middle cuts for the future, we will need to see. I think that at this point we are very positive in terms of demand, global demand is very strong, US demand we’re just going to start to see the grilling season that’s always the strong season, so when I compare all these and I look the overall JBS portfolio and what we have invested in the last several years in terms of innovation, in terms of value added, in terms of programs, in terms of brands, I’m very positive for the remainder of the year. We’re going to see of course, I already said that last quarter, specifically in beef North America, tight in the spread compared to same period of last year, but I think, I strongly believe that we will continue to be in a very strong level.

Ben Theurer: Perfect, André, great color. Thank you.

Operator: Thank you. Our next question comes from Priya Ohri-Gupta, with Barclays.

Priya Ohri-Gupta: Thank you so much for taking the question. A couple of just administrative ones if I could start with. You know, on the last call you had given us an update that you were expecting to sort of streamline the issuer structure on the bond side and sort of collapse that to JBS USA over the first half of this year. I was hoping you could give us progress on that.

And then secondly, is there any update that you could give us on the progress you're making towards registering the bonds in some of the requirements that are needed there, and then I have a second question. Thank you.

Guilherme Cavalcanti: OK, thank you, Priya. On the first question, at the end of March/beginning of April bonds at the SA entity was assumed by the JBS USA entity, as I mentioned in that call, so you'll see this difference from the second quarter onwards.

And about the registering of the bonds, I think one of the major requirement is to have a Sox compliance, which we have already running the tests in USA in Seara, but some of the subsidies and also at this C-level, we're still having to finish the Sox compliance program before being able to register the bonds. So, that's where we are, we have this ongoing project to have the Sox compliance in the entire JBS. So, once this is done, we'll be able to register the bonds in the SEC.

Priya Ohri-Gupta: Thank you. And then, I guess if I could just follow up a little bit on trough the last point you made with regards to Ben's question on through how inflation is impacting consumer behavior. I think you talked about it a little bit more in the context in fees, but could you share your thoughts and what you're seeing on the pork side as well and just some of the discussions you're having with the retailers in terms of pricing conversations for the pork segment? Thank you.

Gilberto Tomazoni: André?

André Nogueira: So, just to be clear, we need to see what will be the impact, we need to see what will be the net impact. It's not clear yet because for one side you have of course the high inflation in several fragments, especially in gas and rents, I think that's impacted the day by day of the people, but for sure impacted their perspective. On the other hand, you have higher salary. One of the sources of the inflation is the labor market in the US that have been very, very tight, and because labor market has been very, very tight, especially in the low-income, we're seeing a pretty high increase in wages. That's what we did in our plants to because more competitive and continue to attract labor; we raised compensation at pretty strong level in the last 2 years.

So, that's more income for the [unintelligible] one side, the other side is inflation. What will be the net of that and if that will impact any type of consumption in the food side is still for us to see for the next several quarters. It's not clear for me.

Again, beef price, cut-out price now compared how was 6-7 months ago is lower, that's why I'm saying that retail have all the incentive to promote more beef, but in the summer grilling we're going to have less pork production in the US this year compared to last year, so I expect that pork price will continue to be in a pretty good level.

So, how this will reflect in the price of the retail it's still for us to see. If this will represent that people will trend down from middle meats to ground beef or to chicken is still for us to see. I think that's too early for us to tell that. What I can say is that overall globally demand for protein continues to be very, very strong, and when you see in the beef side the market that US compete, like Japan and Korea, we always need to remember that Australia (that we have a big operation in Australia, that's an important producer and an important exporter of beef and lamb globally) the production in Australia is still way down compared with what is the normal production, 30-40% down. So, this is less beef available globally and that's why the demand has been so strong and that's why the price has been in a so strong level, and I don't see anything that could change that in the short-term.

Gilberto Tomazoni: And Priya, in case like this and with high inflation that affect the consumer power, the food is the last category to suffer, even we can then move among the categories, but will be last to suffer, and this is one of the advantage of JBS, that we are a diversified platform, we have multi-proteins and we are really prepared for face this challenge and with the consumer movements.

Priya Ohri-Gupta: It's very helpful, thank you.

Operator: Thank you. Our next question comes from Carla Cassella, with JP Morgan.

Carla Cassella: Hi, just a follow on to Priya's question there in terms of the Sox compliance that you need at SA, what are the key hurdles that you need for that and what's the timing? Is that something that takes a year, two years near-term?

Guilherme Cavalcanti: OK, thank you, Carla. There's no hurdle, it's just a project that we're putting in place. I would say that one year I think would be enough for us to have Sox compliance in the entire company.

Carla Cassella: OK, and I'm sorry, did you say you're not going to… did you disclose, or will you disclose your restricted group leverage total debt or cash?

Guilherme Cavalcanti: Could you repeat, please, Carla?

Carla Cassella: The restricted group for the JBS USA restricted group, are you going to disclose the cash or debt at that level or leverage?

Guilherme Cavalcanti: Yes, we will disclose that as we did in the past through the mailing for the bond holders.

André Nogueira: Carla, just to be clear, we always disclosed, and we will continue to use the same website, the same information.

Carla Cassella: Perfect, OK. And then just…

André Nogueira: The only thing that changed, Carla, was the conference call. The website will be there, the information will be there, the same way that was disclosed in the past.

Carla Cassella: Perfect, OK, that's right, it was confusing I remember you commenting on that last time. And then just one question, Australia thank you so much for breaking that out, super helpful, but since we don't have a lot of historic data for it, can you give us a sense for? Is there a way to think about normalized margin in that market? I think it was traditionally a pretty high margin business for you, but I'm just wondering if there's a way to think about normalized margin range.

Gilberto Tomazoni: André, considering your long term to manage this market, I think you are in better condition to answer this question.

André Nogueira: Yeah, I'll start here, and Wesley Filho put the colors that he thinks that are missing. So, Carla, when we talk about Australia you need to understand that the business now is very, very different than the business in the past, we still have the beef business there, the lamb business there that are relevant, but now we have several other businesses, Primo business that's a business that's over a billion Australia in sales, 1.2 billion Australia volumes in sales, they have the Houn business and we have the Rivalea business. So, when you look… and we're not going to disclose margin business by business, we're going to disclose the margin for the whole Australia, it's hard to talk about normalized. Of course, in the beef business, beef specific segment business, we're still way below the volume. I commented before that Australia is still producing today because of the strong retention of cattle because of the great condition in the grass pretty much in the whole Australia right now and have been just way since last year, so the retention that started late in the 2020 was very strong in 2021 and continued [unintelligible], production in Australia is 30-40% below a normal level of production, so the margin way below what is the normal margin for Australia, that's why you say that when all this retention and the cattle starts to come back to the market, I want to see a much higher volume, much higher sales, and much better margin in the Australian beef segment.

On top of that, Wesley can comment better, the acquisitions that we just did, these are just starting, we're just starting our way to manage the business to increase the margins. So, they're not being big contribution for the margins right now, so you're going to see a much stronger margin in the future when this business starts to deliver the new business and when beef go back to a more normal level of margins. So, very, very bullish for Australia, especially for next year/starting 2023, maybe even starting in the fourth quarter of this year, but most probably for the next year.

Carla Cassella: OK great, that's super helpful. Thank you.

Wesley Batista: Just to compliment, Carla, what's André is saying is, you know, especially the 2 businesses we have just acquired, they're businesses that on a percentage basis should contribute for a higher overall average margin. So, we know that the 7 businesses when it's in a normalized pre-COVID margin, which we're seeing that we're reaching that type of margin today, it's a business that has pretty high double-digits, right, and the pork business in Australia has a pretty good margin today with a lot of opportunities, it's already operating in double-digits with a lot of opportunity for us to still improve our business there. So, there is lots of things that we can do in the plant, in the of the live part of the operations that can really improve.

And on top of that, like André mentioned, on top of that we have the Primo business, which also is a business that should operate with double-digit margins, should be a business that does well. So, with the beef business and lamb business in Australia recovering, we should have a pretty good business going there.

Carla Cassella: That's great, thank you.

Operator: Thank you. Our next question comes from Lucas Ferreira, with JP Morgan.

Lucas Ferreira: Hi, everybody, thanks for the opportunity. My first question is regarding your, let's say, processed food or high value-added mix. I remember in the past year you mentioned something like a high double-digits exposure in your portfolio, but since you've been doing a lot of acquisitions, wondering if you have a sort of a new estimate of or a new number of what’s the current exposure of the company to more high value-added category? Maybe those, I don't know, with the 10% plus margins or stable prices? So, you have something to give us and sort of if you have a number you paint to have in the mid to long run?

And then the second question is more specific about the Brazil beef business, which was one of the underperforming units in the quarter despite of the strong prices of exports out of Brazil. I think you did not yet capitalize on that in the margin side. So, what to expect for second quarter, second half of the year, if you already see improvements in profitability? I know cattle prices are still elevated, but not sure if you can compensate that by stronger export prices mainly. Thank you.

Gilberto Tomazzoni: Lucas, thank you for the question. I will ask for Wesley start to answer about beef in Brazil, and I want to understand better your first question, can you repeat that?

Lucas Ferreira: Yeah, Tomazzoni, sure. So, that the total JBS exposure to processed foods, if you can give me an estimate of how much of processed food or high value-added products represent of your total net sales for instance.

Wesley Batista: Lucas, good morning, I'll start here with Brazil. So, we started the first quarter compared to the previous year with a higher cattle cost in Brazil, we had some regions, especially the West of Mato Grosso that had a very short supply, so especially short in that region, which was a tough start of the year. We are in a scenario to Australia, we are in a herd recovery in Brazil, and we are currently seeing a calf prices being a little bit lower, which indicates a higher offer of calves currently, which will probably benefit the next couple of years.

But having said that, the quarter was tougher than previous year start of the quarter on a cattle supply perspective, especially in a in the west of Mato Grosso. So, you know, we have a very strong export business, but we also have a good share of the domestic market, which was specially underperformed in the first quarter, and we [unintelligible] that we increased our export during the first quarter and we're starting already to see the beginning of this next quarter and the end of the first quarter a recover in overall performance of the beef business, especially in the domestic market with this increase in exports we have.

One important part of the outlook for this business is we have a suspension of one of our plants to China, which is a big plant for us, we are compensating that loss in capacity to export to China with the other plants we have, so we're not going to have the full impact of that plant being suspended, we already had the second audit in that plant from the Chinese and we're expecting the result of that order should come out anytime soon. So, we're pretty optimistic that we're going to resume normal trade to China with beef Brazil, but still, it's an uncertainty going forward.

Having said that, with regards to the domestic market and other export markets, we have rebalanced our operations and we have a better outlook going forward than what we had in the first quarter.

Another part that I think is important, we have been for a long time improving our value-added categories in Brazil, we have the Açougue Nota 10 program, which today already has 1.870 stores in Brazil, it's growing very fast, especially with the high value of beef being able to, at store level, being able to increase the value of meat and bring savings and efficiencies to our partners, is being valued very, very heavily and this is a program that's growing very steadily.

So, tough start, difficult start to the year, but we see an overall better trend for the second quarter.

Gilberto Tomazzoni: And Lucas, the question about the value added, we manage the business like we disclosure the results and we have value added and brand in which one of the business inside of the business. Of course, we have some business is practically brand that we have Swift prepare food in the US, but it is a small part because if you consider that we have in Pilgrim's a part of prepared foods as well, we have plans there, we have beef, we have the pork, and we have Friboi as Wesley just mentioned, they have some brands, some value added, then we have Australia as the same thing.

We manage no as a whole and this is because it's a challenge to give you a precise answer on that, and I apologize, but I cannot give you really the numbers because will be not precise. Maybe we can have a discussion with you and explain to you better how we manage in a separate way, maybe we can give you one perception about it. I can tell you in terms of site is big, is more than US$10 billion, but it's just an idea. I don't have numbers to confirm if it is correct or not, just give you an impression, more than 10 billion.

Lucas Ferreira: Perfect, thank you very much.

Operator: Thank you. Our next question comes from Carlos Laboy, with HSBC. Please, go ahead.

Carlos Laboy: Yes, hello everybody. I have 2 related questions. One is can you update us on how you're managing through this very tight US labor market as you look out through the rest of the year. And on related basis, you've spoken before on how you've made some robotics and automation research investments I think in New Zealand. Can you update us on any meaningful developments that are happening on this field or any relief that you might be able to get from these investments at some point in terms of automation and robotics at your plants?

Gilberto Tomazzoni: André, about the comment of labor market in the US, maybe you can give an answer then I give about our strategy for automation.

André Nogueira: Ok, thank you for the question, Carlos. So labor is very tight, it's not only in the US, it's tight in US, it's tight in Europe, it's tight in Canada, it's tight in Australia. What we're doing as a company is become the company of choice for the labor investing; we invest in compensation a lot over the last 2 years, make sure that we are a leader in terms of compensation in our industry and the hour raise here (just to give you a perspective in US) in the beef and the pork segment, the average wage is probably around US$25, 24 to 25 dollar per hour, so if you compare that to minimum wages, compare that to other industry, we are very competitive because it's a very competitive market right now.

But, more than that, we're investing a lot in our facilities, in our welfare area in our facilities, I can guarantee you that now our facilities are state of the art in terms of welfare and everything that touch the employees, we're investing in the communities with our Hometown Strong program here in North America more than US$100 million in the communities that our team members live for them to be proud about the company, proud about the community, we're investing in housing, so the housing in some of these communities is a big challenge to attract labor, we create the Better Future program for our team members and their dependents, we already have more than 2.800 people already signed up for the program.

So, what we are doing as a company is become the best that we can be in our industry to be extremely competitive, and it's working; we have more ability of labor now, turnover is going down, it's not equal in every market, in every state, the competitive is different state by state, but I can say that our strategy and our investment is work, it's moving in the right direction. We expect that this will continue to improve as we continue to collect the results of our investments.

Gilberto Tomazoni: André, can you give some figures about the automation in US as well?

André Nogueira: Yeah, we've been investing heavily in automation several segments, so in the deboning, in the chicken side, you're investing heavily in [unintelligible] have been [unintelligible] about that, all the investment to put [unintelligible] debone, we've been investing heavily in the pork plants, in every area that we can have automation, we just approved a new warehouse, full automated warehouse that use technology capacity that we're going to implement in Canada, that's a potential important reduction in labor top of [unintelligible], technology have a project with Pilgrim's that they develop at trace, to trace the chickens that's are pretty labor-intensive.

So, we want you to work with Scott, but not only with Scott, and we continue to invest heavily in our plants to improve the quality of the labor that we can have, reduce some of the most difficult jobs in the plants and improve efficiency to face and to try to combat as much as we can with operational excellence the increase in cost that we're seeing in several areas.

Gilberto Tomazoni: And, Carlos, if you ask for why is our global strategy of automation I can say we have a global team focused on industry 4.0, they are sharing knowledge, they are discussing opportunities in each one of the regions, but they share benchmarking, and we are in close contact with all of the suppliers in order to understand the opportunities and when we have an opportunity that makes an economic sense or automation we are investing. This is one of the main road of investment, is automation.

Chicken is easier than the other business for automations and prepared is easier to automation, I think we are going faster on this and in Australia we have a plant full automated by Scott, and as André mentioned, Scott is an independent company, is a public company, but we are creating opportunity for Scott to develop a line for automation in food, and it's already done in the US and we are developing in other geographies because I believe we can develop a proprietary technology on top of what is available in the market.

Carlos Laboy: That's helpful, thank you.

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

Gilberto Tomazoni: I'd like to thank all of you to attend this conference call and our thank you for our team members, more than 250,000 team members around the world that is responsible for these great results. Thank you.

Operator: That does conclude the JBS' audioconference for today. Thank you very much for your participation, have a good day and thank you for using Chorus Call.