MOODY'S
INVESTORS SERVICE

Credit Opinion: JBS S.A.

Global Credit Research - 26 Aug 2013

Sao Paulo, Brazil

Ratings

Category	Moody's Rating
Outlook	Negative
Corporate Family Rating -Dom Curr	Ba3
Bkd Senior Unsecured	Ba3
JBS USA, LLC	
Outlook	Negative
Sr Sec Bank Credit Facility	Ba2
Bkd Senior Unsecured	Ba3
JBS Finance II Ltd.	
Outlook	Negative
Bkd Senior Unsecured	Ba3
Pilgrim's Pride Corporation	
Outlook	Rating(s) Under Review
Corporate Family Rating	*B2
Senior Unsecured	*Caa1/LGD5
Speculative Grade Liquidity	SGL-1
Bertin S.A.	
Outlook	Negative
Bkd Senior Unsecured	Ba3

* Placed under review for possible upgrade on August 22, 2013

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Key Indicators

JBS S.A. (BR GAAP)[1]

	6/30/2013(L)	12/31/2012	12/31/2011	12/31/2010	12/31/2009
CFO/Net Debt	**12.1%**	**9.7%**	**5.1%**	**-9.5%**	**16.2%**
Debt/EBITDA	**4.7x**	**4.3x**	**5.5x**	**4.9x**	**8.5x**
RCF/Net Debt	**21.4%**	**20.2%**	**14.9%**	**4.7%**	**-3.0%**
EBITA/Interest Expense	**2.2x**	**1.9x**	**1.3x**	**1.3x**	**2.0x**
(RCF - CAPEX)/Debt	**9.7%**	**7.4%**	**4.6%**	**-2.9%**	**-14.5%**

[1] All ratios are calculated using Moody's Standard Adjustments.

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Rating Drivers

- Large scale and global strength of operations as the world's largest animal protein producer

- Favorable fundamentals for the beef segment in Brazil and poultry business in the US, but US Beef operations likely to remain under pressure

- Recent announced acquisition of Seara Brasil and Zenda units to bring further diversification , but also execution risk

- Improved credit metrics and adequate liquidity but there will be some pressure in the short-term due to integration of recent acquisitions

- Subject to the Inherent volatility of the protein industry

- The presence of BNDESPAR as a shareholder is a credit positive

Corporate Profile

Headquartered in São Paulo, Brazil, JBS S.A. ("JBS") is the world's largest protein producer in terms of revenues, slaughter capacity and production. It is the leader beef, chicken and leather player and a leading lamb producer on a global basis, besides being the third largest pork producer in the USA. The company has large scale and diversification, with presence in more than 100 countries.

Consolidated net revenues totaled BRL 82.7 billion for the last twelve months period ended June, 2013, with adjusted EBITDA margin of 7.3% in the same period. JBS USA, represented by beef operations in the US and Australia, is the company's largest business segment, representing 45% of total revenues. JBS Mercosul, represented by beef and, more recently, poultry operations mainly in Brazil, accounts for 25% of revenues. Pilgrim's Pride, the company's poultry business in the US, accounts for 21%, while the US Pork business contributes with 9%.

SUMMARY RATING RATIONALE

JBS' Ba3 ratings reflect the improvement in the company´s credit metrics over the last few quarters, particularly the strong performance of the Brazilian beef segment and the more recent recovery in its US poultry division. The company´s ratings are also supported by the global strength of its operations as one of the world´s largest protein producers and by its diversification in terms of protein products, raw material sourcing, and sales.

Offsetting these positive attributes is the inherent volatility of the protein industry, which is subject to risk factors such as animal cycles and diseases, weather conditions and supply imbalances. Additionally, the company's aggressive growth strategy, in the form of several acquisitions made over the years, also pose additional constraint for the ratings.

DETAILED RATING CONSIDERATIONS

LARGE SCALE AND GLOBAL STRENGTH OF OPERATIONS AS THE WORLD'S LARGEST ANIMAL PROTEIN PRODUCER

JBS' large scale and global strength of operations are key factors supporting the company's Ba3 rating. With revenues of BRL 82.7 billon for the last twelve months period ended in June, 2013, JBS is one of the world's largest protein producers. The company has operations in the beef, poultry, pork, lamb, leather and more recently processed food segment. Its production units are spread out in five continents. In terms of sales, JBS exports to more than 150 countries, with no single country representing more than 15% of total export revenues.

In Moody's view the diversification in terms of business segments, raw material sourcing and revenues are important factors supporting the ratings of protein players, since they are subject to risk factors such as animal cycles and diseases, weather conditions and supply imbalances. In this sense, diversification can mitigate the impact of changes in demand in a specific country or region or even fluctuations in raw material sourcing.

FAVORABLE FUNDAMENTALS FOR THE BEEF SEGMENT IN BRAZIL AND POULTRY DIVISION IN THE US, BUT JBS USA'S BEEF OPERATIONS LIKELY TO REMAIN UNDER PRESSURE

JBS Mercosul, which generated 54% and 25% of the group's consolidated EBITDA and sales streams for the last twelve months period ended in June, 2013 should continue to support the company's operating performance, in light of the cattle herd expansion that translates into lower cattle prices in the country. There are some early signs that Brazil's current favorable cycle conditions may be peaking and, although we don't expect further price declines, they are expected to remain at relatively low levels for the next several quarters. Therefore, Brazilian beef operations should keep supporting the group's performance, with sustainable margins as a result of both lower cattle prices and more efficient utilization rates.

Pilgrim's Pride is also in a good momentum. Following a period of pressured margins due to the spike in grains prices during 2012, the company is now benefiting from a more normalized commodity price environment, which is allowing for the recovery in its profitability levels. Also, industry scenario is currently disciplined in terms of supply and demand conditions.

Nevertheless, the US beef market, the company's main operating segment, is expected to remain under pressure over the next several quarters, due to the unfavorable cattle cycle momentum in the country. Although supply and demand conditions have slightly improved in early 2013, following the closing of a Cargill's slaughtering unit in the country and the decrease in export restrictions to Japan, we still anticipate potential earnings pressure coming from the region.

RECENT ANNOUNCED ACQUISITION OF SEARA BRASIL AND ZENDA UNITS TO BRING FURTHER DIVERSIFICATION, BUT ALSO EXECUTION RISK

In June, 2013 JBS announced the acquisition of Seara Brasil and Zenda units for a total BRL 5.85 billion to be paid through the assumption of Marfrig's bank debt maturing between 2013 and 2017. The acquisition is still pending on the approval from CADE, the Brazilian anti-trust committee.

Seara Brasil posted revenues of BRL 7.2 billion in 2012 and is focused on the production and commercialization of in natura poultry and processed foods. Zenda, on the other hand, is a small leather unit located in Uruguay, with annual revenues of approximately BRL 250 million and EBITDA margins of about 10%.

JBS entered the poultry business in 2009, with the acquisition of a controlling stake in the US based Pilgrim's Pride. In 2012, JBS initiated its poultry operations in Brazil, through the lease of plants from Doux Frangosul and in 2013 the company announced the acquisition of Agroveneto. Following the acquisition of Seara Brasil, JBS will become an increasingly relevant player in the global poultry business.

Seara is the second largest fresh poultry producer in the country after BRF (Baa3 stable) and has a daily slaughter capacity of 2.6 million birds and. The segment represented 54% of the company's sales in 2012.

In the case of processed products, which represent 34% of revenues, Seara has 32 production units, 21 distribution centers, a well known brand and several product lines, including hamburgers, sausages, frozen pizza and nuggets. In this segment, we view potential for Seara becoming a larger and stronger competitor overtime, but to accomplish that JBS will face the challenges of integrating and improving its logistics, distribution systems, working capital management, and market positioning, among others.

Nevertheless, although the acquisition of Seara should further strengthen JBS' position as a global and diversified protein player, in the short-term it will negatively impact the company's credit metrics, as a result of the assumption of BRL 5.85 billion in debt, but also of additional working capital needs and integration costs.

SUBJECT TO THE INHERENT VOLATILITY OF THE PROTEIN INDUSTRY

The protein industry is intrinsically volatile and susceptible to commodity cycles and supply-demand conditions for each specific protein. Accordingly, history shows that a situation where all the proteins are performing well in all the regions at the same time is very unlikely.

In this sense, JBS' diversified profile is viewed as a credit positive, as the company's outperforming segments can mitigate the pressured results of the underperforming ones. Additionally, the recent entrance in the processed food product category, through the proposed acquisition of Seara, is also viewed as a positive rating factor, to the extent that its potential higher and more stable margins could help offseting the higher volatility in the more commoditized types of products.

IMPROVED CREDIT METRICS, ADEQUATE LIQUIDITY AND POSITIVE FREE CASH FLOW GENERATION

With cash position of BRL 7.2 billion at the end of June, 2013, JBS' liquidity is considered adequate, covering 85% of the reported short-term debt. Moreover, the company has USD 1.2 billion in available committed facilities in its foreign subsidiaries.

In addition to that, the company has been focused on deleveraging, mainly as a result of a more robust EBITDA coming from its operating units. JBS' improved performance and enhanced working capital management during 2012 and early 2013 resulted in positive free cash flow generation after capex and dividends for the last twelve months period ended in June, 2013.

Nevertheless, in light of the recent acquisitions of Seara Brasil and Zenda, we expect JBS' metrics to be pressured in the short-term, reflecting the BRL 5.85 billion debt assumption and also higher expenses and working capital needs for the integration and improvement of the operating performance of the acquired units. So far, the company announced to the market that (i) it has already been able to renegotiate most of the debt involved in the deal in order to reduce interest cost and increase average maturity; and (ii) no more than 30% of its total debt should be concentrated in the short-term. We expected Adjusted Debt-to-EBITDA ratio to reach up to 4.7x in 2013, compared to 4.3x in 2012.

Going forward, we will monitor the company´s commitment to reduce its financial leverage, post positive free cash flow and maintain liquidity at near current levels, while integrating recently acquired assets.

THE PRESENCE OF BNDESPAR AS A SHAREHOLDER IS A CREDIT POSITIVE

Moody's regards as a credit positive the presence of BNDESPar, the equity arm of the National Development Bank - BNDES, in its shareholding structure. BNDES currently holds a 20% stake of JBS' total shares. BNDES has a positive track record for supporting Brazilian companies, being a source of cheaper local currency and longer term debt.

Corporate Governance

JBS is a publicly owned company, controlled by the Batista family, with shares listed in BM&FBovespa since 2007. The company is part of the Novo Mercado, which has the highest level of corporate governance standards in Brazil. In Moody's view, JBS' financial disclosure is comparable to some of its higher rated peers.

JBS' board of directors is composed of eight members, of which three are independent members. JBS also has an Audit Committee composed of six members, a Financial and Risk Management Committee composed of six members, a Human Resources Committee composed of six members, a Sustainability Committee composed of eight members, as well as a Fiscal Council to support Board's decisions composed of four members.

In our view, one the main risks related to JBS' corporate governance is attributable to its aggressive growth strategy, as M&A activity is part of the company's DNA. Going forward, we will continue monitoring JBS' financial policies, growth strategy, leverage policy and more specifically its appetite for further acquisitions.

Rating Outlook

The outlook indicates that Moody's will monitor the company´s commitment to reduce its financial leverage, post positive free cash flow and maintain liquidity at near current levels, while integrating recently acquired assets.

What Could Change the Rating - Up

An upgrade to the ratings could occur if JBS reports stronger and less volatile consolidated cash flows and proves able to improve operating margins. An upgrade would require the company to report consistently healthy free cash flow, while maintaining RCF to Net Debt above 22% and adjusted Debt-to-EBITDA below 6.5x on a sustained basis.

What Could Change the Rating - Down

A downgrade to the rating could be caused by sustained financial leverage, a weaker liquidity profile, or if the company fails to generate free cash flow on a consistent basis. Quantitatively, a downgrade could occur if Debt-to-EBITDA is sustained above 4.0x, EBITA/Interest below 2.0x or RCF to Net Debt below 15%. All credit metrics are adjusted according to Moody´s standard adjustments and definitions.

Rating Factors

JBS S.A.

Protein and Agriculture [1][2]	**Current LTM 06/30/2013**			[3]**Moody's 12-18 Months Forward View As of 08/20/2013**	
Factor 1: Protein and Agriculture Industry (20,0%)	**Measure**	**Score**		**Measure**	**Score**
a) Total sales USD Billion (10,0%)	$40.59	Aa		$ 40.0 - $ 50.0	Aa
b) Geographic diversification (5,0%)	Ba	Ba		Ba	Ba
c) Segment diversification (5,0%)	A	A		A	A
Factor 2: Franchise, Strenghth & Growth Potential (25,0%)					
a) Market share (5,0%)	A	A		A	A
b) Product portfolio profile (10,0%)	B	B		B	B
c) Earnings Stability (10,0%)	B	B		B	B
Factor 5: Financial Policy (15,0%)					
a) Financial policy (15,0%)	B	B		B	B
Factor 6: Financial Measures (40,0%)					
a) CFO / Net Debt (10,0%)	12.1%	B		10.0% - 15.0%	B
b) Debt / EBITDA (10,0%)	4.70	B		4.0x - 6.0x	B
c) EBITA / Interest Expense (10,0%)	2.20	B		1.5x - 2.5x	B
e) Debt / Book Capitalization (10,0%)	53.8%	Ba		45.0% - 60.0%	Ba
Rating:					
a) Indicated Rating from Grid	Ba2	Ba2		Ba2	Ba2
b) Actual Rating Assigned	Ba3	Ba3		--	--

[1] All ratios are calculated using Moody's standard accounting adjustments [2] Based on financial data as of the last twelve months period ended in June, 2013 [3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures

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