Beef Improvement Federation’s

37th Annual Meeting

Defining your Goals and
“Opportunities for Profitability”

Thursday, July 7th

Presented by:

CATTLE-FAX®

Randy Blach
Randy@cattle-fax.org
9110 E. Nichols Ave.
Centennial, CO 80112
1-800-825-7525
website www.cattle-fax.com
FOUR PHASES OF THE CATTLE CYCLE

- **Up Cycle**: High Cattle Prices
- **Transition Years**: Prices Moving Higher
- **Down Cycle**: Low Cattle Prices
- **Transition Years**: Prices Moving Lower

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

<table>
<thead>
<tr>
<th>(1) Up Cycle:</th>
<th>Cow / Calf</th>
<th>Stocker</th>
<th>Feedlot</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Significant Profits</td>
<td>Moderate Profits</td>
<td>Modest Profits</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>(2) Downward Transition:</th>
<th>Cow / Calf</th>
<th>Stocker</th>
<th>Feedlot</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Declining Profitability</td>
<td>Significant Losses</td>
<td>Significant Losses</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>(3) Down Cycle:</th>
<th>Cow / Calf</th>
<th>Stocker</th>
<th>Feedlot</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Significant Losses</td>
<td>Narrow / Negative Margins</td>
<td>Narrow / Negative Margins</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>(4) Upward Transition:</th>
<th>Cow / Calf</th>
<th>Stocker</th>
<th>Feedlot</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Improving Profitability</td>
<td>Significant Profits</td>
<td>Significant Profits</td>
</tr>
</tbody>
</table>
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.

<table>
<thead>
<tr>
<th>Beef Cow Operations by Size Groups</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year</td>
</tr>
<tr>
<td>---</td>
</tr>
<tr>
<td>0-49</td>
</tr>
<tr>
<td>50-99</td>
</tr>
<tr>
<td>100-199</td>
</tr>
<tr>
<td>200-499</td>
</tr>
<tr>
<td>500-999</td>
</tr>
<tr>
<td>1000+</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

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 cow operations 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 Blahch

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 was 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 price since 1996.

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. 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 Choice spread continues to remain seasonally wide and should continue through the early summer months. Feeder cattle prices remained strong this week and traded $1.02 higher, while calves were mostly steady to $1 higher. 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 two years 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, 1994 and 1995, 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

High Return Producer

Low Return Producer

Source: Cattle-Fax, 2005-2007 projected

Cow / Calf Producer Profitability

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profitable</td>
<td>90%</td>
<td>83%</td>
<td>70%</td>
<td>90%</td>
<td>93%</td>
</tr>
<tr>
<td>Near Breakeven</td>
<td>8%</td>
<td>9%</td>
<td>17%</td>
<td>8%</td>
<td>6%</td>
</tr>
<tr>
<td>Not Profitable</td>
<td>2%</td>
<td>8%</td>
<td>13%</td>
<td>2%</td>
<td>1%</td>
</tr>
<tr>
<td>HIGH-RETURN vs. LOW-RETURN PRODUCERS</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>-------------------------------------</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>HIGH</strong></td>
<td><strong>LOW</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Calf Breakeven</td>
<td>$53/cwt</td>
<td>$86/cwt</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Difference $151 Per Cow</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>HIGH-RETURN vs. LOW-RETURN PRODUCERS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>HIGH</strong></td>
</tr>
<tr>
<td>Annual Cow Cost</td>
</tr>
<tr>
<td>Difference $98 Per Cow</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>HIGH-RETURN vs. LOW-RETURN: $151 per head</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Dollars</strong></td>
</tr>
<tr>
<td>Cow Costs</td>
</tr>
<tr>
<td>Production</td>
</tr>
</tbody>
</table>
Spring-Born Steer Calves
Retained Ownership Alternatives

Weaned 475-Lb. Steer Calf

Dry Lot Winter Program
ADG: 1.0; +175 lbs.
Oct.-Apr.: 175 days

Preconditioning
ADG: 1.0; +25 lbs.
Oct.-Nov.: 25 days
Wheat Pasture
ADG: 2.0; +240 lbs.
Nov.-Mar.: 120 days

Advantage: 11 of 23 years
Average: $52

Weaned 575-Lb. Steer Calf

Background Yard
ADG: 2.5; +325 lbs.
Oct.-Mar.: 144 days

Advantage: 18 of 23 years
Average: $72

Summer Grass
ADG: 1.5; +240 lbs.
Apr.-Sep.; 160 days

Summer Grass
ADG: 1.35; +175 lbs
Apr.-July: 129 days

Advantage: 18 of 23 years
Average: $52

*Feedlot: Conv. 6.2
ADG: 3.2; +385 lbs.
Oct.-Jan.: 120 days

Advantage: 18 of 22 years
Average: $73

890 lbs.

*Feedlot: Conv. 6.3
ADG: 3.2; +300 lbs.
July-Nov.: 119 days

Advantage: 21 of 23 years
Average: $85

915 lbs.

*Feedlot: Conv. 6.0
ADG: 3.1; +435 lbs.
Mar.-Aug.: 140 days

Advantage: 16 of 23 years
Average: $42

1175 lbs.

*Feedlot: Conv. 6.1
ADG: 3.0; +400 lbs.
Mar.-July: 153 days

Advantage: 17 of 23 years
Average: $45

1200 lbs.

*Feedlot: Conv. 5.8
ADG: 3.2; +375 lbs.
Oct.-Apr.: 192 days

Advantage: 16 of 23 years
Average: $85

1150 lbs.

* Feedlot conversions are measured on a dry-matter basis.

Page 10 – U.S. Beef Industry Outlook
Seasonal Cow Slaughter

Seasonal Slaughter Cow Prices

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

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

### Concentration in the Food and Beef Industries

<table>
<thead>
<tr>
<th>Market Share</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Cow/Calf Producers</td>
</tr>
<tr>
<td></td>
<td>Feedlot Operators</td>
</tr>
<tr>
<td></td>
<td>Packing Companies</td>
</tr>
<tr>
<td></td>
<td>Supermarket Chains</td>
</tr>
<tr>
<td></td>
<td>Food-Service Distributors</td>
</tr>
<tr>
<td></td>
<td>Restaurant Chains</td>
</tr>
</tbody>
</table>

Source: Cattle-Fax 2

---

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

**By 2006 = ?**
New Opportunities

• Source Verified

• Age Verified
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

FED
YEARLING
Calf
-12  -8  -4  0  +4  +8  +12
Value Discovery Changing

Additional Premiums for:
- Prime
- CAB or Similar Specs
- Choice

New Opportunities

- Source Verified
- Age Verified

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

Cow/Calf Producers

Growing, Finishing, Processing, Marketing

Branded Product  Branded Product  Branded Product

Branded Beef

Commodity Beef

Opportunity

Consistently Deliver: Tenderness and Convenience

Will Lead to: More Branded Beef

Consumer Satisfaction: Will Increase Sales
### Value of Market Access

<table>
<thead>
<tr>
<th></th>
<th>12/22/2004</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$/hd</td>
<td>$/hd</td>
</tr>
<tr>
<td>Chuck Short Ribs</td>
<td>24.30</td>
<td>10.43</td>
</tr>
<tr>
<td>Short Plate</td>
<td>54.77</td>
<td>43.50</td>
</tr>
<tr>
<td>Chuck Roll</td>
<td>68.21</td>
<td>62.85</td>
</tr>
<tr>
<td>Tongue</td>
<td>12.43</td>
<td>2.49</td>
</tr>
<tr>
<td>Liver</td>
<td>4.28</td>
<td>1.81</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


### Percentage of World Market

- **USA**: 23.4%
- **EU**: 14.1%
- **Brazil**: 13.8%
- **China**: 26.9%
- **Argentina**: 4.9%
- **Australia**: 3.8%
- **Mexico**: 2.9%
- **Canada**: 2.2%
- **New Zealand**: 1.3%

Source: FAS
The Bottom Line

Does It

Increase

Profit

Value = \frac{Benefits}{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