

Rating Action: [Perdigao S.A.](#)

Moody's changes Perdigao's rating outlook to negative

Sao Paulo, September 10, 2008 -- Moody's affirmed its Ba1 local currency corporate family rating for Perdigão S.A. ("Perdigão") and changed the rating outlook to negative from stable to reflect Perdigão's lower operating margins and higher than expected working capital needs in the first two quarters of 2008, resulting in negative cash flow from operations and higher leverage.

"The negative outlook reflects primarily Perdigão's higher than expected working capital needs in the first and second quarters of FY2008 resulting in negative cash flow from operations in both periods", affirmed Moody's Vice President Senior Analyst, Soummo Mukherjee. "At the same time, total debt increased in the same period, leading Total Debt to EBITDA to increase to 3.7 times and 3.8 times for the last twelve months ending in Q1'08 and Q2'08, respectively", added Mukherjee.

Moody's notes that the last 12 month period, includes only around five months of results at Eleva, and thus leverage may come down over time. In addition, part of the weaker cash flow performance was due to the recent incorporation of the Eleva business and temporary higher working capital needs that could reverse in the second half as the company reduces inventories and receivables.

In the first half of 2008, Perdigão's gross margin dropped to 22%, down from 27% in the first half of 2007. The lower gross margin was largely due to the appreciation of the BRL against the USD, integration of Eleva and higher grain (soy and corn) and milk costs that were not readily passed through to prices.

Perdigão's Ba1 rating is supported by Perdigão's position as one of the largest and most diversified food processors in Brazil with leading market positions and nearly 50% of sales derived from processed products. Additionally, the rating is supported by Perdigão's management quality and corporate governance standards. Perdigão's rating, however, is mainly constrained by its revenues and earnings exposure to commodity price movements, the susceptibility of its sales and cash flow to export market closures or disruptions due to animal disease and the challenges associated with successfully implementing its growth strategy.

Perdigão's decision to enter the dairy segment presents both opportunities and challenges in Moody's view. While we acknowledge that overall margins for the dairy segment are lower than Perdigão's margins in its traditional poultry and pork processing business segments, we continue to expect that the dairy business will be less capital intensive than the company's traditional segments and that, in the medium-term, cash flow generation after working capital changes should improve.

Perdigão's negative outlook could stabilize if the company's CFO / Total Debt returns to above 10%, Total Debt / EBITDA to below 3.0 times and EBITA / Interest approaches 2.5 times. On the other hand, Perdigão's rating is likely to be downgraded if cash flow from operations remains negative, Total Debt to EBITDA remains above 3.5 times or EBITA to interest expense coverage remains below 2.0 times (all metrics are based on Moody's definitions and standard analytic adjustments).

Headquartered in São Paulo, Brazil, Perdigão is one of the largest food processors in Latin America, with a focus on poultry, pork, beef, milk and processed products, including dairy. With revenues of BRL 8.9 billion for the last twelve months ending on June 30th, 2008, Perdigão is one of the leaders in the domestic market and exports over 40% of its sales to over 100 countries and 850 customers around the world.

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