Equity Research

MARFRIG

2Q25 Review: What would I do without you...

LatAm Meatpackers

Main takeaways:

(i) North America: Net revenue of **R$18.5bn** (-5.0% vs. Genial Est.; -3.0% q/q; +14.0% y/y), with **volume** of **468Kt** (-10.1% vs. Genial Est.) limited by lower cattle supply in the US, partially offset by **price** of **R$39.5/kg** (+5.8% vs. Genial Est.); **EBITDA** of **R$144mn** (+143.2% vs. Genial Est.) and **margin** of **0.8%** (+0.5p.p. vs. Genial Est.; +0.6p.p. q/q; -2.2p.p. y/y), benefiting from the USDA cutout pass-through and the maintenance of the premium on prime cuts; **(ii) South America: Net revenue** of **R$4.0bn** (-18.9% vs. Genial Est.; -1.3% q/q; +9.9% y/y), frustrated by lower-than-expected prices and volumes, even with ramp-up of reactivated plants; rising **cattle costs** in Brazil (+39.3% y/y), Argentina (+20.7% y/y) and Uruguay (+25.1% y/y) limited margin expansion; **EBITDA** of **R$439mn** (-24.1% vs. Genial Est.), **margin** of **10.9%** (0.7p.p. vs. Genial Est.; -0.2p.p. q/q; +1.8p.p. y/y); **(iii) BRF: Net revenue** of **R$15.4bn** (-2.2% vs. Genial Est.; -0.9% q/q; +2.9% y/y), impacted by temporary export bans; a more favorable mix in Brazil and efficiency gains via BRF+ sustained **EBITDA** of **R$2.5bn** (+11.9% vs. Genial Est.) and a **margin** of **16.3%** (+2.1p.p. vs. Genial Est.); **(iv) Consolidated: Net revenue** of **R$37.8bn** (-5.0% vs. Genial Est.; -4.1% q/q; +4.8% y/y), with contributions of ~40% from BRF, ~49% from North America, and ~11% from South America; **Adjusted EBITDA** of **R$3.0bn** (-3.4% vs. Genial Est.; -5.8% q/q; -10.8% y/y) and **margin** of **8%** (+0.1p.p. vs. Genial Est.; -0.1p.p. q/q; -1.4p.p. y/y); **Net income** of **R$85mn** (vs. -R$385mn Genial Est.), benefiting from a tax effect of **+R$505mn**; **(v)** With the approval of the merger with **BRF** at the **EGM on Aug. 5**, Marfrig consolidates a transformational move, with the potential to almost double **EPS**, generate **+R$805mn/year** in synergies and capture **~R$3bn** in tax benefits; Today, BRF already accounts for **~80% of EBITDA** and sustains the group's profitability amid the challenging scenario for beef, reinforcing the strategic significance of the operation in the short term. We maintain our **BUY** rating, with a **12M Target Price** of **R$26.00,** implying an **upside** of **+21.0%.**

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Company

MRFG3 BZ Equity
Buy

Price: R$ 21.48 (14-Aug-2025)
Target Price 12M: R$ 26.00

Table 1. Income Statement Marfrig (2Q25 vs. Genial Est.)

	2Q25 Reported	2Q25E Genial Est.	% R/E	1Q25 Reported	% q/q	2Q24 Reported	% y/y
Net Revenue	**37.776**	**39.778**	**-5,0%**	**39.405**	**-4,1%**	**36.060**	**4,8%**
COGS	(33.028)	(34.883)	-5,3%	(34.762)	-5,0%	(31.200)	5,9%
Adjusted EBITDA	**3.012**	**3.118**	**-3,4%**	**3.196**	**-5,8%**	**3.378**	**-10,8%**
EBITDA Margin (%)	8,0%	7,8%	0,1p.p	8,1%	-0,1p.p	9,4%	-1,4p.p
EBIT	**1.135**	**1.230**	**-7,7%**	**1.274**	**-10,9%**	**1.531**	**-25,9%**
EBIT Margin (%)	3,0%	3,1%	-0,1p.p	3,2%	-0,2p.p	4,2%	-1,2p.p
D&A	(1.866)	(1.759)	6,1%	(1.795)	4,0%	(1.760)	6,0%
Financial Result	(1.443)	(1.212)	19,1%	(1.340)	7,7%	(1.413)	2,1%
Net Income	**85**	**(385)**	**-**	**88**	**-3,3%**	**75**	**13,0%**
Net Margin (%)	0,2%	-1,0%	-	0,2%	0,0p.p	0,2%	0,0p.p

Source: Marfrig, Genial Investimentos

Marfrig released its **2Q25 results** yesterday, **August 14**, after the market closed. In our assessment, the company reported slightly weaker operating figures than expected, especially when we exclude BRF's contribution, with **shipments weaker than expected** at both National Beef and the South American division. However, as BRF reported EBITDA above our forecast (+11.9% vs. Genial Est.), Marfrig's **consolidated margin** reached **8%, in line with expectations** (+0.1p.p. vs. Genial Est.), **flat q/q**, but still down **-1.4 p.p. y/y**, given tighter conditions in Brazilian cattle prices, coupled with the peak of the negative cycle in the US.

However, we maintain a **bullish bias** for the investment thesis, mainly due to issues related to the corporate structure in the total merger of BRF's stake (the remaining 49%), via a share swap with an **exchange ratio very favorable to the controlling shareholder**. The merger with BRF, approved at the Extraordinary General Meeting on August 5, consolidates the exchange ratio at 0.8521 MRFG3 shares for each BRFS3 share, and will give rise to New Co. (MBRF) in a transaction that we consider **EPS accretive** for Marfrig. This rationale is anchored in the incorporation of a **(i)** diversified protein portfolio, **(ii)** gains of scale in origination and distribution, **(iii)** dilution of corporate expenses, **(iv)** capture of relevant tax synergies (R$3bn in NPV), and **(v)** strengthening of international presence, factors that should **increase FCF generation** and **accelerate the deleveraging of the new MBRF** in the medium term. We will explore more details of the transaction in the **section "Our View."**

Returning to the quarter's dynamics, consolidated **net revenue** was **R$37.8bn** (-5% vs. Genial Est.; -4.1% q/q; +4.8% y/y), slightly below expectations, mainly reflecting lower performance in South America and National Beef (North America), partially offset by the contribution of BRF, which accounted for ~40% of total revenue. The sequential decline was already expected, given the stronger seasonal effect in 1Q. **Adjusted EBITDA** totaled **R$3.0bn** (-3.4% vs. Genial Est.; -5.8% q/q; -10.8% y/y), with a **margin** of **8%** (-0.1p.p. vs. Genial Est.; -0.1p.p. q/q; -1.4p.p. y/y).

As we have mentioned several times, the result was **sustained almost entirely by BRF**, which accounted for more than 80% of consolidated EBITDA, while South America contributed marginally and National Beef remained under pressure from historically low spreads. **Net income** remains low, at **R$85mn** (vs. -R$385mn Genial Est.; -3.3% q/q; +13% y/y), but still in positive territory compared to our expectation of a loss, since the bottom line was influenced by a **tax benefit** of **+R$505mn**. Even so, we believe that profitability remains compressed in the consolidated results, reflecting the challenging scenario in North American operations and the high cost of cattle in South American geographies.

2Q25 Review

National Beef: Margins surprise us, despite accelerating cattle costs. In its North American business, National Beef reported net revenue of R$18.5bn (-5% vs. Genial Est.), down -3.0% q/q and up +14.0% y/y. The negative deviation from the forecast is mainly due to the volume of 468Kt (-10.1% vs. Genial Est.; -6.7% q/q; -5.5% y/y), limited by lower availability of cattle for slaughter and the persistence of a restrictive cycle in the US. On the other hand, the realized price of R$39.5/kg (+5.8% vs. Genial Est.; +4.0% q/q) partially offset the decline, reflecting pass-throughs from the advance in the USDA Comprehensive Cutout (+14.7% y/y) and the maintenance of the premium-on-premium cuts.

On the cost side, COGS/kg reached R$38.5/kg (+5.5% vs. Genial Est.; +3.3% q/q; +23.8% y/y), exceeding the forecast due to higher cattle costs (USDA KS Steer: +18.3% y/y) and a slight decline in slaughter credits, factors that reduced operating leverage. As a result, EBITDA reached R$144mn (+1.4x vs. Genial Est.; +3x q/q; -69.7% y/y), while the margin stood at 0.8% (+0.5p.p. vs. Genial Est.; +0.6p.p. q/q; -2.2p.p. y/y). Despite the sequential improvement, we emphasize that spreads remain at historically compressed levels, suggesting that the challenging scenario will continue in the short term.

South America: Lower prices and volume pressure revenue; cattle costs limit margin expansion. For the South America division, we note that net revenue totaled R$4.0bn (-18.9% vs. Genial Est.; -1.3% q/q; +9.9% y/y), falling short of our expectations mainly due to the volume of 205Kt (-10.3% vs. Genial Est.; -0.2% q/q; +7.9% y/y), which fell short of our expectations, even with annual expansion sustained by the ramp-up of plants reactivated with the modification of the footprint — after a significant portion of assets was sold to Minerva. The realized price of R$19.6/kg (-9.8% vs. Genial Est.; -1.1% q/q; +1.8% y/y) reflected a slightly less favorable mix, with a lower share of shipments to China and Hong Kong (45% vs. 46% in 2Q24).

On the cost side, COGS/kg saw a slight sequential relief to R$16.2/kg (-8.2% vs. Genial Est.; -0.3% q/q; +1.2% y/y), below our forecast, but still pressured in the year-on-year comparison by the sharp increase in the price of cattle in Brazil (+39.3% y/y), in addition to significant increases in Argentina (+20.7% y/y) and Uruguay (+25.1% y/y). EBITDA totaled R$439mn (-24.1% vs. Genial Est.; -3.1% q/q; +31.4% y/y) and the margin stood at 10.9% (-0.7p.p. vs. Genial Est.; -0.2p.p. q/q; +1.8p.p. y/y). Although volume growth and the annual recovery in profitability indicate good demand traction, the scenario of higher costs and lower average prices limits room for additional margin gains in the short term.

BRF: Both EBITDA and margin exceeded expectations. We note that BRF did indeed feel some negative impacts from avian flu, but it remains the main driver of results, achieving net revenue of R$15.4bn (-2.2% vs. Genial Est.), with a slight decline of -0.9% q/q and an increase of +2.9% y/y. Total shipments (Brazil + International + Others) reached 1,228Kt (-0.9% vs. Genial Est.; -2.5% q/q; -0.5% y/y), with a sharp slowdown in the International segment — impacted by temporary export bans to relevant destinations after the confirmation of a case of avian influenza. The realized price was R$12.5/kg (+3.3% vs. Genial Est.; -2.0% q/q; +5.8% y/y), favored by the greater penetration of processed foods in Brazil (which have higher margins than fresh products) and the greater weight of higher value-added items in the international sales mix.

Adjusted EBITDA totaled R$2.5bn (+11.9% vs. Genial Est.), down -9.1% q/q and -4.5% y/y, with a margin of 16.3% (+2.1p.p. vs. Genial Est.). We believe that the positive deviation was sustained by COGS/kg of R$9.2/kg (-7.7% vs. Genial Est.; -0.3% q/q; +2.5% y/y), reflecting historically low FIFO discounts, efficiency gains via BRF+ and dilution of fixed costs in domestic operations, which partially offset pressure from inputs — especially corn and soybean oil, still at historically high levels.

Our Take on Marfrig

FCF shows positive signs, leverage down. The company reported **FCF** of **R$272mn** (-2.2% vs. Genial Est.), down **-36% y/y**, reflecting a similar dynamic to EBITDA, which also came in slightly below our projections. **FCO** totaled **R$3.0bn** (-29.7% q/q; +102.0% y/y), **driven** by **the contribution from BRF**, but partially limited by lower generation in National Beef's operations. **Interest** payments totaled **R$1.4bn** (+4.9% q/q; +19.0% y/y), pressured by high debt costs in a context of still high leverage. CAPEX reached R$1.4bn (+5.2% vs. Genial Est.), accelerating +3.6% q/q and +67.3% y/y, directed at modernization and ramp-up of plants in Brazil and South America. We therefore emphasize that despite the positive delivery, FCF remains modest vs. the company's scale, reinforcing the importance of maintaining discipline in capital allocation to sustain the deleveraging trajectory ahead.

Even in a quarter marked by significant disbursements — including R$515mn in share buybacks and R$338mn allocated to increase its stake in BRF — Marfrig managed to slightly reduce its leverage level. In **BRL**, the ratio remained flat sequentially at **2.7x Net Debt/EBITDA**, benefiting from a lower measurement of consolidated **net debt**, which reached **R$37.6bn** (-1.4% q/q), and the maintenance of FCF generation (driven mainly by BRF). In **USD**, the ratio ended the quarter at **2.8x** (+0.2x q/q), influenced by the higher share of debt denominated in foreign currency (~59% of the total). It is worth noting that even considering the contractual effects and the expected receipt of proceeds from the sale of assets in Uruguay to Minerva, leverage would remain stable, whether in BRL or USD, reinforcing the **need to continue the deleveraging trajectory throughout 2H25.**

Formation of MBRF: Approval at the EGM basically removes the overhang for Marfrig. Both BRF's and Marfrig's EGMs were **finally approved on Aug. 5**, which **appears to remove an important corporate overhang** for the **structuring of New Co.**, which will be named **MBRF**. By the day before, the preliminary results with votes received will be disclosed, in accordance with a well-established institutional process. If the merger is ratified, a **30-day period to exercise the right to dissent** will begin, followed by a resolution on the estimated extraordinary dividend of up to R$3.3bn, after which the transaction will be closed — estimated to occur **~40 days after the EGM** (second half of September). The exchange ratio remains fixed at 1 BRFS3 for 0.8521 MRFG3, based on the closing price on the day prior to the swap. Finally, final approval is still pending with CADE, which referred to the case for detailed analysis. Even so, we do not see a high chance of CADE blocking the transaction, even though the regulatory agency has elevated the level of analysis to a full review (vs. fast-track previously), especially after **Minerva's appeal**, which questioned **potential conflicts** of interest related to the **Saudi fund SALIC** and the possible market imbalance that the merger could bring.

Strategically, the deal consolidates a company that is strong in chicken and beef in Brazil—but with the new MBRF's profile designed to be highly exposed to the chicken cycle. Such concentration, despite offering significant gains in FCF, scale generation, and **estimated synergies** of **~R$805mn/year** (in addition to R$3bn in tax benefits), brings greater vulnerability if the chicken cycle reverses. Its viability will depend on the ability to quickly integrate different systems, chains, and cultures. In short, the deal continues with the support of the controlling shareholder, without significant minority resistance, and with decisive institutional advances.

However, the final convergence depends on the resolution of the proceedings at CADE and the new company's ability to capitalize on synergies without losing resilience in a cyclical and competitive sector.

We are now constructive following the full merger of BRF, but we still highlight... Despite the constructive scenario, we continue to highlight some relevant challenges for the thesis in the short and medium terms. Among the main risks, we continue to emphasize: **(i)** the high level of leverage (2.7x), which still restricts financial flexibility and may limit larger strategic initiatives; **(ii)** potential reversals in BRF's earnings cycle — currently the company's main source of EBITDA (~80%) — which could significantly affect consolidated dynamics. In the external environment, we are concerned about **(iii)** the possibility of a prolonged downturn in the US cattle cycle due to supply shortages, which would continue to squeeze margins at National Beef (-2.2p.p. y/y); **(iv)** the reversal of the cattle cycle in Brazil – average of R$315/arroba in 2Q25 (+39.3% y/y) and expectations of continued price acceleration in 2H25 given the likelihood of intensified female retention; and **(v)** a weaker global macroeconomic scenario, with a possible slowdown in demand for beef, reinforced by the trend toward substitution ("trade down") to lower-cost proteins, such as chicken, pork, and processed meats. These factors become even more relevant when we analyze the business's performance excluding BRF's results.

What would I do without you... With the **approval of the merger with BRF** at the Extraordinary General Meeting, under the same conditions previously proposed after being postponed twice, the transaction is consolidated as, from all corporate perspectives, **positive and transformational for Marfrig**, delivering direct value to shareholders **(i)** through a strong increase in earnings per share (EPS) (almost twice as high as previous estimates); **(ii)** estimated scale gains of +R$805mn/year in operating synergies; and **(iii)** tax opportunities valued at ~R$3b (measured by NPV).

We believe that the narrative told in 2Q25 reinforces a central point of our view: **what would Marfrig be without BRF?** Today, ~**80% of consolidated EBITDA** is generated by BRF's operations — precisely at a time when the beef division faces historically compressed spreads in the US and high cattle costs in South America. In other words, BRF not only complements but sustains the group's profitability and FCF generation. Still, we believe that a significant portion of the market is not paying enough attention to the reconfiguration of the risk profile, **concentrating exposure in a single cyclical** sector (chicken, pork, and processed products — via BRF) and drastically reducing the "natural hedge" that the beef business has historically provided (since the company sold 16 slaughter plants to Minerva, 11 of them in Brazil).

Although the **chicken cycle** is currently operating with **margins above the historical average** (16% in 2Q25 vs. 12% in the last five years) and 2024 was a record year for BRF (peak margin of 19.1% in 3Q24), **upward cycles do not last forever**—and concentrating one's position in a business that is at the **high point of the cycle represents a risk** in the medium term. In the short term, however, we continue to see strong strategic and financial sense in the transaction. Given the clear increase in share value resulting from an **advantageous swap ratio** — acquiring 49% of the group's most profitable business at a discount — we maintain our **BUY** rating, with a **12M Target Price** of **R$26.00**, implying an **upside** of **+21.0%.**

Appendix: Marfrig

Figure 1. Marfrig – Income Statement in R$ Mn (Genial Est. 25-28E)

Income Statement	2025E	2026E	2027E	2028E
Net Revenue	**160.230**	**166.445**	**174.145**	**182.201**
(-) COGS	(140.522)	(147.470)	(155.337)	(163.981)
Gross Profit	**19.708**	**18.975**	**18.808**	**18.220**
(-) Expenses	(13.854)	(14.070)	(14.072)	(13.265)
Adjusted EBITDA	**13.459**	**11.485**	**10.971**	**10.932**
(-) D&A	(7.605)	(6.580)	(6.235)	(5.977)
EBIT	**5.854**	**4.905**	**4.736**	**4.955**
(+/-) Financial Result	(4.220)	(3.876)	(3.094)	(3.237)
(-) Taxes	(1.509)	(846)	(1.210)	(1.264)
Net Income	**125**	**183**	**432**	**454**
Profitability				
Net margin (%)	0,1%	0,1%	0,2%	0,2%

Figure 2. Marfrig– Cash Flow in R$ Mn (Genial Est. 25-28E)

Cash Flow (FCFF)	2025E	2026E	2027E	2028E
Net Revenue	**160.230**	**166.445**	**174.145**	**182.201**
(-) COGS	(140.522)	(147.470)	(155.337)	(163.981)
Adjusted EBITDA	**13.459**	**11.485**	**10.971**	**10.932**
EBIT	**5.854**	**4.905**	**4.736**	**4.955**
(-) Taxes	(1.509)	(846)	(1.210)	(1.264)
(+) D&A	7.605	6.580	6.235	5.977
(+/-) Δ WK	(315)	(327)	(342)	(358)
(-) Capex	(5.728)	(4.956)	(4.696)	(4.502)
FCFF	**5.907**	**5.356**	**4.723**	**4.808**

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under Review	Under review	**5%**

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