Operator:

Good morning, ladies and gentlemen. Welcome to BRF's 4Q21 earnings video conference.

We would like to inform everyone that this conference is being webcast at www.brs/br.com/ri, where the presentation is also available. At this moment, all participants are connected in listen-only mode. Following the speech, we will have a Q&A session when instructions to participate will be provided.

Before moving forward, we would like to state that any statement made during this broadcast with regard to the Company's business prospects, operational targets and financial targets are based on BRF Management's beliefs and assumptions, as well as currently available information. Forward-looking statements are no guarantee of performance, seeing as they involve risks and premises, and that they refer to future events and therefore rely on circumstances that may or may not materialize. Investors must understand that overall economic conditions, the state of the industry and other operating factors may affect the Company's future earnings and lead to materially different results than those expressed in such statements.

I will now turn the floor to be BRF’s global CEO, Mr. Lorival Luz, who will conduct the Company's presentation. Please, Mr. Luz, you may proceed.

Lorival Luz:

Thank you. Good morning, everyone. Once again, I would like to thank all of you for joining us in another of BRF’s earnings release, this time talking about 4Q and the year 2021 in general.

Starting with slide one, I would like to tell you about the performance we had, both in 4Q and in 2021 as a whole. We recorded substantial increase in our net revenue, up 19.6% over the quarter, and by 22.5% over the year, reaching R$48.3 billion.

Likewise, we grew substantially both in this quarter's EBITDA as compared to the same quarter the previous year, and grew our EBITDA over the year by 7.2%, and it reached R$5.5 billion.

It's also important to bear in mind that this was an extremely challenging year from the standpoint of high costs, especially in production, and even shortage of a few types of raw materials and services, which had a significant impact on the challenges and opportunities to perform over the course of the year. Therefore, this was a very robust and resilient result for the Company.

We also ended this challenging year with a net profit of about R$500 million, with almost R$1 billion in 4Q, and an operational cash flow, which was also trending up and was very robust in the last quarter of the year.

And it's also important to highlight our results from the standpoint of our leverage. As we discussed in our last earnings conference, we said back then that our net debt to EBITDA was about 3x, which had increased this year because of the adverse situation we were facing. And now, after the Company's follow-on offering, which we concluded successfully in the 1Q of the year, we show you a pro forma result which was essentially bringing the R$5.6 billion that came into the Company's cash flow, this pro forma result, which would bring our leverage from the end of last year to this current position.

So from 5x to about 2.17x, which allows the Company, as we have said back when we structured our follow-on, that we will continue to make the necessary investments in the Company and, at the same time, continue to capture and benefit from a significant decline in our financial costs, considering the scenario that we are seeing in 2022.

Looking at how the result developed over the year, it's always very important to highlight how resilient our earnings were. In 2021 as a whole, and especially when we look at 4Q, we see an increase over the previous year of nearly R$300 million in our gross profit, and about R$100 million in our EBITDA versus the previous quarter.

This only goes to show how disciplined the Company's management has been, despite the adversarial scenario that we found and faced over the past year, in which we were still able to achieve R$1.7 billion EBITDA.

So what exactly are we talking about? We have been showing this time and time again over the past quarters. Since the 2Q20, we have had a very material increase in production costs, as you can see with the blue curve, which uses production costs from Embrapa. You see a very sharp increase which, when you look at the chart below, reflects on producers margins.

So the Company at large is still facing a very aggressive environment when it comes to margins. The industry is still hurting with the perhaps lowest producer margins of the last five years, and that has been the case for even over a year. And we at BRF have an absolutely streamlined management of our production costs on every front, in such a way that we have been able to pass along costs at the same level to preserve our margins.

And that shows in the yellow and orange curves, which reflects exactly what we have just shown, which is the resilience of our quarterly results. This shows a very efficient management on a month by month basis.

Moving forward, we have never stopped taking care of our brands, and what we mean by taking care of them is that we continue to monitor and follow the preference for our brands, because brand preference, just as NPS, is a very well-rounded indicator, because it shows the quality of our product, the quality of our service and the adjustment, or adaptation of our products and services to customers' needs.

It's not just about a price adjustment, which you can quickly transform in market share by adjusting prices. We are constantly analyzing and making our decisions looking at this context in general, and our brands have increased in people's preference, always staying on the lead both on the food industry with Sadia and Qualy.

And also, another factor that's very much in line with our strategy, we continue to innovate and launch new products with a very important work in increasing per capita consumption of pork. We have continued to launch new products over the course of 2021, which is a very relevant information and something we will continue to work on moving forward.

And when we look at this strategy over time, we clearly see the effects of that in Brazil. Our share of value added products from 74% to nearly 85%, and the revenue from innovation, which went from 3% to nearly 7%, with a wide range of products that bring convenience and meets the demand and the profile of our customers, be that with the Bio line, with Livre e Leve line, and a host of other products we have been launching, not only in Brazil but abroad as well.

And talking about our operations abroad, the volume of processed products that we put out has increased in our operations in the Emirates and in Turkey. That's something we have done with a number of new products being put on the market, bringing more quality and better serving the demands of our customers, so much so that our value added portfolio now accounts for 20% of our entire portfolio, which is in line with our 2030 vision, which is to be increasingly more a company of high value added products, and also providing added value to our customers and collaborators.

Now, despite the hostile macroeconomic scenario in Turkey with the currency devaluation, we have been making headway and we were quick enough to direct 20% of production to exports, which also benefited our results.

It's the same strategy we continue to adopt in Brazil, moving forward in the preference of our brands. And Banvit has reached a 50% preference rate in Turkey, and this is something that's really significant and gives us the opportunity to continue to move forward, preparing to the expansion and investments we began to make last year. So once again, perfectly in keeping with our strategy, and we will be able to capture the gains of that strategy.

Among the many things we have been doing in the international market, I would like to stress what we have done in Gulf countries. Our market share has increased with Sadia, achieving 38.1% market share in the region, which is extremely relevant, and which makes us even more confident about the path that we are charting with the MOU that we submitted with PIF to make another investment in Saudi Arabia and, yes, continue to meet the demand of that population with our products, and producing in Saudi soil.

Another important thing to underscore, which again is in line with our strategy, our ingredients business continues to move forward, bringing extremely positive returns. 2021 accounted for about 8% of the Company's entire EBITDA. This comes from the result of value generation, of making the most of our subproducts and the business we are already working in, both in the Aromas segment and in food for fish and other pets and animals that we supply both in Brazil and overseas with our exports.

Down here, we supply a number of customers that recognize BRF’s ability to innovate in technology and its products and nutritional capacity. So this was a very significant development, and I would like to congratulate and command our team for the fantastic results that we achieved this year.

Still in the pet food strategy, we continued our fast pace of integration with the business we already had in BRF joining Mogiana and Mercosur. We have had the first meetings and the first sales conventions to align the entire strategy with our portfolio, our channels and our brands with the optimum position of these portfolios, including the launch of new products.

This is something we will continue to do with these investments so that we can serve our pets with the same level of quality that we have always had when serving our human clients. So we will continue to innovate and meet the demands of our customers, both human and animal.

Also importantly, balance is always number three in dry food for pets, which goes to show that our strategy was very much appropriate in all of our distribution and sales channels for pet food.

Now, a little bit more about our 2030 vision and the investments we have been making. We have made headway in value-added pork with new products, and we have grown increasingly more in both consumption and sales of our products.

We have also made headway in ready-made dishes. We have expanded our platform with the Livre and Leve new line, and a host of new products also in keeping with our ready meals strategy.

And we have also continued to invest heavily in digital transformation, both within the Company, within the business, within our sales channels, be digital and go digital, all of which were critical in terms of investments.

Now, I would like to take some time to talk about our omnichannel strategy. We have opened over seven new stores last year so that our customers have access to all our products in a single point-of-sale. That can bring more convenience to our services, combined with Mercato em Casa.

Mercato Sadia, together with Mercato em Casa and other platforms, showed new advances. We had partnerships with Magalu and Rappi. And as we talked about BEES, the platform we are now running tests on with the first orders, and it has been doing terrifically well. That's something we have worked on over the course of January. We already have customers being served by BEES. We have invoiced them, we have delivered products to them, which gives us very great prospects. Prospects that are bright in terms of increasing our customer base.

In Brazil, we have about 290,000 active customers, and what we expect is to make headway in our base of active customers with over 300,000 active customers, and also Increase the intensity and the frequency of these orders, as well as the number of items per order.

So that's something we are moving forward on, and this year, the platform will be rolled out to other areas to reach the entire Brazilian territory with BEES, which is doing very well.

And all of that has been done without leaving our ESG commitments aside. We have kept our net zero commitment, we have advanced in actions with the BRF Institute, we kept our positioning with ISE on B3, and we are the first margarine to offset a 100% of the packaging in Brazil through recycling.

These are actions that are present throughout the whole company. In all of the initiatives, whenever we make a new investment or we implement a new action, ESG is part of our assessment. This is in the scorecard of all of the executives, and this is important and relevant in all the decisions we make at our Company.

Moving on to the last part of my presentation, I would like to share with you a bit about our leverage in recent quarters and our cash position. So now, we took the freedom of creating this pro forma with simulations that Include the follow-on results that we completed in the 1Q.

With this follow-on offering, our cash position would reach R$16 billion. So with great liquidity, we will be able to face the year of 2021, with increased expenses and higher interest rates, and continue advancing, moving on, and making investments, to adjust our industry with the digital platforms Omnichannel and all of the investments we have been making in our aligns to meet the demands of our consumers and to adjust the consumption profile of those consumers. Now, if you look at the chart on the left-hand side, leverage. This is pro - forma incorporating our follow-on offering. We would be at 17 times which is quite appropriate for the market conditions in our industry.

And the Company reported a similar number before 2016, so it's been some time, and the Company was actually operating with higher leverage numbers. Now, our net debt is below R$12 billion now.

And why is that important? With a significant increase that we have been seeing of the interest rates in Brazil, the Selic rate in Brazil, and prospects of real interest of around 6% according to projections. This cash reinforcement will greatly benefit us by reducing our financial costs and expenses.

And this is extremely important in a year like this. With such reduction, we are going to save in terms of interests and financial expenses. And those savings can be invested in our businesses, in the adjustments of our lines, in improving the performance of our lines, and in innovating in new products.

That was an extremely correct decision in my point-of-view, to have this follow-on offering at this point. This is going to bring us many benefits, and a better capital structure, in order to serve the demands and face the challenges of 2022.

And when I talk about challenges, it is paramount to make clear what these challenges are in why we have made changes for 2022. If we look at the prospects, and this is the Focus survey data, so previous prospects for Brazil showed an IPCA forecasted for 2022, which was double what was forecasted a year ago. A GDP growth that was much smaller for 2022, they were first forecasting 2.5% and now they are around 0.33% GDP growth.

So inflation increases interest rates at around 10%, small growth and a much higher Selic rate at around 11.5%. The forecast in the beginning of 2021 was around 4.5%, so this is a completely different scenario, and the challenge can be seen in many other indicators that Turkish line, global freight.

The increase in Greens, inflation of costs throughout different areas of our Company. And of course, we need to monitor risks regarding protectionist measures and possible sanctions that may be put in place around the globe, not only because of the events in Ukraine and Russia, but other events happening around the world. So this is a challenging year. The month of January has already proven to be very challenging. Considering what we got last year, the month of January started with a sales volume that was already a bit below our projections.

So we now have a challenge to adjust in order to go back on track. And the scenario we currently have is of low growth, high inflation, and a reduction in the purchasing power of our consumers. Consumers will feel that impact in their pockets, and in their purchasing power, that is happening in many different sectors, including ours.

But we have the capacity, the agility, and the flexibility, to adjust because we have the most affordable proteins, like poultry and pork. And we have the versatility and flexibility to adjust our portfolio to meet the current demand. So in spite of the month of January that started with that challenge because of the current situation; we have the agility, the flexibility, and the capacity to go back on track throughout the rest of the year.

And why is that? Because we have plenty of opportunities. And I want to close by telling you that yes, we have challenges, but we also have many opportunities throughout 2022. With a reinforcement of our capital structure, there's no question that we are going to save in our financial expenses, which will enable us to advance in our strategy, and in improving our growth performance.

We are also moving on in our geographical footprint with new agreements and our portfolio keeps on growing. We are launching value added products that are increasingly having positive participation in our product mix. And now the digital movements are also going to be felt in 2022. This is a major investment we have made. And also expanding our customer base with the BEES, that's also going to be made in 2022.

So I want to close now by telling you that we are very confident and certain that the decisions that have been made were correct, so that our Company can move on and continue with our strategy, so that we can capture benefits throughout the year in spite of this more adverse economic scenario that we are currently facing.

So thank you once again for joining us today, and as we usually do, we will make our QR code available, so that you can test it and make the most of our Mercato em Casa with a 30% discount available for you up until next Saturday. Enjoy it!

So now I will close my part of the presentation and we can move on to our conversation session. We are going to have our executives now available to answer all of your questions. Thank you once again.

Isabella Simonato, Bank of America:

Thank you. Good morning, everyone. I have two questions. The first one, about Brazil, I think it would be interesting if you could tell us a bit more about this year, in context, which seems to be a bit more challenging. Can you tell us about the categories or channels that are performing better, or also give us some more flavor in terms of the consumer behavior right now, and the changes you are seeing? So that's the first question.

The second question about the external market. We see that Asia is feeling a lot of pressure, but we have direct exports and halal. So for 2022, can you give us further information about what you see in each one of the markets, China and the Middle East? Can you please give us some further information about volume and prices in those regions? Thank you very much.

Lorival Luz:

Thank you for your question, Isabella. That was a very relevant question Both the domestic and the external market are facing different challenges and different scenarios. So let me give you some information and then I'll give the floor to Sidney, Michele and Igor, so that they can add to my answer.

In Brazil, you know the results of the retail market in recent quarters, the scenario is definitely challenging. The yearend scenario already presented us with challenges. But we had a celebration campaign that was quite positive below what we would like it to be, but it was still positive and that brought impacts for the 1Q22, and more specifically, the month of January.

When you see our customers selling last with higher stock. Of course, there will be an impact in the industry in the month of January because they need to adjust their stock levels. They are inventory levels, and then, there will be a reduction in their purchasing from us.

But that's one of the scenarios that we can see this 1Q, as very challenging and very complex. That's going to require us to adapt, to adjust, to be flexible and versatile, in order to incorporate all of these effects. And also the different demand that we might have considering that the corporation might have a smaller revenue.

We cannot ignore what's happening in the market with higher inflation rates, higher interest rates, and lower growth. So these are scenarios and the Company must adapt to it, because that will impact all of our consumers in different regions and different social classes. So that's a fact that will require us to adapt.

About the prospects regarding the external market, you said it well, Isabella. While we do have a very challenging scenario in China, I agree with you, there is a volume and a demand in China, that we do not expect to grow, but actually to stabilize. But we have extremely positive expectations for the whole halal market, with the increased demand that we can see in the food service market, with an increase in business, leisure tourism, with events that are happening in the region, with the World Cup in Qatar this year, in addition to new licenses that we are getting right now.

So we have a very positive expectation regarding Mexico as well. You can see the current price of chicken breast in the U.S. that's going up, and as a result, the countries that exported to them might have a demand that we can address, and therefore, sell to those markets.

Likewise, I am also optimistic about the UK. So I think it's all a matter of balancing out to those demands, and it's really important to diversify our products and our footprint in order to reach that balance.

I do not know if maybe Sidney, Michele or Igor would like to add to my answer.

Sidney Manzaro:

Good morning, Isabella. Thank you for your question. Let me just add and give you a few other perspectives about categories and channel. We are working with what we call an hourglass effect. On the one hand, there's no question that the macroeconomics and the income will have an impact on our business.

But it's also important to highlight that the food market has proven to be very resilient. When we look at the proteins, we noticed that indeed poultry and pork have been growing and they have reached historical levels in the market share in Brazil. Both poultry and pork have increased their market share in Brazilian plates, Brazilian dishes. Now, the hourglass effect, yes, on the one hand, you have this growing demand for more affordable products, but on the other hand, you also have a growing demand for more convenient products. And that makes the consumption at home to gain space.

So I am not necessarily comparing this to the other products in supermarkets, but comparing to the price of restaurant dishes or take out dishes in which you can have a better comparison with good flavor, high-quality, at a more affordable price.

So yes, there is a higher demand for more affordable products. But we also have a growing demand for more convenient, high quality products. So that's an important effect.

Now, a little bit about channels. What we can clearly see is that the food service is recovering significantly in our business with the consumption outside the homes going back to previous levels. We have seen this growth then it feels away from home compared to the last two years.

Retail has been feeling this aspect of the sales fluctuations, but the fact that that's happening there does not mean that there is a generalize drop in sales because we have different performances in different categories. So overall, in Brazil, we have a concern with dropping levels of income.

But there is a great opportunity for companies that have brands like ours, that reflect consumer trust. When there is a lack of money, consumers do not want to take a bet. They will go and choose the brands that they prefer. So brand preference is really important here.

Our ability to innovate is also very important, and in the pork segments, we launched 17 SKU's, ready meals 16 SKUs. So brands with the ability to adapt to the new scenarios are very important factors. That's probably a great explanation of the resilience of our products in spite of the adverse scenario.

Michele Polesel:

Isabella. I just wanted to talk a little bit about the halal market. I think there are a couple of very simple points we can go over. First of all, when you look at our performance in the halal market, you see that there's an increase in crisis admittedly. There's really this brand that's pushing our performance and one second point I will mention is, we have a very resilient business.

And that is really making a huge difference for us, so that performance is likely to continue moving on in 2022. Okay. Thank you. Isabella just wanted to add to what Lorival talked. I think China is actually important and it's important to acknowledge that in 2021 we saw a substantial upturn in our domestic output, which grew virtually 45%.

Obviously, that's had its reverberations on our results, and that combined with an upturn in sales, and the fact that China has a zero tolerance policy with COVID, which affected their rebound in general.

So in the first half of the year, we believe these conditions will remain unchanged. But starting in May, when our focus will really be to boost growth and progress, we believe, that in the second half of the year the conditions we face will be slightly more favorable. If we look at imports of pork last year, we have seen a decrease in about 30%. So we believe that is a reasonable basis for comparison when we look at 2022.

Also adding to what Lorival said about other opportunities, always referring to pork products, we also believe we will have opportunities in other places around the world such as Russia, over the course of 2022. That obviously will be very significant in order for us to balance out our accounts.

Thiago Duarte, BTG Pactual:

Good morning. I hope you can hear me well. I would like to go back to the discussion about the Brazilian market from two different perspectives. First of all, in the last two years, you were able to reach a very significant level of pass - throughs. I wanted to hear from you whether you understand that some more pressured consumer and the lower demand at the beginning of the year, will that translate into a trend for the rest of the year? And will it be more restrained, or is there room to adjust your margins which remain pressured or at least remained below, when you compare 2021 to 2020?

And my second question would be, when we look at warehousing levels, which would point to your production of both pork and poultry. We also saw a downturn since last year, even with cooperatives, I think the pressured margins were true for the industry at large. And I wanted to hear from you whether you see that trend that way as well. And is there some sort of recovery in the Company, in the industries margins over the course of the year on the horizon?

And also, you have consistently shared about the consistency of your brand. And I wanted to hear how that 45% preference that we see between Sadia and Perdigão, how does that compare with your market share levels. I know you are not sharing your market share levels again, but I wanted to understand whether your preference levels are performing better, or outperforming your market share levels or not. Thank you.

Lorival Luz:

Thank you, Thiago. I would like to apologize and ask my colleagues to be shorter in our answers because we have a long list of analysts who have questions for us, so we are a bit short in time.

So, trying to answer your question in a very short way. With regard to the room for recovery in Brazil, it's very challenging because again, consumers purchasing power has shrunk. But we have to look at it in a comparative way.

The point is, what other options do consumers have? Did just our price go up? The prices of our competitors have also gone up. But we have what we call the entry proteins. And as Sidney mentioned, sales of that type of protein has increased in terms of per capita consumption. So we have a very versatile portfolio which allows us to adapt to the mix in terms of demand.

Whatever pass-through, whatever level of price we have to pass along, we will do that. Because you have seen how the economy has been, has sustained itself and how we have sustained ourselves because we will never subject ourselves to selling at a lower price than what we need to produce.

So we will do as much as we can to adjust. But the truth is, we will work with the production that we have and the products that we have to meet the demands of our customers. With regard to warehousing, there has been a decrease, but not enough so to adjust to the current situation. So those levels should already be a certain level and should continue to decrease so that we have the balance I mentioned in a presentation when it comes to produce our margins. It's a very simple equation.

If the store has more, it has to sell more and producer margins go down. And when you narrow producer margins for a longer period of time, there is reduced possibility for him to store products at his warehouse. So in my opinion that is going to go down further and has to, because you reduce producers capacity for a long period of time with very narrow and depressed margins for a long period of time. So I do believe we still have this prospect for production based on the assumption I just talked about. Now about preference in market share. Honestly, I think these are two different beasts. What we want ultimately is to have people's preference because honestly, with regard to market share, we could just say just drop the price by 10% and we will gain a lot of market share.

But is that when we want, really? What we want is to really have our customers in love with our products and our service, because our market share reflects mostly one main factor, which is, if I change my margins in my price range to a lower one than my competitors, I will gain market share. But when it comes to preference, that's a completely different story because it involves many other factors, including quality, service, specifications, packaging.

So we are working on all of that. That's our main focus, precisely so that we can generate customers desire and demand for our brands specifically.

Rodrigo Almeida, Santander:

Good morning, everyone. I would like to address this sort of post follow-on period. You have talked a little bit about your financials, but I wanted to understand a bit better what your plans are with regard to management, and what strategy do you guys have in mind to reduce your gross debt and your financial debt as well. How do you plan to tackle that? You showed your pro forma performance and pro forma leverage. In that sense, I wanted to understand a little bit better how you guys are working from a metrics perspective with your leverage for this year? Looking forward, what do you see, especially considering the more challenging situation as we have mentioned earlier, even in terms of cash-generation this year?

Also, I wanted to hear a little bit more about your capital allocation, considering that you have had this influx of cash? How can we think about that moving forward, especially in terms of organic growth and also more on what you said about Saudi Arabia and Banvit, what were the next steps that we could think about and what should be the next steps in terms of both organic and inorganic growth moving forward. Thank you.

Lorival Luz:

That was perfect, Rodrigo, I'll start with your second question and then I will turn the floor over to Carlos because we have talked a lot about that during our call on or follow-on offering. First of all, I think that the scenario this year, and Carlos could talk a little bit more about our prospects in terms of that, and we should work with an investment of about R$4 billion this year. That's what we are working with currently.

But again, we will constantly be looking at the opportunities that are presenting themselves to us and the market that's presenting itself to us, so that we can really advance or slow down according to the situation considering the current balance that we are working with.

The MOU that we signed is a document that states that, together with PIF, we established a society 70/30 in Saudi soil, 70% BRF and 30% PIF, so that we can be increasingly more embedded in the Saudi industry with local production, and also the great distribution in warehousing that we have in the country.

So these talks are moving forward over the course of this 1Q, and we plan to really make headway in that transition and that transaction.

And with that, I will turn it over to Carlos, who will give you a little bit more of a detailed explanation.

Carlos Moura:

Good morning, Rodrigo, I hope you are all healthy and well at Bradesco. As Lorival said, our priority is to reduce our gross debt, and you have monitored how this has developed and how much this administration has been concerned about how inflation and the interest rate curve has affected our debt.

So we went to the market and made the most of the increase in interest. We are trying to reduce our exposure to foreign exchange. We have our derivatives that are becoming increasingly more expensive, because of the hike in interest rates. So we are working on really shrinking that system of derivatives.

We are also working on bilateral systems in Brazil, and according to how the market performs, we will be able to analyze how the market does and analyze the tender offer considering the bonuses we will have, one maturing in the next few months and another maturing next year.

So that's essentially the structure. We had a lot of people ran numbers during the course of our transaction, which came to R$600 million being deducted from our financial debt. But I like to say that it is significant not to have a cash effect on this financial gain because of taxes, which translated into having a few tax credits.

In terms of our leverage in 2022, obviously we will not go into details here, but it will all come down to the currency effect and how we will dose this cash flow as Lorival said, which comes down to having a coherent CAPEX. CAPEX that's in line with our strategy and also a sort of A more alleviated cash flow.

So that in addition to the monetization of tax credits, which is something that we have done and has already generated over R$1 billion last year, and we expect to navigate between 2x and 2.5x times in terms of leverage. That's probably what we will have, obviously, depending on how our CAPEX and our investments overseas progress.

Victor Saragiotto, Credit Suisse:

Good morning. Lorival said that the year has started on pretty much challenging terms as well, and that new adjustments are still expected to occur. Over time, we have seen that those adjustments take some time, and one thing caught our eye, which was the trend in pork prices in the 4Q21. We talked with a few players and outgrowers. Obviously, they are buying pork at prices slightly lower. And we even heard from some of them, there has been negative pressure on process goods. So, I wanted to understand, how you guys are looking at this trend in processed food prices? And is there a tendency of a downward trend in these prices moving forward?

Lorival Luz:

Good morning. Thank you for your question, Victor. And you are absolutely right in the point you are making. What happened last year, especially in the 4Q21, you have market prices that you can look at. It's a little bit of that effect.

The industry and producers were ready and prepared for a larger volume, especially for exports to China mostly. As we always say, if you do not export, the local market, especially smaller players, including cooperatives, will absorb that. And when it comes to the local market, that has an impact on prices.

But this plays into what I tried to say with regard to warehousing. You need adjustments. You need to adjust your supply to the existing demand so you have a temporary imbalance, which is what we saw and now you are trying to equalize that and balance that out considering the reality that you have with the demand.

So obviously, a few of these products that require a lot of raw material have also been pressured because the market uses them as a place to dump this pork raw material. So obviously this is something that's a short period of time that will mean for adjustment, but obviously that adjustment will take place. And again, this is part of what I mentioned early on when I talked about the challenges that we are facing, because we will need to make that adjustment.

Ricardo Alves, Morgan Stanley:

Good morning. Thank you for the call and your availability to answer questions. I have two quick questions related to previous questions that were asked. First, about process goods. We are talking about this more challenging scenario. But when we look at the competition, maybe 4Q was a quarter that was a bit more aggressive in terms of prices? Or more discounts being offered? Or is this also something that is happening in January because of the inventory levels? So what is your performance in terms of process goods also considering the whole competitive environment?

My second question is about CAPEX. Lorival mentioned R$4 billion for 2022. So I just want to try and understand, after your follow-on offering, I believe you closed 2021 close to R$4.7 billion, and I would imagine a more aggressive CAPEX scenario now. So after the follow-on offering, did you postpone any project? Is there a chance that you will speed up the implementation of any project in 2022? Thank you.

Sidney Manzaro:

Thank you, Ricardo. I just heard a pet barking in the background. One of our consumers. Please, buy our products for your pet.

About your CAPEX question, R$4.7 billion, yes, that’s pretty much right. But in this R$4.7 billion, we are including the M&A of pet food that we performed. If we exclude that and focus on organic, that's very much in line with those R$4 billion. So there's nothing that has been postponed or anything like that. It is all going according to plan. So we are making the adjustments that are aligned with our strategic plan.

I think Sidney can give you a bit more color on the market regarding processed goods.

Sidney Manzaro:

Hello, Ricardo. Thank you for your question. I just want to add a comment to Lorival 's answer. We have swine products and this whole scenario that he talked about, which impacts process goods, especially sausages. These are products where the market is more spread and there is a larger number of players taking part in that market.

So yes, there is an impact because of the pork context for process goods, especially for sausages, which creates this price pressure because of the excess offer, the excess supply that is still being felt in January, but we will probably go back to previous levels from now on.

Lucas Ferreira, JPMorgan:

Good morning, everyone. I have two questions. First about the cost scenario, excluding grains. Can you tell us about freight power? What are your expectations for the 1Q22 and 2Q22? Do you see some relief in the pressure on those two lines?

And now, Carlos, the Turkish lira has devaluated 60%. So a 60% depreciation, have you taken that into account? I think it was like a 40% depreciation of the Turkish lira from one quarter to another. Are you having that to take that into account on your results?

Lorival Luz:

Thank you, Lucas. I will turn the floor over to Carlos and he can talk a bit more about those two subjects. Now when it comes to costs. When you see this, when we say there has been a slow down, it's not a drop in prices. You are running on a certain level, but there is no significant drop in prices. It's not like we are going back to prices like they were a few years ago.

But let me turn the floor over to Carlos, he's going to talk about the Turkish lira and costs.

Carlos Moura:

Good morning. When it comes to costs; no, we do not see a downturn. We continue with this critical process, with our supply chain and product offers in the domestic and international markets, which exert pressure on our margins. We thought the main impact would be on the costs that came from commodities, but that's not so. It's coming and continuing because of the ex-grain grain costs.

So what have we have been doing? The supply area, working together with the product area, industrial area, category area. They are doing process re-engineering, product value re-engineering. In order to capture benefits in specifications and that is associated, of course, to the scale the Company which benefits from the volumes acquired. We have a preference in procurement and we can negotiate and we have a great storage capacity compared to other companies in the sector. So that has shown our resilience.

But I want to emphasize that we are working on costs as well as expenses in our management matrix. So these expenses have had a nominal decrease and they have reached the lowest historical level in the share of revenue, because we are very strict and managing our costs and expenses.

And this is not merit to one specific area. This is a culture we have at our Company to have our costs under control. This makes all the difference for us to be competitive and flexible for Sidney, Michele and Igor when conducting national businesses.

About the international businesses and the Turkish lira, here, our Company has receivables of exports in USD, and we also have accounts payable of acquisition of inputs in USD, namely grains. We have no debt in foreign currency in our businesses in Turkey.

So our currency exposure as neutral and the impact on result is very mild. So when we consolidate the business compared to actual numbers, there has been an evaluation of the Brazilian real against the Turkish lira, which has had a mild effect on our balance sheet as you saw. And this effect will continue to be mild. There is no hiccups expected from this currency exposure. We control the currency exposure in Turkey just as we do in other parts of the globe.

Thiago Bortoluci, Goldman Sachs:

Good morning everyone. Thank you for this call and congratulations on your follow-on offering. I would like to go back to previous issues that have already been addressed. Can you tell us about the Brazilian demand? We have seen results with negative volumes and a downturn in some of the products, a two-digit decline in certain places, and we do not know whether you whether you are ready to make the most of it in 2022. What are your expectations in terms of demands now for the coming year?

And related to the capital structure, you gave us some proforma figures and leverage, and you said that this would be a pathway to accelerate the investments. So within this context, is there like an M&A target you are interested in? These are my questions. Thank you very much.

Lorival Luz:

Thank you, Thiago. These are two questions that strategically we cannot answer. Telling you if there is an M&A target, if we have anything in mind, it's unfortunately something that I cannot answer right now. But I can tell you, that we do have a strategy and we are constantly evaluating and considering the market conditions. What we have already announced is our agreement with PIF, that we are working on.

And about Brazil, before I turn the floor over to Sidney, we cannot give you precise information about our expectations and the strategic plan that we have regarding in natura, processed and things like that. But he can give you a bit more details about the market.

Sidney Manzaro:

Thiago, let me go back to a point I addressed when answering Isabella's question. This is the hourglass effect that we see in the market. There is demand of both sides, and we are increasingly prepared to capture it and to make the most of that.

So there is some public information. We have a plant in Seropedica that is expanding with capacity for sausages, and we are also advancing in value-added products with poultry, ready meals and pork.

So, there is not one single behavior in the market. That's my take home message here. You have different perspectives depending on the context. As consumer may compare poultry and pork, and think that is a trade-down compared to beef. But compared to restaurants, that can be considered actually a trade up.

So it's really important that we have a deep knowledge of the chain, and especially of consumers. The more we study and understand the behavior of consumers and consumption situations, the more prepared we are to deal with these situations. And here we have not only this deep knowledge, but we also have brands that talk to all consumers and all consumptions situations, and that makes us more and more resilient to market oscillations or fluctuations.

Gustavo Troyano, Itaú BBA:

Good morning, everyone. My question is more related to the international scenario and the geopolitical tensions that we are seeing. Are there opportunities and challenges that may come from possible sanctions that may be put in place? And how can we look at this in the P&L of the companies, especially considering the relevance of Ukraine in the global trade? Ukraine is an important chicken exporter to the Middle East. So have you seen changes in the export flows to those regions, and are there opportunities that may arise because of that, especially considering the supply of chicken in these operations where you also operate?

Lorival Luz:

Thank you, Gustavo. That’s an excellent point, and a very topical point. Something that is unfolding right now as we speak. So the first thing I would like to say is that we hope that the situation does not get more severe. We hope that the situation may be resolved with dialogue, peacefully, without any type of actual conflict.

So although the scenario may present us with opportunities, I hope that the opportunities will come from a different situation and not from a possible war there. This is just my personal wish.

You mentioned something important: Ukraine is a chicken exporter today, and the chicken feed comes from sunflower seeds, not necessarily corn. So yes, there is an impact, and there might be other limitations in the flow of transportation, there might be some economic, financial sanctions that are put in place.

So we are keeping an eye on this. We have a team there, Michele and Igor, they are monitoring this. We have operations in Turkey that are being monitored when it comes to supply and exports.

So yes, that's a topical issue. I do not want to say that our Company can benefit from this because that's not what we would like to happen in a situation like this. But of course we are monitoring the whole situation with an eye on all of those aspects. One of them is chicken production that may be affected indeed. And we will also have a matter of Russia with sanctions, and gas, and oil supply.

So there is a complex scenario involving these countries. We are monitoring that and we will try as much as we can to supply the regions affected for any reason. So we are working hard to be able to supply to all of those regions. But we will see how things unfold, and then we will be able to give you further details about that.

Operator:

Ladies and gentlemen, thank you very much for all of your questions. I would like to ask Mr. Lorival to give us his final remarks so that we can close this earnings conference call.

Lorival Luz:

Thank you so much for joining us in our earnings release conference call. I would like to thank our shareholders and our Board for all the support, and thank all of our employees for their efforts, their commitments, as well as our suppliers and the trust of our consumers and clients.

Thank you very much, and we will see you again when we release our earnings of the 1Q22. Thank you very much.