GARDINER ANGUS RANCH

The GAR REPORT

Fall 2008 PROUD TO BE A FOUNDING MEMBER OF U.S. PREMIUM BEEF

The Fall issue of *The GAR Report* provides detail regarding our fall bull sale offering. As always, we provide results from all the bulls 84 day test at Triangle H Feedyard, Garden City, Kan.

We appreciate CALF News giving us permission to reprint Steve Dittmer's article detailing the USPB-JBS S.A. transaction. Much has been written about the sale of National Beef to JBS by U.S. Premium Beef. We believe this move by USPB is extremely positive and will provide access to global markets that have previously been closed to the American beef industry.

After years of being on again, then off again, mCOOL is now a reality. Cattle qualifying for Guaranteed Gardiner Genetics (G^3) meet all requirements for mCOOL. See page 4 for more information.

If you are considering a purchase in our fall bull sale, please note the Repeat Buyer Discount, G3 Credit, Delivery Offer and the Gardiner Breeding Guarantee.

Since 1999, GAR customers using our USPB delivery rights have received over $2.7 million in premiums and dividends. If you retain ownership, that's valuable marketing information!

Since 1885

The Brand of Quality in Quantity

If you have industry related questions or specific issues that may be addressed in *The GAR Report*, please submit to:

GARDINER ANGUS RANCH

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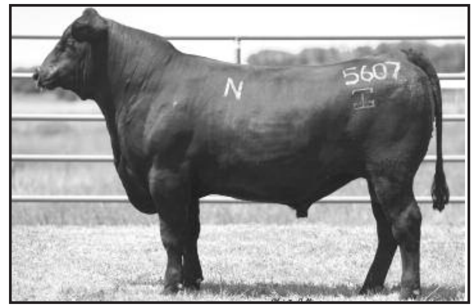
4th Annual GAR Fall Bulls Selling Sept. 29, 11 AM, Posts Highest Average $Beef to Date @ +61.24

LOT 1 • GAR OBJECTIVE N6217• BD: 7/2/07

SS Objective T510 0T26 X GAR 1407 New Design 653

		Carcass		$Values	
CED I+10	WW I+66	CW I+32	Mrb I+.75	$W +37.37	$G +35.32
BW I+1.4	Milk I+32	RE I+.53	Fat I+.016	$F +47.54	$B +72.26
YW I+114					

N6217 quite simply equates to multi-trait opportunity. He ranks in the top 1% of the breed for WW, YW, Milk, $W, $F, and $B. Simultaneously, he ranks in the top 10% of the breed for CED, and the top 2% for Marbling, and RE. The bottom line is that this bull is one of the best prospects in our history.



LOT 2 • GAR OBJECTIVE N5607• BD: 6/14/07

SS Objective T510 0T26 X GAR 208 New Design 2573

		Carcass		$Values	
CED I+10	WW I+64	CW I+28	Mrb I+.60	$W +36.08	$G +33.39
BW I+1.4	Milk I+31	RE I+.53	Fat I+.010	$F +48.38	$B +68.93
YW I+114					

+68.93 $B = Sweet performance! Breed leading growth and value in a moderate BW package.

LOT 3 • GAR 5050 NEW DESIGN M097 • BD: 1/7/07

GAR New Design 5050 X GAR Precision A461

		Carcass		$Values	
CED I+12	WW I+43	CW +31	Mrb +.65	$W +23.78	$G +36.06
BW I+1.1	Milk I+26	RE +.57	Fat -.005	$F +33.89	$B +69.27
YW I+92					

M097 is one of my absolute favorite bulls in this sale. He is an incredible physical and genetic specimen. He exhibits the traits that we see from 5050's progeny—calving ease, early growth, end product merit, and maternal function. Last but certainly not least, M097 possesses the easy going nature that 5050 progeny exhibit.

LOT 4 • GAR OBJECTIVE C527 • BD: 2/26/07

SS Objective T510 0T26 X GAR H141 Precision 2953

		Carcass		$Values	
CED I+11	WW I+62	CW +27	Mrb +.65	$W +33.06	$G +36.16
BW I+1.2	Milk I+24	RE +.63	Fat +.008	$F +43.87	$B +70.04
YW I+109					

+70.00 $B bulls are rare. Top 5% CED combined with top 2% WW and YW is uncommon. C527 is an uncommonly good bull!

The bulls that sell in our 2008 fall sale represent a total A.I. program with no clean-up bulls since 1964. We have only used progeny proven bulls in GAR sire selection since the very first sire summary was published in the fall of 1980. We use a great deal of discipline in our sire selection to produce bulls that provide GAR customers with the most predictable cattle possible. Using high accuracy bulls through A.I. is the only way to produce this type of bull. Using clean-up bulls or low accu-

(continued on page 2)

LOT 5 • GAR PREDESTINED G567 • BD: 3/27/07

GAR Predestined X GAR Precision 183

		Carcass		$Values	
CED I+8	WW I+49	CW +17	Mrb +1.06	$W +25.32	$G +42.30
BW I+3.6	Milk I+27	RE +.43	Fat +.006	$F +32.55	$B +67.76
YW I+93					

G567 is out of one of the all-time great cows from our herd, GAR Precision 183. This bull displayed one of the best %IMF scans in this sale. He should definitely be able to add value to your herd. Yet, his bottom 10% stature ranking will insure that his progeny will fit a wider array of environments more adeptly.

LOT 6 • GAR PREDESTINED L647 • BD: 3/22/07

GAR Predestined X GAR Precision 1193

		Carcass		$Values	
CED I+9	WW I+44	CW +21	Mrb +1.16	$W +22.65	$G +40.41
BW I+2.9	Milk I+28	RE +.42	Fat +.024	$F +29.48	$B +67.65
YW I+88					

WOW! Note the marbling on this Predestined son that ranks in the bottom 10% of the breed for YH. L647 is the 14th ranked %IMF bull among all non-parent Angus bulls.

LOT 9 • GAR 5050 NEW DESIGN M507 • BD: 1/9/07

GAR New Design 5050 X GAR Precision A461

		Carcass		$Values	
CED I+12	WW I+43	CW +26	Mrb +.59	$W +23.96	$G +36.26
BW I+1.1	Milk I+26	RE +.61	Fat -.009	$F +33.89	$B +67.36
YW I+92					

I make no secret of the fact that 5050 is one our favorite bulls to work with. This super son displays the multi-trait excellence that make their offspring so versatile.

(Fall Bulls continued from page 1)

racy A.I. sires only propagates genetics of unknown quantities. Premiums are paid now, more than ever before, for documented information! The best way for our customers to insure predictability is to use sons of progeny proven sires. We invite you to study the 245 bulls in this catalog. All are sons of the best bulls of the Angus breed.

Embryo transfer is a technology that allows us to provide better genetics to our customers. This sale is almost exclusively the result of ET. These bulls were primarily raised in our ET cooperator herds. Each letter on the bulls ID would represent a different contemporary group raised in a different location. The bull's individual data is not comparable between contemporary groups, but the data is to be used to compare within a management group. Of course, as always the EPDs are comparable between all groups.

The bulls (except for the "N" bulls) were fed for 84 days at Triangle H Feedyard, Garden City, Kan.

Their start weight was 842 pounds and out weight was 1208 pounds. The average daily gain on the 159 bulls was 4.35 lbs/day. Since May 28, all of these bulls except the "N" bulls have been running in section or larger pastures. The 86 head of "N" bulls were fed 89 days. These bulls had a start weight of 697 and an out weight of 1103. These bulls gained 4.46 lbs/day. All of the bulls were brought in on August 2 to be semen tested and clipped for the sale. These bulls are hard and ready to go to work.

We believe it is interesting and important to note that the **AVERAGE EPDs** of the 245 bulls offered in the fall 2005 sale are: **CED +9; BW +1.9; WW +51; YW +96; YH +.2; Sc +.28; Milk +27; CEM +8; $EN -6.34; Marbling +.68; RE +.44; Fat +.019; $W +27.69; $F 34.89; $G +34.12; and $B +61.24.** In comparison to our April sale bulls average $Beef index of +55.16, The American Angus Association revised the end product EPDs to combine the carcass and ultrasound database into one genetic prediction for marbling, ribeye, and fat. These new carcass EPDs do an excellent job of characterizing the merit for these traits. There are some differences as to the absolute numbers versus the previous status for percentile rank. The percentiles as always represent the best indicator of where an animal ranks within the breed.

These EPDs are a good example of how our "pounds in the correct package" selection process is working. It is interesting to note that the AVERAGE BULL IN THIS SALE ranks in the top 15% of the Angus breed for direct calving ease, the bottom 41% (lighter BW) for birth weight while these same bulls simultaneously rank in the top 20% of the breed for weaning weight, and their yearling weight ranks them in the top 11% of the Angus breed. Furthermore, this top percentile growth has been achieved in a package that is in the BOTTOM 35% of the Angus breed for yearling hip height. These bulls have exhibited an acceptable birth weight followed by explosive growth to the endpoint which was their off test weight, while ONLY having an average adjusted off test frame score of 6.0. We expect these bulls to sire similar results in their offspring. The great news of the Angus breed is that we are able to select for efficient early growth cattle, while simultaneously selecting for superior end product merit. This sale's bulls have a marbling EPD of +.68, a RE EPD of +.44. This places the sale bulls in the TOP 3% of the breed for marbling, and the TOP 4% of the breed for RE. Finally, when you study where the bulls rank for the $value indices it is interesting to note they rank in the top 21% for $W, the top 15% of the breed for $F, the top 3% for $G, and top 2% for $B. We believe these genetic predictions and indexes help to illustrate how we have successfully bred cattle with acceptable stature, growth and end product in mind.

"The AVERAGE $Beef Value for the fall bull sale offering is +61.24!

Delivery of Sale Bulls

Cattle purchased in our sale will be delivered to CENTRAL locations in the lower 48 states without cost to the buyer. In some cases this may require additional transportation by the buyer from the central location to their farm. Every effort will be made to deliver to the buyer's farm or to a convenient location as close to the buyer's farm as possible.

A buyer may deduct $100 from the purchase price if he provides for transportation from GAR within 2 weeks after the sale.

GAR 2008 Fall Sale Bulls vs. Angus Breed Average

	CED	BW	WW	YW	CEM	Milk	$EN	Marb	Fat	RE	$W	$F	$G	$B
GAR	**+9**	**+1.9**	**+51**	**+96**	**+8**	**+27**	**-6.34**	**+.68**	**+.019**	**+.44**	**+27.69**	**+34.89**	**+34.12**	**+61.24**
An.Avg.	**+5**	**+2.2**	**+44**	**+80**	**+7**	**+21**	**+2.96**	**+.27**	**+.010**	**+.12**	**+24.26**	**+22.75**	**+20.21**	**+37.78**

Repeat Buyer Discount

Buyers who purchased cattle in our 2007 sales will receive **5% off their total purchases**. This policy is ongoing, and will be in effect every year. If you purchased GAR cattle in a sale previous to last year, but not in our 2007 sales, you are not eligible for the discount. However, if you purchased cattle in our 2007 sale, you will receive a 5% discount, should you decide to purchase cattle in our 2008 sale. This 5% discount is determined after all credits have been subtracted from the gross purchase price.

Batista Family's JBS No. 1—Worldwide & U.S.

—reprinted with permission, Steve Dittmer, CALF News*, April/May, 2008*

Editor's Note: By now, you have most likely read "news" regarding the purchase of National Beef from U.S. Premium Beef by JBS S.A. We intend to provide our customers as much information as possible and keep them up to date regarding this important transaction affecting the beef industry.

The Batista family obviously thinks there's a future in beef worldwide. They also thought now was the time to finish putting their production capabilities in place.

Sao Paulo, Brazil-based JBS brought international enthusiasm for the beef business to Greeley last year, buying Swift & Company. Now, they have purchased, pending government approvals, National (14,000 head per day) and Smithfield (7,600 head per day). Taking advantage of a weak U.S. dollar and a Brazilian real that has appreciated 25 percent, they have quickly assembled U.S. market share.

Wesley Batista, one of the brothers and CEO of the family's JBS USA, spoke to the Joint International Markets Committee at the Cattle Industry Convention in Reno recently. The family's father started the business with a tiny plant in Brazil in the 1950s, harvesting a single animal per day. The family company – now involving three brothers and three sisters – harvests 22,600 head per day in their 23 Brazilian plants and another 5,000-6,000 in six plants in Argentina – that's nine million annually in South America. Their South American plants, however, are much smaller capacity than the U.S. plants they have.

FEWER NAMES, MORE EXPORTS?

Combining the number three, four and five beef packers in America will make JBS Swift the largest U.S. packer and assemble the top global capacity of 79,000 head per day. It will operate some 120 packing plants worldwide. While varying estimates are circulating, Steve Kay at *Cattle Buyer's Weekly* tracks the industry closely and figures the top three packers would have capacity for 71 percent of total daily U.S. slaughter capacity. JBS Swift would have about 30 percent market share, with Tyson and Cargill a little over 20 percent each. JBS's global share would be 10 percent, and several industry observers note that everyone – including regulators – needs to take into account that beef is increasingly a global product and its market and competitive situation need to be viewed in that light.

Batista told the Joint International Markets Committee that the key to the packing business is operating on an international basis.

"The best way to get value from the carcass is selling the right cuts in the right country," Batista said. "Every country has cuts that it values more, cuts that it recognizes. We must sell all the cuts the right way to get the most value for the money."

JBS is optimistic about exports. China and Russia are increasing consumption, Batista said. Last year Brazil shipped 400,000 tons of beef to Russia alone.

JBS Swift's Chandler Keys emphasized the company wanted to be in position to pay more for cattle – the U.S. just needs to get more export markets open so they can.

JBS's aim is to strategically diversify its production and distribution in the main meat producing countries around the world, allowing it to reach customers more easily. Certainly, the company expects Asian markets to be big customers again before too long. National, too, had focused heavily on Asia.

"As Australia is sending more beef to Europe because of European prices, we're confident Japan and South Korea will need to buy more beef from the United States," JBS S.A. president and CEO Joesley Batista told an investor conference call ("JBS-Swift Confident in Ability to Export to Asia," *Meatingplace.com*, 03/07/08). Rather than South Korea following Japan's lead, as has been common in the past, JBS thinks South Korea will open up first, and Japan will be inclined to follow shortly after. *(Since this article was written, the Korean market has reopened to U.S. beef.)*

The company's recent expansion has included the purchase of Tasman in Australia and, in late 2007, 50 percent of Inalca/Monatna, headquartered in Italy with production and distribution in Europe, Russia and Africa. Tasman has six plants and exports to 50 countries. JBS only started its international expansion in 2005 with the acquisition of Swift Armour S.A. Argentina.

JBS strives to position itself so that if a country's market closes to one country, it has plants in another to quickly shift supplier plants and not lose markets. For example, their new Australian plants ship to Europe while Brazil's supplies are currently restricted. Argentine and Brazilian plants in different states can often serve the same purpose if one country or state faces restrictions. The U.S. plants JBS Swift owns or is acquiring range from cow slaughter plants to fed Holstein plants to smaller fed plants to large fed cattle plants. Geographically, they range from California to the East Coast and the southern border to Michigan.

At the Markets Committee meeting, Wesley Batista was asked about the flap between Brazil and the EU. It is a complicated issue, he said. Brazil had made some changes in its processing system and the EU had only, at that time, re-approved 300 of 2,500 Brazilian farms for export. Batista was confident things would be remedied soon.

Asked about processing costs, he said U.S. costs are double Brazil's. Other questions involved JBS's market share in Brazil (15-20 percent), finished cattle prices in Brazil ($75-80 per cwt.) and the most profitable country to sell to (Russia). JBS sold 100,000 tons to Russia last year.

WHY?

Brazilian beef is different from U.S. beef; 85 percent of it is grass fed. Grain feeding has increased over the last five years, mainly a 90-day period as a way to use residues from crops like sugar cane. At harvest, cattle are on average three years of age.

In a release, Batista said JBS had a particular interest in National because of its emphasis on value-added beef and exporting to Japan. Because National is a much smaller – number four – packer, with about 14 percent of the Big Four's total slaughter capacity, neither its acquisition nor Smithfield's is expected to raise federal anti-trust concerns, many observers believe. That's not to say the Justice Department might not make some specific conditions, and some observers think it may be more difficult than others. JBS has expressed both confidence and a willingness to work with Justice to get the deals done.

But the acquisition of National and Smithfield yields quite a list of varied plants, cattle inputs and geography. National has the two large fed-cattle plants in Kansas, at Liberal and Dodge City. The third is a smaller plant in Brawley, Calif., purchased from cattle feeders in California and Arizona, primarily set up to process fed Holsteins. There are two case-ready processing plants, one in Pennsylvania and one in Georgia.

Smithfield , on the other hand, had plants handling fed cattle, fed Holsteins and cows. Plants are located in Wisconsin, Michigan, Pennsylvania and Arizona.

As to why Smithfield was willing to get out of the beef processing business, besides the obvious struggles most packers have had making money in recent years, CEO C. Larry Pope had a strategic answer in a *meatingplace.com* interview ("Smithfield to focus on reducing debt, growing pork: CEO," 03/06/08). He said Smithfield's strategy all along was to buy Swift. Having both Swift and Smithfield plants would give them a ring of plants around both their feedyards and the main national cattle-feeding areas plus the economies of scale they needed. When they were outbid for Swift and market conditions made building a new plant

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GAR Customers Take Advantage of USPB Delivery Rights

Each year since U.S. Premium Beef's beginning in 1999, Gardiner Angus Ranch customers have been able to take advantage of value-added opportunities through retained ownership by using the ranch's 4,000 head delivery rights. The $5.00 per head fee is waived for those requesting the use of the delivery rights and using GAR genetics.

Nineteen GAR customers requested delivery rights for the fiscal year just ending and delivered 4,000 head for processing to National Beef.

More than 97.4% of the 4,000 head graded USDA Prime or Choice. More than 52.5% of the carcasses met qualifications for either *Certified Angus Beef®* or *Black Canyon Premium Reserve®* brands. Eighty percent (80%) of the carcasses were YG2 and YG3. The average premium per head received for all cattle using GAR delivery rights was $52.25.

To date, GAR customers have delivered approximately 40,000 head of cattle to U.S. Premium Beef and received more than $2,700,000 in premiums for an impressive average premium of $67.52 over a ten-year period.

- 63.67% Carcass Yield
- 10.32% USDA Prime
- 87.11% USDA Choice
- 36.74% Certified Angus Beef
- 15.76% Black Canyon Premium
- 25.32% YG2
- 55.01% YG3

Henry Gardiner stands in front of a pen of steers ready to ship at Reeves Cattle Co., Garden City, KS. The steers were raised by Mayer Ranch, Guymon, OK. Over 80% graded USDA Choice and more than 30% qualified for *CERTIFIED ANGUS BEEF®*. Mayer Ranch has been a long time bull customer of Gardiner Angus Ranch.

The complete Fall Bull Sale catalog can be found online at www.gardinerangus.com

Guaranteed Gardiner Genetics (G^3) Meets mCOOL Requirements

Mandatory country of origin labeling (mCOOL) is scheduled to be in place by the end of September. Guaranteed Gardiner Genetics (G^3), a genetic, age and source verification program offered by Gardiner Angus Ranch (GAR), has been notified it meets the requirements to substantiate mCOOL claims.

The G^3 program was designed to add more value to GAR-influenced genetics. All cattle enrolled in the program carry 50% GAR genetics. G^3 utilizes IMI Global's USVerified™ program for age and source verification. This program, a USDA-approved Process Verified Program (PVP) provides the umbrella for this qualification.

Curently, U.S. Premium Beef is paying a $35/head premium for age and source-verified cattle. According to Troy Marshall of *Cow/Calf Weekly*, the premium for age- and source-verified cattle is expected to widen this fall. Troy adds, "The biggest impact of mCOOL is it's likely to accelerate the demand for source- and age-verified cattle with traceback capabilities."

As a family-owned seedstock operation in southwest Kansas, Gardiner Angus Ranch is dedicated to the production of quality beef from gate to plate. The ranch began in the 1920s and is now operated by Henry and Nan Gardiner, their three sons and families. For more information on the Guaranteed Gardiner Genetic program, contact Mark Gardiner, 620/635-2760, gar@ucom.net or Julie Tucker, Graphic Arts of Topeka, Inc., 785/354-8596 x115, ggg@gathh.com.

mCOOL Requirements Finally A Reality

—reprinted from *Cattle-Fax*

USDA recently published the rule implementing Mandatory Country-Of-Origin Labeling that was included in the 2008 Farm Bill. The law was originally passed as part of the 2002 Farm Bill but implementation was delayed until now. The rule requires that retail stores label beef (and certain other commodities) by origin country. Restaurants are exempted.

LABELING OPTIONS INCLUDE:

1. Beef of U.S. origin
2. Beef from the U.S. or Canada or Mexico (beef from imported feeder cattle, or beef from U.S. cattle)
3. Beef from Canada and the U.S. (cattle imported for slaughter)
4. Beef exclusively from other country (imported beef)

Retailers have a couple of options here. They can ask their suppliers to segregate imported cattle for separate labeling and label U.S.-only beef from the U.S.-only cattle. They could also buy the same mix of beef that is being sold today and list the U.S., Canada, and/or Mexico as the source. Or they could label imported slaughter cattle under option #3.

There are two options for producers to use to verify the origin of the cattle they sell. The first option is through an affidavit. An affidavit is a legal document and in this case would be signed by the producer who would be certifying the origin country of the cattle. Groups are currently working to develop a standardized affidavit form, however, the rule does not specify any specific form.

The second option is for producers who have registered their premise with the USDA under the National Animal Identification System (NAIS). These producers can use tags purchased from a USDA approved supplier, which will link the animals to the premise of origin. In this case, no affidavit would be neeeded.

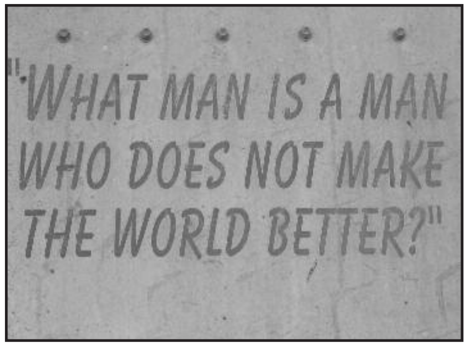
Sale Credit Offered to Guaranteed Gardiner Genetics Participants

Gardiner Angus Ranch will offer participants in the Guaranteed Gardiner Genetics program a sales credit of $2.00 per head. This credit may be used in either the fall or spring Gardiner sales. For example, if a producer qualifies 300 head of cattle in the Guaranteed Gardiner Genetic program, they will receive a $600 credit.

For more information or to enroll, contact: Julie Tucker at Graphic Arts of Topeka, (785) 354-8596 x115, GGG@gathh.com.

No Detail Too Small For Garden City Trucker

Adalberto Martinez, Martinez Trucking, ready to hit the road again, protecting your next investment in GAR genetics.



This sign can be found on the back of a Martinez trailer. We appreciate anyone sharing our own philosophy.

Protecting your investment after the sale is a detail requiring a special combination of character traits from the time the animal leaves Gardiner Angus Ranch until it arrives at your location. For 30 years, Gardiner Angus Ranch has offered free delivery on purchases. Needless to say, finding hauling experts with the same respect and integrity toward the health and well-being of anyone's animal is important.

Adalberto Martinez, Martinez Trucking, Garden City, Kan., is that rare combination of trucker, cattleman and protector of both your purchases and our customers' interest. A beef producer himself, Adalberto has become one of the most respected livestock haulers in the business.

Good customer service, attention to detail and commitment to the safety and well-being of the animals is the business model at Martinez Trucking.

"Adalberto Martinez is one of the best men I know. He realizes the importance of his role in the beef business. We know, beyond a doubt, the animals we intrust to Adelberto will be treated humanely, cared for throughout the trip and delivered in excellent condition to the new owner," said Mark Gardiner.

Adalberto Martinez can be contacted by calling 602/272-4179.

Gardiner Breeding Guarantee

We guarantee all breeding cattle sold by Gardiner Angus Ranch, both bulls and females, are fertile to the best of our knowledge. If a bull is injured at any time in the 12 months following the sale as so to make them functionally infertile, we will provide you with a satisfactory replacement (if available), or issue you a credit equal to the bull's purchase price minus the salvage value received for that bull. If a female is determined to be a non-breeder, then we would ask you to sell her and offer you the difference of her purchase price minus the salvage value as a credit in any future GAR sale. All credit is good until it is used and does not expire. We would simply ask you to contact us before you cull your infertile animal.

This is not a life insurance policy. We will not replace a dead animal if it is killed or dies for any reason. We suggest that normal care still needs to be exercised and that particularly the yearling bulls not be allowed to get too thin.

This guarantee is in addition to the Suggested Sale Terms and Conditions of the American Angus Association, which also apply.

A buyer may deduct $100 from the purchase price if he provides for transportation from GAR within 2 weeks after the sale.

(Batista Family continued from page 3)

untenable, the plan unraveled. So, they were open to the idea when JBS came calling.

THE NUMBERS

Economies of scale are crucial to narrow margin businesses like meat packing. Steve Koontz, a Colorado State University ag economist who has extensively researched packing economics, charted the total harvest and processing cost difference between the big U.S. packing plants and smaller plants at 15 percent. That's $20 per head, which he notes, is one thing when it's $20 less profit but another when it's $20 all loss. The average cost is $140 per head for the chart's small plants (3,000 head per day) and $120 per head for the large (6,000 head per day), but he's seen smaller plants whose costs at times hit $250. That is a key reason for Grain Inspection, Packers & Stockyards Administration (GIPSA)-RTI International study findings that larger plants tend to pay more for cattle ("GIPSA Livestock and Meat Marketing Study," RTI International, GIPSA-USDA, Jan. 2007.)

The National Cattlemen's Beef Association (NCBA) published an editorial by President Andy Groseta that called for "a thorough review by the Department of Justice and other federal agencies" that review agriculture mergers and acquisitions. "And we feel this review must consider 'buyer-side' impacts to agricultural producers as well as 'seller-side' impacts to consumers, so that a competitive environment is maintained at every level of commerce in the cattle and beef industries," Groseta said. "But it is important to note that the statutory procedures and requirements for this review are already in place."

No new regulations or so-called market reforms are appropriate at this time, he said. Further calls for banning packer ownership of cattle more than 14 days before slaughter limits marketing options for cattlemen and does nothing to enhance competition. Packer ownership of cattle didn't cause packer concentration, and banning packer ownership won't prevent further concentration, he said.

According to Kay, in the deal for National, U.S. Premium Beef (USPB) members will receive $261 million in cash for their shares and $65 million in JBS stock. The 450 unitholders will get $286 per share for shares that cost $55 in 1997 – a 520 percent return .

USPB said 2,100 producers from 36 states have marketed cattle on USPB's grids. Those cattlemen marketed millions of cattle through USPB, collecting a total $120 million in cash grid premiums since late 1997.

The deal also provides ties to some cattle supplies. Although USPB cattle had supplied National in the past, Smithfield's Five Rivers feedyards had been selling cattle to several different packers, depending on cattle type and proximity. At that, to fill a 40,000-plus per day harvest schedule, JBS Swift will probably need to fill half to two-thirds or more of its supply requirements from feedyards other than the Five Rivers yards it will own. The USPB ranchers and feeders will own stock in JBS Swift and thus continue their ownership relationship, and access to, a packer but now with more geographic options and increased international exposure.

JBS plans to float a private stock placement of around $1.5 billion to help finance the acquisitions. Such an infusion of capital will help three former packers struggling to survive after years of mostly heavy losses. Excess industry capacity still looms, however.

NOT JUST INVESTORS

Of course, the U.S. beef industry is curious to know what JBS Swift is going to be like and how they intend to make their operations pay. One long-time Swift official we talked to emphasized that JBS is not an investor group. These are meat guys through and through, he said.

And making full use of its capacity is part of JBS' philosophy. In that same investor conference call, Joesley Batista explained that they used their capacity at JBS Swift last summer to keep the pressure on other packers in an industry with too much capacity, so they

(continued on page 6)

(Batista Family continued from page 5)

didn't recover before JBS had bought the other packers they wanted. Using a maximum utilization strategy, they increased Swift's total daily harvest from 14,000 head per day to 19,000 head.

"That's the main reason the market was so tough [for packers]," he said. Tight cattle supplies and excess slaughter capacity made the U.S. beef processing industry a buyer's market. And JBS was ready to step in and buy National and Smithfield. JBS did make money last year, something not every packer can claim.

"If you look at our track record, what we have been doing for the last 20 years is buying companies without profitability to make them profitable," Batista said. Their focus for the next couple years will be raising margins and cutting costs, with the goal of getting profitability into JBS Swift and the entire U.S. market. He noted that Tyson's closure of its Emporia, Kan., plant is a step forward in reducing the industry's overcapacity.

JBS certainly comes from a different viewpoint. Rather than a U.S. packer striving to expand exports, JBS is a multi-country processor routinely used to global marketing, learning about operating here. Sources within JBS Swift expect JBS's global experience and international contacts to pay off in new sales channels and increased total carcass values. Plus, experience counts when trade difficulties arise – being able to get on a plane and having the clout to get in and see the right people can pay fast dividends.

In 2006, before its U.S. acquisitions, JBS got over 61 percent of its sales from exports to 500 customers in 110 countries. And this was accomplished with 50 percent of the world's fresh beef imports markets closed to Brazil and Argentina, which included the U.S., Canada, Mexico, Japan and South Korea. JBS already had subsidiaries in Chile, Egypt, the U.S., the U.K. and Russia.

The company must think putting together market share in the U.S. is a picnic compared to South America. In 2006, JBS boasted a "leading market share" in the highly fragmented Brazilian and Argentine fresh and processed meats business – with 7.6 percent of the total slaughter in Brazil and 2.6 percent in Argentina. And they've done it with 1,000-head packing plants, harvesting three-year-old, grass-fed cattle. According to the company, they generally purchase their cattle in South America on the spot market.

JBS does produce further processed and pre-cooked beef products, ready-to-eat meals and, of course, canned beef. But one must learn international terminology. "Industrialized beef" to the international market is what we refer to as canned beef, i.e. canned beef stew or canned corned beef. That is the only form in which some countries, like the U.S., will import Brazilian beef. The MERCOSUL countries—Argentina, Brazil, Paraguay and Uruguay—export 95 percent of the world's "industrialized beef," and JBS holds 42 percent of the export share from Brazil and 82 percent from Argentina.

In January this year, JBS was projecting export sales just from its South American and Australian divisions of $680 million in 2008.

Since Brazil has been exporting to the EU, everyone would like to see JBS find a way to reopen that market to U.S. beef, after two decades of drought. It will be interesting to see what the industry can learn from JBS and what JBS learns about operating here. It is a different way of boosting U.S. export expertise than many expected. Maybe JBS has learned about the U.S. industry faster than we realized.

Industry Need for Efficiencies

Adapted from Henry Gardiner's Fall 2008 sale book letter

There has been a great deal of discussion about the price of corn and increased competition for grain. The reality of higher priced grains is that it will become even more important to incorporate genetics for efficient growth and marbling into commercial beef herds. With limited grain availability, cattle will have fewer days on feed and it will become even more important to produce cattle that can efficiently convert and hit the targets of economic importance on the value-based grids available today.

We have seen the demand for proven, high accuracy genetics dramatically increase throughout the industry. U.S. Premium Beef and other packers are aggressively seeking age-, source-, and genetic-verified cattle. In fact, USPB pays $35 per head for each age and source verified animal delivered. Cattle feeders are trying to meet this increased demand from processors by locating, feeding and partnering with producers of higher yielding, higher grading cattle that can be source verified. Significant premiums from profitable branded programs such as Certified Angus Beef® and Black Canyon Angus Beef® are available to cattle feeders who "hit the target."