

Rating Action: Moody's assigns B1 rating to Marfrig's USD 500 million proposed notes

Global Credit Research - 26 Apr 2010

Approximately USD 875 million in rated debt affected

Sao Paulo, April 26, 2010 -- Moody's has assigned a B1 foreign currency rating to the proposed senior unsecured guaranteed notes in the amount of USD 500 million maturing in 2020 to be issued by Marfrig Overseas Limited, a wholly owned subsidiary of Marfrig Alimentos S.A. ("Marfrig"). The notes will be guaranteed by Marfrig and all its relevant subsidiaries. At the same time, Marfrig's existing B1 senior unsecured and corporate family ratings were affirmed. The proceeds of this issuance will be mainly used to refinance short term debt and to fund working capital needs. The outlook for the ratings is stable.

Rating assigned is as follows:

USD 500 million senior unsecured guaranteed notes due 2020: B1 (foreign currency)

Ratings affirmed:

- Corporate family rating: B1 (Global scale)
- USD 375 million 9.625% senior unsecured guaranteed notes due 2016: B1 (foreign currency)

The outlook for all ratings is stable.

Marfrig's B1 rating reflects the company's increasingly diversified portfolio of products in five animal proteins (lamb, pork, turkey, poultry and beef), its growing portfolio of brands, its geographic footprint and competitive cost-structure. However, the rating also incorporates Marfrig's currently weak cash flow from operations, relatively high leverage, and the challenges in successfully integrating and improving the margins and cash flow generation of its recent acquisition of Seara.

The proposed USD 500 million notes issuance is part of Marfrig's liability management, around 70% of the proceeds will be used to refinance of part of its short term debt, while the balance will be used to address working capital needs. The B1 rating of the proposed notes assumes that the final transaction documents will not be materially different from draft legal documentation reviewed by Moody's to date and that these agreements are legally valid, binding and enforceable.

In 2009 Marfrig's net revenues increased 55% from a year ago; however, the increase was mostly due to the acquisitions made in the recent past rather than organic growth. More importantly, gross margin and EBITDA margin decreased to 14.5% and 9.7% in 2009 from 21.5% and 16.0% respectively in 2008. The drop in margins were mainly caused by a 25.5% appreciation of the BRL against the USD during the year that, combined with the overall global economic crisis, led to weaker protein (beef, poultry and pork) prices in BRL terms in the export markets. The weaker margins was also due to the consolidation of the European OSI assets that operated with lower margins than Marfrig's average margins for other geographic regions. The weaker EBITDA margins also impacted the company's leverage. Total Adjusted Debt to EBITDA grew to 6.1x from 4.7x in 2008, although we recognize that on a Net Debt to EBITDA basis it decreased to 2.9x from 3.7x in the same period. We expect Marfrig's leverage (Total Debt to EBITDA) to fall back to around 4.5x thanks to the cash flow from Seara and benefits of acquisition synergies. Marfrig's EBITDA is also expected to improve based on the gradual recovery of export market conditions and by the continued growth in the domestic Brazilian market that continues to benefit from higher income levels and per-capita consumption. These factors should offset the overall expected weaker outlook for Marfrig's Argentinean operations this year.

Liquidity improved after the issuance of BRL 1.4 billion in new equity during the 4th quarter of 2009, bringing Marfrig's cash position to around BRL 3.0 billion versus company's BRL 1.6 billion in short term debt maturing in 2010 and 2011. The proposed USD 500 million issuance will further lengthen Marfrig's debt maturity schedule as approximately 70% will be used for short-term debt repayment.

The stable outlook is based on our expectation that Marfrig will remain focused on integrating its newly acquired acquisitions in 2010, while maintaining adequate liquidity.

Marfrig's rating would likely come under downward pressure if the company faces greater than expected integration or operating challenges at Seara that leads Marfrig's EBITDA margins to drop significantly below 10% for two consecutive quarters (margin was 9.7% in 2009). Negative pressure is also likely if Marfrig's liquidity were to deteriorate. Quantitatively, downward pressure on Marfrig's B1 rating or outlook is likely if Total Debt / EBITDA is sustained above 6.0x (6.1x as of 12/31/09), EBITA to gross interest expense falls below 1.0x (1.1x 12/31/09) or if Retained Cash Flow to Net Debt is below 10% (26.1% 12/31/09). All credit metrics are according to Moody's standard adjustments and definitions.

The ratings or outlook could be upgraded if Marfrig is able to better manage its working capital needs, especially after the Seara acquisition, to boost cash flow from operations. An upgrade would also require evidence that the company's integration with Seara is on-track and free cash flow approaches break-even levels. Quantitatively, an upgrade would require CFO/ Net Debt approaching 20% (4.8% 12/31/09) and Total Debt / EBITDA of near 4.0x (6.1x, 12/31/09).

Moody's last rating action on Marfrig was on December 10th, 2009, when we changed Marfrig's rating outlook to stable from negative.

The principal methodology used in rating Marfrig was that for Moody's Global Food — Protein and Agriculture Industry (published in September 2009) and available on www.moody.com in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Rating Methodologies sub-directory on Moody's website.

Marfrig, headquartered in São Paulo, Brazil, is one of the largest animal protein processing companies in Brazil. With processing plants in Brazil, Argentina, Uruguay, Chile, England, Northern Ireland, France, the Netherlands, and USA. Marfrig processes, prepares packages and delivers fresh, chilled and processed beef, pork, chicken and lamb products to customers in Brazil and abroad, with approximately 40% of its sales derived from exports. Along with its beef products, the company also operates a wholesale food distribution business, which delivers additional food products that it imports or acquires in the local market.

Sao Paulo
Soummo Mukherjee
Vice President - Senior Analyst
Corporate Finance Group
Moody's America Latina Ltda.
55-11-3043-7300

New York
Brian Oak
Managing Director
Corporate Finance Group
Moody's Investors Service
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653



© Copyright 2010, Moody's Investors Service, Inc. and/or its licensors including Moody's Assurance Company, Inc. (together, "MOODY'S"). All rights reserved.

CREDIT RATINGS ARE MOODY'S INVESTORS SERVICE, INC.'S ("MIS") CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MIS DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. CREDIT RATINGS DO NOT CONSTITUTE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS ARE NOT RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. CREDIT RATINGS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MIS ISSUES ITS CREDIT RATINGS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL MAKE ITS OWN STUDY

AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT. All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. Under no circumstances shall MOODY'S have any liability to any person or entity for (a) any loss or damage in whole or in part caused by, resulting from, or relating to, any error (negligent or otherwise) or other circumstance or contingency within or outside the control of MOODY'S or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits), even if MOODY'S is advised in advance of the possibility of such damages, resulting from the use of or inability to use, any such information. The ratings, financial reporting analysis, projections, and other observations, if any, constituting part of the information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. Each user of the information contained herein must make its own study and evaluation of each security it may consider purchasing, holding or selling. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

MIS, a wholly-owned credit rating agency subsidiary of MOODY'S Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MIS have, prior to assignment of any rating, agreed to pay to MIS for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading "Shareholder Relations - Corporate Governance - Director and Shareholder Affiliation Policy."

Any publication into Australia of this Document is by MOODY'S affiliate MOODY'S Investors Service Pty Limited ABN 61 003 399 657, which holds Australian Financial Services License no. 336969. This document is intended to be provided only to wholesale clients (within the meaning of section 761G of the Corporations Act 2001). By continuing to access this Document from within Australia, you represent to MOODY'S and its affiliates that you are, or are accessing the Document as a representative of, a wholesale client and that neither you nor the entity you represent will directly or indirectly disseminate this Document or its contents to retail clients (within the meaning of section 761G of the Corporations Act 2001).