

Future State of the US Pork Industry

JULY 1 – WE'RE COMING TOGETHER AS ONE



Agenda

- Current state of the industry
- History lesson
- Future of swine
- How-To: Take Action and Be Successful
- Q&A

The Swine Industry is Always a Race!



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Running and the Swine Industry

- At 35% of my age group
- Top 20% overall
- A lot of similarities:
 - Anybody doing this is very good and they work at it.
 - Very tough to beat anybody that is not dedicated to getting better.

A Great Story

People fed by one American farmer

- 1920 = 3
- 2017 = 155
- Sustainable
- Efficient
- Utilizing technology and research to increase sustainability



Mandatory Cutout vs 203 PM Base Price



New Plants

- Rantoul, IL (expansion)
- Pleasant Hope, MO – 3,000 head per day
- Windom, MN – 5,000 head per day
- Coldwater, MI – 10,000 head, single shift
- Sioux City, IA – 12,000 head, single shift
- Prestage Farms – 10,000 head, single shift
- Pipestone ? – 10,000 head, single shift

Commentary

- Packers' margins have been very good for an extended period of time.
- Capital investment to build a packing plant is much different than the investment of pigs/barns to get to a plant. 80-20 rule: \$1.6-\$1.7B compared to \$500MM
- New packing plants are being built for a reason
- Being good at processing doesn't mean you'll be good at production. The Triumph group changed the dynamics and now others are looking at trying to replicate. But it wasn't that easy.....

History Lesson - 2007

- Swine industry was very strong
- Triumph plant started up
- Plant explosion
- Employment disruption
- Corn was cheap ... but what happened?

2008-2009

- \$25 per head of losses for over 2 years
- H1N1
- Sow buy out discussions
- Challenges strengthened the industry
- Triumph - Successful but not easy

World-Class Pork

How did we get here?

- Producer, processing and overall infrastructure
- Financial and operational excellence
- Tremendous risk management
- Continued improvement in overall production
- Change is coming

What Our Numbers Show

- Spans across US
- Many production models
- 20%+ of US pork industry
- Sales to all processors in US
- 2010 – 2016 results

Swine Database

	2016	2015	2014	2013	2012	2011
Owner Equity	63%	65%	63%	51%	53%	53%
WC/Sow*	\$1,311	\$1,343	\$1,209	\$868	\$983	\$869
Fixed Debt/Sow	\$849	\$711	\$549	\$586	\$620	\$640
Op. Debt/Pig on Feed	\$51	\$51	\$59	\$45	\$65	\$52
P/L Per Hd	\$3.64	\$14.96	\$39.14	(\$2.80)	\$8.84	\$22.95
Cost Per Hd	\$140	\$141	\$174	\$183	\$167	\$154

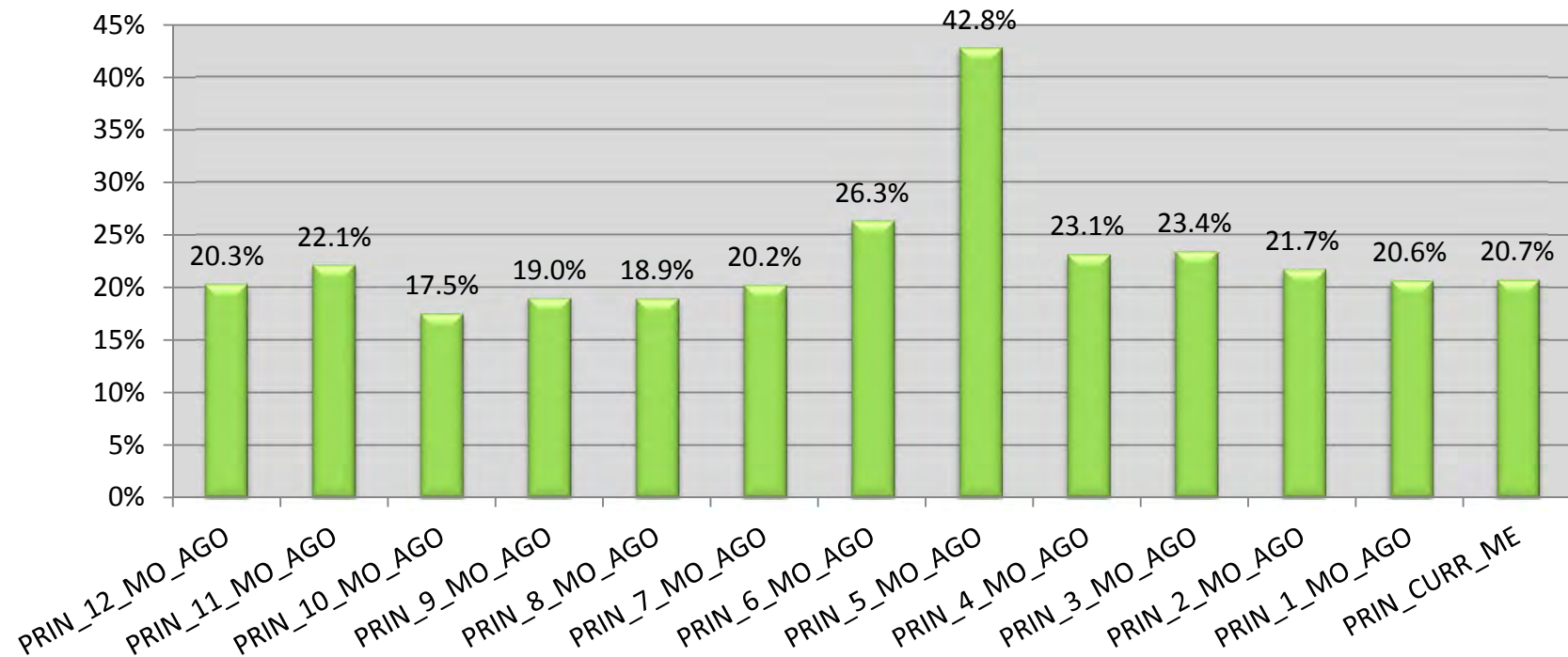
* Working capital excludes sows in working capital #

Compared to ISU Model

	2016	2015	2014	2013	2012	2011	2010
ISU Breakeven (CWT)	\$47.47	\$50.25	\$58.32	\$70.01	\$69.21	\$64.69	\$51.51
Producers Breakeven	\$51.95	\$52.21	\$64.61	\$67.97	\$62.02	\$57.20	\$50.85
Difference (B/E)	(\$4.48)	(\$1.96)	(\$6.29)	\$2.22	\$7.19	\$7.49	\$0.66
ISU P/L (per head)	(\$4.72)	\$3.26	56.96	(\$8.83)	(\$12.47)	\$4.92	\$12.94
Producers (P/L)	\$3.64	\$14.96	\$39.14	(\$2.80)	\$8.84	\$22.95	\$16.30
Difference (P/L)	\$8.36	\$11.70	(\$17.82)	\$6.03	\$21.31	\$18.03	\$3.36
Cumulative Difference	\$50.97	\$42.61	\$30.91	\$48.73	\$42.70	\$21.39	\$3.36

Swine Operating Lines

Swine Revolving Principal as % of Peak

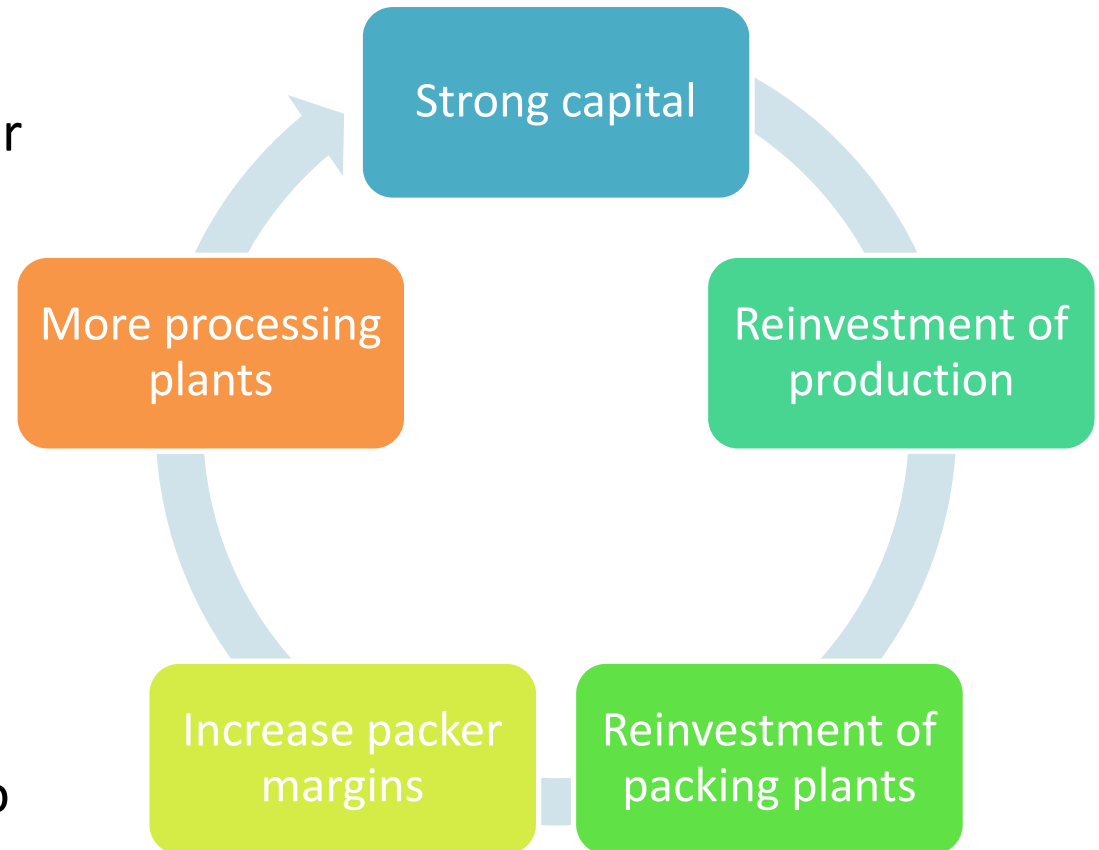


Be Cautiously Confident

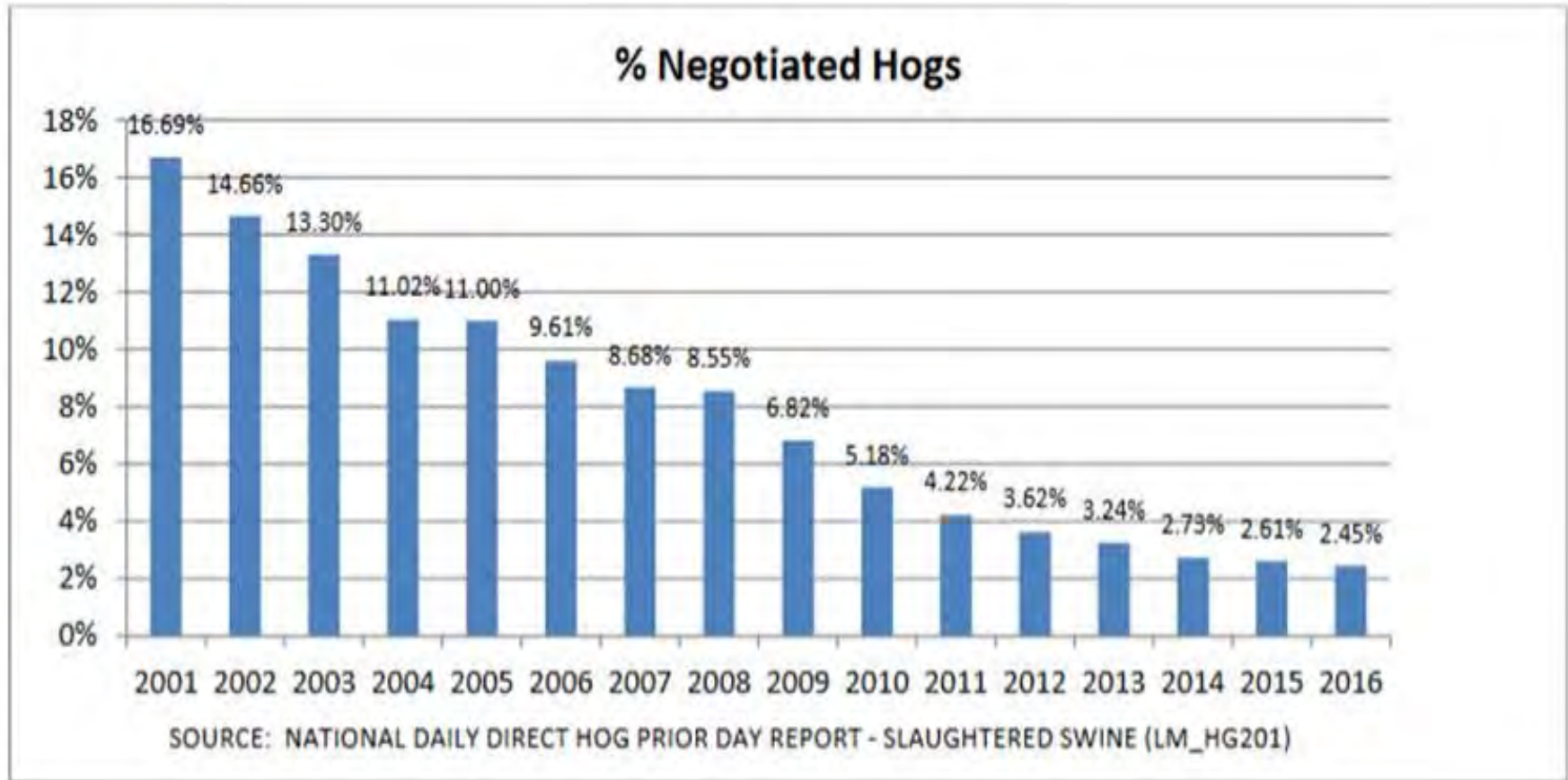
- The 20% usage includes real estate revolvers.
- Many systems could lose \$20/head for 2 years and not touch their operating lines other than for tax purposes.
- If you think you are strong, there is somebody stronger. You cannot get overconfident.

Observations

- Seismic shift happening
- When you have a strong balance sheet, you tell your lender what you are going to do 😊!
- Industry strength of this level has led to capital spending or reinvestment into production.
- This time, the focus is on production + packing plants.
- Large packer margins have caused a reinvestment into more processing plants



Observations



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Observations

- Bellies, ribs and butts higher value than loins.
- Mexico loves our hams!
- As we increase supply, can we keep our values?
- We will be more dependent on exports.
- Any disruption to our export market will be devastating.

Observations



One More Item



Pork Industry of the Future

- More integration, but future processing must be considered to capture true value
- More alignment with producers/processors
- Data to drive decisions for your operations
- Continued investments in new technology and ways to retain employee talent
- Think for the long term, not the short term

**Take a broader view of the world than
just outside your window.**



Do not become isolated.

Attributes of Success

- Be great at blocking and tackling. Without that, you have no shot.
- Embrace data management; use data to make decisions that add to your bottom line.
- Benchmark against your peers to understand where you stack up.
- Be willing to change current practices for overall improvement. Avoid the status quo.

Thank You!

[AgStar.com/swine](https://www.agstar.com/swine)

for industry resources and updates



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