



Consultancy & Research
Prospective et Stratégie

Observations on Global Meat Processing Developments

Bord Bia Conference

January 7th 2010

Rupert Claxton

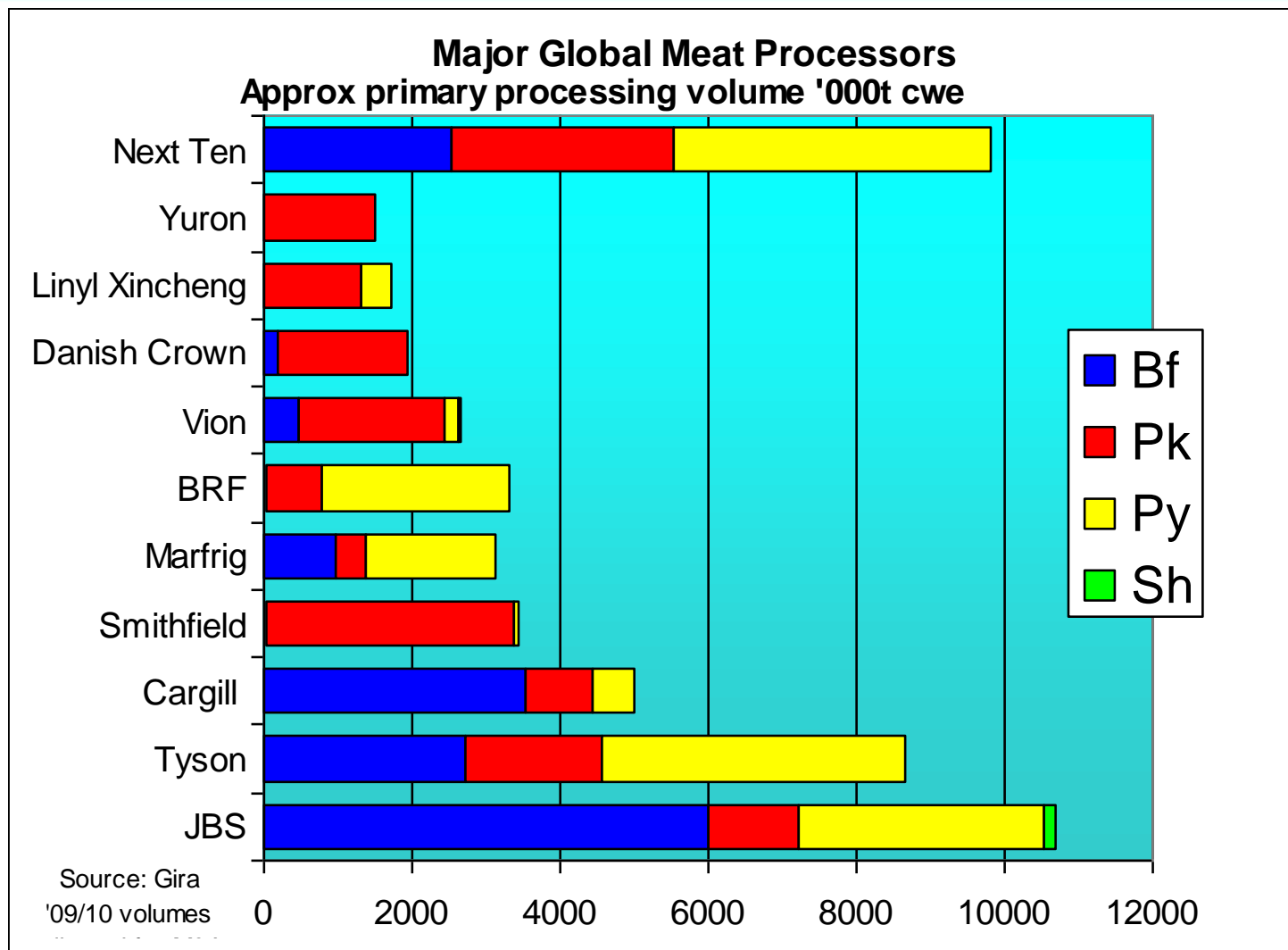
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1. Key Global Companies
2. Brazilian Meat Multinationals
3. US Meat Giants
4. EU Meat Companies

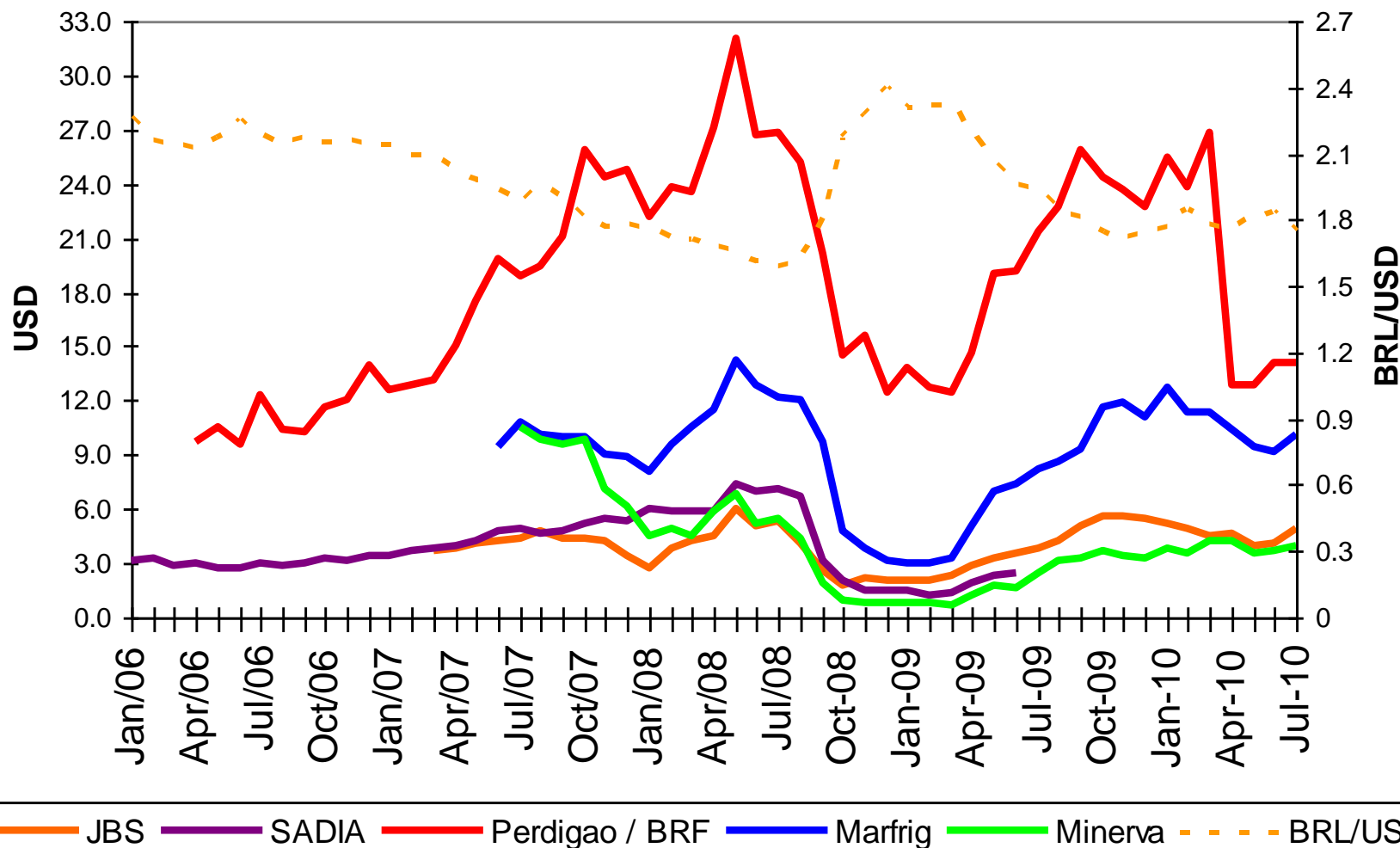


	BF	PK	PY	SH	TOTAL
Top 10 share	23%	14%	13%	1%	15%
Next Ten share	4%	3%	4%	0%	3%

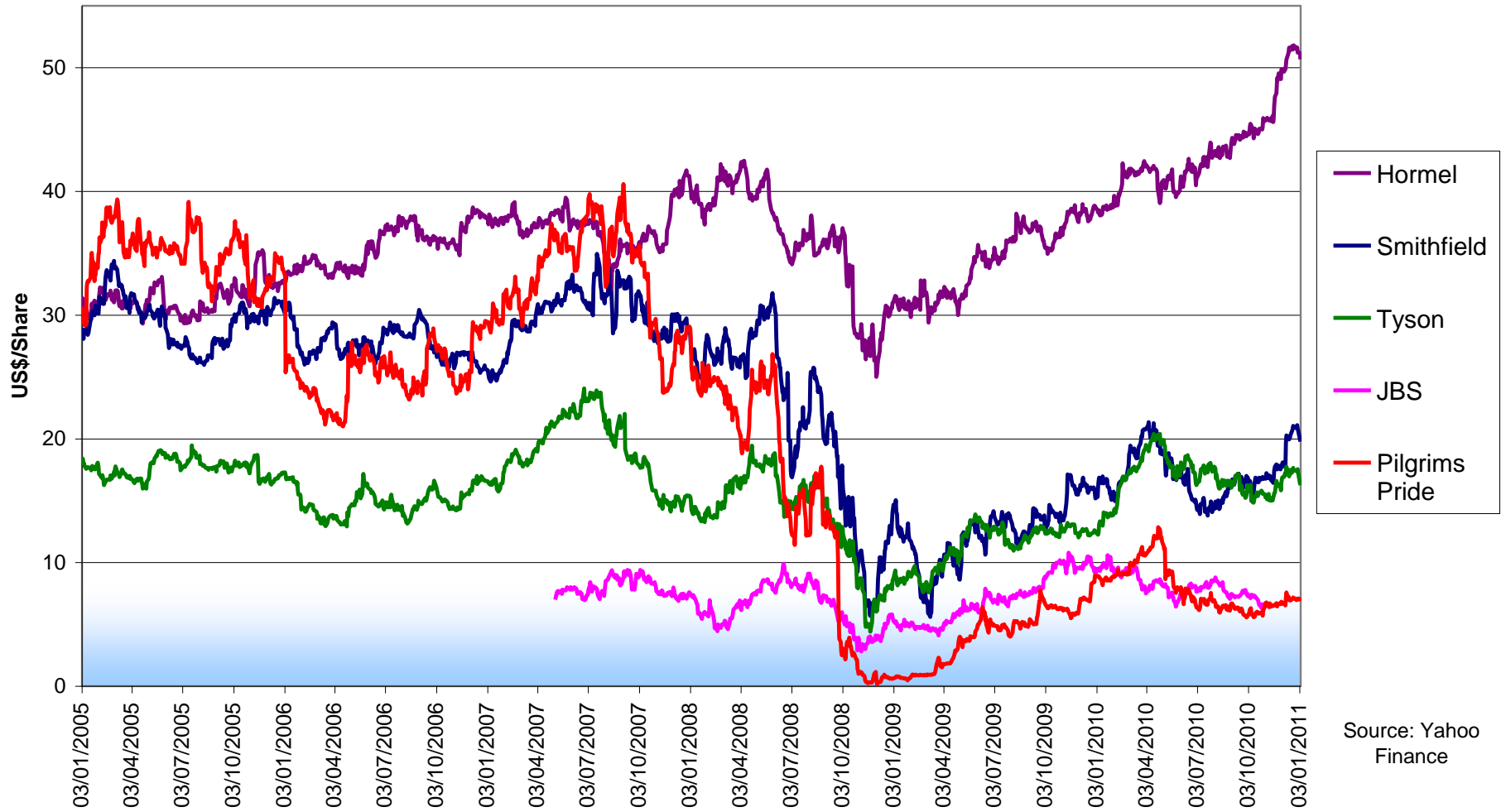
- **US firms have traditionally been the biggest operators** ... but with a US domestic market mindset, and commodity by-product exports
 - **massive scale-advantage** over RoW (in production & marketing)
 - Large plants at high capacity utilisation
 - Industry concentration per species
 - Multi species operators
 - Smithfield was expansionist ... until the last 2-3 years
 - Vertical integration in pigmeat
 - Global expansion ... including Europe
 - Tyson is now more proactive outside the US ... at last.
- **Brazilian meat processors have continued rapid M&A ... globally**
 - Sadia and Perdigao led the poultry and pigmeat sectors
 - Vertically integrated – grasping both agribusiness and consumer marketing opportunities
 - Rapidly deepening and broadening their export portfolios ... but troubled merger
 - JBS continued opportunistic M&A: massive, multi-origin, global sales reach
 - Acquisition and organic: Brazil ... UY, AR, US (multi-species), Australia ... and Italy
 - Several other beef processors also attracted Stockmarket capital and have been acquisitive e.g. Marfrig's acquisitions from OSI, Keystone ... O'Kane
 - 4Q08/09 global demand crisis catalysed new M&A wave



Brazilian MeatCo Share Prices

Source: Bovespa
Stock Market

US Meat companies Share Price - Jan 2005 to Jan 2011



Source: Yahoo Finance

- ❑ **Meat processors less well funded: capital intensive**, often **low margin**, **complex**, and **volatile**: a specialist business, and **risky** for the unprepared. Best case:
 - Large-scale, highly automated businesses – with lowest costs and with good risk management (e.g. US, BR)
 - Further processed ... and branded: better suited to Stockmarket analysts (e.g. Nestle, Hormel) than primary processing
- ❑ ...**external funding** of primary processing is a **challenge**: especially where overcapacity ... or long industry tail
 - but selected 'strategic' funders have catalysed huge change: Vion, BNDES, oil derived sovereign wealth, etc
 - Farmer coops a good idea – in principle
- ❑ Meat commodity **trading: was well serviced**, until the 4Q08 credit crunch, but will slowly recover
- ❑ **Scale** of commodity market **speculation is problematic** ... excessive volatility undermines industry hedging

Brazilian Meat Multinationals





Top meat producers, 2009(e)

	Total production ('000 tons cwe)	Annual production data ('000 tons cwe)			
		PY	PK	BF	SH
JBS Brazil	3,175	-	-	3,175	-
Swift JBS USA	8,493	4,020	1,347	3,126	-
JBS Australia	751	-	-	601	150
JBS Argentina	100	-	-	100	-
Inalca JBS Italy (50% jv)	160	-	-	160	-
JBS Russia	10	-	-	10	-
Total JBS	12,689	4,020	1,347	7,172	150
Marfrig Brazil	2,072	1,074	399	593	6
Marfrig USA	360	360	-	-	-
Marfrig UK/Europe	265	265	-	-	-
Marfrig Argentina	307	-	-	307	-
Marfrig Uruguay	375	-	-	318	57
Marfrig Chile	4	-	-	-	4
Total Marfrig	3,383	1,699	399	1,218	68
Minerva	241	-	-	241	-
Sadia Brazil	1,630	1,206	385	39	-
Perdigao Brazil	1,690	1,317	373	-	-
Total BRF	3,320	2,523	758	39	-
Tyson	86	86	-	-	-
Diplomata	243	243	-	-	-
Aurora - Coop	211	211	-	-	-
Doux-Frangosul	509	440	70	-	-



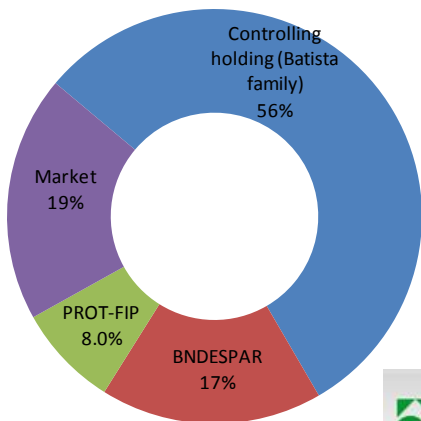
- **Opportunism:**
 - damaged balance sheets
 - creative bankers
- **Ambition:** BR agribusiness opportunity ... and profit expectations
- **Drive for scale:**
 - Selling power, and reach
 - Rationalisation benefits
 - Marketing opportunities
- **Multi-origin:**
 - flexibility & risk reduction
 - Re-appraisal of country risk
- **Multi-species:** scale benefits & risk reduction
- **Strategic support:** BNDES

Source: Gira compilations

JBS US (and Marfrig UY SH) volumes seem too high, when compared to Gira's national derived data

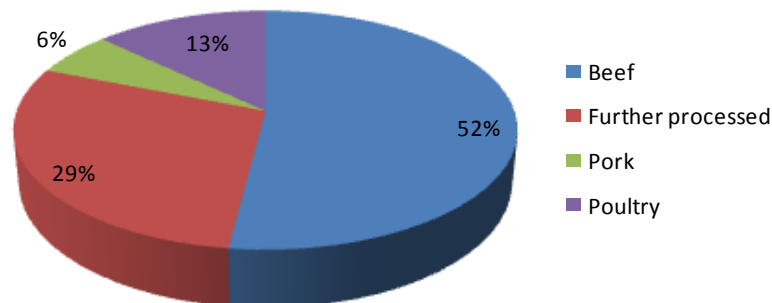
JBS controlled by the Batista Family, with BNDES support... to become the biggest global meat company

JBS capital structure



Source: company information

JBS - revenues allocation 2009 (%)




Source: company information

R\$ mio

JBS	2006	2007	2008	2009	2009/08 chg %	2006-08 pa chg %
Turnover	4,302	14,142	30,340	55,224	82.0%	132.1%
EBITDA	548	602	1,156	3,058	164.5%	78.8%
EBIDA/Turnover %	12.7%	4.3%	3.8%	5.5%		
Total Assets	3,464	8,448	16,096	42,489	164.0%	126.3%
Shareholders Equity	183	3,054	6,134	16,728	172.7%	315.5%
Gearing %	93.9%	37.0%	20.3%	18.1%		
Employees	19,230	48,497	55,094	123,936	125.0%	77.1%
Debt (ST & LT)	3,002	4,849	7,693	20,416	165.4%	86.1%
Short term	962	3,484	4,292	7,797	81.7%	91.3%
Long term	2,040	1,365	3,401	12,619	271.0%	89.3%

Source: company information

- The Batista family is the main shareholder with over half of the stock. BNDES is the second largest shareholder, and holds convertible securities covering the PP acquisition
- Market cap ~ USD 10.7 bio, IPO'd in 2007
- Revenues of about USD 30 bio
- 125,000 employees
- **Went from beef-only operator to multi protein**
- The group slaughtered 3.7 mio cattle over 3Q10, up 14.8% on 3Q09

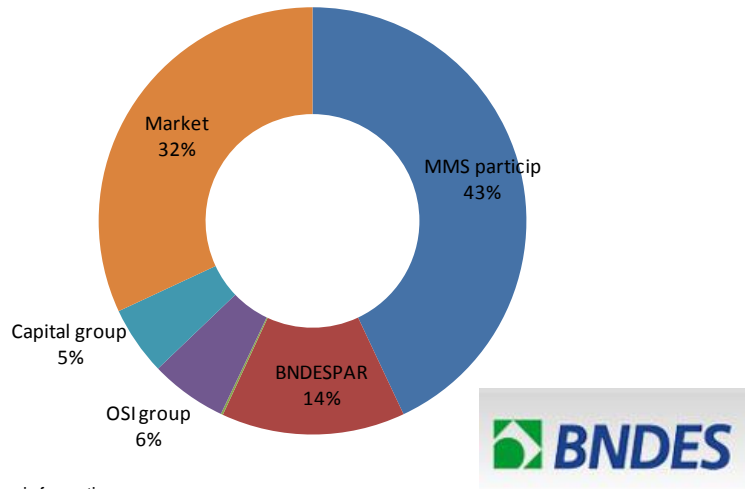
				Monthly PY slaughter (mio birds)	Monthly slaughter data ('000 heads)			Annual production data ('000 tons cwe)			
JBS material acquisitions only	Country	Take - over	BF share of kill (%)*		PK	BF	SH	PY	PK	BF	SH
JBS	BR	1953									
4 Marcos + Torlim plants	BR	2009									
Bertin/Vigor	BR	2009									
JBS - Brazil (BF)	BR		22%			750				3,175	
Swift - Armour	AR	2005	n/a			n/a				100	
Swift - Smithfield Beef Group	US	2008	6.5%			180				760	
JBS-Swift & Co	US	2007	14.6%		n/a	450			1,347	1,901	
Pilgrims Pride + Gold Kist (2007)	US	2009		180				4,020			
JBS- Swift & Co USA (BF)	US		21%	180		630		4,020	1,347	2,661	
JBS - Inalca/Cremonini JV (50:50)	IT	2007				32				160	
JBS Inalca/Marr Russia	RU	2009				n/a				10	
Swift Australia (prior to acquisitions)	AU		15.8%		n/a	n/a	n/a			436	
Swift - Tasman group	AU	2008	5.7%			42	n/a			105	
Swift - Tatiara Meat Company	AU	2009	1.2%		n/a	n/a	n/a			5	
Swift - Rockdale - pending approval	AU	2010	2%			17				55	
JBS Swift Australia (BF)	AU		25%			176	520			601	
Total JBS group				180	0	1,588	0	4,020	1,347	6,707	150

Source: Gira compilations

Emerging troubles: Inalca-Cremonini JV in Italy and JBS Argentina

* With consumption estimated at 51 mio tons cwe in 2010

Marfrig capital structure




R\$ mio

Marfrig	2007	2008	2008/07 chg %
Turnover	3,339	6,203	85.8%
EBITDA	380	884	132.6%
EBIDA/Turnover %	11.4%	14.3%	
Total Assets	12,514	25,899	107.0%
Shareholders Equity	4,014	7,602	89.4%
Gearing %	39.0%	46.8%	
Employees	19,648	39,219	99.6%
Debt (ST & LT)	6,578	14,286	117.2%
Short term	1,869	4,763	154.8%
Long term	4,709	9,523	102.2%

Source: company information

- **Marcos Molina, founder is the main shareholder** via a holding. BNDES is the 2nd largest shareholder, followed by OSI Group
- Market value estimated at R\$ 6.6 bio in 2009. Revenues of about R\$ 10.3 bio in 2009. 73,000 employees in 2009 vs 39,000 in 08...close to a doubling of size within a year...
- **Went from beef-only operator** to multi protein player in a fortnight. Key acquisitions Seara (BR), Moy Park (UK/BR), Keystone (US) – the Group made 37 acquisitions between 2007 and 2010 and gearing went up quickly, forcing Molina to declare a pause
- Marfrig operates 31 cattle slaughter plants (22 in BR, 5 in AR and 4 in UY), 33 industrialized & processed product plants (15 in BR, 5 in AR, 3 in UY, 1 in the US and 9 in Europe) among others. **Daily slaughter capacity is 30,200 cattle, 10,400 pork, 9,400 lamb, 30,000 turkey and 3.1 million chicken.**
- **A different business model to JBS, sees it acquiring better quality assets**

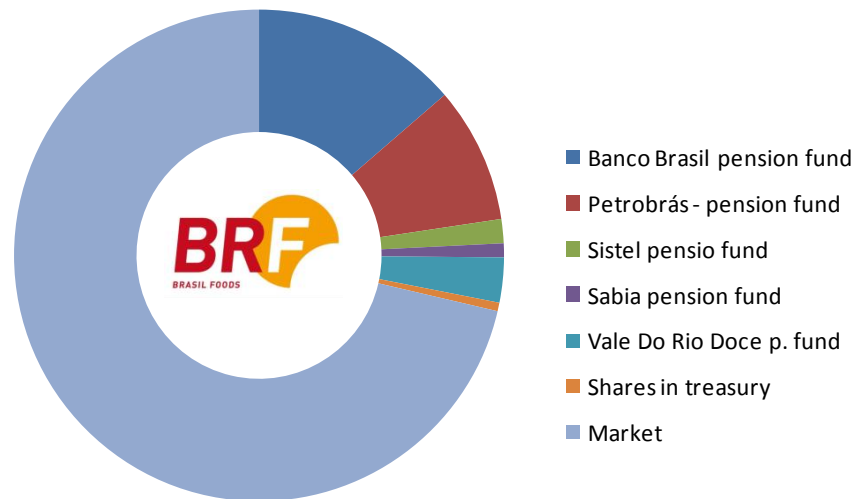
				Monthly PY slaughter (mio birds)	Monthly slaughter ('000 heads)			Annual production ('000 tons cwe)			
Marfrig (material acquisitions)	Country	Take - over date	BF share of kill (%)*		PK	BF	SH	PY	PK	BF	SH
Marfrig + Mercosul/Margen	BR	2009			105	270	25		102	593	6
Mabella	BR	2007			185				180		
Pena Branca	BR	Mar-08		6				153			
Da Granja	BR	Mar-08		10				245			
Seara Alimentos	BR	2009						634	117		
Agrofrango	BR	2008		2				59			
Penasul	BR	2008		4				98			
Braslo Produtos de Carne	BR	2008									
Doux - turkey unit	BR	2009		0.6				42			
Marfrig - Brazil	BR		7.9%	24	290	270	25	1,231	399	593	6
Estancia del Sur	AR	2007				20				51	
Quickfood SA	AR	2007				58				148	
Best Beef SA (Vivorata)	AR	2007				25				64	
Argentine Breeders & Packers	AR Subsidiary					18				45	
Marfrig - Argentina	AR			0	0	121	0	0	0	307	0
Estab. Colonia/Quickfoods	UY	2007				46	70			129	14
Cledinor (la Caballada)	UY	2007				24	50			66	10
Inaler	UY	2007				19	85			52	17
Patagonia	UY	2007					75				15
Tacuarembó	UY	2007-09				25				70	
Marfrig - Uruguay	UY			0	0	114	280	0	0	318	57
Frigorifico Patagonia	CL	2007					21				4
Marfrig - Chile	CL			0	0	0	21	0	0	0	4
Keystone	US	2010						360			
Marfrig - USA	US			0	0	0	0	360	0	0	0
Moy Park - Dungannon	UK - NI	2008		11				250			
O'Kane	NI/UK	2010						15			
Marfrig - UK/EU	UK/EU			11	0	0	0	265	0	0	0
Total Marfrig group				35	290	504	326	1,856	399	1,218	68

Source: Gira from company information

Brasil Foods Share Price



BRF shareholder structure

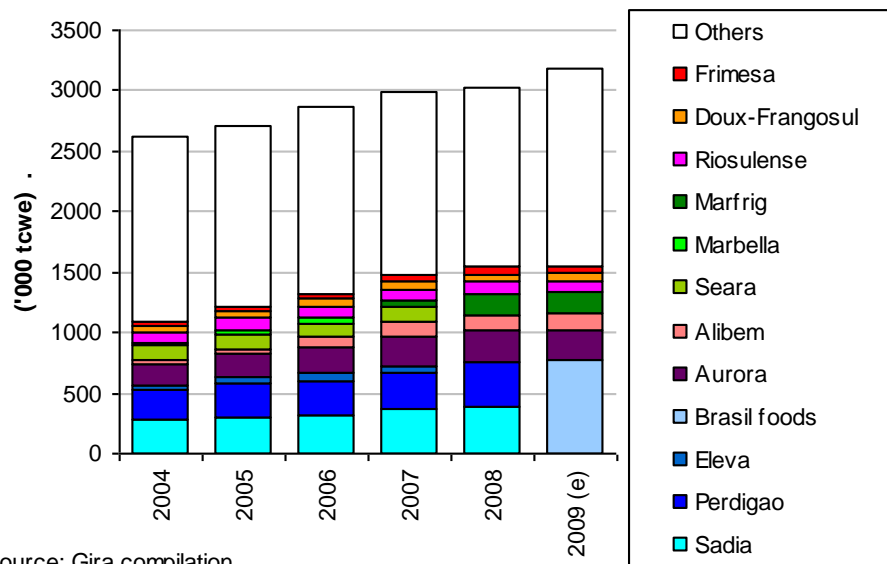


R\$ mio

Brasil Foods	2006	2007	2008	2009	2009/08 chg %	2006-08 pa chg %
Turnover	6,106	7,789	13,161	24,426	85.6%	59.7%
EBITDA	456	803	1,159	1,222	5.4%	39.4%
EBIDA/Turnover %	7.5%	10.3%	8.8%	5.0%		
Total Assets	4,829	6,543	11,219	25,671	128.8%	74.2%
Shareholders Equity	2,105	3,226	4,111	13,135	219.5%	77.5%
Employees	39,048	44,752	59,008	129,504	119.5%	47.3%
Debt (ST & LT)	633	429	3,390	3,878	14.4%	111.8%

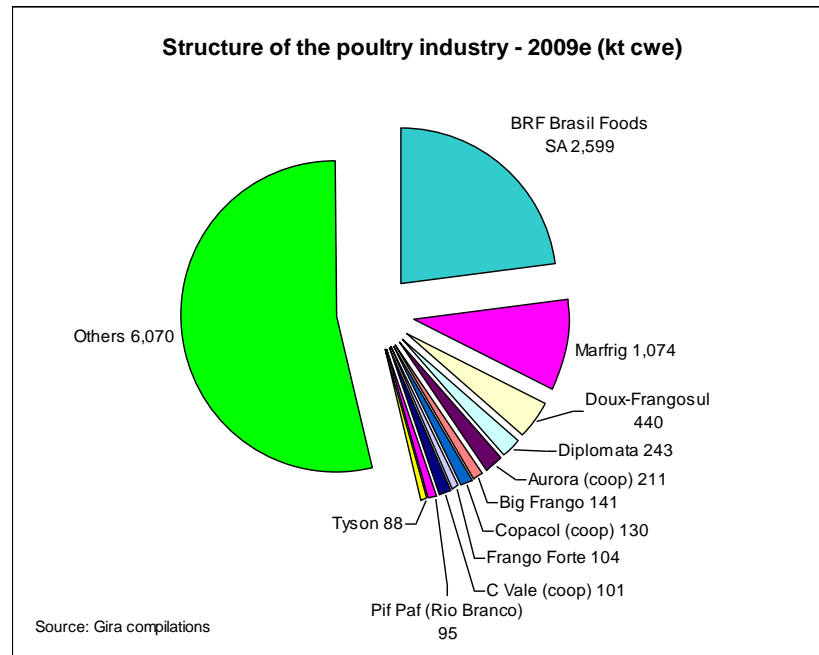
Source: company information

Top Brazilian Pigmeat producers, 2009(e)



Source: Gira compilation

Top Brazilian Poultry meat producers, 2009(e)



Source: Gira compilations

Brazilian "frigoríficos" - industry structure 2009/10

Company	Monthly slaughter ('000 heads)	Share of kill (%)
JBS	750	22%
Marfrig	270	8%
Minerva	110	3%
All others	2,440	67%
Total	3,420	100%

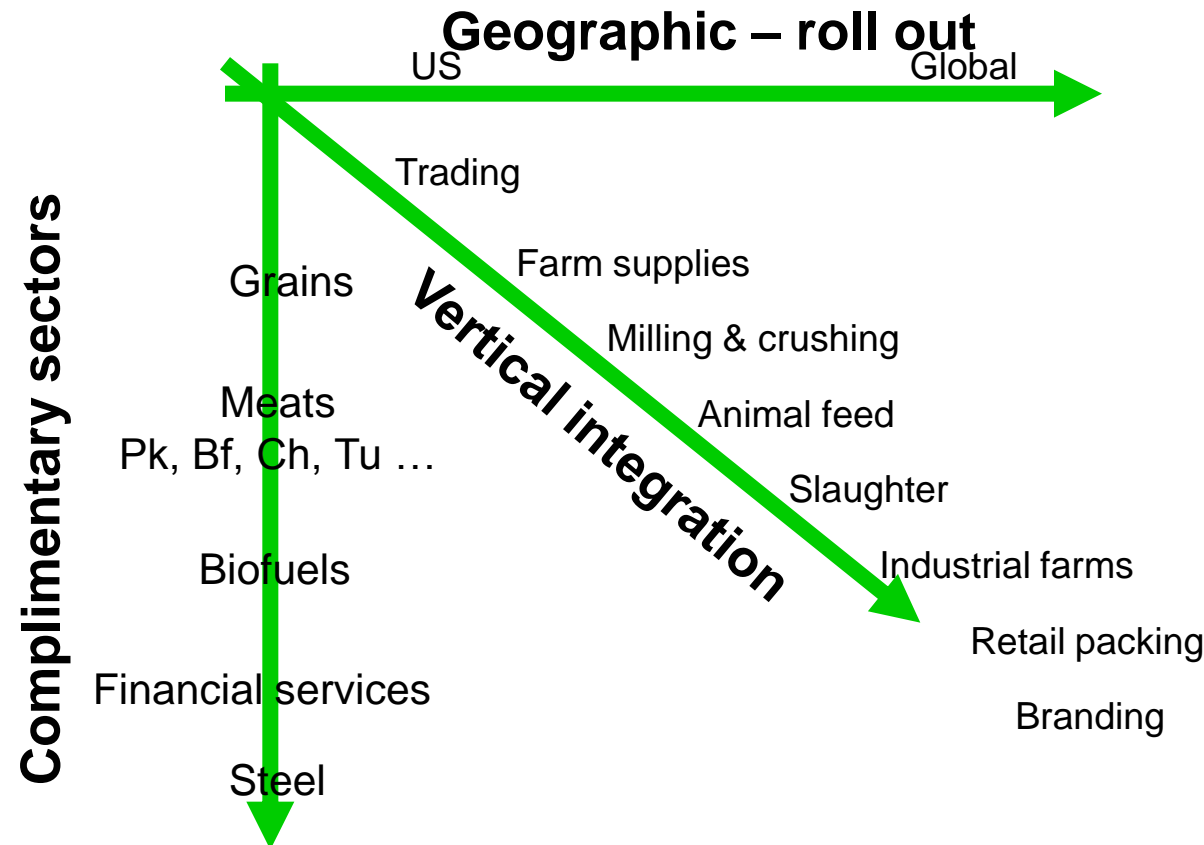
Source: Gira compilations

- ❑ **Opportunism:** especially from JBS
 - damaged balance sheets
 - creative bankers
- ❑ **Ambition:** BR agribusiness opportunity ... and profit expectations
- ❑ Drive for **scale:**
 - Selling power, and reach
 - Rationalisation benefits
 - Marketing opportunities
- ❑ **Multi-origin:**
 - flexibility & risk reduction
 - Re-appraisal of country risk
- ❑ **Multi-species:** scale benefits & risk reduction
- ❑ **Strategic support:** BNDES
 - Latest JBS rumours of US debt conversion to equity ... and Sara Lee

US Meat Giants



CARGILL – global, strategic, agribiz. strength with \$100bn annualised sales, \$2.5bn profit ... and growth plans



... but Cargill have substantially **stopped investing in non-US meat** interests!
Sold Seara Poultry division in Brazil... for a profit.

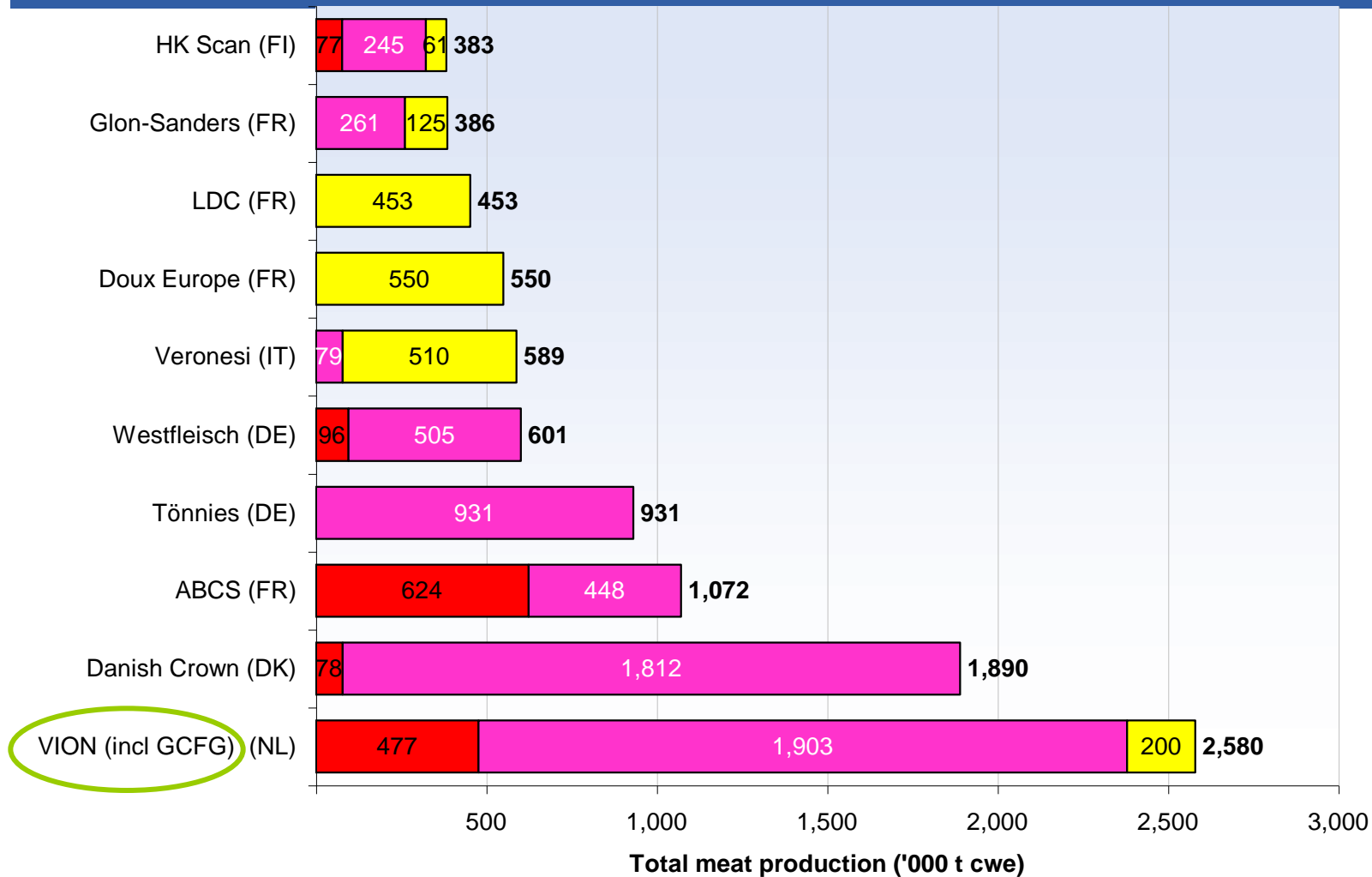
- ❑ What is the **Smithfield** model? \$9b sales and loss of \$101m
 - Vertical integration from sow through to bacon
 - Said to offset the volatility of the markets
 - ❑ Reality...there is only so much revenue and profit in the chain
 - ❑ VI does not generate more revenue or profit from the market.
 - Benefits of integration come from efficiency, control...not from risk mgt.
 - ❑ Trying to rationalize its hog exposure...biggest challenge of the past two years
 - ❑ Hog farm reconfigurations, 2009 and 2010 consolidation and rationalization of many assets and operating units.
 - ❑ Looking to drive integration efficiencies and grow packaged foods.
-
- ❑ **Tyson** employs another model
 - ...not right or wrong, just different
 - ❑ Sales of \$28 billion and net profit of \$780 million
 - ❑ Turn around from net loss of \$547 million
 - ❑ Largest US beef producer, second largest US pork and chicken producer.
 - ❑ Growth has been focused on exports and expanded global presence.
 - ❑ “focused on creating innovative food solutions to market in the retail and foodservice channels”....?



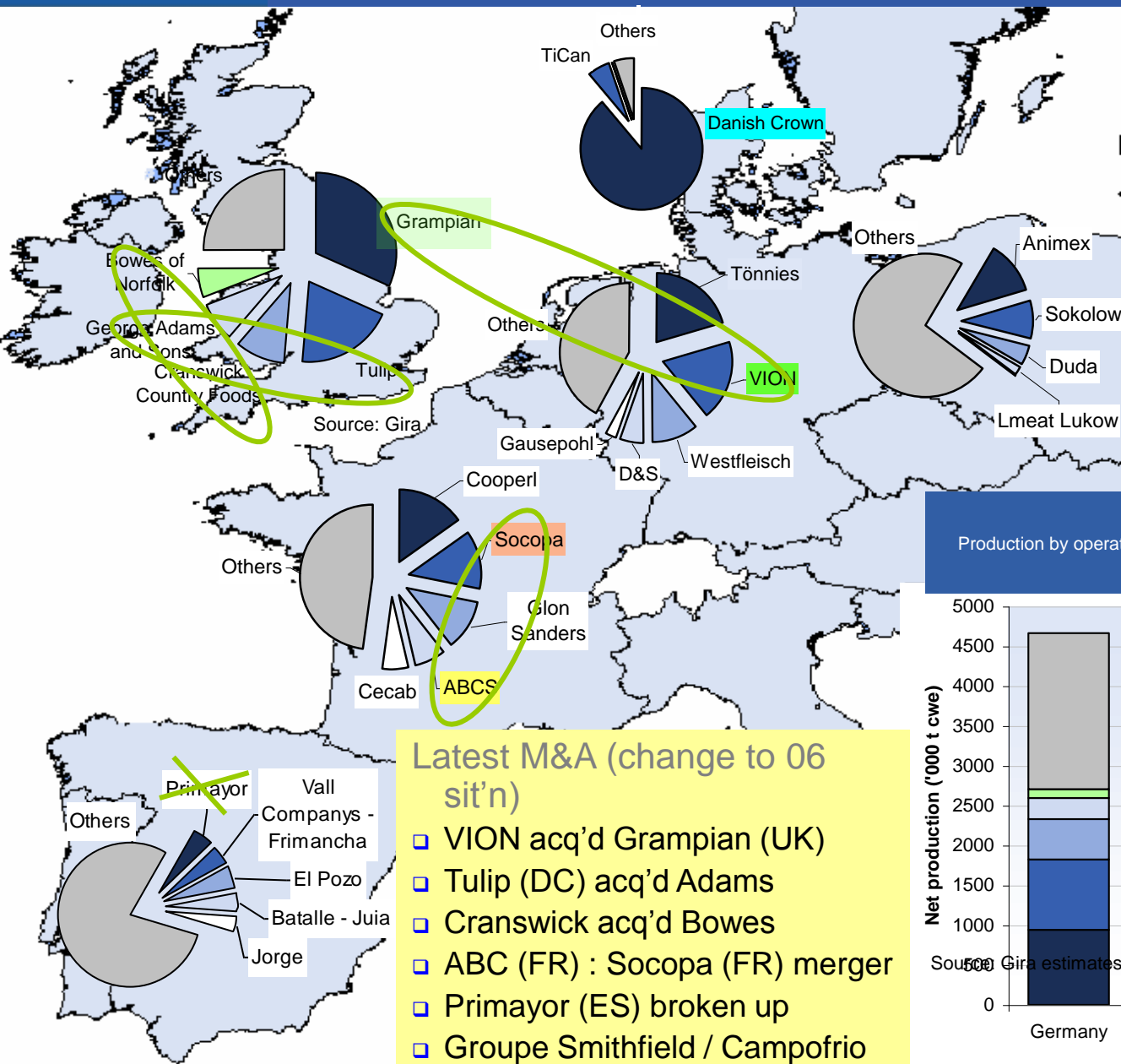
EU Meat Companies



Top 10 EU 27 meat companies by meat production volume ('000 t cwe) - 2005/06
(updated for subsequent M&A)

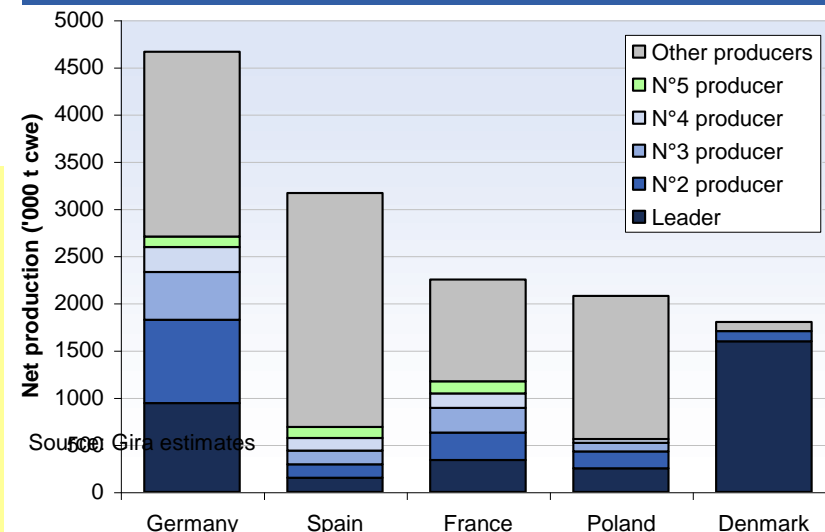


The EU's pig processing industry is concentrating, mainly nationally, quite quickly ... Vion forcing the pace



- **VION M&A stream** with need for subsequent restructuring to achieve scale economies
 - **DE:** overcapacity & competitor reaction
 - **NL** >60% of pig kill: efficient
 - **UK:** GCFG restructure
- **Danish Crown:** live export, UK & Se/Po/Dk investment
- **Increasing concentration** within most countries (cf. FR)
 - Lower kill, cost pressure
 - Selectively X-border

Production by operator in the top 5 production countries ('000 t cwe) – 2005/06

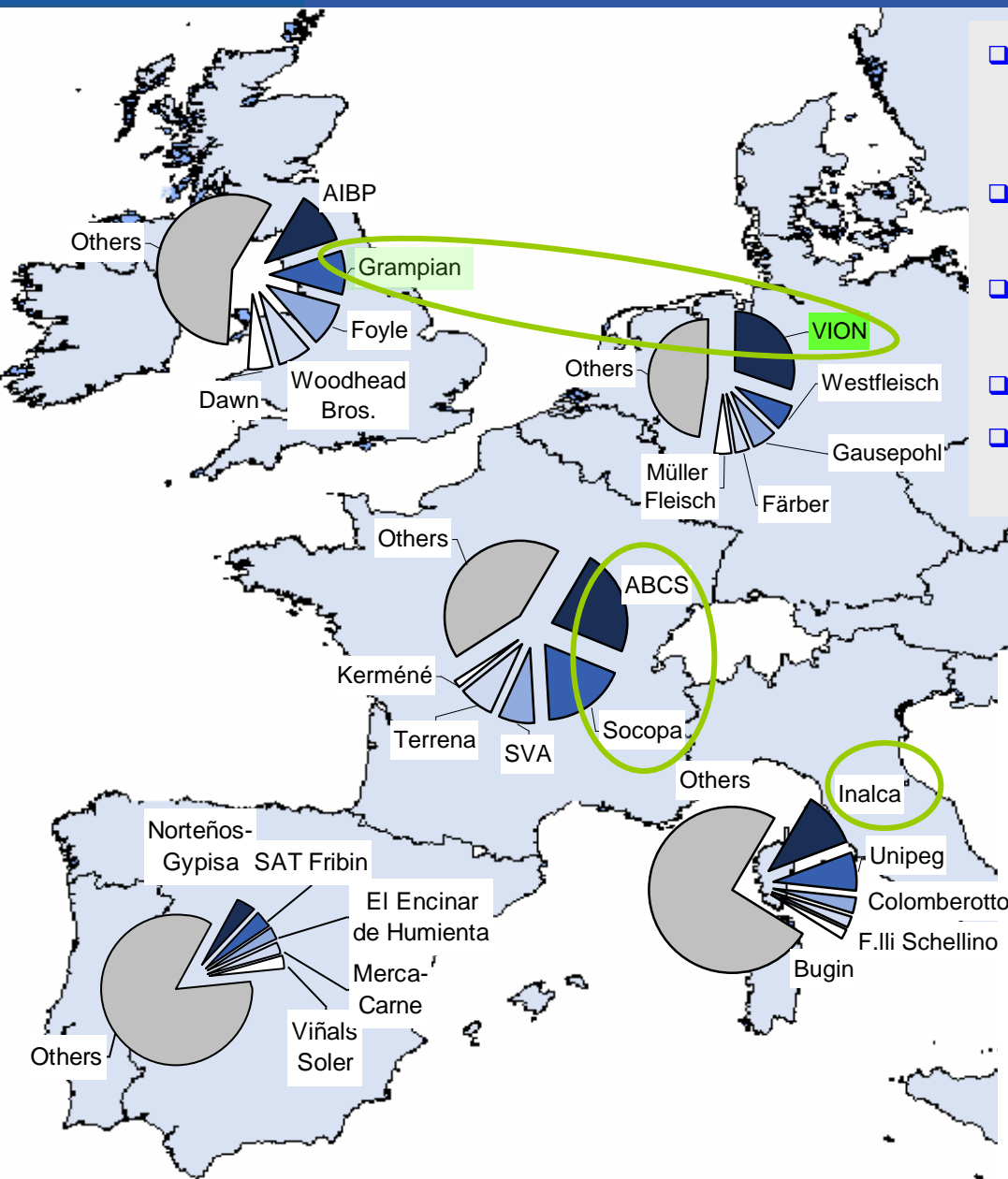


Latest M&A (change to 06 sit'n)

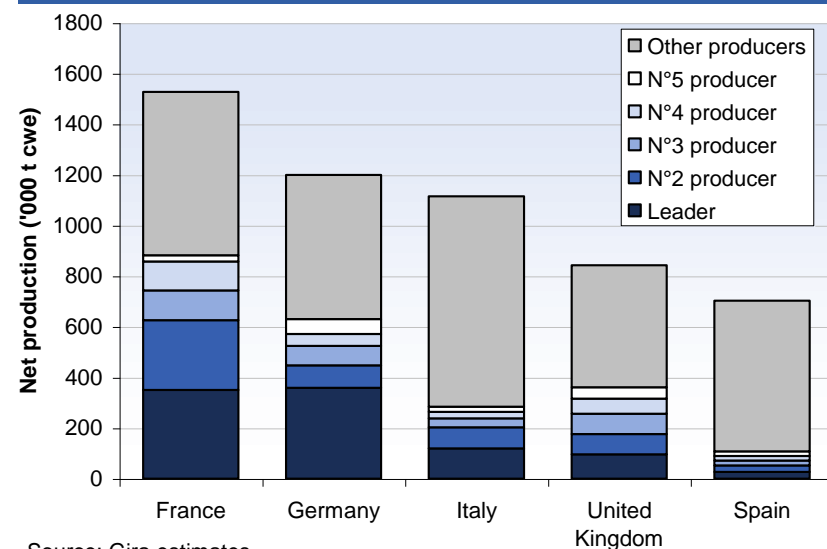
- VION acq'd Grampian (UK)
- Tulip (DC) acq'd Adams
- Cranwick acq'd Bowes
- ABC (FR) : Socopa (FR) merger
- Primayor (ES) broken up
- Groupe Smithfield / Campofrio

The leading beef processors are 'pulling away' from the long 'tail' of this traditionally fragmented industry

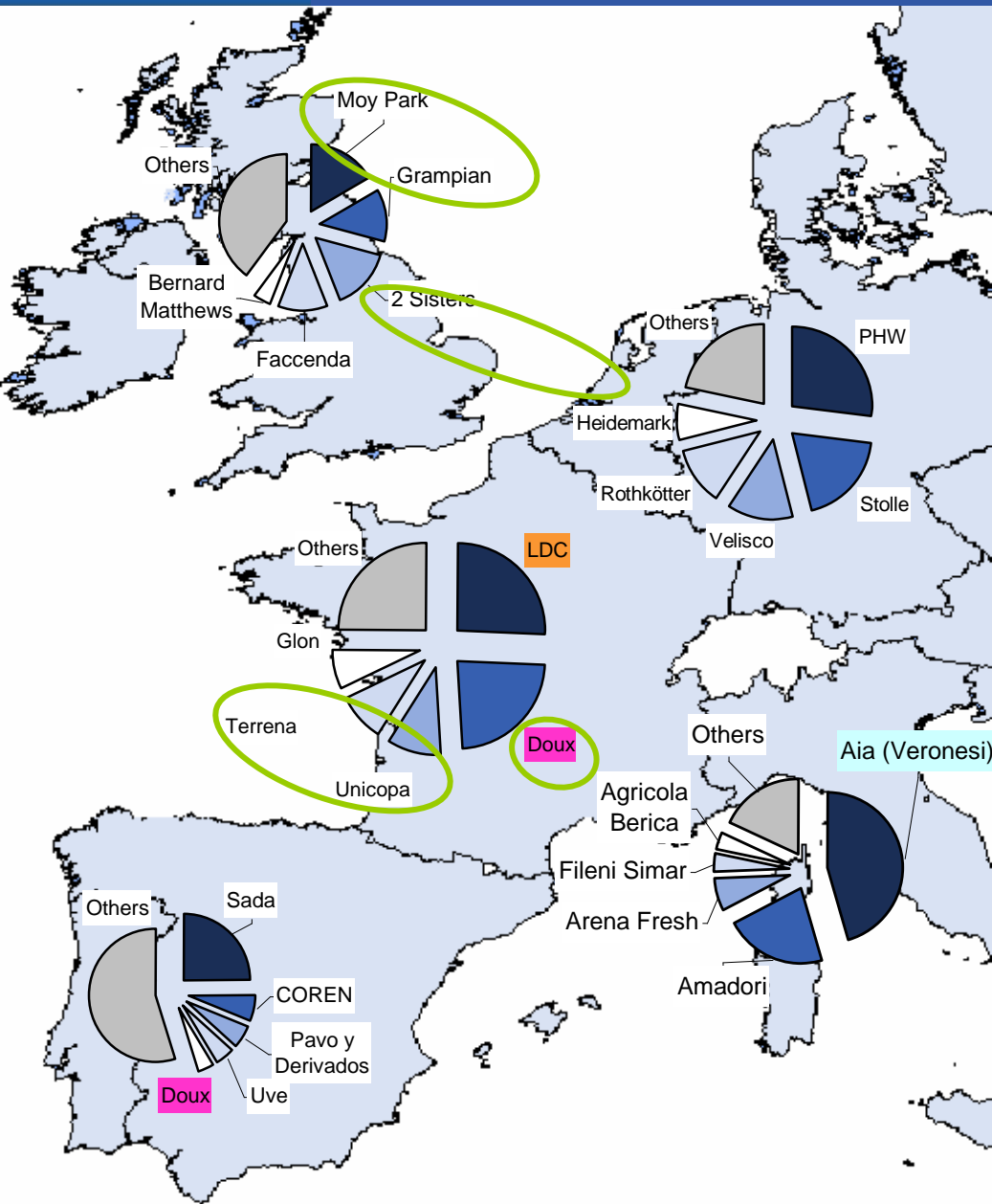
- fragmented, nationally oriented industry, with no genuinely multi-national players ... except JBS's stake in Inalca
- VION M&A in DE catalyses concentration ... and reaction, and now UK (GCFG)
- France has concentrated BF&V sector with the new EU leader, ABCS
- Long way to go in ES and IT
- Industrial case ready, declining cattle supply, imports & HD are the hot topics



Leaders' market share in the top 5 production countries ('000 t cwe) – 2005/06



Source: Gira estimates

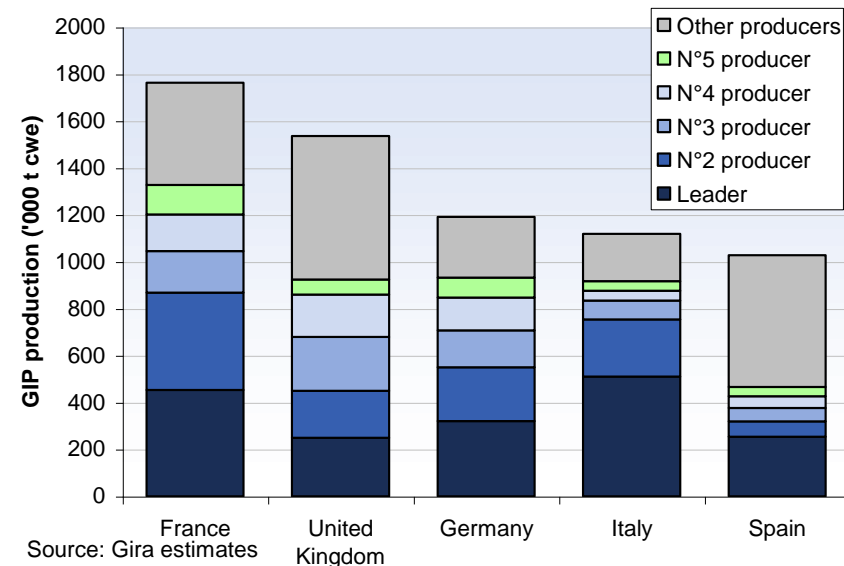


- concentrated industry ... but on a national basis
- In FR, IT and DE, the top 5 companies hold more than $\frac{3}{4}$ of production
- No *multi-nationals* present

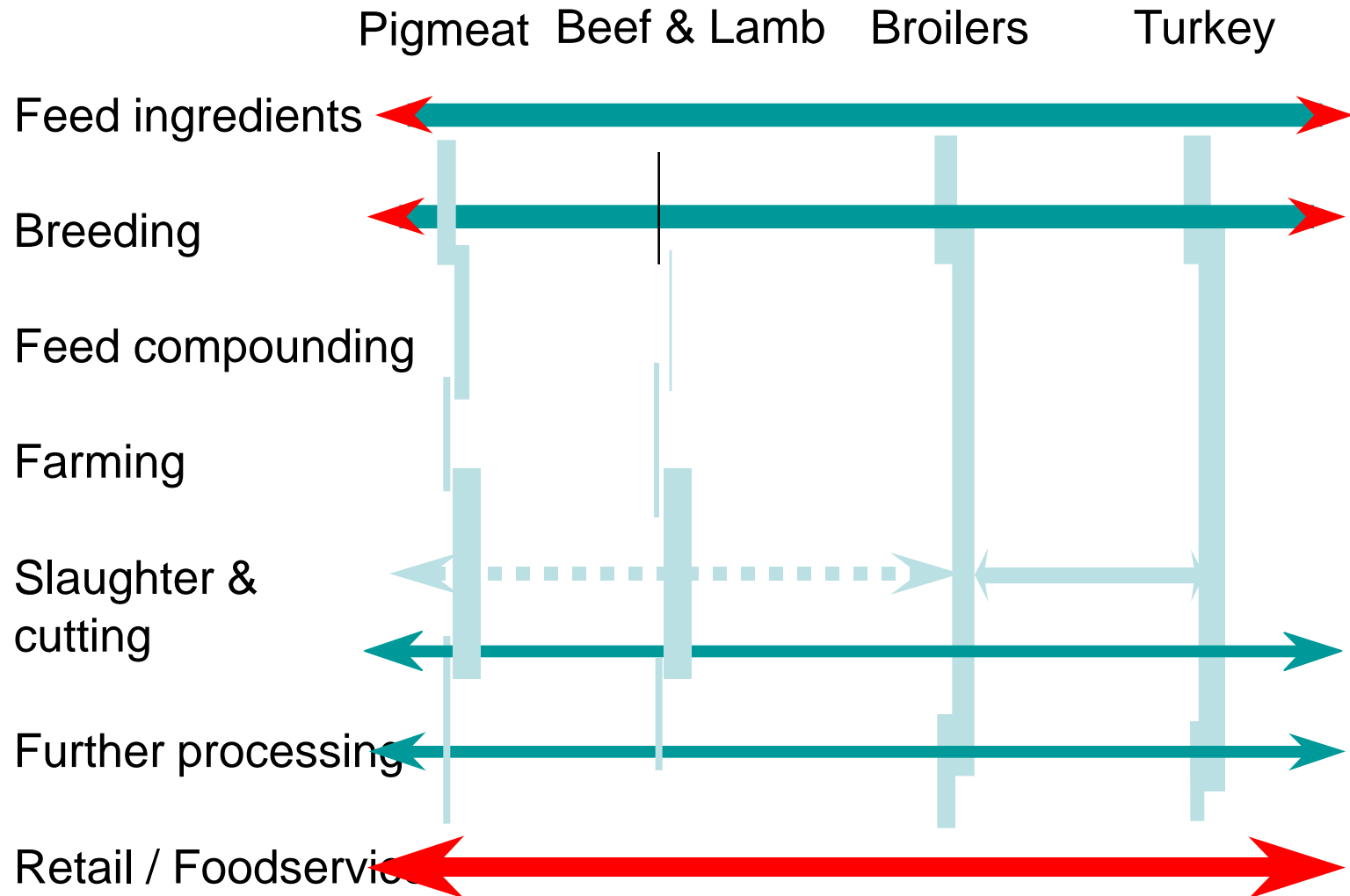
Latest M&A (change to 06 sit'n (data))

- VION acq'd Grampian (UK)
- Mafrig acq'd Moy Park (UK, Fr)
- Terrena (FR) acq'd Unicopa (FR)

Production by operator in the top 5 production countries ('000 t cwe) – 2005/06



Future EU meat value chains



❑ **BR could have some EU primary processing M&A interests**

- Route to market: customer credibility and relationships
- Product portfolio (domestic origin)
- Profitable?
- Risk reduction etc
- Precedent from Marfrig in PY ... for McDonalds
- Precedent from JBS in 50% j/v with Inalca...
- BRF already has FP acquisitions in EU
- Attraction of continuous M&A stream
 - So long as it can manage them
 - ... and what happens when the music stops

❑ **Further slow process of European consolidation**

- Vion?
- The other major players?
- Who pays? Who benefits?
 - Currently plenty of issues to solve in EU industry, especially overcapacity

Thank You for your Attention

BACK-UP US Corporate Strategic Review: Consolidation of gains and repairing the balance sheet...lessons learned?

'Optimal' primary processing plant size					
	per week	p.a	carcass wt kg	Vol t.p.a.	Many contradictions to the 'rule'
Broilers	1,000,000	50,000,000	2	100,000	Faccenda 2x this size, recent Sun Valley acq'n 1/4
Turkeys	100,000	5,000,000	15	75,000	Depends of bird breed, sex etc.
Pigs	20,000	1,000,000	80	80,000	DC Horsens 4x, no Belgian plant
Cattle	2,000	100,000	325	32,500	Tonnies new plant 5x, ABP 'model' 1/2
Lambs	30,000	1,500,000	20	30,000	Many smaller

Source: Gira estimates

- The **objective of size is scale economies** ... in everything:
- Many **different answers** to *optimal* size, depending on:
 - Processing: depends on automation / technology, labour cost, standardisation
 - Marketing: meat: depends on customer demands. 5th Qtr: gains
 - Purchasing: depends on proximity & availability of livestock: reactions of others & intensity of local competition
 - Degree of forward integration
- UK and European plants are much smaller than US

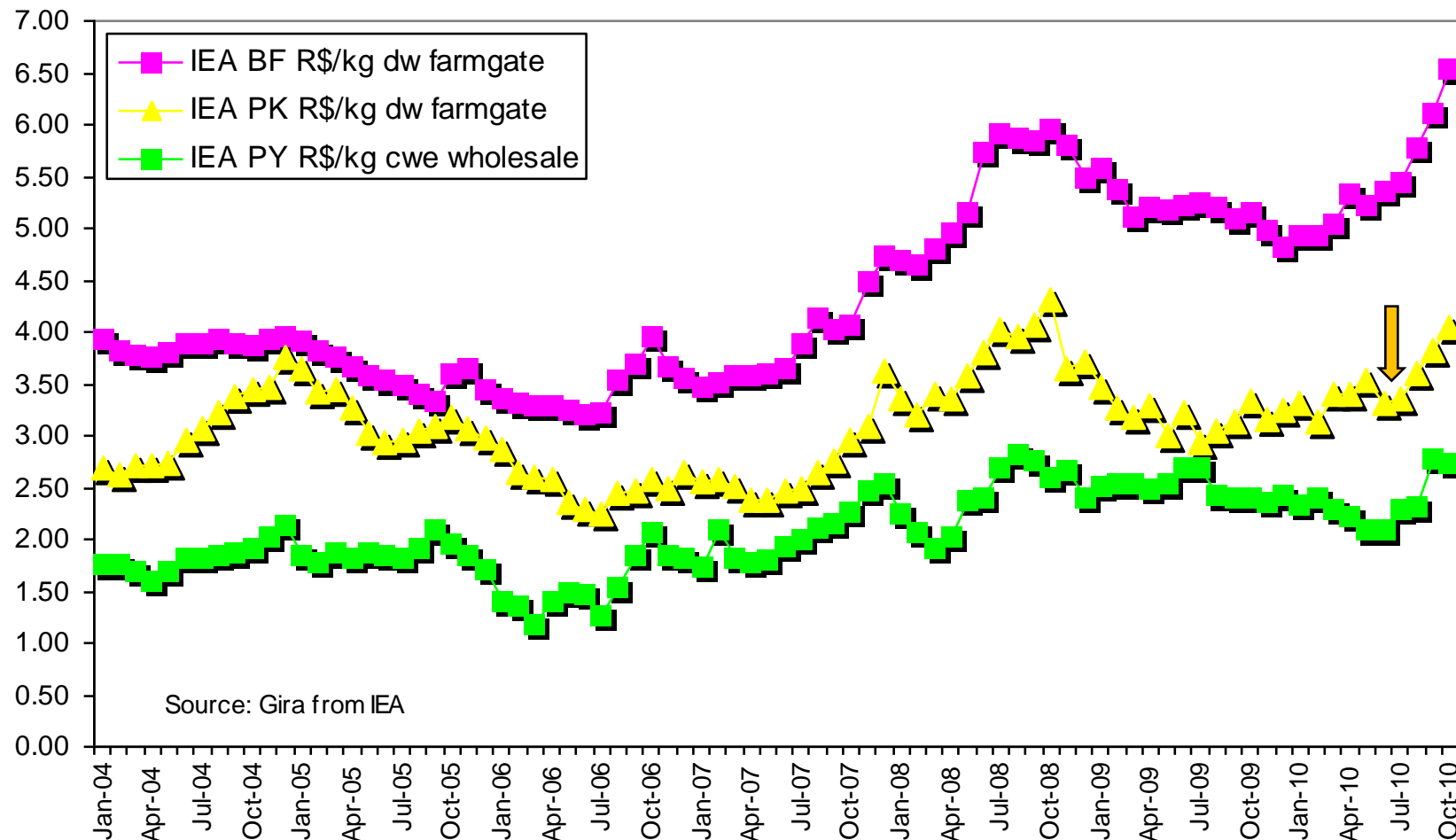
Top 10 Australian Meat Companies, 1997

Rank	2007 Vol ext. '000t cwe	Ownership	Beef	Sheep	Pigs	Total Vol	BF kill share	SH kill share	Kill share Bf+Sh	Primary Proc plants	Avg. plant size	Integration
	JBS Swift Australia	JBS	453			453				4	113	4x feedlot @ 100,000 one time capacity total
	Tasman Group Services	JBS	106	58	5	169				6	28	1x mixed feedlot
	Rockdale Beef	JBS	55			55				1	55	1x feedlot
	Tatiara	JBS		39		39				1	39	Primary and further processing
1	JBS Group Total	Public - family control	614	97	5	716	28%	14%	25%	12	60	Mainly backward integrated. Some further processing + by-products
2	Teys Bros	Family	345			345	16%		12%	4	86	1x feedlot @ 30,000 one time capacity. 2x additional s/h mothballed. Tannery. 2x FP
3	Nippon Meat Packers Aust	Nippon Meat	162			162	7%		6%	3	54	1x feedlot. Tanneries and by-products
4	Cargill Beef Australia	Private. Cargill US	152			152	7%		5%	2	76	500,000 annual capacity. 1x feedlot @ 17,000 one-time capacity
5	T&R Pastoral	Family	53	80		133	2%	12%	5%	4	33	195,000 annual BF capacity, + 3.4m sheep capacity
6	Fletcher International	Family		82		82		12%	3%	2	41	Integrated farming, processing & by-product processing
7	Australian Country Choice	Family	60			60	3%		2%	1	60	530k ha breeding, backgrounding & 2x feedlot. Primary processing & RP
8	H W Greenham	Family	58			58	3%		2%	2	29	
9	Kilcoy Pastoral	Singapore based Fund	54			54	2%		2%	1	54	
10	JSA Jackson	Family		50		50		7%	2%	2	25	By-products
	Total Top 10		1498	309	5	1812	69%	45%	63%	33	55	
	Australian GNP		2180	692		2872						
	2007											
	Share of Top 10		69%	45%		63%						

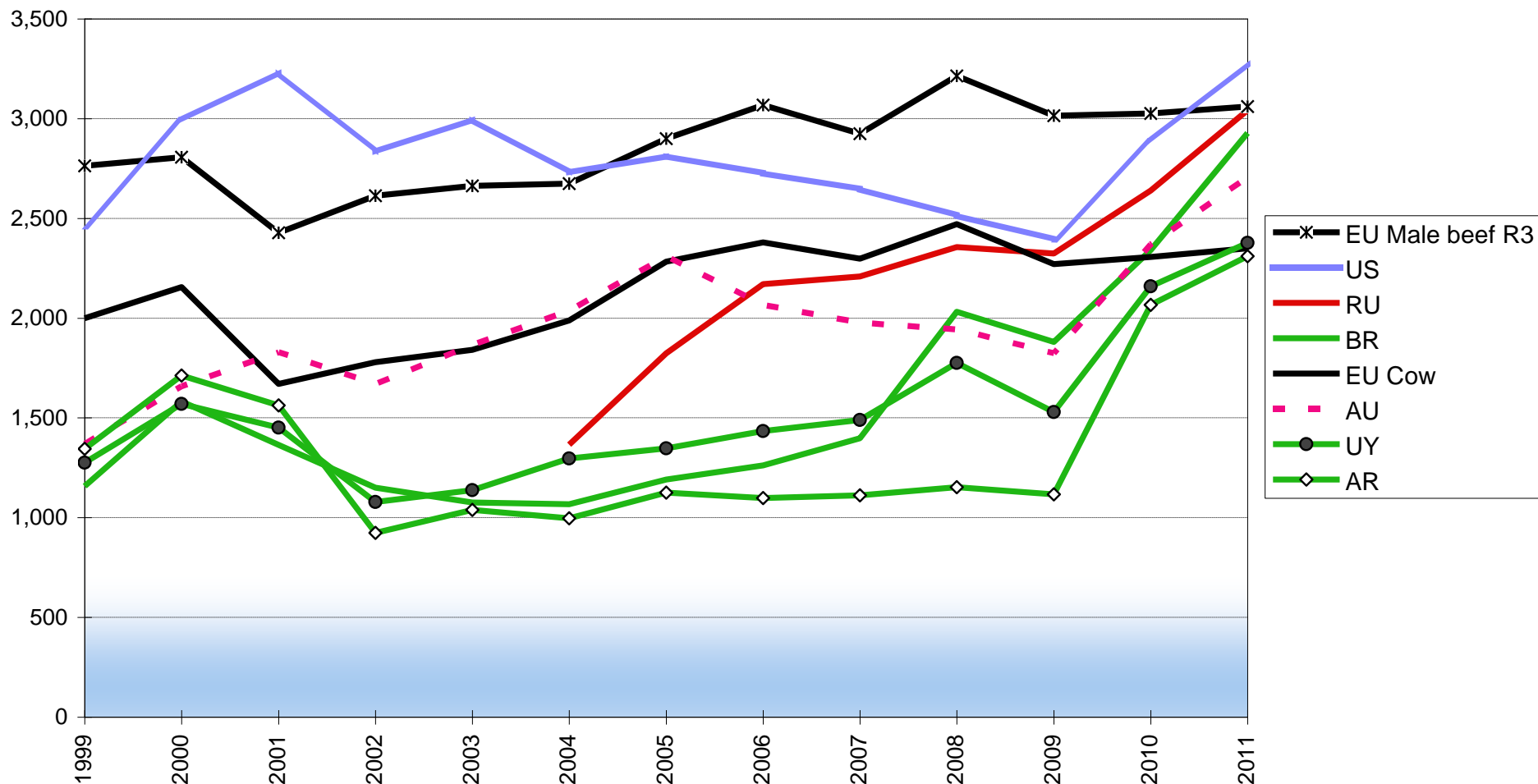


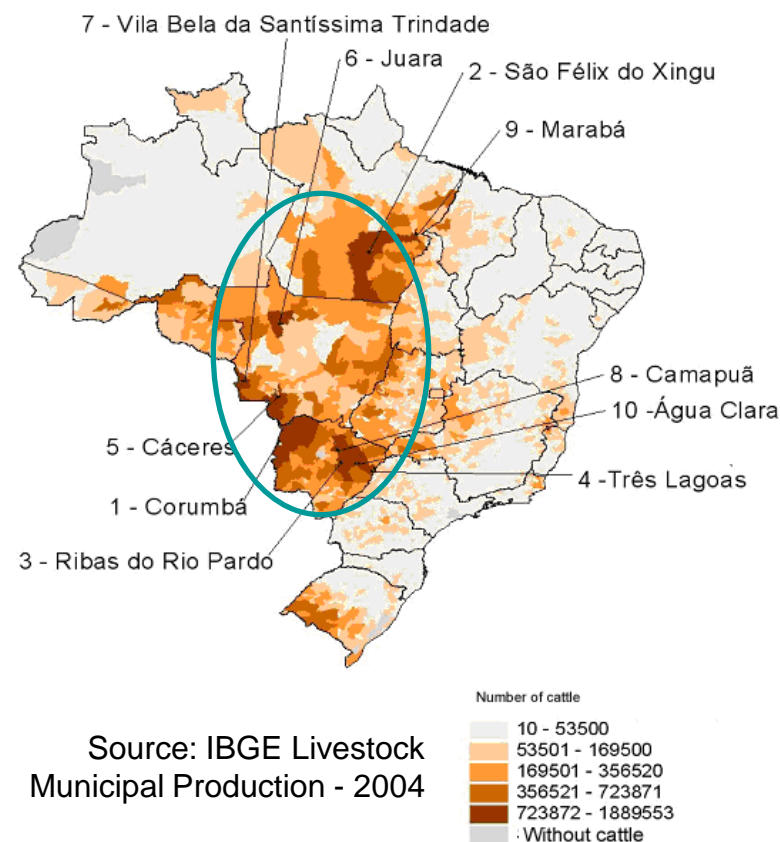
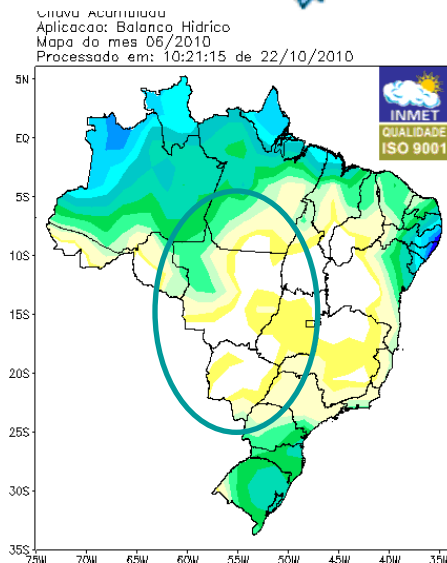
Producer* price evolution in USD/kg dw, 2004-2010

R\$/kg dw or cwe



Cattle Producer Prices, 1999-2011 (Current EUR/t cwe)

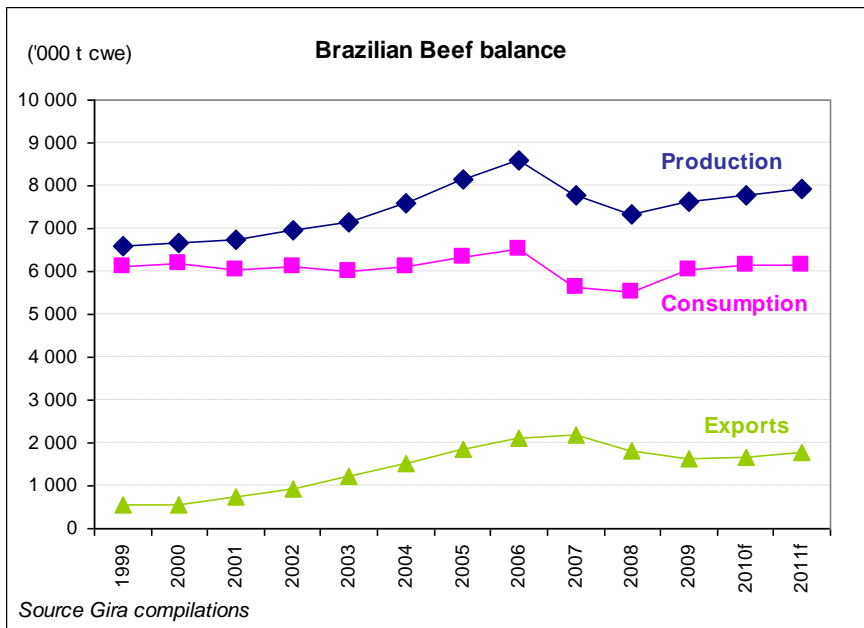




Source: IBGE Livestock
Municipal Production - 2004

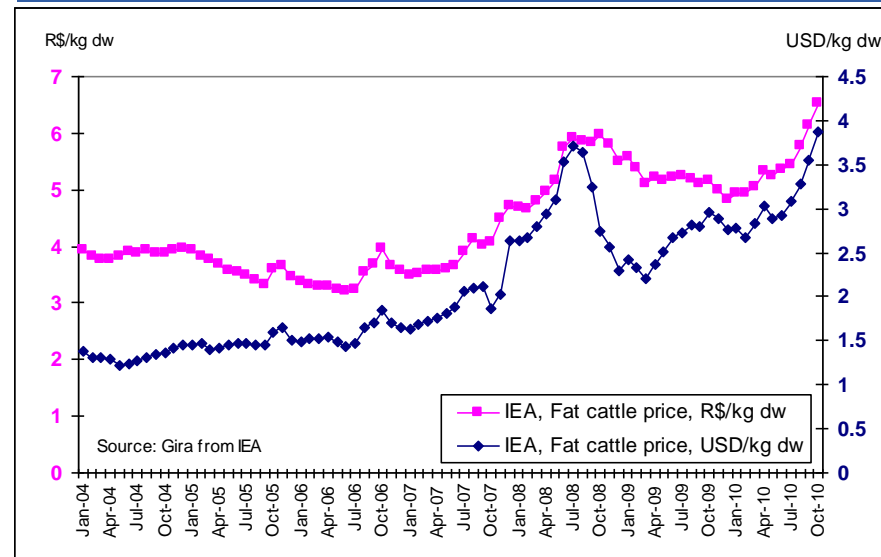


Beef balance, 1999-2011f



- **Production upward trend faster than herd growth implies efficiency gains are the main driver** (slaughter age down, improvements in nutrition and pasture management)
- Production pulled by exports, but also by strong domestic demand pulled by very strong economic growth (+7.5%)
- **Cow retention still improving**
- Situation likely to remain dominated by **tense supply** and high prices until year end; industry operates at **low cap usage**
- Drought may affect fertility, calving rate may slow down

Monthly producer prices (in LC and USD/kg)



- **Cattle price has risen substantially in BRL and USD**
 - will encourage future production growth
 - ... but reduces export competitiveness
- Processors running well **below capacity**
 - Current shortage of slaughter numbers
 - Aggravated by mid-2010 'drought'
 - Hardly profitable: Some failures
 - JBS active in financing
 - AR situation is even worse
- **Bad relationships** with farmers
- Risk of **market access** problems
 - Politics
 - Disease