Operator:

Good morning, ladies and gentlemen and welcome to the results videoconference for the 3Q20 for BRF S.A.

We would like to inform you that this video conference is being broadcast through the Internet through the site www.brf-br.com/ri, where the presentation is also available.

At this moment, all participants are connected in listen-only mode, and ensuing this we will go on to the questions and answer session, when further instructions will be given for you to participate. We request that each participant pose only one question. Should you require assistance during the conference, please press *0 to reach the operator.

The forward-looking statements in this conference referring to the business outlook of the Company projections and results and the potential growth of the Company are forecasts and are based on the management expectations regarding the Company. These expectations are highly dependent on changes in the market, on the general economic performance of the country and the sector and international markets and therefore are subject to change. We would like to remind you that this conference is being recorded. This video conference will be presented by Mr. Lorival Luz, the Global CEO and the Vice Presidents are also present.

We would now like to give the floor to Mr. Luz who will begin the presentation. You may proceed, sir.

Lorival Luz:

Good morning to all of you. Once again, thank you for participating with us for the results for the 3Q20 for BRF. Once again, we are doing it through a video conference to be able to better interact with you and to perhaps convey our results with greater clarity.

Before we begin and go to the presentation, I would like to refer to the satisfaction that I feel with the results that we will be presenting to you. For the sixth consecutive quarter, we are reporting the results above the level that were recorded in two or three years ago. And I think this points to how assertive our quarter strategy has been and also points to our ability to execute and deliver. Now the results that you are going to observe now give us the confidence that we will be able to take new steps for the Company to grow.

At BRF, we are extremely proud of what we are doing, what we have done and of the way we are doing things. Our culture, our procedures, we do not accept any business at any price. We do things in a highly sustainable way with integrity, with quality and of course with safety. And I believe that BRF is one of the Brazilian companies that this year most invested in the health and safety of the people and all of its communities. We did this in detriment of having temporary impacts before and at the cost of our market share. At BRF, we truly believe that health and that the lives of people is always the priority.

When it comes to this presentation, I am going to hold a very brief presentation, about 15 minutes, and ensuing this, we will open for questions and answers. Here, we will have all of the Vice Presidents of the Company here to clarify issues and hold a conversation.

We go to the first slide of the presentation where we will refer to the results in the 3Q20. Once again, I would like to underscore the EBITDA margin and the net operating revenue, and the cash generation of almost R$1 billion. Alongside with the liquidity and the availability that we have, R$15.3 billion, a leverage of 2.9x. Were it not for the variation of the USD, we could speak about the strength of the Company and how far we have come with this net income about R$219 million.

In the next slide, we show you a sequence of results since the first quarter. And what I would like to do here is reinforce the journey that we are on at present and the goals. The goals of having a more stable margin, appropriate growth, and above all, to avoid any type of volatility in our results. So there, we have had six quarters of margins, gross margins of approximately 24% and 25%, and an EBITDA margin around 14% to 15% and even this year, with the impacts of the COVID-19 pandemic, which once again points to the strength and the robustness of our processes and the strategy that we have.

Going on to the next slide, I would like to reflect with you and show you what this journey has been like and how it continues to be in BRF. I draw your attention to a very simple comparison based on facts and data of what BRF was like in the nine first months of 2018 and our present-day status. Two years later, with arduous work, with a strategy that we set forth, where all of us within BRF, our team, our employees are working in an integrated fashion.

Gross profit, as you can see, 15%, increasing to 23.5%. EBITDA margin practically increased twofold, going from 7.4% in the nine months 2018 to 12.9% this year. Even with the extraordinary expenses due to COVID-19, we left from R$2.4 billion to a profit of almost R$500 billion. Now the average debt maturity that reinforces our financial discipline, almost increasing threefold, going from 3.4 years to 9.5 years in the 3Q20, a leverage that has dropped to half, going from 6.7 times to 2.9 times.

Now were it not for the impact of the USD, we would be below 2.5 times. But if put together the leverage and the debt average maturity, the capital structure is strong, sustainable, and adequate for the present moment and for what we are doing. And as a result of this, a significant increase in the ROIC for the Company. Therefore, I think it is important to reflect upon this to truly state what we have been doing, and I have underscored this. We are looking toward the mid and long-term of the Company so that we can have an ever-better Company and a stronger one. Evidently, this does not come easily.

We will go on to the next slide where I would like to show you some of the strategies that we have set forth and that have enabled us to take these steps. The first, to work constantly, to seek efficiency, a greater efficiency in costs and expenses, ensuring the stability of our margins and an adequate profitability.

And this will enable the Company to continue to invest in new products and new processes. This is a constant quest that we are in, efficiency, productivity and this is but an example. We are comparing this on days 100 of the cost of production index of Embrapa. And they show you the curve of increase in these costs, which was the COGS of the Company and the broad ability that we have of moving around with these news prices.

Now what is it that I am attempting to show you here regarding the main inputs of the Company. We do have an adequate capacity. And once again, I would like to do reinforce that, for us, consumption is strategic, and we make the very best decision that we can in this field, even though we have to increase our working capital because what is important for us is to guarantee the inputs and to ensure they are efficient.

We also have several initiatives that we put in place, but I reiterate the priority, of course, is to adjust cost to the market cost and to ensure that our prices are in accordance with market prices to ensure adequate margins for the Company. Now this is how we sustainably manage our Company and our ability to do this for the coming quarter and for the coming semester and the year 2021 will continue based on this trend.

We are ensuring that the Company will be productive based on planning and of course based on these principles. An important factor in the next slide we have even stronger brands and the most admirable and preferred brands in the market.

And these are data from Kantar, Folha Top of Mind as well as other surveys. We have Sadia, Perdigao and Qualy in this category. And this can be shown through the investments and through the way that we do this and the relationship with our consumers, with respect, with credibility, by listening to our consumers, and which are their needs, and of course with consistency in the delivery, consistently delivering quality in our products and making investments in a very robust, appropriate and cautious way, allowing our products to become ever more accessible to our customers.

So we are expanding about 10% versus the previous year. And now, we have reached over 260,000 active customers through our commercial strategies and with our position. So, we have costs, we can manage productivity appropriately, we have the brands. And the next slide will show how we also have the best position in our portfolio.

As we have said, we are positioning our portfolio more and more directed toward products that are seen in the presentation itself. Profitability is growing, EBITDA margins are going up. And I mentioned the last two points, which are also very important. And we are also making investments into innovation, launching new products and adapting products to what customers desire. So we are making them easier to prepare with more quality, a better taste, with food safety, and we are moving these products to have a greater share of consumers' baskets. So the mix in our portfolio is becoming better and better. And it will ensure sustainability and growth for our margins in our operation.

An example of that is shown on the next slide, slide number 9. Here we see the number of products or SKUs that have been launched. We reestablished the investments that our R&D team has had. So we have products for the local market and for the international market. This year, we have launched around 170 SKUs and we will have more. We will have new launches, which will be very relevant and important also in the 3Q.

Our goal is to really be present, to be there during all the moments in which our clients are consuming. We want to be where they have needs for our products. This is how we are designing our strategy. So the summary I mean to give is how our consistency and the priorities we set have led to these results.

Moving on to the next slide, this is another important point, it is important to report. Of course, we have had an impact from the Chinese market and the expansion that we have had with new approvals for new markets. With regards to China, the demand and their own production is still below what it was in 2018, before we had African swine flu. This has recovered, but as you can see on the left side, the herd is still based on female hogs selected as sows. So on the right, you can see that their monthly yields are still far below what they need.

You have a greater perspective that this productivity will go back to the 2018 levels. But this won't happen in 2021 or in 2022 to '23. It will probably start happening from 2024 on. So we still have some time where we will have a great demand. And the foreign market still has high demands, and it will continue to provide opportunities despite volatilities that we see on a monthly basis. But the trend, the expectation we have is that the next months will be consistent and they will be positive and high.

So changing a bit of our conversation and talking about the Company's capital structure. I am very proud to say that we are able to demonstrate what we have done in this last journey. We went from a level of 6 times down to 2.9 times. This is our leverage. And as I said, even despite foreign exchange impacts, our debt is still denominated in U.S. USD. And a lot of it was impacted by foreign exchange. We went from US$1 below R$4 to US$1 at R$5.6. So this variation basically made our debt go up substantially.

But we have made an effort to generate cash and reduce our nominal debt denominated in R$, if we were to calculate, if we were to consider it in Brazilian reals. And this is done at the same time as we extend our debt.

At the end of the 3Q20, we see that our average term was 7.5 years. And this is a pro forma calculation after the operations we have had throughout the year. So there were some liquidations, as you can see, that will take place in 2021. And there will be a new issuance. So the Company is absolutely net, and we will have the right terms and the values will be quite low for the next quarters.

Moving onto the next slide. We also manage not only the financial side of the Company, but we are also looking toward sustainable development from the fields to the table. And this is done by taking care of the environment and with initiatives to reduce waste. This is something that is done by our entire population. So we work with the best practices and we take part in the best associations. We have a transparent leadership which is also ethical. And this is shown by the fact that we are the only company that is in ISE. We are also listed in B3's Novo Mercado and ADR program and there are other initiatives that were taken this year.

The next slide also highlights the fact that we have invested significantly in improving our process and in performing commercial management. Meaning that we also invested in digital transformation. This goes for Go Digital and Be Digital. We substantially increased our investments there these last few years. And we will invest even more because we believe that this process will bear fruit for the Company. It is going to bring us more adaptability and productivity. And we have had initiatives collecting data from all of our growers and farmers.

And we have adapted all the pillars in our operational excellence system to have the right measurements and then another number of initiatives that will provide information. And this information will be worked on, analyzed, and will retro feed into this process. So this is a tireless search to have more productivity and be better suited for our clients.

So moving on to my closing remarks on the next slide. I would just like to conclude my presentation by recapping what we have had so far and what our results were this quarter. During this quarter, we sold 1.1 million tons. Our gross profits were R$2.3 billion. Our adjusted EBITDA was R$1.3 billion.

Our EBITDA margin was around 14% for the sixth quarter in a row. Profits were R$200 million for this quarter. And we advanced in the products that bear the strength of our brands, and which have higher added values. And this is our goal. It was, is, and continues to be our goal. And we will continue moving forward in adapting our capital structure by reducing our leverage and extending average debt terms.

The last slide, and this is a conclusion for my presentation, is an analysis of the journey we have had in the Company since 2018. Looking at the results we achieved and everything that we have ahead of us, I want to say that I trust completely not only where the Company is but also in the Company's future. I am absolutely sure and convinced that we have a team that is engaged, united, around our purpose. A team that takes care of people and takes care of our employees, and a team that does not do business at any price.

This is a team that is passionate for what it does. It is passionate for the Company and our culture is stronger and stronger. This is the basis for our growth, and this is the basis for reaching new opportunities.

We have a global demand for food which continues to go up despite what might happen from one week to the next or from one month to the next. The demand is growing as the global population grows and we are reaching 10 billion people in the next years.

So this is constant growth, which will continue to go up. We have the products, and we have strong brands. We can ensure that we will continue to grow. And it is not only based on strong brands. We have the most skilled brands that continue to grow in consumers' preferences. And we are investing more and more in them and also in innovation, in products, and in products that have higher added values. So with these results that we have presented, I can say that we are ready to expand our business into a new journey. We can expand our results and we can also expand our returns.

We have built our plan for the next years. And it is focused on our culture, on people. It is focused on our clients and consumers. We are focused on innovation, in launching new products and on expanding the Company and adding value. Look, what I can tell you is we have paved the way and we have made the foundations so that we can start a new stage where we will be very successful in this new journey.

My last slide is an invitation. So we want to take this opportunity to invite you to be with us on BRF Day on December 8th where we will have a hybrid event, which will include people in person and online. This will be done according to all the procedures that will ensure people's safety and health.

We will be able to share with you during this day a little bit about this journey and how it will continue. So we expect you. Thank you once again for listening to this call and thank you very much.

Isabella Simonato, Bank of America:

A good day to all of you. Good morning, Lorival. Thank you for the call and congratulations for the results. My question is, looking forward, the most important dynamic at present will be the issue of cost and the possibility of maintaining prices as good as they have been during this quarter for the processed foods. The graph that you showed us is very interesting where you compare the costs of Embrapa and how you have been able to outperform the curve. But we know that this cost continues to soar.

Now looking forward, and we see that you have a considerable inventory of raw material for 2021, how can you expand on this, which is the cost increase that you will have for the 1H21? What type of price raise are we referring to compared to what we have observed in this 3Q?

On the other hand, which is your vision when it comes to transferring this price to consumers? We see that, in fact, prices are increasing because of an increased inflation. Do you think it will be easier for you to increase the prices, or not? Considering that maybe coronavirus will be over, do you think there will be a limit? If you could speak about this price trends for dynamic of your costs. Thank you.

Lorival Luz:

I will begin answering your question and then give the floor to the other Vice-Presidents. Now when it comes to the cost and our positioning, what I can say to you is that the trend that you observed in that graph is here to stay for the next quarters because of safety for the coming quarters and because of the first semester in 2021. And because of our transactions and because of all of the operations that we have carried out, we are basing ourselves on this trend.

And I can guarantee that we will continue to operate at levels much lower than those of Embrapa, which we showed you. And, of course, going forward they will be better. We are extremely well positioned, and we are going to enter the year 2021 better positioned than before. This is what I can say at this moment.

Now when it comes to price transfers and inflation and much more, we believe in the new market what has happened in terms of price transfer makes sense and it is due to cost increases, not only for BRF but for all companies as a whole. The cost of production, the cost of managing a company, all of this has increased for all companies, not only in our segment. This is a general trend. Therefore, what is going to happen and what has been happening is an adjustment, an adjustment to the cost, to the expenditures and the final price of the product, ensuring that we will have a sustainable value chain and economic cycle.

Therefore, it is not only an issue for BRF. It is a general problem. And we will continue to manage as we have done in these last quarters and that you were able to observe. We will proceed in the same fashion. And this is how we manage the Company.

Regarding the Coronavoucher impact. It is possible that it will end up having an impact. But I tend to look at a half-full glass, I am an optimist, because we have received positive information, vaccines that are coming closer to materializing and increased growth in several sectors, an increase in demand, a resumption of activity, and the outlook of resumption in terms of employment levels and much more.

And we produce food with brands that are desired and admired. And very generally, the population will continue to try our brands. Now perhaps they will postpone the decision to try out other brands. In our case, they will continue to consume our brands. And I say this because of the price ratio between different products, beef, pork, and poultry meat, for example. Now if you look at the relation between these, we are at a very top level. Therefore, my vision in terms of this is positive. When it comes to the first semester of 2021, a competitive edge in costs and expenditures, the strength of our distribution and our brands and the food sector and its relationship with other products in the food chain. I hope to have answered your question. Thank you.

Isabella Simonato:

Yes. Thank you, Lorival. Thank you very much.

Joao Soares, Citibank:

Good morning, Lorival and the rest of you. I have two questions. In fact, the first, what is going to happen in the short term? We are having changes in prices. Once again, of course, the situation of consumers has changed considerably. So if you could refer to this dynamic looking forward and include all of these factors, which will be this specific dynamic that was caused by the government aid and that perhaps will no longer exist?

And if you could refer to your market share. You have been working more extensively in terms of promotions during this entire period. Now which will be the percentage of promotions that you will base yourselves on going forward?

Lorival Luz:

Thank you, Joao. Excellent questions of course. And I will begin answering them and then give the floor so that you can obtain more details. When it comes to price and consumption, once again, at present we do not face a problem with demand. Consumption and demand continue to be very strong. As I mentioned, we are speaking about food. People will continue to feed themselves and we have that cost benefit of our products vis-à-vis other products of the competition. Therefore, this demand still exists. We have not felt any impact regarding the demand.

Now when it comes to prices, what we have done is adjust the prices. And this adjustment suits the market very broadly. Now if you follow up on all of these sectors, you will see that this adjustment has been done in terms of the cost and expenditures of the Company.

Now to refer to the issue that you raise, the market share, the reading that we have at present is that it is one of the tools that we use for management and to set priorities, but we have full information. When I say full, it is based on our reading of all of the categories, of all of the products that are not covered by this reading, and all of the points of sales. Do remember that the reading does not extend to points of sales and we do adopt a very comprehensive approach.

Now we look at the growth at the beginning of the year, the impact that we have had throughout the year because of the pandemic, and we took decisions for the adjustment of plans to care for the health and safety of people. And I believe that, presently, we will be able to continue on in all of the markets and in all of the categories that we manage, including those that are in a worse situation.

I would like to give the floor to any of the Vice-Presidents if they wish to add something.

Sidney Manzaro:

Thank you, Lorival. And thank you, Joao, for the question. I would like to underscore what Lorival mentioned in terms of the impact of prices on our business, reminding you that the work that we have carried out of bringing together innovation and product mix has enabled us to have an increase of market share in added value products. 80% is the new level. So we have a mix that is more exposed to price, the commodities. And this represents only 15% of our sales.

And as Lorival mentioned, regarding our sales, what the survey shows us is 40% to 45% of what we market. But regardless of all of this, we are growing in terms of processed food and margarines, 8%, a very robust growth. And if we compare the BRF market share with the same period in 2019, we had a growth of 2 points in margarines, a growth in frozen food. We maintained the cold cut market share.

And of course, where we truly felt a recovery in the first semester and where we had an impact because of production restriction was in cold cuts, where we have a concentration of our mix of the green products and others. It is important to base yourself on that reading because to compare ourselves to last year, our market share has grown vis-à-vis 2019. And it represents 40% to 45% of our sales while we sell in natura and otherwise. That is what I wanted to add. Thank you, Lorival.

Joao Soares:

Thank you.

Leandro Fontanesi, Bradesco BBI:

Hi. Good morning, everyone. Good morning. Lorival. I have a couple of questions. In terms of processed foods in your strategy for Brazil, if I am not mistaken, last quarter, you had a change in a few key account heads. And you wanted to develop this in Brazil. So I would just like to know if this strategy is continuing and if this is helping you as you go back to normal. So if you can tell us a bit more about this cash and carry in some key accounts and your pricing strategy.

In terms of cash generation, you are constantly delivering positive cash generation. So I just like to understand a bit what you are doing from the cash generation point of view that led to this increase? And if this is something that is a one-off or if it will continue? Thank you.

Lorival Luz:

Thank you, Leandro. I just want to correct something before I pass your question on to others. We did not stop having cash and carry with our key accounts. We also expanded our support in the way of working with this. But we did not forget servicing them. We did not lose focus on priority. What we did was that we expanded our service. So I just want to clarify that.

And then at the end, I am going to ask Carlos to add some information about how we manage this. I am going to tell you about our capacity, what we have done, and the opportunities that we still had ahead of us in our working capital. And that can help us in monetizing the next investments.

So, Sid, if you could talk a bit about our focus on our customers as a whole.

Sidney Manzaro:

Thank you, Lorival. Good morning, Leandro. I think we need to clarify something here. First, what makes up our route, it includes food service and small retail. So it is important to understand that in this work route, we have restaurants, we have all the small retailers. And in the beginning of the pandemic, they were impacted, as well as the entire market with over 35,000 clients had to close down partially, so they stopped buying.

So we did suffer a major impact because of how consumption outside the household went down. But consumption inside the household went up. So these two sales channels, small retailers and food service did have a strong impact.

Now the good news is that both of them have evolved. And in September, we have already reached the results in terms of volume that we had before the pandemic, both for food service and for small retailers. But we still have a number of clients that had to close temporarily or definitely.

So the volume went up to pre-COVID volumes. And of course, as small retailers closed or as, let us say, consumption outside the household migrated into the household, this fostered sales in major retailers. So consumers who before went out to eat, now when they are eating at home, they are buying from other retailers. So the point is that we quickly adapted ourselves to this new reality. We transformed all of our go-to-market strategies so that we could capture this change in the market.

The adjustment, and we even have a number of initiatives to foster the food service growth, one of them is NOS, which we put together with seven other companies where we are fostering food service providers to allow them to get to pre-COVID levels. So this was an adjustment that we made. We have changed our mix so that we can service major retailers, which is where consumers were going to to buy their products for them to consume at home. So we are not removing priorities from any channels, but we are adapting to service a new consumer type and this new demand from retail. That is it.

Carlos Alberto Bezerra de Moura:

Good morning, Leandro. Good morning, everyone. So just to talk about working capital specifically, I just want to take a step back so that you understand this. Our financial governance in the Company takes into consideration the right level of leverage, cost management and capital management, which is to become more and more efficient and putting our balance at the service of our business.

Speaking of employed capital, you saw our ROIC and how it evolved from 2018 until now. Working capital was one of the main levers there. We had a combination of more efficiency in managing clients, a very good cycle with low default. We even reversed additional provisions we had had in the beginning of the year, inventory, again, the balance was put to the service of the Company.

So as you saw in our strategy, our material on grains has been a winner. So the more you can extend your inventory and the more you can put your financial investments to the service of providing a good supply of grades to Company, the better, and also suppliers. The negotiations we have had have been very efficient in our supplies team. And this has provided the Company with some relief in the average term with our suppliers.

And besides that, we are also monetizing our credit. We have a 9.2 score in our financial transactions. This is being detailed clearly and we will continue to do it for the next quarters.

What is the kind of flow the Company will have in terms of monetizing federal taxes? We generated a significant tax credit mass, which will be used for the ICMS and PIS and COFINS taxes. So this year that was R$650 million for the 9M. And until the end of the year, we believe that will go up to R$720 million total, which will contribute naturally to improve our leverage and to reduce net debt and the Company's financials help will be better and better.

Sidney Manzaro:

I would just like to add something here. Just another piece of data that I did not mention before. This is in our report. But we have already gone over the number of clients we had before, 262 clients, with more items per order. So this is another important piece of data that shows the strength that BRF has and the strength of this channel.

Leandro Fontanesi:

Thank you.

Luca Cipiccia, Goldman Sachs:

Good morning. Thank you for taking my question. I have a question on the 4Q. I think this will be a very important quarter. And I would just like to hear your comments and if you think there will be a change to your consumers and your channels? How are you prepared for the 4Q? Are you expecting anything to be different in your mix, in your position?

I think you had very good results for the 3Q in terms of processed and high added value products. But I would just like to hear a bit about the 4Q on that, just if you can tell us about your seasonality and what you are expecting.

Lorival Luz:

Thank you. Thank you for your question. To speak about the 4Q, what I can say is that I am very optimistic. I am happy with the demand we are having for our products. And what I can tell you is that this is not a very good proxy, but we can look at what happened in our cycle, in billing in their holidays, their Catholic holidays, which is very similar to what happens in during Christmas.

So they were very good. And the first data we saw for this quarter also have shown a strong demand. And, of course, there is a degree of uncertainty. This will be the first Christmas that we have ever had in a pandemic.

But the expectation we had is to have higher consumption for our products because there used to be many Christmas parties or end-of-the-year parties that used to take place outside the house and now will be taking place indoors with everyone sitting at their own tables. So with Perdigao and Sadia and other product lines, we do have the right position for this.

So the expectation we have for the next quarter, the 4Q is that our cost management will continue to be at the right level, as you saw, and the market perspective is well in line with what we expect. So I do not know if, Sid, or anyone else wants to add anything.

Sidney Manzaro:

About the Brazilian market, Lorival, I just want to say that the relationship between chicken and other proteins favors chicken. So if there is any demand, that demand will tend to be in the poultry category. In Christmas, because of the exchange rate, this also will take people away from imported products. So we are very optimistic about the end of the year, especially because we usually have a positive effect from Christmas.

Patricio Rohner:

I can also add something for the international sector, just to give you an idea. The 2Q and the 3Q have been very similar but in different moments. So in Asia, we are very optimistic about the fact that the same level of volume and prices will continue. We are actually having a higher volume as food service resumes working, as quarantines become more flexible. And we will see the Middle East going up more significantly.

Turkey has been a bit behind, but it is now having the same levels of recovery as the rest of the Middle East. They have the same kind of weather, the same kinds of holiday. Saudi Arabia is now allowing people to go back to Mecca. So we are very optimistic about this. And in other markets, in Europe, where we have a lower participation, we can also see that prices are going up as well as the demand. Even in the last few months, we see this.

In the case of Africa, they are a bit more stable. And the same goes for the rest of Latin America, where we have new channels with direct exports and added value channels, especially considering the end of this year and early next year. So we are very optimistic.

Luca Cipiccia:

Thank you.

Thiago Duarte, BTG Pactual:

Good morning to all of you and thank you for taking my questions. I would like to explore three points. I understood that there was a discussion on market share volumes and demand. If you could further explore with us the issue of margin, we saw a positive evolution of gross margin. But despite all of this, it is below that of previous quarters and previous years. But it has increased significantly as a percentage of revenues and the situation is good.

If you could further explore this dynamic and I presume that this will depend on the channels, the fact that there is greater consumption within households, and the dynamic is different, I would like to know how this impacts consumption and SG&A.

My second question refers to CAPEX that seems to grow somewhat more to enable you to make investments. We have spoken about the capacity of processed goods in Brazil. However, if you could speak about other opportunities for growth and perhaps refer to the plant in Saudi Arabia and how you can expand capacity.

And finally, if you could speak about the halal market. Somehow the margins have improved significantly in Saudi Arabia, despite the volume from the two plants and the problem in Turkey. Therefore, if you could explore these different geographies so that we can gain a better understanding if all of this will continue to improve as it did in the 2Q. Thank you.

Lorival Luz:

Thank you, Thiago. Excellent three points that you have just raised, very important and relevant to speak about cost and margins. Do remember, Thiago, that in the last two quarters, we had a significant impact on production inherent to what has happened with the pandemic and COVID-19. We were forced to make adjustments, reductions in our capacity, our production, turnover, we had to keep people away from the plants, we also had an impact on the fields with the animals.

And once you reduce the capacity on some of the fronts, this ends up changing the profile and the importance of all of these, leading to a difference in productivity. Therefore, in these previous quarters, these were natural effects, and we were not able to run 100% productivity as we would have wished. This is improving month after month, was an adaptation in processes and procedures. This factor is very important. But not withstanding this, we have been able to maintain consistent results. I will convey more information to you.

Regarding CAPEX, yes, we are investing to eliminate some of the bottlenecks at some plants and some units. And this refers to the launch of new products and new categories and the growth that we had in some categories as well.

We have carried out several investments, once again to be able to extend whatever it is that we offer the market in terms of density and quality as well, besides, of course, the investments we are making in the digital area and others. And this is a trend that will continue on in the 4Q and throughout the year 2021.

And perhaps, Sidney would like to add something to this question regarding Brazil and then Patricio can refer to the issue of halal.

Sidney Manzaro:

Thiago, thank you very much for the question. And we need to highlight something regarding Brazil. As you mentioned, our margin that appeared for the 3Q is almost 1 percentage point greater than 2019 and 3 percentage points above the 2Q, where Lorival mentioned that we had a significant impact. However, the margin for Brazil reached 25.3% for two or three reasons.

First reason, our ability, our speed in terms of adjusting our cost because of the impact. Secondly, thanks to the enhancement we made in the mix, we went from 32% to 85% in the added value mix, and also because of innovation, we launched 29 SKUs. Last year, our innovation was 3 percentage points, reaching 5% of our revenues this year, adding value, without speaking about our marketing strategy that was altered in the market because of the new reality. Now gross margin figures in Brazil are growing and they are within the historical levels of 25.3%, Thiago.

Thiago Duarte:

Before I give the floor to Patricio, I have a question, that change of channel that we observed a greater consumption at home, in detriment of trade, does not this have a relevant impact on your gross margin. I wanted to be able to come to this conclusion.

Sidney Manzaro:

This minor variation, in fact, has a minor impact. It is not representative of a drop in our work route. And all of this conditions our margins, which means that we are able to evolve. And this is the work we are doing toward increasing added value. So the mix and the channels adapt to this new guideline that we have about greater growth and added value.

I I do not know if I have responded to your question, Thiago.

Thiago Duarte:

Yes, you did. Thank you very much.

Patricio Rohner:

Very well, Thiago. And I would like to very briefly refer to the halal market and Saudi Arabia. It is important to refer to the pandemic, of course, as a pandemic to the price of oil and the market situation. Now many of the oil-producing countries depend a great deal on tourism such as Bahrain, the United Arab Emirates and others, and they have business tourism, exhibitions and much more.

Because of that situation, we decided to work at full steam. We have a brand, we have a mix, we have the plant. And of course, this is complemented with the supplies from Brazil and Turkey. And when we speak about the mix, we are the only company that has the mix and other added value products. This is important because the griller gives us a penetration in terms of number.

Besides the profit of the Sadia brand in terms of the griller, we have a great deal of availability in the griller. There is a part that you cut out, but you still have availability. And you know that some like the drumsticks better, the Arabs prefer the chicken breast, and we also have Pakistanis, Indians and Filipinos, and the expatriates from Europe and others who prefer the chicken breast. This is a very important combination.

And additionally, we do have the industrialized products. We increased our market share in those categories, lost a bit of market share in added value products in Saudi Arabia. We have some plans to recover 50%. 50% has already then recovered through local partners, co-packers, and beginning in December we will begin to produce at our plant. We received the approval a few weeks ago. We are getting organized, and in December, we will begin our production to work with local partners.

And the halal market is beginning to recover, vis-à-vis 2Q and the 3Q, and everything is aligned, so that we can have a very good 4Q of this year at a different level. We are already at another level when we speak about mix, distribution, plant and of course our knowledge.

In the case of Turkey, the situation is somewhat more complex. The pandemic impacted exports to Iraq, and there is more volume available to sell domestically. When the pandemic began, there was a loss of foodservice, a very important channel. And the July and the August holiday period, where they usually have a huge inflow of tourism, but this was one of the lowest month of the year.

The country went through a depreciation of the lira, and market recession, a closed foodservice market and a significant impact on tourism. The recovery of Turkey will have to begin with, a reduction of production in the industry. The impact was clear in September, October.

Turkey opened up for tourism and began to have an inflow of tourists from the region and the lira still facing on complex situation. When you have less supply for a growing demand, you allow better results to appear. And we hope there will be a quick recovery of halal. I did try to simplify my explanation, I hope I responded to your question?

Thiago Duarte:

That was very helpful Patricio. Thank you.

Andre Hachem, Itaú:

Thank you for taking my question and in truth, I have doubts, two doubts. The average price of costs, if you could give us more detail on this and what is happening with your inventories, I believe?

Lorival Luz:

Excellent question. But it is one of those questions that are very difficult to answer. I am going to convey to you some data, but this information is strategic, because of its importance and I truly cannot refer to the inventory levels and the costs. I cannot give you that level of detail to preserve our strategies. What I can say is that everything is in line with what we have built during the last quarters. I am not sure if Leonardo has anything to add to that. But unfortunately, I have to apologize, but I cannot give you any information.

Leonardo Dall'Orto:

Hi yes. So, this is a strategy that we have been working on for some time. Since the time we started presenting it, we are trying to guarantee to you, supply and cost of Europe with grains. And this is an intelligence area in a company that includes several of our departments.

We increased our storage capacity. We started using alternative input to corn and corn meal. Our nutrition team and our team have been searching for new ways to make sure that our food conversion or food intake is efficient in the company. So this is the conviction we have, and we are very happy with the strategy we adopted. But the volumes and the prices we have, is strategic information. So right now, we cannot discuss it.

Carlos Alberto Bezerra de Moura:

So I just want to add something to what was answered. Andre, if you look at the financial statements, the seventh note talks about our inventory, and it discusses our raw materials. So there you will be able to see how raw materials behaved in our inventory, and how much capital we are sustaining there. And this is in line with the strategy we mentioned.

Andre Hachem:

Great, thank you.

Felipe Vieira, Credit Suisse:

Good morning. Congratulations for your results. I have a question on your guidance about future results. If you could give us some color on your gross margin in the company going plant this month. For Brazil and for the consolidated figures, if you could give us some more information, will they continue to be at the same level or will be impacted by the so-called corona voucher or the government aid? If you could tell us a bit about what trends you are expecting for the next quarters?

Another question about halal, if you could tell us about the impact you suffered in prices, because of restrictions in the UAE, if you could tell us a bit about what you have in your pipeline for the halal market?

And also, I have a question about Asia. We realize that the EBITDA dropped a bit for poultry in Asia, and if you could tell us a bit about what you are seeing there? If you believe that the free market will have a better position in the future? Anyways, if you could tell us any information on that, that would be very helpful.

Lorival Luz:

Thank you. So I will answer your first question. What I can tell you is that I do not have any concerns right now out of what seeing as the perspectives with the restriction, they are very positive for our demand. In this quarter, we usually have holidays and other celebrations. So this usually is very helpful.

So for the 4Q and next year, I believe that we are going to have higher efficiency, and this will have a positive impact on our demand and our position. So I think that's the most I can tell you, because we are not supposed to give you any sort of guidance or any sort of more direct projection, and I am going to let Patricio answer your question about the halal market.

Patricio Rohner:

So I will start answering about Asia and halal. To be honest, I was not able to understand your question very well. But while I will talk about Asia, we will see if we get your question on the halal market. You asked about the reduction in chicken volume, and this situation is expected because of two reasons. First Japan, there is an impact in Japan as I said in the beginning, because of the pandemic and because of The Olympics games being postponed to next year.

And this had an impact in Japan in the best months for tourism there. You know how important foodservice is in Japan, where there is a higher penetration there and this was impacted by the pandemic. So local inventories went up significantly at the end of the 2Q, especially in the end of the 2Q. But the situation has improved and at the same time, we were able to invest in CAPEX to have a greater availability of products that Japan demands.

So that leads to a positive transition in the short term, and it places us in a much better situation for the next year. Other Asian countries, for example, China. Although they have a higher supply from the U.S., this starts going down in comparison to the 2Q. And with the news we are getting from the U.S. and Europe about the vaccine and as lockdowns relax, we believe that supply will continue to be high. Demands in China and Singapore have been quite high, and they are still in a very strict lockdown.

But the good news is that, out of all the Asian markets, only Japan had the specific situation. So no big issues for the future, quite the contrary. They are actually recovering, and the curve is going up. I did not understand your question about the halal market. I am not sure if anyone can help me out here? Maybe you can repeat your question?

Felipe Vieira:

Of course. You mentioned in your release the impact that the halal region had. I would just like to know if you had any updates on the timeline, the conception of halal products will go back up.

Lorival Luz:

I think you are talking about the exports plant, right?

Patricio Rohner:

There are two important plants that are suspended for exports and this does affect our volume exported into Saudi Arabia for sure. But at the same time, we gained market share for export and local market share in Saudi Arabia. So the consumption was impacted during this period and that was very clear because of job losses, because of foodservice and religious tourism being closed.

Of course we are contributing with the Ministry of Culture, and they are discussing things with the government in Saudi Arabia. But there is a Ministry in the UAE, that has already audited our manufacturing plant. And in their point of view, it is approved, but it needs to be validated by the Saudi government.

At the same time, as I said, we started a project to have more local partners producing a part of our mix. With the acquisition, the Dammam plant, which will start operations next month, will be able to proper a part of the supply that comes from Kizad. But this plant, you know, Lorival discussed in his presentation, we are focusing on foodservice and in retail in the categories we did not have a great share of. In the last month, we are getting close to the volumes that we had, when we were selling to Saudi Arabia. So even though the approval for Saudi Arabia was suspended, we see that opportunities are better, and we have advanced with our local position in Saudi Arabia as well. So that is the current situation.

Felipe Vieira:

Thank you, Patricio.

Luciana Carvalho, Banco do Brasil:

Good morning, everyone. Thank you and congratulations for your results. So Fabio, my question is about your capital structure and leverage. In the 3Q, your payments term went up to 7.5 years, so it was extended. So I would just like to know a bit more. If there is still some room for improvement, if anything has been planned by the company for that, and I would just like to know if you have any guidance for the rest of the year, and for next year? Thank you.

Lorival Luz:

Thank you, Luciana. Thank you for your question. I will let Carlos answer. The message is that everything can improve. There is always room for improvement, right Carlos?

Carlos Alberto Bezerra de Moura:

Thank you, Lorival. As you can see, the CEO is always pressuring us. So our evolution has been very solid for our capital structure, especially our leverage. As I mentioned, the three pillars we have in the company's financial department are improving, and it shows how we are disciplined. With that being said, I think we were able to reach a very different level in our average term, with a lower leverage, despite the foreign exchange being higher.

So this is thanks to the cash generation, that has been completely directed to reduce our leverage. We are always going to have room for improvement, that goes for capital structure, for cost management and directing our average. Looking at our average term, the currency mix, and the company's financing mix. And we also increased our liquidity Luciana.

So beyond the cash we reported R$12 billion, we have additional R$3 billion in highly available revolving credit facilities with Brazilian financial institutions. So this is the sequence of improvements we have made to our balance. And this is integrated between our business and the capital structure.

About the guidance you mentioned, the company reiterates its guidance for 2020. R$2.35 to R$2.45, until December 31 we will be at R$2.75. We are at R$2.90 right now. For next year, given our capital structure conditions and with our financial discipline, which has already been proven, we do not provide a leverage guidance, because our capital structure is well addressed.

Luciana Carvalho:

Thank you.

Operator:

Thank you. And at this moment, we would like to end the question and answer session. We will return the floor to Lorival Luz.

Lorival Luz:

Thank you all very much for participating in one more conference call. We will see you soon on December 8, for another conversation. Once again, thank you very much to all of you.

Operator:

The BRF conference call ends here. We would like to thank all of you for your participation, and have a good day.