

Beef Improvement Federation's

37th Annual Meeting

*Defining your Goals and
"Opportunities for Profitability"*

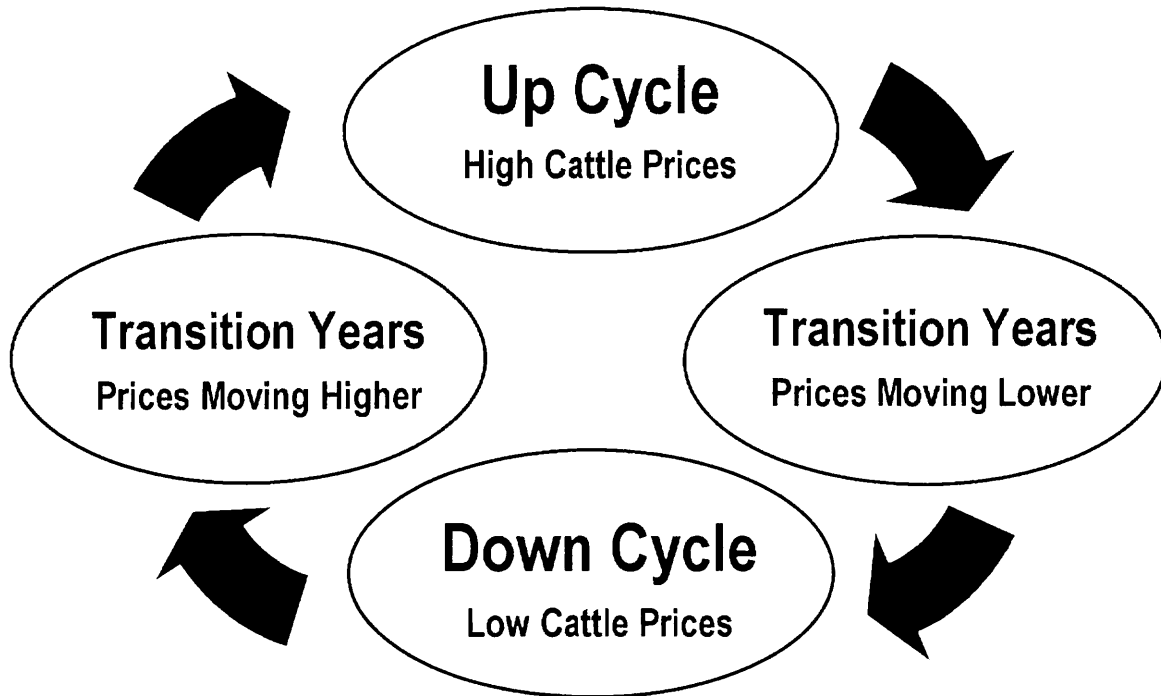
Thursday, July 7th

Presented by:



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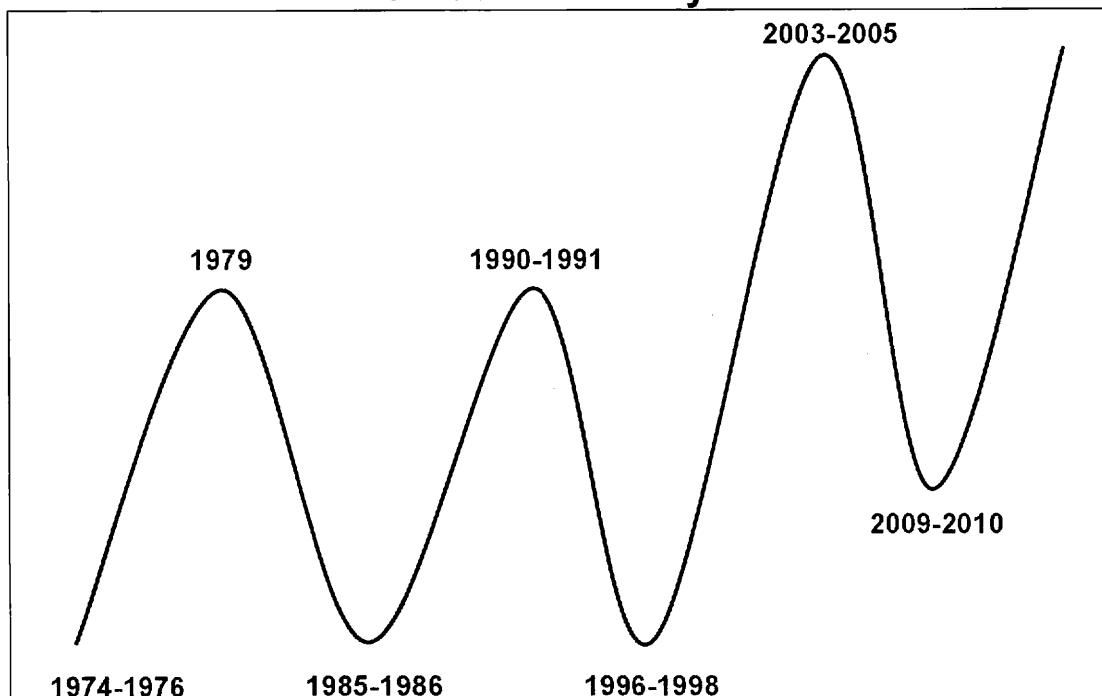
FOUR PHASES OF THE CATTLE CYCLE



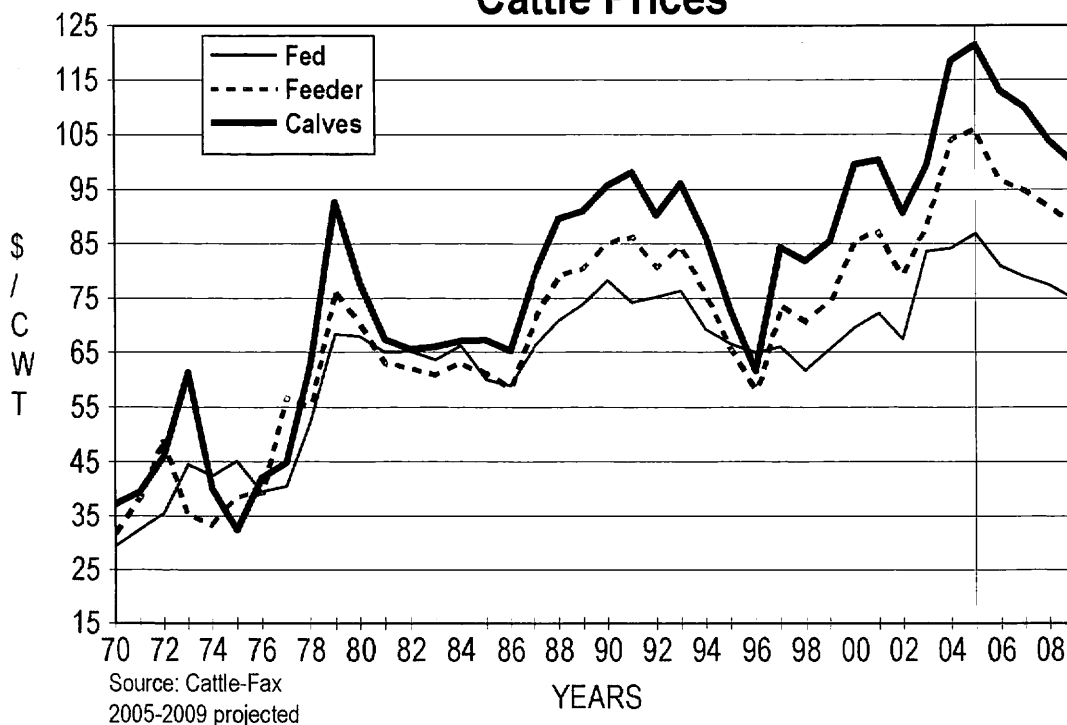
Profit Trends By Industry Segment During The Four Phases Of The Cattle Cycle

	<u>Cow / Calf</u>	<u>Stocker</u>	<u>Feedlot</u>
(1) Up Cycle:	Significant Profits	Moderate Profits	Modest Profits
(2) Downward Transition:	Declining Profitability	Significant Losses	Significant Losses
(3) Down Cycle:	Significant Losses	Narrow / Negative Margins	Narrow / Negative Margins
(4) Upward Transition:	Improving Profitability	Significant Profits	Significant Profits

The Cattle Price Cycle



Cattle Prices



CATTLE FAX update



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Cow/calf business consolidating

Structural changes in cow/calf business

Structural change and consolidation continues in the cow/calf segment. According to The Census of Ag, the number of beef cow operations declined about five percent from 1987 through 2002. During the same time, the size of the average cow herd increased 27 percent (from 33 head to 42 head in 2002). These trends are not surprising and mirror those occurring in nearly all beef industry segments.

	1987		2002	
	Number	Percent	Number	Percent
0-49	690,875	82.1	632,810	79.5
50-99	87,763	10.4	89,874	11.3
100-199	39,754	4.7	45,354	5.7
200-499	18,677	2.2	23,126	2.9
500-999	3,463	0.4	4,002	0.5
1000 hd or more	<u>1,246</u>	<u>0.1</u>	<u>1,270</u>	<u>0.2</u>
Total	841,778	100.0	796,436	100.0

There have been some interesting trends relative to which size groups of operations are growing and which are declining. This comparison will utilize the 1987 and 2002 census of agriculture report. Even though there are fewer total cow/calf operations, 91 percent of all operations still

have less than 99 cows. The number of cows represented by the larger size groups has increased significantly.

The number of beef cow operations with 100 or more cows has increased a whopping 17 percent since 1987 and the number of operations with more than 200 cows has increased 21 percent (from 23,386 to 28,398 operations). According to the same data, there are now 5,272 cow/calf operations in the U.S. with more than 500 beef cows, an increase of 563 operations since 1987.

The number of beef cows represented in operations with more than 200 head has increased 15 percent and this group is expected to continue to grow. Operations have been forced to grow in order to spread fixed costs more efficiently. Economics and the changing business environment will continue to encourage consolidation and concentration at all levels. The cow/calf industry will not be immune to these forces during the next 5 to 10 years. — *Randy Blach*

Currentness

Very current

Current

Caution

Uncurrent



Steer carcass weights were 780 pounds — up 5 pounds from a year ago.

50 percent lean trim at record highs

Fifty percent lean beef trimmings are solely derived from slaughter steers and heifers. This fairly fatty trim is then mixed with lean beef trimmings from U.S. cow beef or imported lean trim to produce the 70-90 percent lean ground beef that we consume in the United States. Through April 2005, total U.S. beef production from steers and heifers is two percent below last year and four percent below the 2000-2004 average. Lower beef production so far in 2005 and seasonally strong demand has helped to keep fed cattle prices and 50 percent lean trim prices at record high levels.

For the week ending April 22, 2005, the average fed cattle price was \$94.00 and the average 50 percent lean trim price was \$98.30 (as quoted by Urner Barry). The figure above shows that the monthly average 50 percent lean trim price has not traded above the fed cattle

This week in brief

Market highlights

There was a softer tone to the market this week with regard to fed cattle trade. Nebraska and Colorado started the trade on Wednesday at \$147-152 with the bulk of the cattle at \$148 on a dressed basis and \$92-93 live. Southern trade didn't occur until late in the day Friday at primarily \$93 live. Cut-out values through Thursday saw Choice gain \$4.64 to end at \$163.10 and Select \$4.95 higher at \$147.02. Movement of beef was moderate but much below last week's levels. The Ch/Se spread continues to remain seasonally wide and should continue through the early summer months. Feeder cattle prices remained strong this week and trended \$1-2 higher, while calves were mostly steady to \$1 better. Cows were steady to \$2 weaker and bulls steady.

U.S. considers technical issues on Japan border resolved

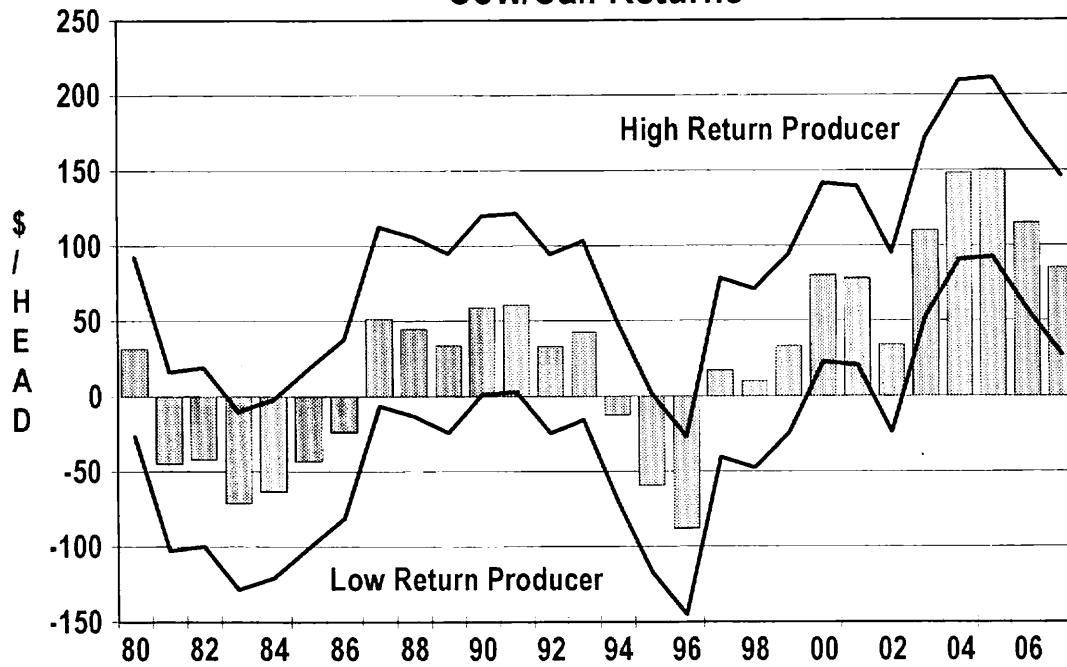
The head of a visiting U.S. delegation seeking to end Japan's ban on U.S. beef imports because of mad cow disease said Tuesday he believes technical discussions between the two countries are over with the United States having presented data on measures to ensure product safety. The U.S. has now 'provided more than adequate information' to Japan through experts' meetings and visits by Japanese experts to verify beef safety measures implemented in the country during the past 16 months of the import ban. The United States is scheduled to host another verification visit by Japanese experts in the second week of May.

Typical increase of over 50,000 head per week

Did you know that the 10-year average increase in weekly average steer and heifer slaughter from April to May is over 50,000 head per week? The average increase over the past 10 years is 54,000 head per week. The largest increase occurred in 2002 at 96,000 head per week. However there have been 2 years, 1995 and 2000, where weekly average slaughter levels were actually larger in April than May. If this typical increase takes place this year, average slaughter levels will approach 650,000 per week during May.

continued on page 3

Cow/Calf Returns



Cow / Calf Producer Profitability

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Profitable	90%	83%	70%	90%	93%
Near Breakeven	8%	9%	17%	8%	6%
Not Profitable	2%	8%	13%	2%	1%

HIGH- RETURN vs. LOW-RETURN PRODUCERS

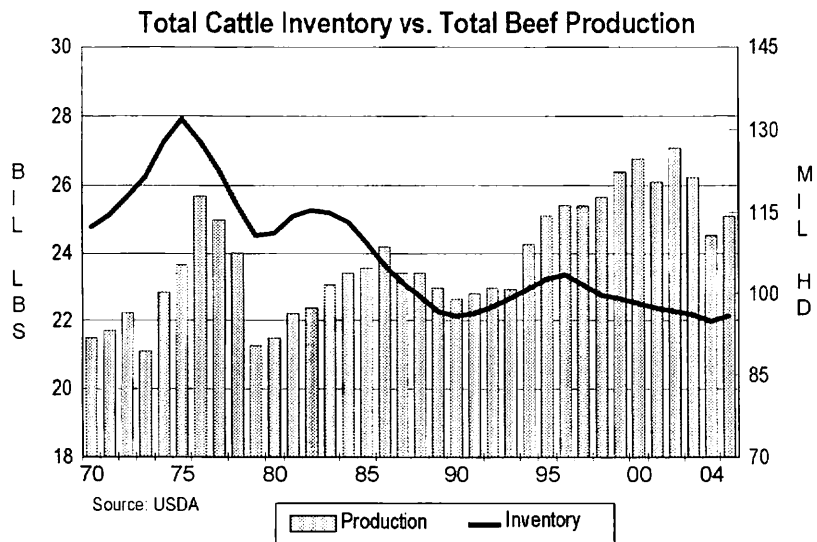
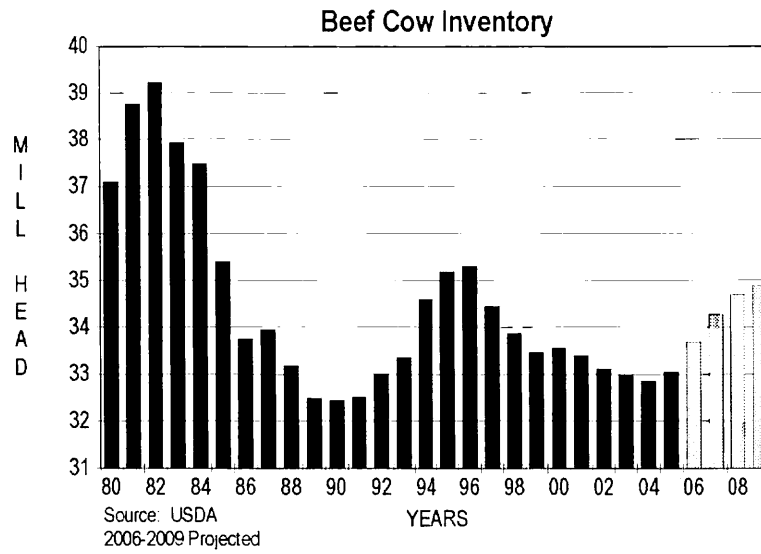
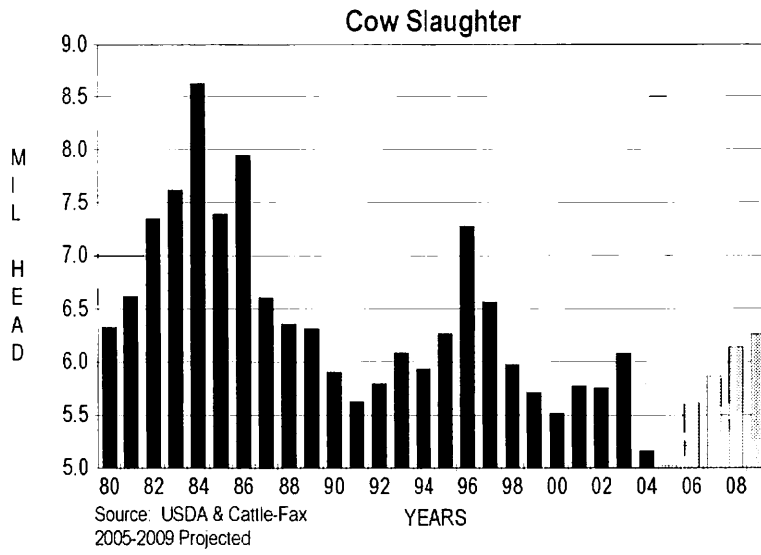
	<u>HIGH</u>	<u>LOW</u>
Calf Breakeven	\$53/cwt	\$86/cwt
Difference \$151Per Cow		

HIGH- RETURN vs. LOW-RETURN PRODUCERS

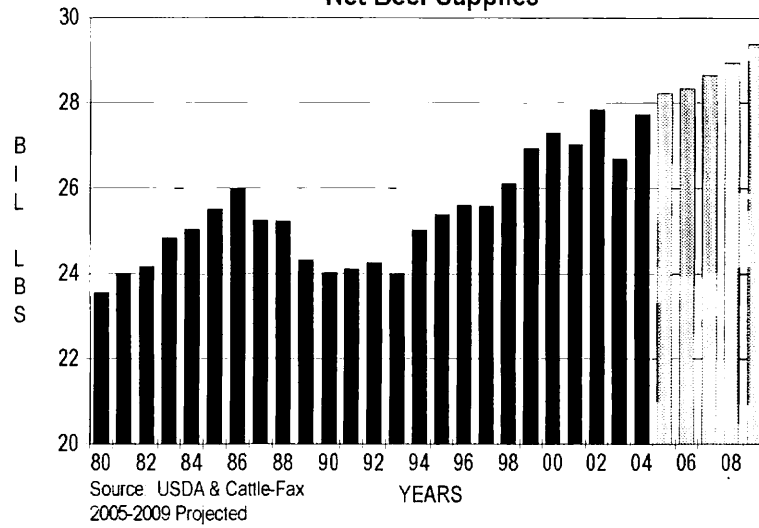
	<u>HIGH</u>	<u>LOW</u>
Annual Cow Cost	\$259/head	\$357/head
Difference \$98 Per Cow		

HIGH-RETURN vs. LOW-RETURN: \$151 per head

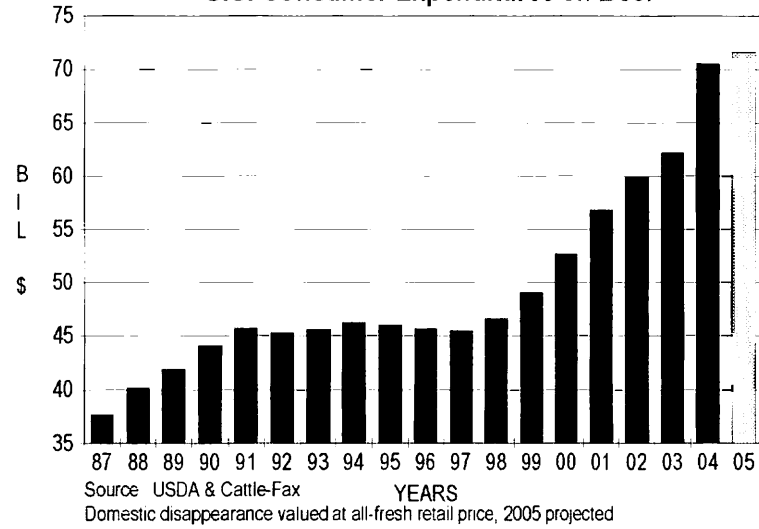
	<u>Dollars</u>	<u>Percent</u>
Cow Costs	\$98	65%
Production	\$53	35%



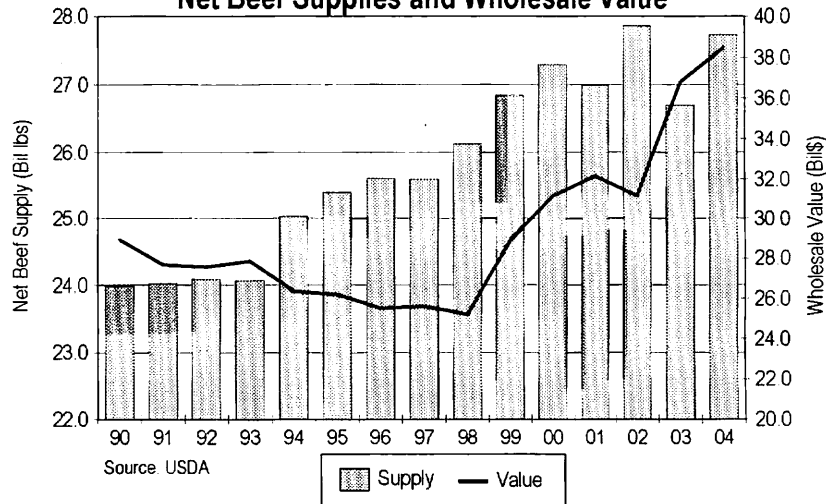
Net Beef Supplies



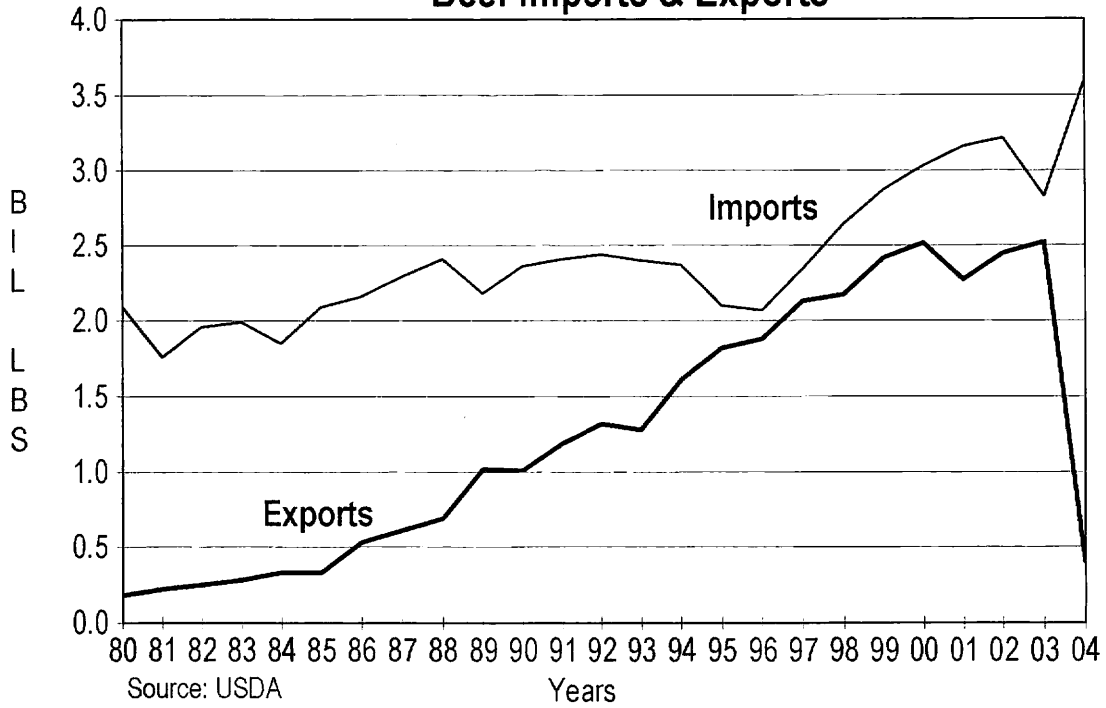
U.S. Consumer Expenditures on Beef



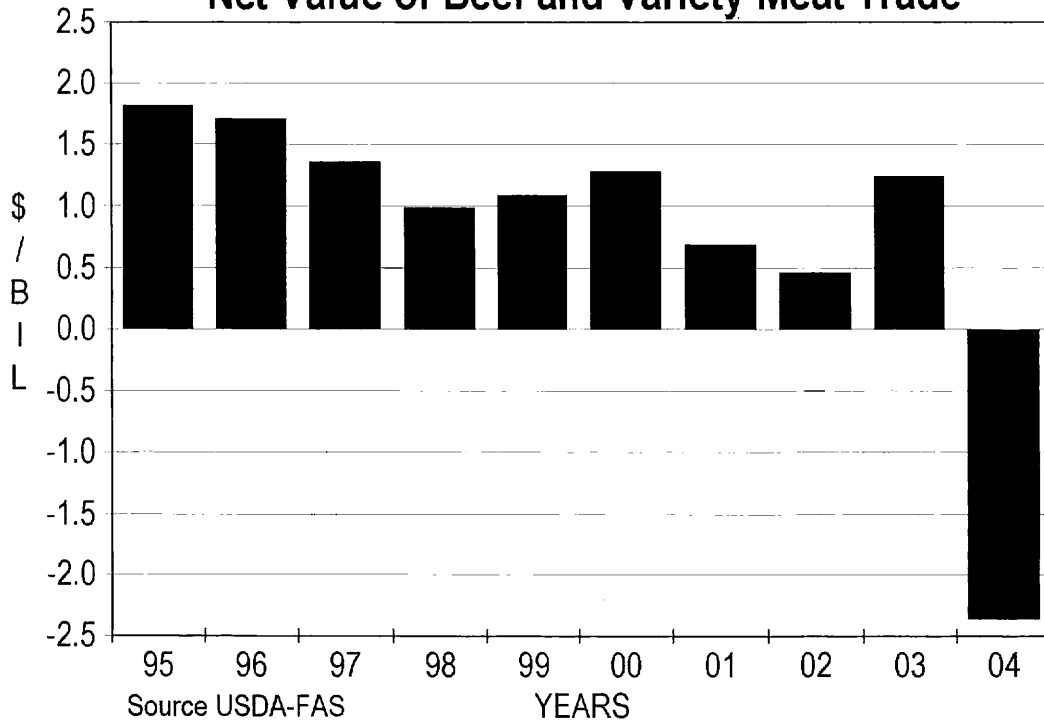
Net Beef Supplies and Wholesale Value



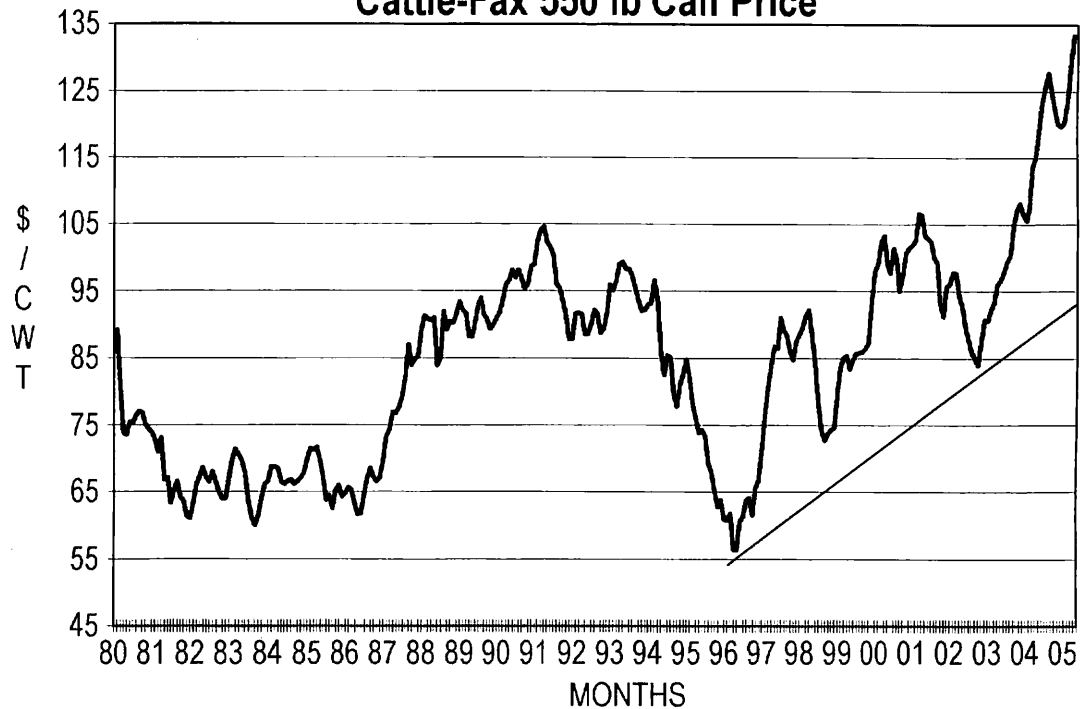
Beef Imports & Exports



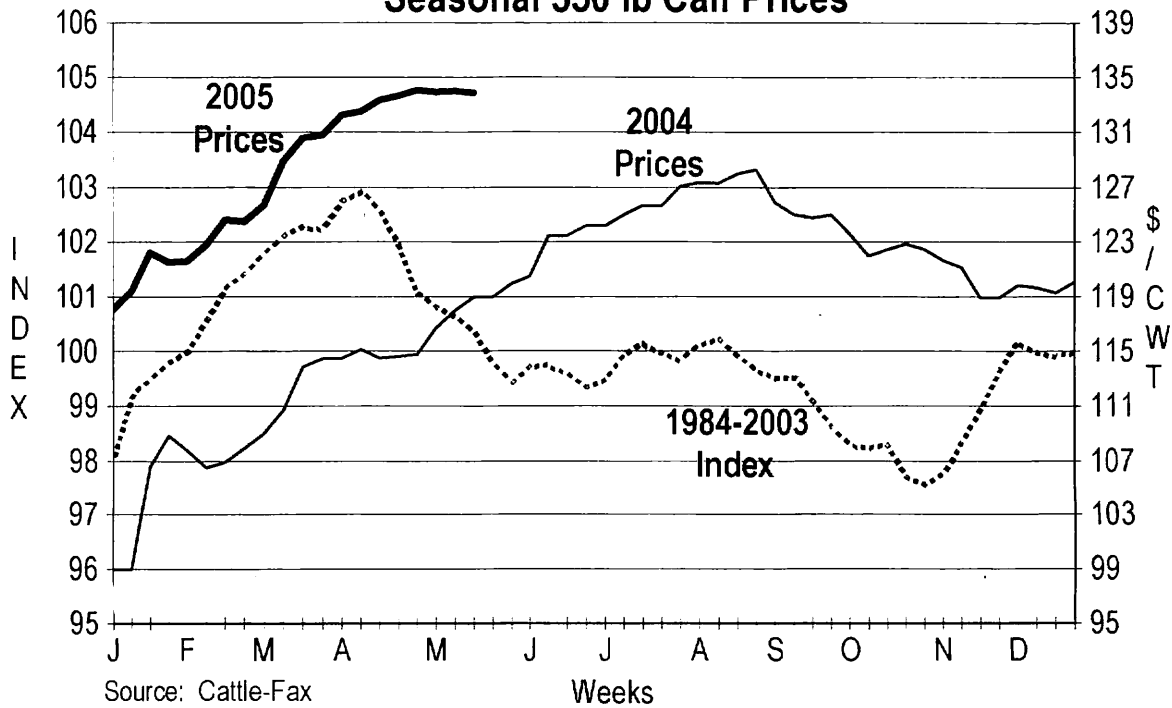
Net Value of Beef and Variety Meat Trade



Cattle-Fax 550 lb Calf Price



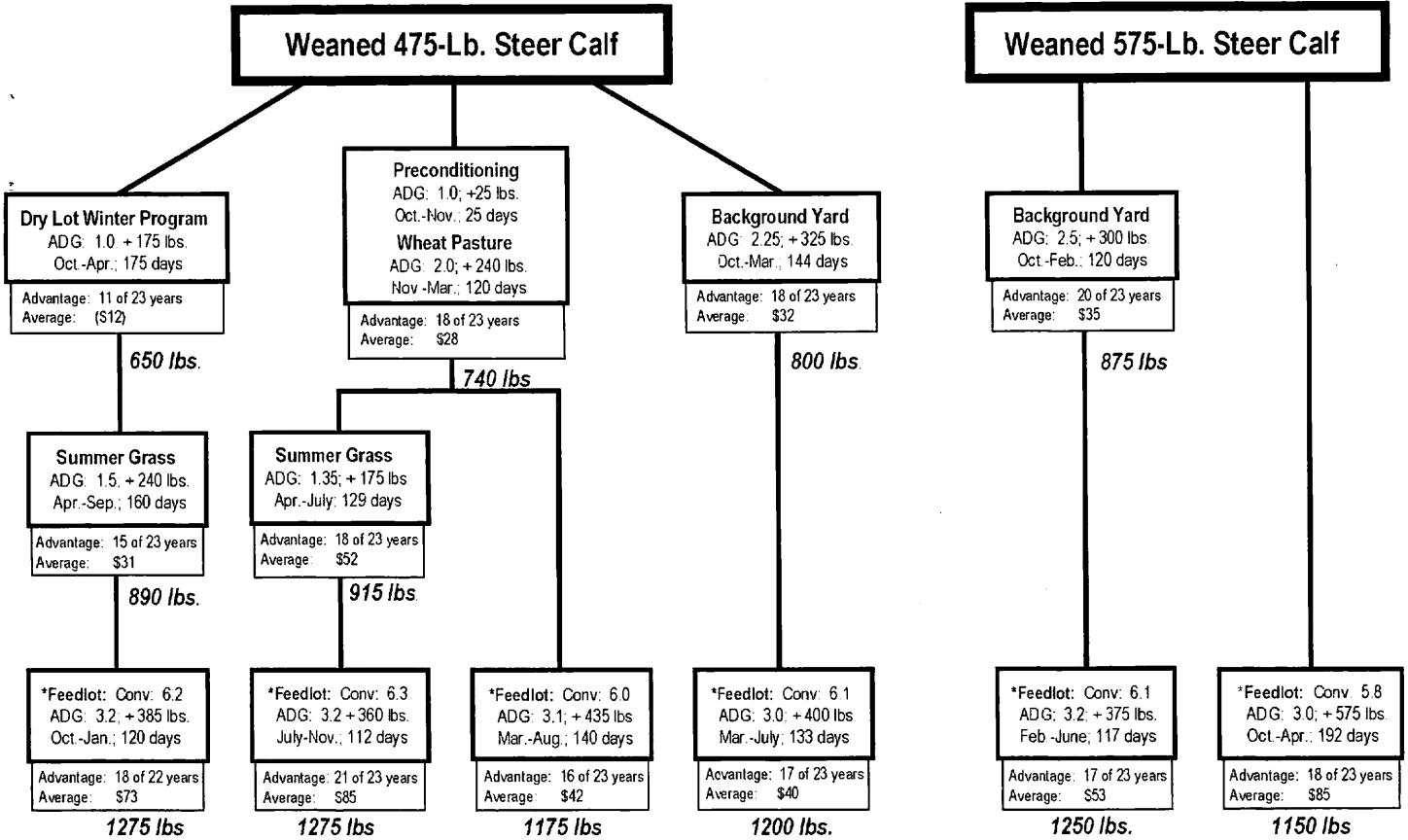
Seasonal 550 lb Calf Prices



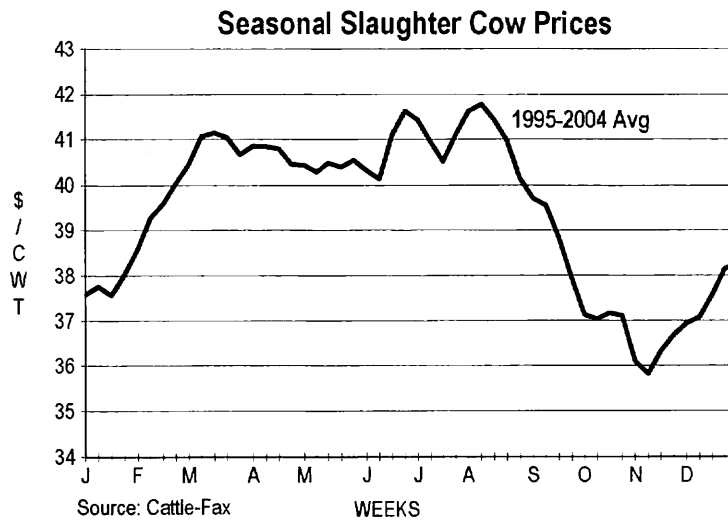
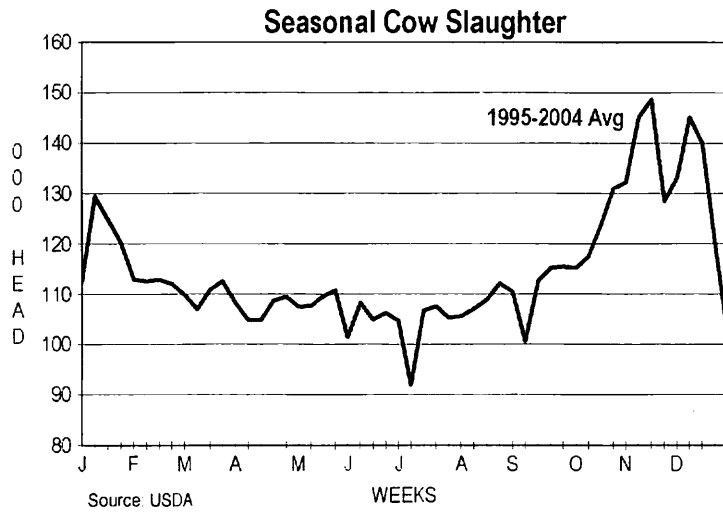
Source: Cattle-Fax

Spring-Born Steer Calves

Retained Ownership Alternatives



* Feedlot conversions are measured on a dry-matter basis



Slaughter Cow Extended Ownership

Cull Cow

ADG: 1.5
Nov.-Feb.; 95 days

Advantage : 23 of 23 yrs
Average: \$64

1125 lbs.

Profile of Livestock & Producer Operations

	Total # of Producers/ Operators	# of LG Producers	LG Producers as % of Total	% of Production from LG Producers
Broilers Top 20				85%
Hogs >2000 hd	98,460	7,125	7%	69%
Dairy >200 cows	105,250	8,005	8%	48%
Beef Cattle				
Feedlots >1000 hd	104,471	2,071	2%	85%
Cow/Calf >200 cows	804,000	28,000	3.5%	33%
>100 cows		72,891	9%	51%

Concentration in the Food and Beef Industries

		Market Share
Cow/Calf Producers	Largest 9%	51%
Feedlot Operators	Largest 2%	85%
Packing Companies	Top 5	78%
Supermarket Chains	Top 10	55%
Food-Service Distributors	Top 10	45%
Restaurant Chains	Top 10	30%

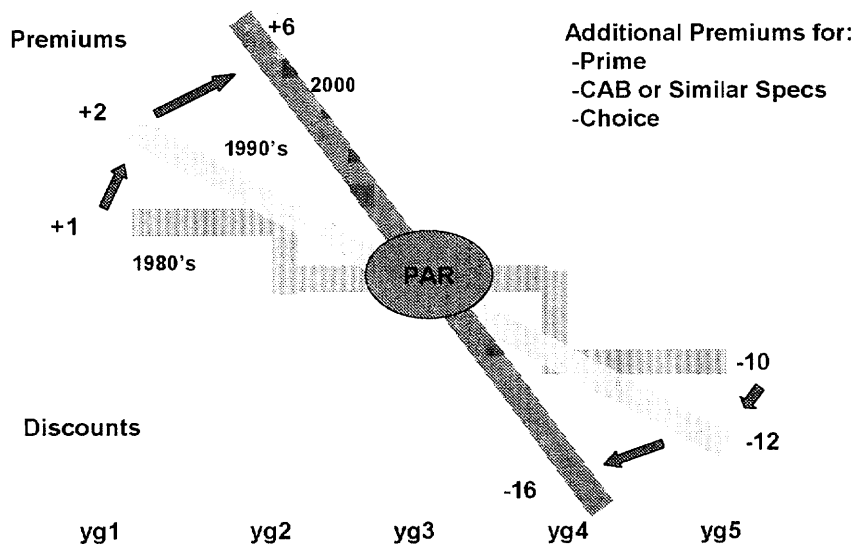
Source: Cattle-Fax 2

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Top 25 Feeding Companies Feed 40% of the Cattle Now!

By 2006 = ?

Value Discovery Changing

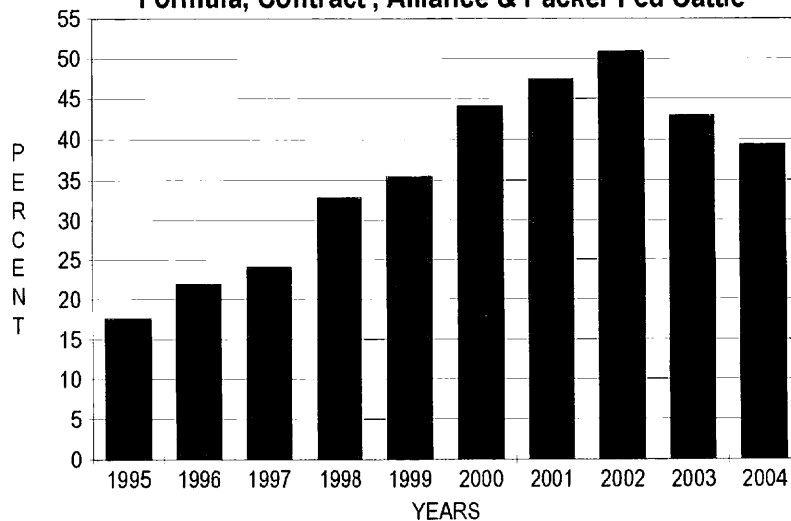


New Opportunities

•Source Verified

•Age Verified

Percentage of Fed Cattle Movement from:
 Formula, Contract, Alliance & Packer Fed Cattle



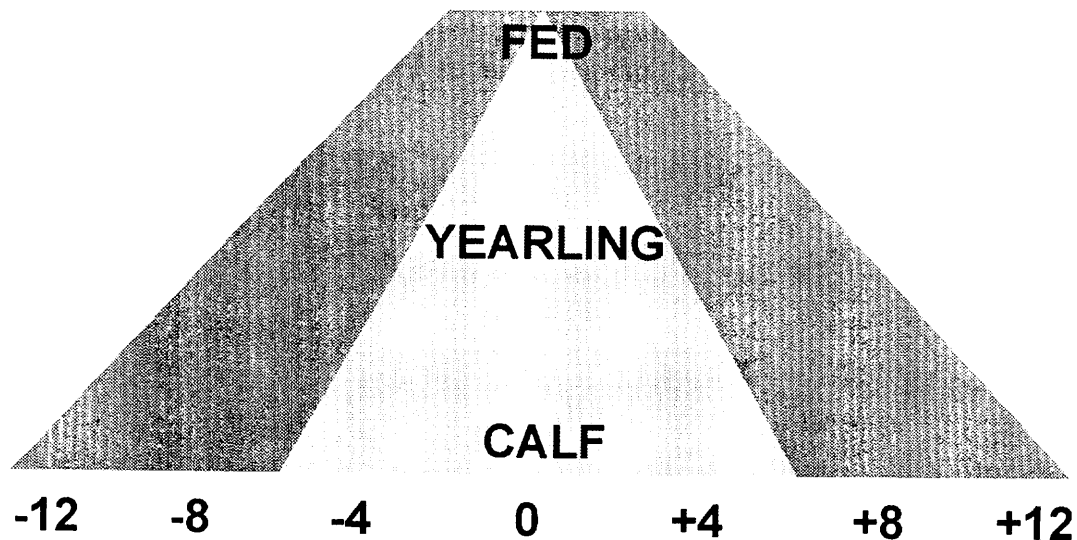
Pricing Method: Pricing on value of beef and the by-products produced

Message: "Some cattle are better than others"

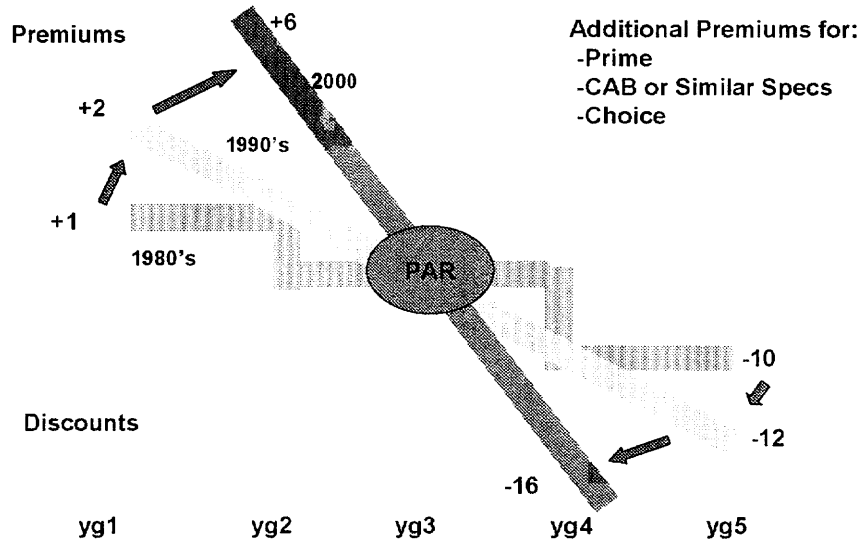
Result: Produce more of the better cattle

FUTURE CATTLE MARKET

Increased Value Differentiation At All Levels



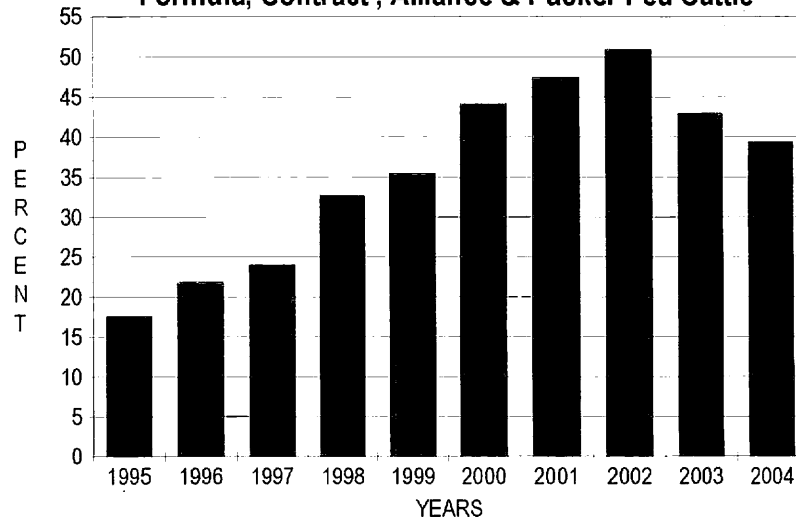
Value Discovery Changing



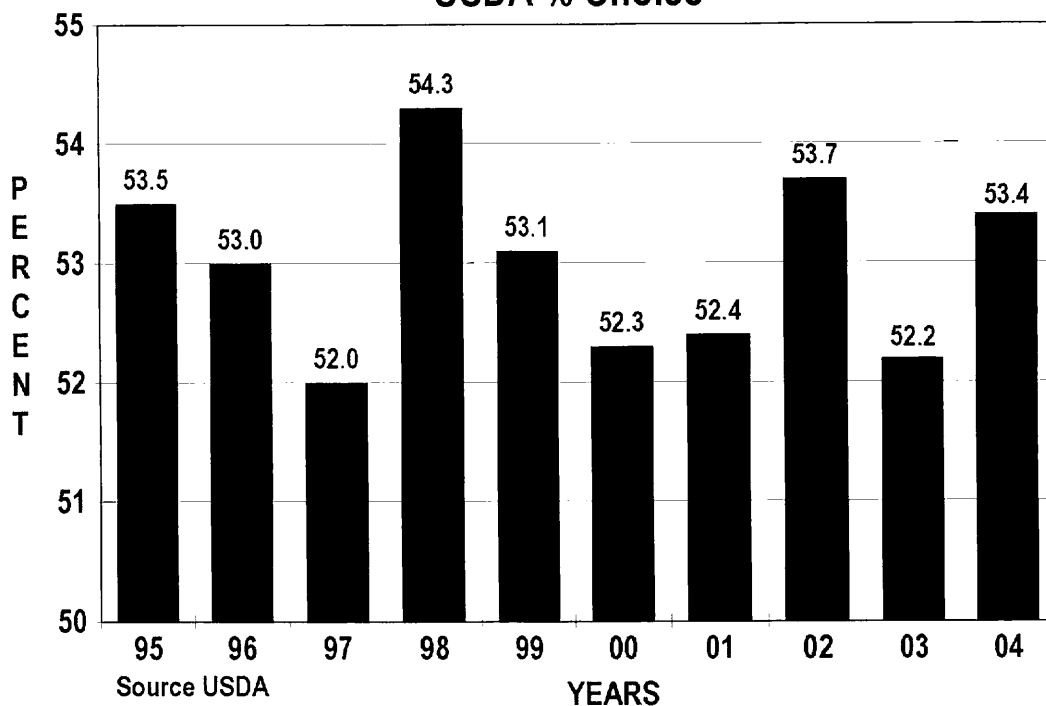
New Opportunities

- Source Verified
- Age Verified

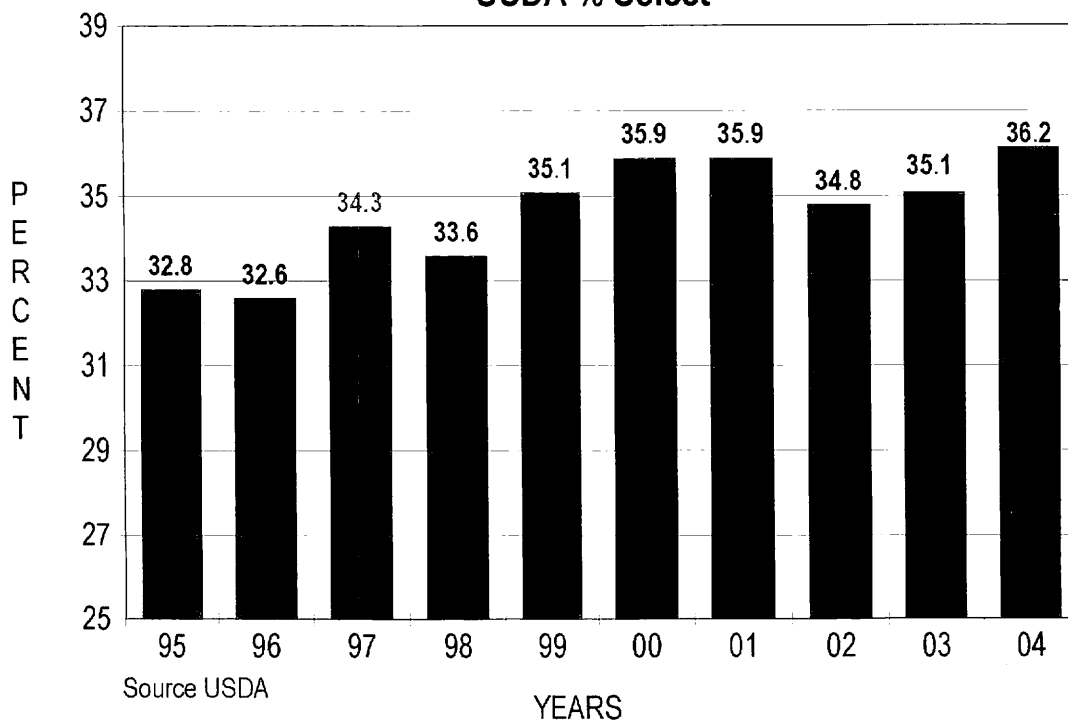
Percentage of Fed Cattle Movement from:
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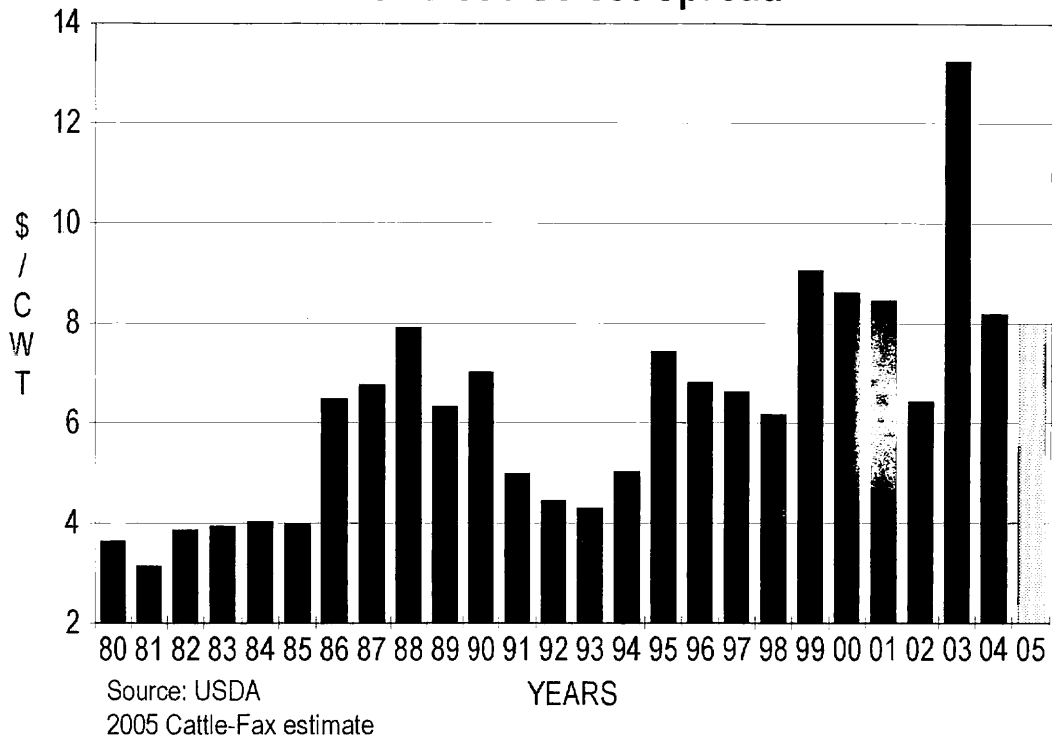
USDA % Choice



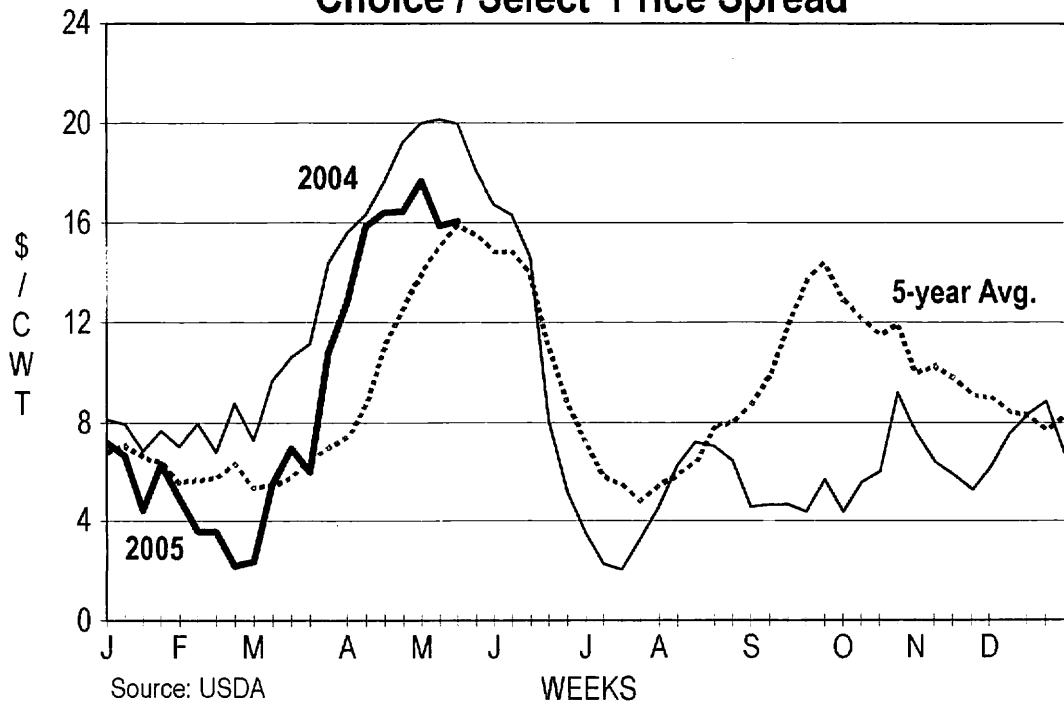
USDA % Select



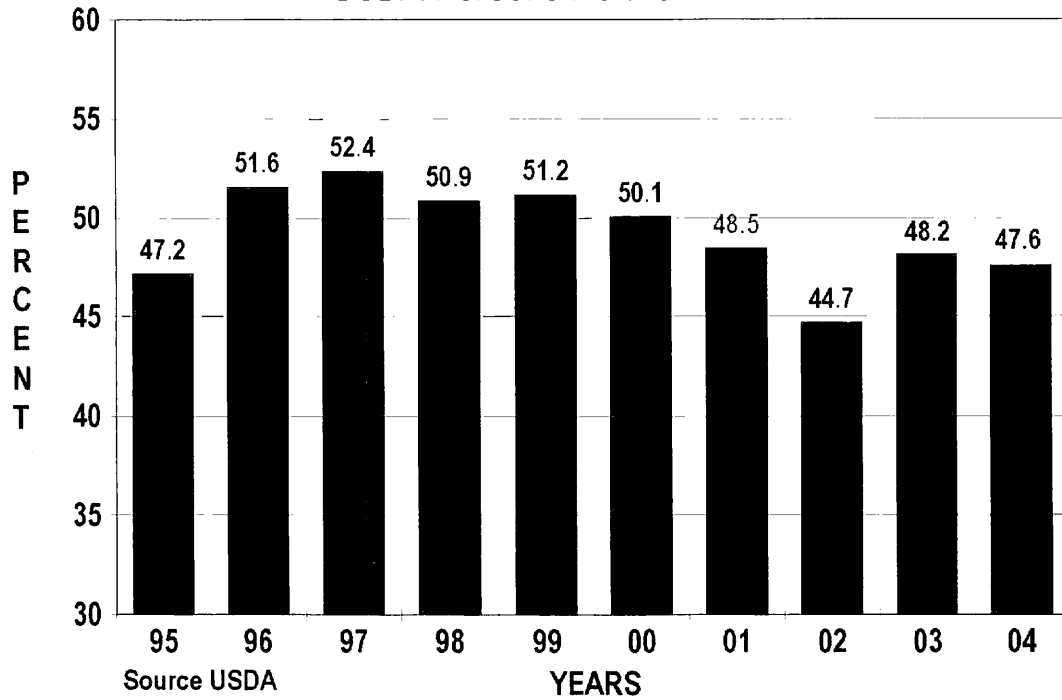
Choice / Select Spread



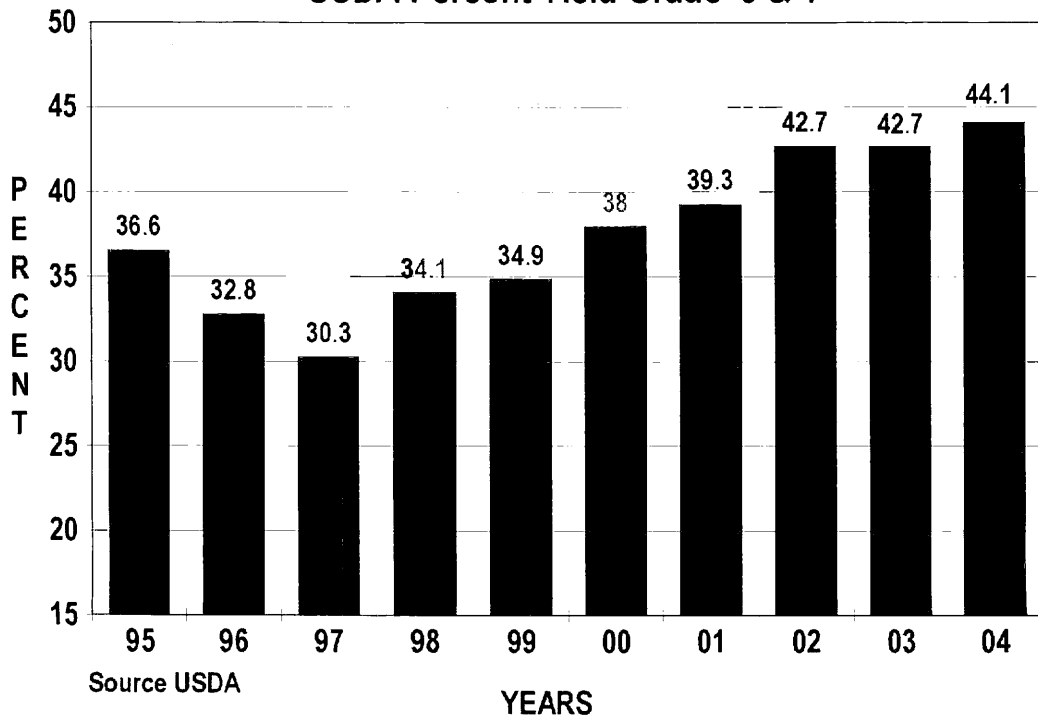
Choice / Select Price Spread



USDA Percent Yield Grade 1 & 2



USDA Percent Yield Grade 3 & 4



U.S. Beef Market

- 28 Million Fed Cattle Annually
 - 540,000 Harvested per Week
 - 26 Billion Pounds Beef Production
 - 500 Million Pounds per Week
-

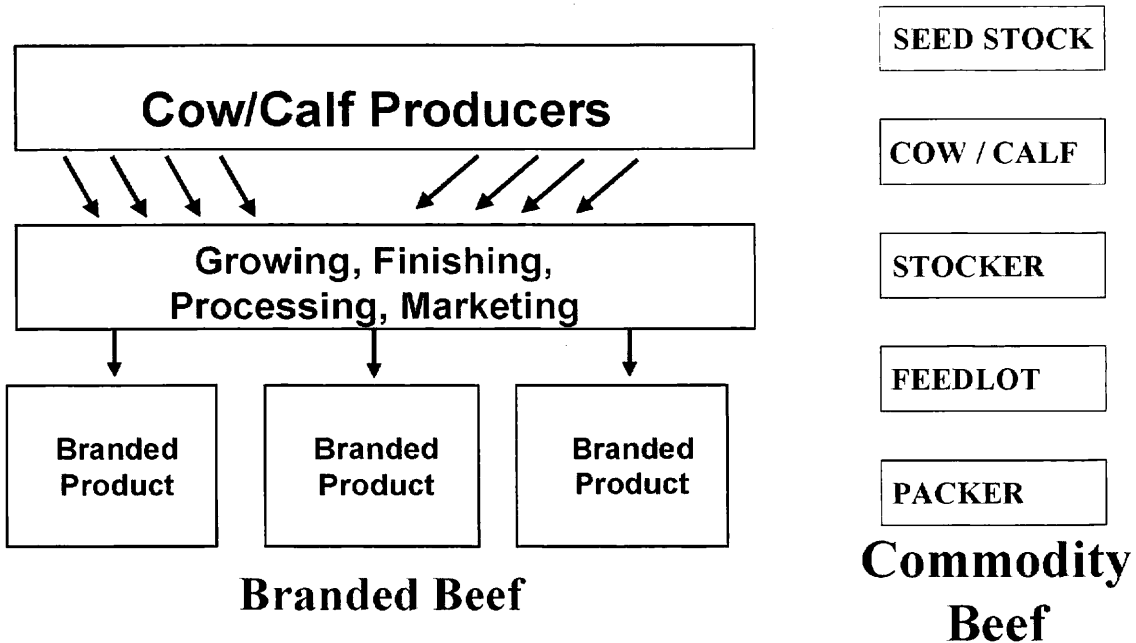
Branded Beef Production (excluding store brands)

- Less than 10 Percent of Total
 - Growing Market Trend
 - Natural Trend Growing but Small Percent of Total Market
-

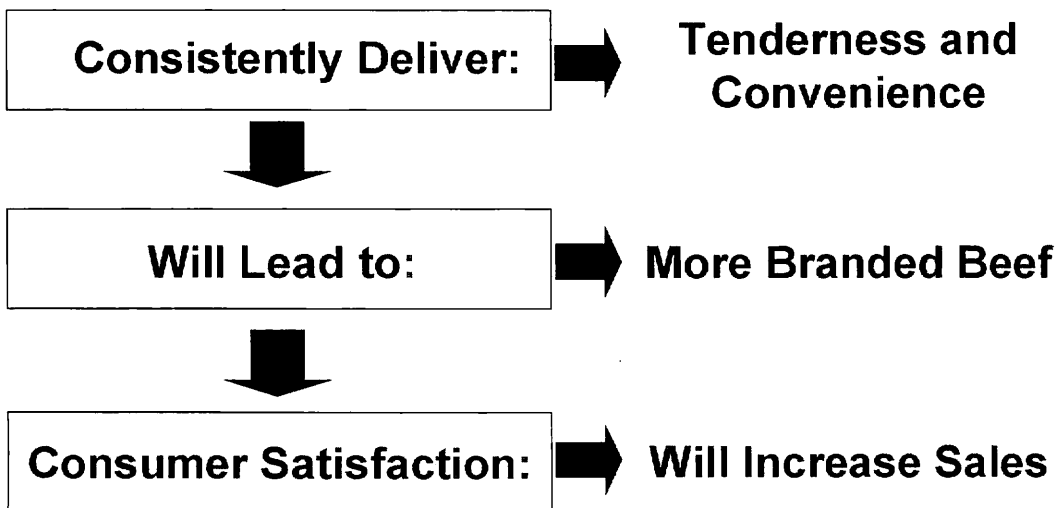
Challenges with Branded Programs

- Carcass Utilization
- Lack of Food Service Market Penetration
- Cost of Production vs. Price of Product

Where do You Fit ?

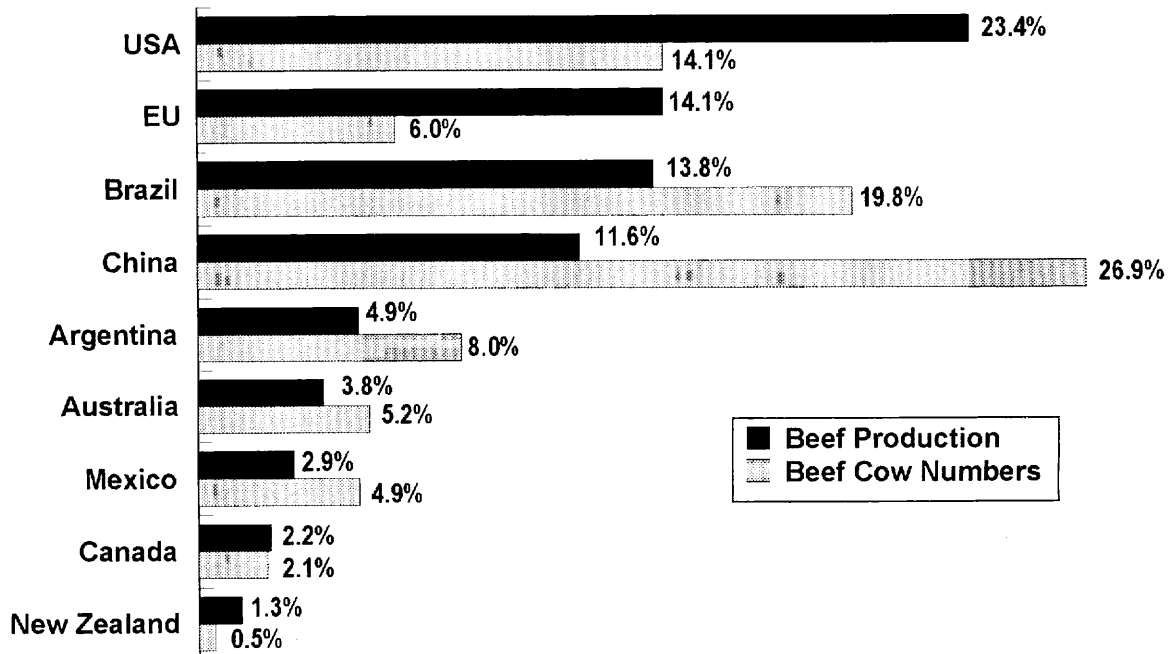


Opportunity



Value of Market Access			
		12/22/2004	Difference
	\$/hd	\$/hd	\$/hd
Chuck Short Ribs	24.30	10.43	-13.87
Short Plate	54.77	43.50	-12.21
Chuck Roll	68.21	62.85	-5.36
Tongue	12.43	2.49	-9.95
Liver	4.28	1.81	-2.48
Total			-\$42.93/hd
Fed Steer Price	\$92.62/cwt.	\$89.59/cwt.	

Percentage of World Market



Source: FAS

The Bottom Line

**Does It
Increase
Profit**

$$\mathbf{Value} = \frac{\mathbf{Benefits}}{\mathbf{Cost}}$$

Major Trends and Opportunities

- Globalization – Increased Competition
- Retail and Food Service Consolidation
- Beef Safety – Accountability
- Increased Product Branding and Differentiation.
- Accelerated Development - New consumer friendly and convenience orientated beef products.
- Further Advances in Value Determination for fed cattle.
- Capital Requirements – Who can afford to play?
- Risk Management and Forward Pricing Tools?
- Productivity / Technology