Moody's Investors Service

Global Credit Research
Rating Action
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Rating Action: Bertin Ltda.

Moody's affirms Bertin's Ba3 ratings and places Vigor's B2 ratings under review for possible upgrade

Sao Paulo, November 27, 2007 -- Moody's Investors Service affirmed the ratings of Bertin Ltda (corporate family Ba3) and placed the ratings for S.A. Fabrica de Produtos Alimenticios Vigor ("Vigor", corporate family rating B2) under review for possible upgrade following the announcement that Bertin Ltda.'s wholly-owned subsidiary, Bertin S.A., reached an agreement to acquire 56% of Vigor's voting shares (42% total capital) through its holding company, Goult Participacões Ltda., which owned 74.69% of Vigor's total capital and 98% of its voting shares.

Ratings affirmed:

- Bertin Ltda.'s Corporate Family Rating: Ba3

- USD 120 million 8.5% senior unsecured notes due 2008: Ba3

- USD 350 million 10.25% senior unsecured notes due 2016: Ba3

The outlook for Bertin's ratings is stable.

Ratings placed under review for possible upgrade:

- Vigor's Corporate Family Rating: B2

- USD 100 million 9.25% senior unsecured notes due 2017: B2

"The affirmation of Bertin's rating is primarily based on Moody's expectation that Bertin´s total debt to EBITDA will remain below 5 times and net debt to EBITDA below 3 times after the Vigor acquisition and that the execution risks of successfully integrating Vigor will be largely mitigated by Bertin's improved size, scale, further diversification of products and expected synergy opportunities", said Moody´s AVP-Analyst, Soummo Mukherjee. "We note, however, that Bertin is entering an entirely new segment with this acquisition, so to the extent that integration challenges are greater than expected leading to deterioration of Bertin's current credit metrics, current rating or outlook could come under downward pressure", adds Mukherjee.

"Meanwhile, the decision to place Vigor's ratings on review for possible upgrade is supported by the improvement of Vigor's operating margin and leverage in 2007; the expected benefits of being part of a larger, higher-rated company with greater financial flexibility; as well as the benefits of scale and synergy opportunities of the combined companies", affirmed Mukherjee.

We note that Bertin has successfully completed the restructuring that involved the transfer of substantially all of the assets and liabilities of Bertin Ltda, except for the ones related to its personal protective equipment division and some other non-core assets such as biodiesel, to a newly created and wholly-owned subsidiary, Bertin S.A.. As part of the restructuring, Bertin also obtained consent from the holders of its USD 350 million 10.25% Notes due 2016 and its USD 120 million 8.5% Senior Notes due 2008 ("rated bonds") to: a) change the issuer from Bertin Ltda. to Bertin S.A. for both notes; b) add Bertin Finance. Ltd., a wholly-owned subsidiary of Bertin S.A. to be organized as a limited liability company in the Cayman Islands, as a co-issuer of the 2016 notes; and, c) make Bertin Ltda. an unconditional guarantor of both 2008 and 2016 notes.

The acquisition of a majority stake in Vigor fits Bertin´s strategy of becoming one of the largest well-diversified and vertically-integrated animal protein companies in the world. While diversification can help to mitigate earnings volatility, Moody's is concerned Bertin could stretch its operational, financial and managerial resources.

Despite Vigor's relatively small size compared to its global peers, the company has leading market share in some products and a number of well known brands in the Brazilian market such as Vigor, Leco, Danubio, Faixa Azul and others. However, Vigor is faced with strong competition in some of its product segments from significantly larger and better capitalized multi-national players such as Danone (A3), Kraft (Baa2), Unilever (A1), Nestle (Aa1) and Bunge (Ba1), as well as domestic players such as Sadia (Ba2) and Perdigão (Ba1, owner of Batavo and Eleva).

Vigor's operating margin, coverage and leverage have benefited from its strategy of increasing sales of higher value-added products in the last twelve months ended in September 30th, 2007. In the last twelve months vs. 2006, according to our standard definitions and adjustments, Debt to EBITDA improved to 3.3 times from 4.7 times, EBIT to gross interest improved to 1.2 times from 0.7 times and the EBITDA margin improved to 10.0% from 7.5%. Vigor's review process will examine its ability to pass on higher raw material prices to final consumers in order to sustain its current operating margins as well as the growth strategy and synergy opportunities with Bertin.

The Vigor Group, based in São Paulo, Brazil, and comprised of S.A. Fabrica de Produtos Alimenticios Vigor ("Vigor") and its subsidiaries Dan Vigor (a 50/50 joint venture with Denmark's Arla Foods) and Leco, is a manufacturer of dairy and vegetable oil products in Brazil. The group produces, markets, and sells a diverse range of products including: milk, yogurts, dairy beverages, cheeses, deserts, butter, margarines and mayonnaises.

Bertin Ltda., headquartered in São Paulo, Brazil, is one of the largest beef processing and leather exporting companies in Latin America. In addition, the company owns and operates other facilities to produce raw materials for cleaning products, personal protective equipment, dog toys, cans and packaging materials using by-products of its slaughterhouses.

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