

JBS S.A.

JBS USA, LLC; JBS USA Finance, Inc.; JBS Finance II, LTD

Full Rating Report**Ratings****JBS S.A.****Foreign Currency**

Long-Term IDR	BB-
Senior Unsecured	BB-

Local Currency

Long-Term IDR	BB-
Senior Unsecured	BB-

JBS USA

Long-Term IDR	BB-
Senior Unsecured	BB-

National

Long-Term Rating	A-(bra)
Senior Unsecured	A-(bra)

IDR – Issuer default rating.

Rating Watch

Long-Term Foreign Currency IDR	Negative
Long-Term Local Currency IDR	Negative
National Long-Term Rating	Negative

Financial Data**JBS S.A.**

(BRL Mil.)	3/31/13	3/31/12
Revenue	79,213	63,135
EBITDA	4,545	2,965
Cash Flow from Operations	3,039	420
FCF	(43)	(760)
Cash and Marketable Securities	5,517	5,151
Total Debt/EBITDA (x)	4.7	6.4
Net Debt/EBITDA (x)	3.5	4.6

Related Research

2013 Outlook: Brazil Protein (February 2013)

Analysts

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Key Rating Drivers

Negative Rating Watch: Fitch Ratings placed the ratings of JBS S.A. (JBS) on Rating Watch Negative on June 12, 2013, following the announcement that the company will acquire assets from Marfrig Alimentos S.A. (Marfrig). Payment for these assets will be in the form of assuming BRL5.85 billion (USD2.9 billion) of Marfrig's bank debt. The key assets in the transaction were Marfrig's Seara Brazil (Seara) business.

High Leverage, Negative FCF: Seara's acquisition is fully debt-financed and in Fitch's estimation will increase JBS's net debt/EBITDA leverage to above 4.0x at year-end 2013, more than one turn above Fitch's expectations for the company's net debt/EBITDA ratio of 3.0x. Fitch expects Seara's FCF generation to be negative during 2013, considering the investments required to integrate the assets it received in the middle of 2012 from BRF S.A. as part of an asset swap between the two companies. This will result in a drag on JBS's cash flow, which had been expected to be slightly positive in 2013.

Solid Business Profile: JBS's credit ratings are supported by a strong business profile. The company is the world's largest beef and leather producer. With the acquisition of Seara, it will also become the world's largest producer and exporter of chicken. Though domiciled in Brazil, the company has a significant footprint in the U.S., and Fitch estimates that about 74% of revenues come from the U.S. and Australia. The company's product and geographic diversification helps mitigate the risks related to disease and trade restrictions.

Above-Average Industry Risk and Acquisition Profile: By nature, the protein industry is volatile and exposed to fluctuations in commodity prices. JBS's aggressive attitude toward growth through acquisitions amplifies that risk. While its business profile has benefited from improved diversification through past acquisitions, financial and event risk remain high.

Equity Financing: JBS's credit quality benefits from the implicit support of the Brazilian development bank's investment arm (BNDESPar), which directly and indirectly holds 23% of the equity of the company. The founding family, through its controlling share of FB Participações S.A. and Banco Original, controls 44% of JBS's shares. The company's ability to finance part of its expansion with equity benefited its capital structure, avoiding peaks in leverage.

Rating Sensitivities

A downgrade could be precipitated by a weakening of the company's leverage metrics and cash flow generation beyond those expected for the Seara transaction.

The rating could be removed from Negative Watch and stabilized if the capital structure of JBS pro forma for this transaction turns out to be less leveraged than anticipated. Operational improvements and synergies from the transaction would be positive, as would an equity injection.

Financial Overview

Liquidity and Debt Structure

JBS continues to have adequate financial flexibility due to its manageable debt-maturity profile and its healthy liquidity position. The company has been successful at issuing long-term debt in order to lengthen its debt amortization profile.

Liquidity is supported by BRL5.5 billion of cash and marketable securities as of March 31, 2013, which compares with BRL5.9 billion of short-term debt (28% of total debt). Refinancing risks are manageable, considering that about 65% of short-term debt corresponds to trade finance lines that support export activity, and are secured by and repaid with export receivables.

JBS seeks to maintain cash balances equal to about 1.0x annual EBITDA to support its working capital requirements. JBS USA also has about USD476 million available under its asset-based loan (ABL) facility. As of March 31, 2013, PPC had availability of USD578 million under a separate revolver.

Debt Maturities and Liquidity

(Year end March 31, 2013)

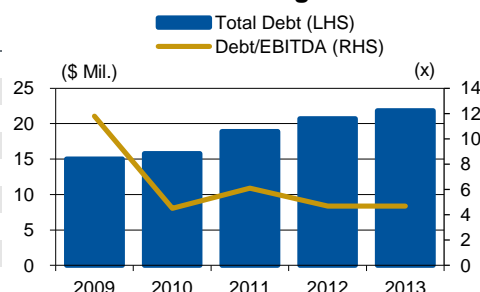
BRL Mil.

Debt Maturities

Short Term	5,901
2014	3,571
2015	1,411
2016	2,731
2017	180
After 2017	7,400
Cash and Marketable Securities	5,516
Undrawn Committed Facilities	1,054

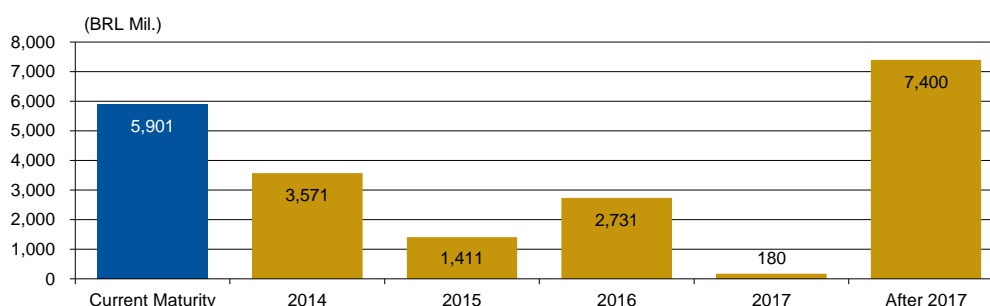
Source: JBS S.A., Fitch

Total Debt and Leverage



Source: JBS S.A., Fitch.

Debt Maturity Schedule



Source: JBS S.A.

Related Criteria

Corporate Rating Methodology
(August 2012)

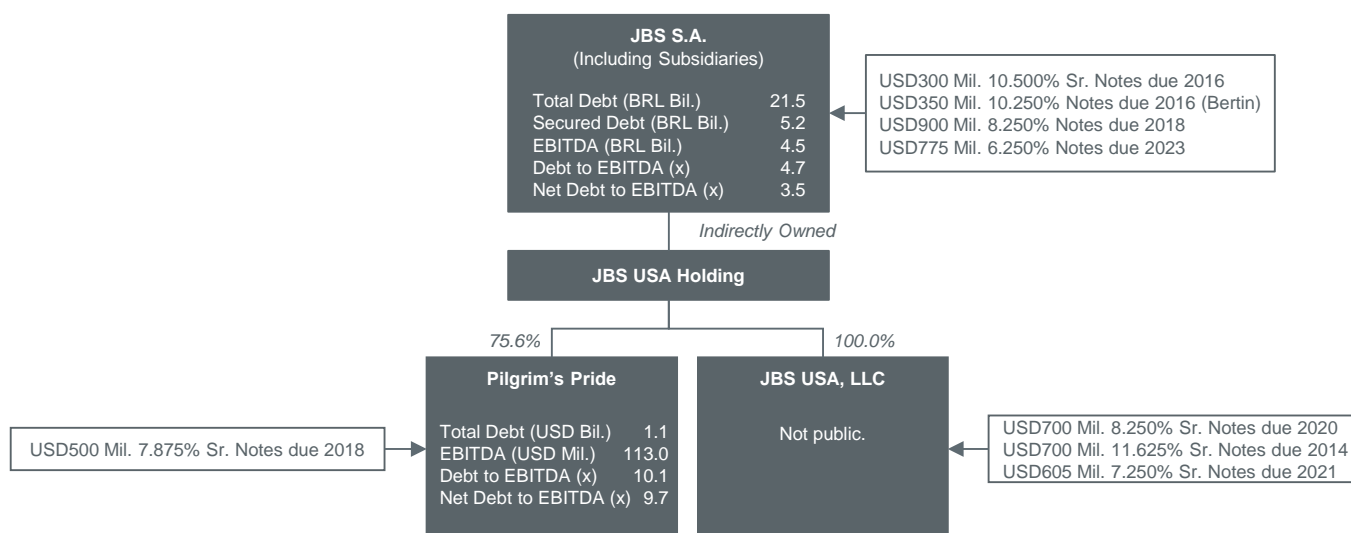
Capital Structure

JBS's capital structure is relatively complex, with about 59% of debt at JBS S.A. level and 41% at various operating subsidiaries, or at off-shore finance companies. With the addition of Seara and the assumption of its debt, the percentage of debt residing in its subsidiaries will increase to about 60%, assuming most of the assumed debt will continue to reside at Seara.

The preponderance of JBS's debt is unsecured, with secured debt representing less than 25% of total debt. About 44% of the company's total debt is publicly traded. The currency composition of the debt matches JBS's revenue streams. As of March 31, 2013, U.S. dollar-denominated debt represented about 78% of total debt, roughly matching the importance of JBS's business in the U.S. The new assumed debt of Seara is reportedly evenly divided between Brazilian reals and U.S. dollars, which matches Seara's revenue profile of 50% domestic and 50% export sales.

Debt Structure Pro Forma the Debt Rebalancing

(LTM As of March 31, 2013)



Source: JBS S.A.

Recent Developments

Acquisition of Seara and Negative Credit Watch

During its review, Fitch will focus on assessing the benefits JBS will receive from increased diversification against the risks of a more leveraged capital structure. The ratings review will also consider JBS's short- to medium-term strategy for improving Seara's operating performance, including additional investments and expected synergies. The composition and the term structure of JBS's debt will also be considered, along with any possible refinancing of the assumed debt.

The Seara transaction appears to be an opportunistic acquisition of desirable, though troubled, assets for a price that, in Fitch's opinion, assumes a rapid and material improvement in Seara's performance. Fitch estimates 2013 EBITDA of the acquired assets to be about BRL600 million. Fitch expects Seara's FCF generation to be negative during 2013, considering the investments required to integrate the assets acquired in the middle of 2012 from BRF S.A. as part of an asset swap between the two companies.

The acquisition is fully debt financed and in Fitch's estimation will increase JBS's net debt-to-EBITDA leverage to above 4.0x, more than one turn above Fitch's prior expectation of 3.0x for 2013. While Fitch previously expected JBS to generate positive FCF in 2013, the addition of Seara and the related investments will likely lead to negative FCF for JBS in 2013 and possibly 2014.

Peer and Sector Analysis

Peer Group

Issuer	Country
BBB-	
BRF S.A.	Brazil
B+	
Minerva S.A.	Brazil
B	
Marfrig Alimentos S.A.	Brazil

Issuer Rating History

Date	LT IDR (FC)	Outlook/ Watch
June 12, 2013	BB-	RWN
April 8, 2013	BB-	Stable
Aug. 16, 2012	BB-	Negative
May 11, 2012	BB-	Stable
May 13, 2011	BB-	Stable
July 21, 2010	BB-	Stable
Sept. 16, 2009	B+	RWP
Nov. 25, 2008	B+	Stable

RW – Denotes Rating Watch.
Source: Fitch.

Peer Group Analysis

(BRL 000)	BRF S.A.	JBS S.A.	Minerva S.A.	Marfrig Alimentos S.A.
LTM as of	03/31/2013	3/31/2013	03/31/2013	03/31/2013
Long-term IDR	BBB-	BB-	B+	B
Outlook	Rating Outlook Negative	Rating Watch Negative	Rating Outlook Stable	Rating Watch Negative

Financial Statistics

Revenue	29,389,157	79,213,206	4,630,814	24,916,823
YoY Revenue Growth (%)	12.94	25.47	14.60	13.96
EBITDA	2,627,367	4,545,184	492,618	2,056,603
EBITDA Margin (%)	8.94	5.74	10.64	8.25
Free Cash Flow	(250,658)	(42,580)	170,905	(842,435)
Total Adjusted Debt	10,419,145	21,816,489	2,555,385	13,723,852
Cash and Cash Equivalents	1,381,318	5,516,914	773,860	1,441,826
Funds Flow from Operations	2,329,844	3,038,532	509,819	791,172
Capex	(2,349,215)	(1,609,932)	(136,746)	(916,487)
Net Equity Proceeds	(5,483)	1,680	381,653	(5,338)

Credit Metrics (x)

EBITDA/Gross Interest Coverage	4.42	2.69	1.77	1.16
FFO Adjusted Leverage	3.28	4.55	3.24	5.31
Adjusted Debt/EBITDAR	3.61	4.73	5.19	6.60
FFO Interest Coverage	4.92	2.80	2.83	1.45
Capex/Revenues	(0.08)	(0.02)	(0.03)	(0.04)
FCF/Total Debt with Equity Credit	(0.03)		0.07	(0.06)

YoY – Year over year.

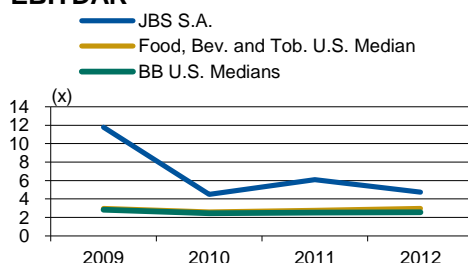
Source: Fitch, Company financials

Definitions

- **Leverage:** Gross debt plus lease adjustment minus equity credit for hybrid instruments plus preferred stock divided by FFO plus gross interest paid plus preferred dividends plus rental expense
- **Interest Cover:** FFO plus gross interest paid plus preferred dividends divided by gross interest paid plus preferred dividends
- **FCF/Revenue:** FCF after dividends divided by revenue
- **FFO/Debt:** FFO divided by gross debt plus lease adjustment minus equity credit for hybrid instruments plus preferred stock

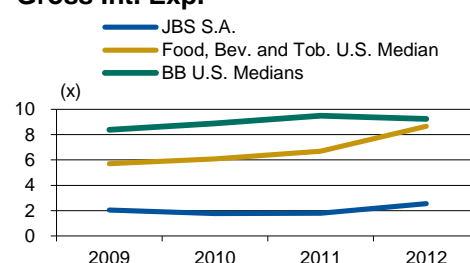
Key Metrics

Leverage: Total Adj. Debt/Op. EBITDAR



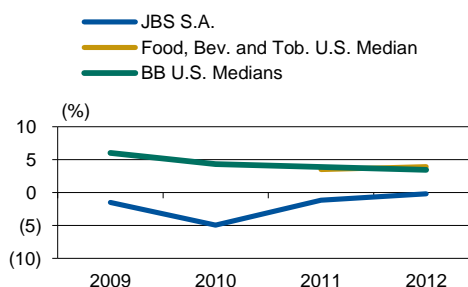
Source: JBS S.A., Fitch

Int. Coverage: Op EBITDA/ Gross Int. Exp.



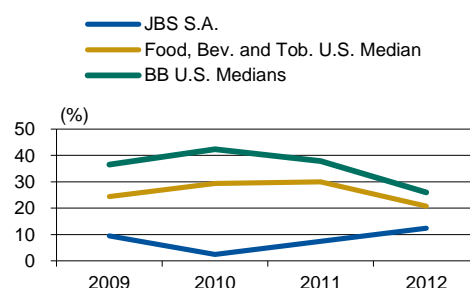
Source: JBS S.A., Fitch

FCF/Revenues



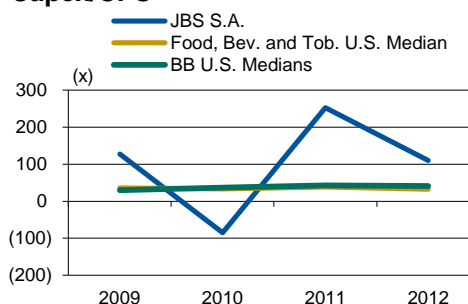
Source: JBS S.A., Fitch.

FFO/Debt



Source: JBS S.A., Fitch

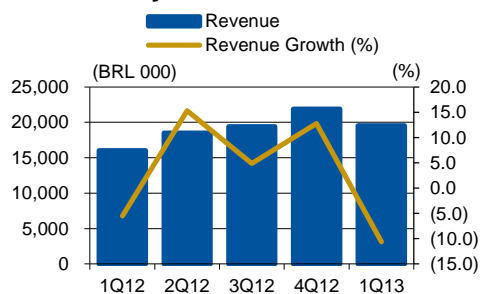
Capex/CFO



Source: JBS S.A., Fitch.

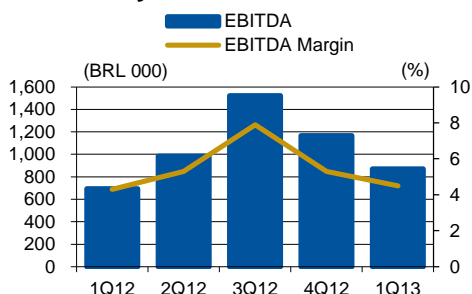
Business Trends

Revenue Dynamics



Source: Company data, Fitch.

EBITDA Dynamics



Source: Company data, Fitch.

Financial Summary — JBS S.A.

(BRL 000s)	2009	2010	2011	2012	LTM Ended 3/31/2013
Profitability					
Operating EBITDA	1,274,346	3,512,782	3,104,698	4,368,405	4,545,184
Operating EBITDAR	1,274,346	3,512,782	3,104,698	4,368,405	4,615,179
Operating EBITDA Margin	3.71	6.38	5.02	5.77	5.74
Operating EBITDAR Margin	3.71	6.38	5.02	5.77	5.83
FFO Return on Adjusted Capital (%)	6.30	6.90	7.73	10.12	11.02
Free Cash Flow Margin (%)	(1.49)	(4.97)	(1.15)	(0.19)	(0.05)
Return on Average Equity (%)	1.10	(1.68)	(1.60)	3.34	3.90
Coverage (X)					
FFO Interest Coverage	3.27	1.20	1.81	2.50	2.80
Operating EBITDA/Interest Expense	2.04	1.76	1.79	2.56	2.69
Operating EBITDAR/Interest Expense + Rents	2.04	1.76	1.79	2.56	2.63
Operating EBITDA/Debt Service Coverage	0.20	0.49	0.44	0.55	0.59
Operating EBITDAR/Debt Service Coverage	0.20	0.49	0.44	0.55	0.59
FFO Fixed Charge Coverage	3.27	1.20	1.81	2.50	2.73
FCF Debt Service Coverage	0.02	(0.10)	0.14	0.20	0.21
(FCF + Cash and Marketable Securities)/Debt Service Coverage	0.80	0.46	0.89	0.88	0.93
Cash Flow from Operations/Capital Expenditures	0.79	(1.18)	0.40	0.91	0.97
Capital Structure and Leverage (x)					
FFO Adjusted Leverage	7.37	6.63	6.03	4.86	4.55
Total Debt with Equity Credit/Operating EBITDA	11.79	4.49	6.08	4.74	4.72
Total Net Debt with Equity Credit/Operating EBITDA	7.89	3.33	4.38	3.51	3.51
Total Adjusted Debt/Operating EBITDAR	11.79	4.49	6.08	4.74	4.73
Total Adjusted Net Debt/Operating EBITDAR	7.89	3.33	4.38	3.51	3.53
Implied Cost of Funds (%)	5.18	10.56	9.09	8.63	8.37
Secured Debt/Total Debt	—	—	—	—	—
Short-Term Debt/Total Debt	0.31	0.27	0.28	0.30	0.28
Balance Sheet					
Total Assets	42,489,092	44,529,225	47,410,884	49,756,193	50,800,532
Cash and Marketable Securities	4,962,519	4,063,833	5,288,194	5,383,087	5,516,914
Short-Term Debt	5,699,606	5,236,994	5,350,022	6,211,610	6,013,867
Long-Term Debt	12,782,917	13,985,655	13,534,809	14,485,188	15,452,647
Total Debt	18,482,523	19,222,649	18,884,831	20,696,798	1,466,514
Equity Credit	3,462,212	3,462,212	—	—	—
Total Debt with Equity Credit	15,020,311	15,760,437	18,884,831	20,696,798	21,466,514
Off-Balance Sheet Debt	—	—	—	—	349,975
Total Adjusted Debt with Equity Credit	15,020,311	15,760,437	18,884,831	20,696,798	21,816,489
Total Equity	17,369,340	18,694,849	21,599,188	21,433,306	21,728,520
Total Adjusted Capital	32,389,651	34,455,286	40,484,019	42,130,104	43,545,009
Cash Flow	—	—	—	—	—
Funds from Operations	1,415,302	387,656	1,399,538	2,553,622	3,038,532
Change in Operating Working Capital	13,251	(1,869,135)	(935,422)	(1,081,366)	(1,471,180)
Cash Flow from Operations	1,428,553	(1,481,479)	464,116	1,472,256	1,567,352
Total Non-Operating/Non-Recurring Cash Flow	—	—	—	—	—
Capital Expenditures	(1,817,389)	(1,257,374)	(1,173,780)	(1,619,393)	(1,609,932)
Dividends	(122,953)	—	—	—	—
Free Cash Flow	(511,789)	(2,738,853)	(709,664)	(147,137)	(42,580)
Net Acquisitions and Divestitures	(3,945,740)	—	(34,584)	(21,355)	(21,355)
Other Investments, Net	—	(338,119)	504,002	(229,546)	(510,163)
Net Debt Proceeds	1,407,992	677,040	1,307,860	372,603	856,162
Net Equity Proceeds	2,527,354	1,386,272	—	—	1,680
Other Financing, Net	3,385,845	9,963	3,610	120,328	136,740
Total Change in Cash	2,863,662	(1,003,697)	1,071,224	94,893	420,484
Income Statement					
Net Revenues	34,311,806	55,055,802	61,796,761	75,696,710	79,213,206
Revenue Growth (%)	13.09	60.46	12.24	22.49	25.47
Operating EBIT	930,755	2,286,482	1,813,287	2,754,695	2,787,511
Gross Interest Expense	623,783	1,991,021	1,730,980	1,708,611	1,687,828
Rental Expense	—	—	—	—	69,995
Net Income	129,424	(302,748)	(322,885)	718,938	845,086

Source: JBS S.A.

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