Conference Call Transcript
2Q24 Results
BRF (BRFS3 BZ)
August 15, 2024

Operator:

Good morning, ladies and gentlemen. Welcome to the teleconference from BRF to discuss the results referring to the second quarter of 2024.

This video conference is being recorded and then can be accessed at the website of the Company at ri.brf-global.com. The presentation is also available for downloading. And at this moment, all the participants are connected just as listeners, and then we will start the question-and-answer session when more instructions will be provided.

Before we continue, I would like to reinforce that the prospective statements are based on beliefs and assumptions of BRF and the current information available for the Company. This information may involve risk, losses as they talk about future events and depend on circumstances that may or may not happen. Investors, analysts and reporters may take into account that events related to the macroeconomic environment and to the segment and other factors may make the results be materially different from those expressed in the statements of the Company.

Present in this conference, we have Mr. Miguel Gularte, CEO; and Fabio Mariano, the CFO.

I would like now to give the floor to Mr. Miguel, who will start the presentation. Miguel, please start.

Miguel Gularte:

Good morning. I would like to thank the presence of everyone in our teleconference for the results of the second quarter of 2024.

BRF continued its trajectory of high performance, and presents today the best second quarter in its history, reporting significant growth in revenue of 22.3% compared to the same period in 2023 and EBITDA of R$2.6 billion.

We have improved our profitability for the sixth consecutive quarter with 17.6% margin, confirming an excellent performance since the beginning of our transformation journey.

We have observed in this quarter a relevant growth, both in international and domestic markets. In Brazil, I would like to highlight the growth in sales volumes in all categories, especially in processed products. We've maintained a healthy level of profitability with a new sequential increase in the margins of the regular portfolio.

In international market, we have presented the best margin in the last 9 years. This result was driven by the recovery of prices in several sales destinations and the acceleration of our market diversification strategy.

The consolidation of the Company's efficiency journey guided by BRF+ 2.0 continues to show improvement in operating indicators in its premises that are already part of the high-performance culture of BRF. We remain focused and sustained by our management model, which has enabled us to capture the best opportunities and will allow us to remain increasingly competitive.

I would like now to invite our CFO, Fabio Mariano, to present the detailed results, and then I'll come back to you with the final remarks on the announcement.

Fabio Mariano:

Good morning, everyone connected. I would like to get on the main indicators in the second quarter of 2024, starting with net income, which reached almost R$15 billion, 22% higher than the same period in 2023. For EBITDA, we reported R$2.6 billion, which gave us a margin of almost 18% in the period. The Company's best result in the first half of the year.

The free cash flow performance was R$1.7 billion. In working capital, we would like to highlight the inventory cycle, which remained at the record of low of 76 days. And in this slide, with leverage, we have reached 1.4x EBITDA in the last 12 months, lowest leverage in 9 years.

In the next slide, we show on page 4, on the left, the historical evolution of gross profit with profitability of 26.4% in the period. We've reported a gross profit of approximately R$3.9 billion. On the right, we can see the evolution of EBITDA and margins, showing significant improvement in operating results.

In the next few slides, we're going to show the performance per market and business segment. Starting by Brazil, we continue to evolve progressively. We have reached an EBITDA margin of 15.7% with significant growth in volume, especially in processed food categories, which showed an important increase in sales even in an environment that is still recovering for consumption.

In the next slide, page 6, we emphasize our journey of continuous evolution in commercial execution, reflecting a greater number of points of sales, availability of products in stores and an increase in the number of items sold per customers, contributing substantially to the performance of domestic market. We also continue to focus on leading innovations that meet the needs of our consumers. We have launched new products in frozen, desserts and cold cuts categories.

In the next slides, we bring the international market. We have observed the segment's operational evolution, sustaining health margins as a result of the persistent recovery in export prices, new markets been enabled and good performance in Turkey and GCC. EBITDA margin improved by 4 percentage points compared to the previous period. We saw gains in the share of chicken and pork exports in various destinations.

On the next slides, we highlight the growth in process volumes in halal market, which favored market share, of gains of 1.2 point percentage versus the previous quarter. Our brands and our own distribution continue to favor the results in the region.

Turkey also, we have recorded good performance, also reflecting the growth on sales of processed products, which enabled an increase of 0.5 points in market share, besides good levels of profitability for in natura portfolio locally. We maintained our market share leadership with Sadia and Banvit brands with 38.4% and 22% in their respective markets.

On the right, I present the highlights of the Direct Exports segment. We can see the behavior of prices of the main cuts and how they react. We expanded our business alternatives with 32 new permits for several markets, contributing to maximize prices. We already have 57 new export permits for 2024.

I will end the presentation of the business segments on the next slide with the performance of Ingredients and Pet. The segment reported 11.9% of EBITDA margin. It's important to remember that the manufacturer evolution continues to help maximize the results of the Company's core portfolio.

At Pet, we highlight new commercial export agreements and advances in the value levers of our efficiency program as well as the strengthening of the management team. In Ingredients, we remain focused on expanding markets and increasing sales of value-added items.

Then, I'll share the progress of our efficiency program, which will be quantified in figures by Miguel shortly. I will present the comparisons with the same period last year, colored bars and dark gray. The comparison with 2022 can also be seen in the materials.

In the agricultural sectors, the feed conversion of poultry and pigs fell by 1.9% and 0.2%, respectively. Chicken mortality fell by 0.6 percentage points and pigs by 0.5. Hatching rates rose by 0.9 percentage points. In industry, we increased 2 and 3.4 percentage points the production for poultry and pork. In logistics, we reduced the returns and raised the service levels in Brazil significantly.

On page 12, we've consolidated the following sustainability highlights. We have reached 90% of traceability of indirect grain suppliers in Amazonas and Cerrado biomes. And remember that we have already traced a 100% of direct suppliers. We ended the quarter with 35% of our electricity coming from clean sources, coming closer to our goal of reaching 50% by 2030.

Sadia has started to offset 100% of Hot Bowls and Mac'n Cheese packaging, extending successfully the recycling project for packaging adopted for margarine, the Qualy brand.

Through the match funding initiative led by the BRF Institute, we raised over R$6 million for the victims of the floods in Rio Grande do Sul. And finally, we have won the first place in Protein segment in the Merco Responsibility Ranking, ESG.

We now present, on page 14, the information related to Company's capital structure. The chart on the left, we saw the evolution – the decline in the net debt and leverage, which was highlighted in the beginning of the conference. On the right, we can see the debt profile, which remains diversified and prolonged with no concentrations of repayment in the short term, and fairly comfortable liquidity position.

In the next slide, we show the free cash flow. The chart shows an operating cash flow of almost R$2.5 billion, the best cash generation in history of the Company. An investment flow of R$756 million and positive financial flow of R$69 million, influenced by the foreign exchange rate variation in cash and financial investments resulting in free cash flow of R$1.7 billion. We can also notice, in the smaller chart, the evolution of cash generation in the recent quarters.

On the final slide, we can analyze the decline of net debt between the quarters. We reported net debt of R$8.9 billion. The reduction in loans will continue contributing to reducing interest charges in the coming quarters.

I would like to thank the audience. I would like to give the floor to CEO, Miguel Gularte for his closing remarks.

Miguel Gularte:

Thank you, Fabio. To conclude our presentation, I would like to point out that this quarter, we recorded net income of R$1.1 billion, the lowest leverage in the last 9 years with free cash flow generation of R$1.7 billion. This is because of our sequential and consistent operational advances and the optimization of our capital structure.

We are maintaining our financial cycle at efficient levels with inventory turnover at sustainable levels. BRF+ 2.0 continues to show an improvement in its indicators and capture R$374 million in the quarter, totaling R$812 million. In addition to the records delivered, it helped to consolidate the additives of the Company of simplicity, agility and efficiency, very decisive for the performance.

The consistency of our progress is reflected in the markets we act on, we operate. In Brazil, our commercial execution has advanced day after day and resulted in strong volume growth in the quarter with a special emphasis on the processed category. We continue optimizing our assets and maximizing income in international markets, where we have a significant margin of 21%.

During the first half of the year, we won 57 new licenses with accessing to important new markets such as the United Kingdom, U.S. and Southeast Asian countries, reinforcing the diversity of our export platform. BRF's transformation journey is based on the consolidation of a high-performance culture. Our pursuit for excellence is also reflected in our internal indicators such as safety where BRF is benchmark.

With the right people in the right position, we are consolidating the management model focused on results based on collaboration and team engagement.

I would like to specially thank the almost 100,000 professionals who remains steady in our purpose of bringing quality food to millions of consumers every day. We are also thankful to the strategic direction and ongoing support from our Chairman, Marcos Molina and the Board of Directors. Our big thanks to our shareholders and the ongoing partnerships of our integrated producers, customers, suppliers and the communities where we are present.

I would like to finish by saying that BRF is increasingly resilient to market challenges, taking advantage of the opportunities and ready to continue evolving. Thank you.

Pedro Fonseca, XP:

Good morning, Miguel, Fabio. Thank you for answering my questions, and everyone in the BRF team. I have 2 points. First, about the international market. Again, a very strong result. I would like to get from you, if you can share what you have in terms of view of the portfolio, what we can expect in the future in the second half of 2024, and also gradually of the market, if you can share, it would be really interesting.

And it was also another quarter where we saw new permits for plants, if I'm not wrong, since the new management, it’s over 100. And my question is if there is more room for new permits and new markets. This would be my first point.

And the second point I would like to explore together with you is about offer. I think that this non-acceleration of offer has several factors. And what I would like to explore with you is if you have a view of what would be the main driver, if it is, in fact, a rationality of the market, or if, in your opinion, there is any gap in terms of capability for storing. We're talking about genetics of matrices. Any color in this reading of the offer? Really, how can we think about this question looking ahead? These are my 2 points. Thank you.

Miguel Gularte:

Good morning, Pedro. You make an analysis of the market. You're going to see that we are living some quarters a situation that is really interesting. At the same time that we have a market that is stable between offer and demand. This stability is in all geographies, all locations.

Usually, at other occasions, we had a market that was stable somewhere, but in somewhere else, we had to offset. Today, we see market stable with offer and demand balanced everywhere in all locations, including in Brazil.

On the other hand, we should also take into account that the number of permits in the case of BRF, there were 57 permits in this first half of the year; this quarter, 32, and it help us in a very important manner to place our production and more than our production, choose where to place this production.

And it's not small the importance and relevance of that. I say, because when you have new permits, and this also happened at the Brazilian level, you end up not getting the pressure of offer in some markets. And this balance between offer and demand, it becomes more resilient and more present.

On the other hand, we have important markets that Brazil is reaching outcome of these new permits, like for example, in BRF case, in the United Kingdom, we started and came back where the memories of our brands are still strong. But also Japan came back to buy and strongly. We have now the Philippines getting into the market. We have Mexico participating as well in this market. And we see that this has an important effect, both in offer placed and the demand that comes to the offer of finding customers.

I also would like to draw your attention in this, and if you look at the SECEX data, you're going to see that Asia, in the first quarter of 2024, it had bought 25 million tons. And it came back now in the second quarter to buy almost 147,000 tons. It was always an important demander. It also helps build the market, both in volume and price.

And lastly, we have a situation where we see that the future perspectives are good perspectives as well, because we see from the standpoint, it's important to remember that the market is an ecosystem, works demand and offer, but also what comprises this ecosystem? If we look at the side of grain that has an impact in our cost and also in the competitiveness of the protein, we sell. We're going to see the world showing the growth in soybean of almost 8% and corn of 4%.

What does that tell us? It tells us that we have an ecosystem, an environment where production of grains and costs and competitiveness of our products, it remains favorable, and the future perspectives are good. And you see, on the other hand, that all locations demanding, and demanding consistently.

On the other hand, the Brazilian market with full employment works as a balance factor and adjustment of this relationship of demand and offer. This from the standpoint of the market, both domestic and international.

The second question, I'm going to leave it to Fabio to answer.

Fabio Mariano:

Good morning, Pedro. I'm going to give a little bit more color in terms of segmentation of international market. I'm going to share some qualitative aspects because, as you know, we don't open the figures for each of sales destination.

I think that the first aspect to portray is that international performance, as Miguel highlighted, has, of course, the permits. We increased sales destinations and then favored maximization of income through prices.

The Halal region, which is a strong region for the Company. We have an excellent moment. This is valid for the Gulf countries, but also for Turkey itself, where we have a domestic market where the consumption has increased. We went back to have the flex of exportation and so we went back to having more volume produced in Turkey that we can offer to international markets.

I would like to remind you that we remain focused on increasing the participation of processed products in these regions. So, from the implementation of the expansion of processed in Bandirma, we increased the offer of products. These products are more resilient in terms of price, and this has helped increase profitability in the Gulf region, where we have a higher offer of processed products and by result, we have a throttling vector in margins.

And it's worth remembering that the recovery of prices of protein favored basically all sales destinations. Miguel emphasized important regions for the market and also for BRF.

Miguel Gularte:

And adding to your answer, Fabio, I would also like to say that we are working on 40 new permits until the end of this year that we'll add to this 57 new destinations that BRF was able to enable for 2024.

Pedro Fonseca:

Perfect, everyone. Thank you. And about offer, I don't know if you have any visibility or if you could share your view of what have been holding back this offer in the local market.

Fabio Mariano:

I'm going to talk a little bit about offer, but Miguel already explored really well what we believe is a good equation, and we need also to discuss demand that remains really steady in all markets.

But talking about Brazil, the data from APINCO that you follow up, they suggest an increase of storing. When we translate the storing capability in Brazilian production, it’s expected in terms of production below this storing increase, this has to do with slaughtering weights. So there are no signs. We don't see apparently, any balance coming soon.

So, the cycle should continue when we leave Brazil and start to analyze a little bit the U.S., where we have storage capability. But this also goes through the hatching. In China, we see an important production. It's a highlight that we have to follow up. And also in Europe, we see the stability. So, it's useless to talk about offer only Brazil.

It's not Brazil that explains the prices of protein internationally. And again, demand, we have an excellent environment for consumption in Brazil. Miguel mentioned the occupation at levels that for very long, we haven't seen it.

And the income available has continued to improve, not to the proper levels, but has improved sideways and increases consumption in Brazil, and we have excellent penetration with our products and with our brands in Brazilian households. And international, it’s not different, especially for poultry protein.

Pedro Fonseca:

Excellent, everyone. Thank you for your answers, and congratulations for your quarter.

Gustavo Troyano, Itaú BBA:

Good morning, everyone. Miguel, Fabio, thank you for the questions. I have 2 points from my side, the first related to costs. I think Miguel already introduced the perspective of grains looking ahead. And the second question is concentrated more in 2024, trying to reconcile with the strategy of storage that you have. If you could share with us a little bit the levels of inventory in the Company. Miguel has always commented of the predictive model, but to understand your view for this type of deadline and what we should expect this curve for cost evolving as we get into the second half and the third quarter. This would be the first point.

The second point, more related to the Newcastle disease that we saw in Brazil. There was a lot of things about the themes. There was some flexing about it. What I wanted to hear from you, if you can granulate this a little bit more for us, the impact of this on your operation, both from the standpoint, if there was any volume that was reallocated to external market in the third quarter, at least from July until now, or if you can explain a little bit the impact on exportations, any volumes that you ended up having to direct with the permits that you had, to try to quantify a little bit of the impact on the average price. If you were able to build up volumes to export back as some imports were made flexible again. Any granularity will be welcome.

Miguel Gularte:

Gustavo, let's just start by what you commented on inventory and stock, because the inventory is the target of your first question and has its influence on the second question. BRF has been doing the management work in the sense of increasing the indirect load in the plant and has less transit. And obviously, that goes when you have unsanitary events like that. You have your products that have to go through a destination, or redirecting in smaller amounts.

Newcastle disease was a disease that Brazil stated as a sanitary issue since July on the 20th. It was published for the World Health Organization for Animals, the survey of the focus. Brazil lives a situation today where you have the markets all reopened; yesterday, it reopened, Brazil, for China, an extremely relevant market for all companies. It's not different for BRF. And Mexico had also communicated reopening a few days ago. Today, basically, all countries enabled Brazil again as a whole, and some restrictions remain for the state of Rio Grande do Sul.

And now we're going to go to the operational efficiency program, BRF+, which makes the Company more efficient, more agile. A more efficient company, a more agile company is able not only to manage better the inventory but also make decisions that are more assertive.

I have said in previous calls that we have the price system, the pricing system added to a good market feeling. It allows us to make good decisions. You ended up making good choices. When you have to make choices and these choices demand assertiveness, the pricing system makes this assertiveness to be higher.

And we at BRF had the Newcastle disease, as communicated by the Health Ministry on Wednesday night, on Thursday morning, we had designed a plan in case that happened, not only the Newcastle specifically, but the Avian flu. But on Thursday morning, we had an action plan in execution. On Friday, all the redirection that BRF should and could make, they were already put in place and executable. And there is something else, which is the strength of Perdigao and Sadia brand that allows us to redirect to the internal market without losing income and results.

Obviously, we have a challenge ahead in the third quarter, where in Rio Grande do Sul, we should recover the status it expected to recover, but we don't have yet the impact of the result that this could cause on the third quarter. We are very confident. We've been working, taking the opportunity of these 52 new permits and the strength of our brands that they have in the internal market. So, we are aware that we are going to overcome this.

On the other hand, and not least important, it's important to emphasize taking the opportunity here to say that Brazil, in 26 days since the Newcastle disease has been declared as an issue, had already been enabled as a market.

This shows a strong work from the Agricultural Ministry and also from the private sector through the associations and its technicians. So, I think that we faced a situation that was complex, with a very fast response and very assertive.

Gustavo Troyano:

Perfect, Miguel. Super clear. Thank you.

Lucas Ferreira, JPMorgan:

Hello, everybody. Good morning. First question is about the volume, the question of volume in Brazil, especially in processed products. I would say that it's not very usual to have such a strong volume. So, I would like you to explore how much of this growth came from a better commercial execution and how much came from the market, a growth in demand and market share gain. So, if you could talk about the execution through channels and how the market in general is behaving, if you could talk a little bit about the categories, which one performed better. My question is more in the sense of thinking how much of this volume is sustainable from now on, a volume that we can expect from the Company in the second half of the year. This is the first question.

And the second question is about CAPEX. Consequence of a better volume, the Company could expand in some categories. So, if you could talk what is in the plans of the Company in terms of growth, inorganic growth – organic, sorry. Maybe inorganic, there is nothing relevant, but if you could talk about balance, fitting more investments, what would be the next priorities of the Company? Thank you.

Fabio Mariano:

Good morning, Lucas, I'm going to answer your question about volumes in Brazil. I'm going to try to correlate it to the answer to the second part of the question about the investments. I think that you well know that we had an important growth in volume in Brazil, over double digits. When we separate the processed product segments from in-natura, this growth was even higher. So, there is something associated with the strategy of the Company.

I remember that one of the biggest gaps of the Company in terms of occupation or idleness was associated to industrial lines, exactly where the growth materializes. It's not by chance. This is also anchored not only in a consumption environment, but also in the work that we've been promoting in terms of commercial execution, and this execution being made in an excellence mode by our sales force, our sales team. So, there are highlights like penetration, number of customers that surpass 300,000.

We have an expansion of room and the shelves, items sold per customer. Qualitatively, if we mention the categories that are predominant that justify this growth, I would mention the cuts, the process cuts, and also frozen categories, where we commercialize, where we trade not only frozen food, but also breaded and hamburgers products.

It's not by chance that we compared the ratings for share for the third quarter versus the second. Those are the categories where we advance. So that implies the growth of BRF above the growth of each of these categories.

So, I mentioned the question of reducing idleness in industrial lines. We are very optimistic in regards to maintenance of volumes for the second half of the year. If this happens, if this is the pace of growth, yes, the Company is going to start evaluating very much bending to growth in capability.

As we said, the demand exists and it's steady, and we would do that, especially from 2025 on, allocating more resources in favor of the sustainable growth of the Company, obviously without destroying value. On the contrary, as a Company, to continue with their business profile, and their competitiveness in the market.

Lucas Ferreira:

Thank you, Fabio.

Thiago Duarte, BTG Pactual:

Thank you. Good morning, everyone. Miguel, Fabio, it's a pleasure to talk to you. I would like to touch 2 or 3 points. First, to go back to a prior question that was not clear for me, if you could share a little bit the view for the cost curve.

We know very well, last year, you were very successful in your strategy for inventory. We see that in unit cost, when we talk about grains, to see that impact on unit prices very favorable for the Company. And also, in the meantime, when we look at evolution of your unit cost and the evolution of market prices of your main raw materials, it gives the impression that this cost, at least from the standpoint of direct costs, it is close to the floor. It's not going up, but it's not falling.

I wanted to understand, if you share this reading, when we think of unit cost now for the second half of the year about the harvests in Brazil for grain that are majorly known. This is the first question.

The second question, a little bit of the link of the prior answer from Fabio. You talked a little bit of, kept this volume performances. Obviously, the Company is going to evaluate the capability expansion, but by the extension of what you suggest, it is not that much of an investment. So I wanted to understand if my reading of your tone is right, and if that's the case, how should we think of capital allocation for the Company. Because the leverage is full, cash generation also, we should imagine what, expansion of dividends, higher payout, repurchase, acceleration, organic-inorganic growth? It would be interesting if you could talk a little bit about that.

And lastly, a comment. Miguel mentioned a lot about pricing and how this granularity, the specificity in defining pricing in the external market is very successful. I wanted to understand if there is more room when we look at your average price in the external market versus SECEX. You opened a premium closest to the highest in history. I wanted to know if you understand that the premium of the average price in regards to SECEX is sustainable. Thank you.

Fabio Mariano:

Thiago, I'm going to start by the order of your questions, starting by the cost curve. We've had 2 angles to look at it. The first one is the feed price. And by consequence, we have to talk about corn and soybean and alternatives.

We understand that there is a marginal room for a fall in the second half of the year, not in the magnitude that we have observed, but there is a sideways room because there is a part of trading of the small harvest. It's not relevant. A major part of the small harvest, the states have had 100% of the harvest. But there is a part that is going to be traded, and we expect to take advantage of these negotiations.

There is another perspective that involves especially the efficiencies that affect costs. So we have to remember our program, which is a journey of continuous improvement, and this commitment is going to prevail always. We have recordings of R$374 million in the quarter where we add to R$800 million. So we have the conditions to continue performing the program.

This should keep up the additional support for cost reduction. If we open a little bit the window, we can – are very optimistic in regards to the 2025 harvest potential. Miguel shared some data, we already have the predictive model suggesting the expansion of the harvest for soybean in the world, around 10%, expansion of the corn harvest around 4%. So, we expect to see a positive scenario for a prolonged period.

About capital allocation, I mentioned the investments for Brazil for industrialized products. It has to do with the pace of growth of processed products. It's important to remember that we have a growth in demand in international markets. And as we analyze and associate it with adding value, we could get something in the sense to address this demand.

I would like to remind you that we have a JV with PIF where we intend to prioritize our presence in Saudi Arabia. So, we have been discussing very deeply case studies of different ways to make investments, so this should happen either sooner or later.

When we think about compensation capital, our own capital compensation, the management continues creating the conditions for the Company to be profitable. We accumulate net profit of R$1.7 billion. So there is guarantees that are to pay dividends. So that's why we're working with so much focus, with dedication. The expectation for the year is to expand even more this net profit.

But the form of compensation of this capital and the intensity will depend on the strategic guidance from our controller and their administration board. There are conditions, there is room for that to happen. Recently, we announced a relevant material fact with the repurchase program, additional program.

We are sure that our shares are under-evaluated in market and there is room for valuation. And our work is to make that our perception is the general market perception as well.

I'm going to give the floor to Miguel to answer the last question about pricing.

Miguel Gularte:

Really, pricing has a relevant role, Thiago, because pricing, at the same time that it allows to transit through opportunities in an assertive manner. It comes together with the capability of the Company to work, so these choices can be executed.

It's useless to have a pricing system that shows the best pathways, and from the operational standpoints, you don't have the conditions to trace these pathways.

And there is an important aspect that I'd like to highlight. When you have a philosophy like we have at BRF of selling to produce, and not produce to sell, you always have a commercial portfolio where the main choices are already driven by the price and assertive systems are already taken. And you shorten this portfolio, maximizing the results of your decisions.

On the other hand, the premium pricing system turns into the systems where you build with quality, brand strength, working on products and innovation, and BRF has been working intensively on this.

Another important aspect is, when you have new destinations, and in this case, in this half of the year, we have 32 just in this quarter, you are also able to use this choice capability, so this premium pricing is more evident and intense.

That's what we saw happening. Obviously, the market helped because you have a market demand in all locations, and you have a company that is paying attention with information, quality information to make decisions and choices.

Thiago Duarte:

Very good. Super clear. Thank you, both of you.

Ricardo Boiati, Safra:

Miguel, Fabio and other attendees, thank you for taking my question. First, just some clarification and a follow-up in regards to the question of offer and demand that was already well commented. My question is already specifically in the lines that had capability expansion recently with – you mentioned clearly that the demand is very steady and this is well reflected in the volumes and prices. But in these specific lines, sausages and breaded products, is there any impact that was noticeable in the entry of additional capability recent in the market or not, if this was unnoticed with the strength of the demand that we've been absorbing.

And also in the same line, with programs that have been already announced in the Middle East, if this is a point of attention, something that can somehow tweak the balance in this important region, very strong for the Company. This is the first question.

Then the first question is an update, if you could share in terms of the integration, the operational integration and synergies that you are already able to obtain because you're part of the same group in terms of cost gains with maritime freight. Is there anything relevant in terms of commercial management as well? A comprehensive portfolio to negotiate with the main customers, has this helped gain the share of wallet or more room? These are my 2 questions. Thank you.

Fabio Mariano:

Ricardo, I'm going to start by answering – good morning, by the way – and then I'll give the floor to Miguel for the second part of the answer. You mentioned about the offer and demand, offer available even with announcements, recent announcements.

I think that it’s natural that there is offer. We have mentioned just now that BRF still have idleness in industrialized product lines, and there is demand and we'll continue steady. We have a population growth that is important, the asymmetries where this populational growth comes from in regions where we are very much present. So it's natural that the investments continue happening.

What is important to portray is that this capability, the idle capability, systemic capability, that there is more or less in some categories, it hasn't impacted the market dynamics. So, we don't see any renouncing in terms of prices because of volume. So, we see competitive environment that is really balanced. It's not being different from what has been happening in the past few years. That's what I wanted to highlight.

You also mentioned the Middle East. So the Middle East, we have an important presence. We have competitive advantages of having our own distribution in most of the countries in the Gulf. It's the case of Saudi Arabia, Qatar, Oman, Kuwait, Emirates. So it's obvious that we also have competitors, local competitors, but Brazil continues being a very competitive platform with our products. We also mentioned our prioritization of growing in the region of Saudi Arabia. This will happen.

I'm going to give the floor now to Miguel to address the theme of integration with Marfrig.

Miguel Gularte:

Ricardo, evidently, we are in this trail of pursuing excellence, and this trail has a point. The 2 companies, they perform and pursue excellence constantly. When we use the model of using benchmarking, I'm going to remember what I said in the last quarter, BRF, when we implemented the BRF+ 2.0, it didn't have the reference of the year of 2019, and we started using as reference our own operation in certain geographies, certain locations. And this comparison of locations not only go through BRF plants but also Marfrig plants, which the best practices of each companies are replicated in each of them.

So, for this benchmarking, we're going to find synchronized and complementary movements in supply. It's very relevant. You have the power to buy higher volumes and negotiate it better, but also in commercial division, because you start having an approach with the customers as a company, multi-protein, where you end up having information and making measurements of the market, supporting the information from one company over the other.

All these processes are used under the best governance with all the contracts and the care of related parties. And we obviously have ahead, in the future, a construction to use the best practices from each company, and not only the best practices, but also in the geographical aspect, and this starts happening in exportation.

Because for an international customer, it's also interesting to have a vendor, a quality vendor, both in pig protein and also poultry protein, and meat protein, and it couldn't be different. You end up having an improvement in your costs, you increase volume and the structure to execute that you are able to have a lighter and more competitive structure.

Ricardo Boiati:

Great. Thank you.

Henrique Brustolin, Bradesco BBI:

Good morning, Miguel, Fabio and the whole team. Thank you for taking my question. Two points that I would like to explore. First, about profitability of domestic market. If you could comment a little bit about this evolution of gross margin that we see at every quarter of 1.5, a little bit more. What was the contribution of in-natura products and processed products?

And when we think about the pace of BRF and the domestic operation over the second half of the year, if it makes sense to imagine that the growth of EBITDA should come especially from revenue growth as these new volumes come to the market, or if you see any room, representative room for EBITDA margin growth either by mix or all the efficiencies that you may have from BRF+? Or, again, is it more growth that we should think of margins that are approaching? This is the first question.

And the second is a follow-up for a point, a comment that Fabio made about poultry, meat growth in Brazil below the storage, and I understand it is by average weight. This is a point that wasn't clear in my mind. So, if you could comment a little bit of what is behind that. Even when we look at the incentives in the chain, the impression we have is that the incentive is for the maximum production. So what eventually will impact the average price in the sector today? And how relevant is the average weight effect when we think about the number of storage that can be offset by that? These are the points. Thank you.

Fabio Mariano:

Henrique, I'm going to start answering for you about profitability in Brazil. You asked a little bit about the opening and the contribution of in-natura and processed products. You know that predominantly, we sell in Brazil processed products of added value. This represents over 70%. Profitability of in-natura products has been growing, as a response to the price increase of protein internationally. This has been happening in all sales destinations. In Brazil, it's not different. In-natura products favors the growth of margins in the domestic market, obviously obeying the weighing of its participation of 30%.

When we compare today the profitability of in-natura versus processed products, there's an important gap. Profitability of processed products follows – remains much more representative than the profitability of in-natura products, even with this margin expansion that I have just mentioned.

I didn't want to anticipate and talk too much about the margin expectations ahead. We can't even give this type of guidance, but I can say that it's not exclusive from revenue, as you mentioned. Recently, we had just discussed costs. We are very optimistic about efficiencies of the program. We have relevant captures and records for the semester, and we intend to keep the pace in synergies that are going to have impact on our technical matrix and industrial yield and in performance, and consequently our costs.

About the poultry production, what we commented is that according to a APINCO data, there is a storage growth around 2%, and we have projections for growth of production in Brazil of 1.5%, implied that we have a question of weight. So this is what we place. It's an interpretation. I didn't mean that it is a reality. The question of weight, it depends on the Company.

Henrique Brustolin:

Understood, Fabio. Thank you.

Lucas Mussi, Morgan Stanley:

Good morning, everyone. Thank you for taking my questions. Congratulations for the results. I just want to go back to the topic of production capability in the sector, and using what Fabio mentioned about cuts going up 2% a year. We see a different dynamic on matrix, cut matrices, storage. I wanted to hear your perspective, what explains this major difference? At least in the last decade, it has a high correlation between types of cuts and the matrices. I wanted to understand a little bit more of what you see as dynamic and explain little bit more, and the terms of the profitability are very attractive in the sector, but we still see the problem of matrices storage. This is my first question.

My second question, you had expressive numbers in permit increase in international market. But in the short run, I wanted to hear from you in terms of attractiveness or mid and long run from some specific locations, internationally speaking, what do you see as most interesting, where BRF is better positioned today, where your product is better accepted, you're more competitive? What markets do you see with good eyes in international market? That's my question. Thank you.

Fabio Mariano:

Good morning, Lucas. I'm going to address the first question, and then I'm going to give the floor to Miguel to address about the permits. You asked about matrices, and I just wanted to remind you that in case of BRF, we have the prior chain. We start to reproduce from the grandmothers' matrices, and then we have what we call the cut chicken, or the termination phase at the chicken farm.

So, the question of storing matrices has to do with the slaughtering matrices that happens in some years. It's not only what you store, but you have to combine in situations of adjustments, the slaughter.

What I can tell you is that we have an expectation of reduction the storage of matrices for the next year, going to 59. It's a reduction around 2%, 3%. This is what I can tell you. This is data that you have the capacity to access. You are permitted to access.

When we think about storage and matrices that have impact on the offer, we have also to combine with demand, which is something that we've been defending a lot. There is balance in this equation and we don't see signs, apparent signs of unbalancing coming soon. So I wanted to highlight again, I would like to emphasize this aspect.

Miguel, I would like to give you the floor to address the second question.

Miguel Gularte:

We are working very strongly on 40 new permits, but especially to capitalize this 57 we've had on the year of 2024. When we look at the strategy from BRF, it's really clear, and we are going to work with premises of not destroying values in any of the markets we operate and add value.

We have the possibility, we have our growth, both in our plant area that has an idleness level that we are working to mitigate, and markets where we allow by choice of price into place, products with better margin. We make that happen not only in Brazil, as Fabio mentioned, but especially in exportation in the case of the Middle East. We are leaders in KSA and in the Middle East, and the process of growth could not leave aside the intentions of growth in this market, where our brand is a brand that is an icon.

We continue working on all markets, taking the opportunity of diversification of those markets. We understand that it's not a good commercial healthy practice to concentrate all the destinations and customers in only one. It's important to have diversification and make use of it. Regardless of the volume, if it’s being higher or lower in each destination, be present in all destination is an old commercial practice that works really well.

On the other hand, if you go to the SECEX data, and let's look at the numbers that are public, you see MENA, which is the region that I have just mentioned, it has relevance even higher than Asia. So, we saw in this first half, MENA is 600,000 tons over 400,000 tons that Brazil is exporting; and Asia with 147,000.

So, if you look at the line of the last quarter since 2023 it has been showing growth, and this growth has been enjoyed by our Company, as Fabio already mentioned, a strong distribution, strong brand, active teams, paying attention to this market and the focus on growth with added value.

Lucas Mussi:

Thank you.

Guilherme Palhares, Santander:

Thank you for taking my questions. I have very briefly two questions. Fabio, if you could talk about monetization of tax credits. We saw the Company announcing over R$700 million in the first half of the year. What can we expect from that looking from now on into your cash generation, which is really strong?

And the second point for Miguel, you had commented in the last call about BRF+ 2.0 being a benchmarking for operation. If you could go further among the best and worst operations of the Company in terms of volume or improvement, or some metric that you can share in terms of performance dispersion within your units or locations and the opportunities.

Fabio Mariano:

I'm going to start with the credits, Guilherme. Good morning. We have to analyze from two aspects. The aspects of federal taxes. We recurrently have been able to offset the PIS/COFINS, non-cumulative Brazilian taxes. We also have to remember the ICMS as a base of PIS/COFINS, these are all Brazilian taxes. We understand that this is going to take longer for us to be able to monetize almost R$2 billion that we have of taxes to recover.

At the state level, we work with a big focus on trying to optimize the way we get to our consumers by different states where we operate. Recently, we even concluded, it was explained in our explanatory notes, a transaction involving ICMS in the state of Sao Paulo, where we acquired credits from Marfrig. This has to do with the work of trying to optimize the most possible the reimbursement involved with the state taxes.

We continue with a lot of credit to offset the payment of taxes, especially federal taxes that have to do with income tax. The Company goes back to being profitable and we have this impact.

But I wanted to remind you the tax loss balance that's been accumulated, we even have tax losses that haven't been accounted for yet. So there's still a lot of guarantees to be used over our journey.

Miguel, back to you to wrap up the answer.

Miguel Gularte:

Guilherme, BRF+ 2.0, which is BRF of 2024, we are already in an intense process of work in BRF+ 3.0. It is not a performance program only, but is also a culture in the Company for higher performance. It's a cultural program.

And it's important to remember that BRF+ doesn't only go through industrial plants. BRF+ goes through all the links of the Company, in the field, in the industry, transit, in the management, financial divisions, commercial divisions, international division, the different locations of the Company.

So, it's obvious that when you place as a benchmark, the internal benchmark, and it's a continuous process. So you end up every time you are looking with attention to a certain detail, location or a practice, you find opportunities.

I would say that the only question that I don't know how to answer, and I don't want to answer, is the limit of BRF+. BRF+ is continuous improvement, and that doesn't have limit. The intensity and the opportunity are movable. Sometimes they're going to be higher or smaller, but there's always going to be opportunity.

We have at BRF as a motto to be ready to learn, to learn from what we see in the market and learn from what we do in different locations. If you visit a BRF plant, you're going to see a management board where you have the performance of that location compared to other locations. So there is a certain healthy competition between locations, finding opportunities. It's a movable board. So, 1 week a plant generated a certain rate, but then in another week, it can be behind. It is a dynamic process.

And another aspect that I wanted to highlight that we have just finished at BRF, about a month ago, is an environment program, engagement program. BRF is a highly engaged company in all divisions.

And I repeat something we've been working on. A guidance that we've been adopting by instruction of our controller is that it's useless to have excellence islands in the Company, because excellence islands don't make an excellent company. An excellent company is a synchrony company with everything harmonized. So painting red or blue walls, this is the BRF+ space. This makes the cultural program, makes the performance program into a cultural program for high performance.

Guilherme Palhares:

Perfect. Thank you.

Operator:

The Q&A session and the teleconference from BRF is over. We'd like to thank the attendance of everyone and have an excellent day.