

WAGYU AND THE GLOBAL BEEF INDUSTRY

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CHANGES IN GLOBAL BEEF TRADE

- **Global production in 2008 up only 0.8% from 2007**
- ***Yet global demand has increased***
- **So global prices increase and will remain strong**
- ***“New” markets such as Russia, Asia divert product from “traditional” markets such as North America***
- **Weakness of U.S. dollar helps exports but causes sharp decline in beef imports**
- ***JBS emerges as global beef powerhouse. Spends US \$3.7 billion on global acquisitions***

WHERE DOES WAGYU FIT?

- Wagyu beef aims for premium niche
- *Tiny numbers: 24,000 on feed out of 10M on Sept 1*
- Breed needs to build numbers, integrate genetics into commercial herd to go beyond novelty
- *Breeders must focus on end product, not just on being propagators and multipliers*
- Remember that all money in the industry comes from consumers
- *Must find out what end users really want*

THE VALUE EQUATION

- **Definition of value: Quality v. Price**
- ***If you charge a premium price, you must guarantee a premium quality product***
- **Some grass-fed producers fail to do this**
- ***Wagyu name alone won't sell the beef***
- **Beef must be of consistently high quality and value**
- ***Competition from other premium beef programs***
- **Australia – has 85,000 Wagyu cattle, with 61,300 on feed Jan 1, 2007, currently about 46,000 - mostly Wagyu cross. Also exports 25,000 live animals annually to Japan**

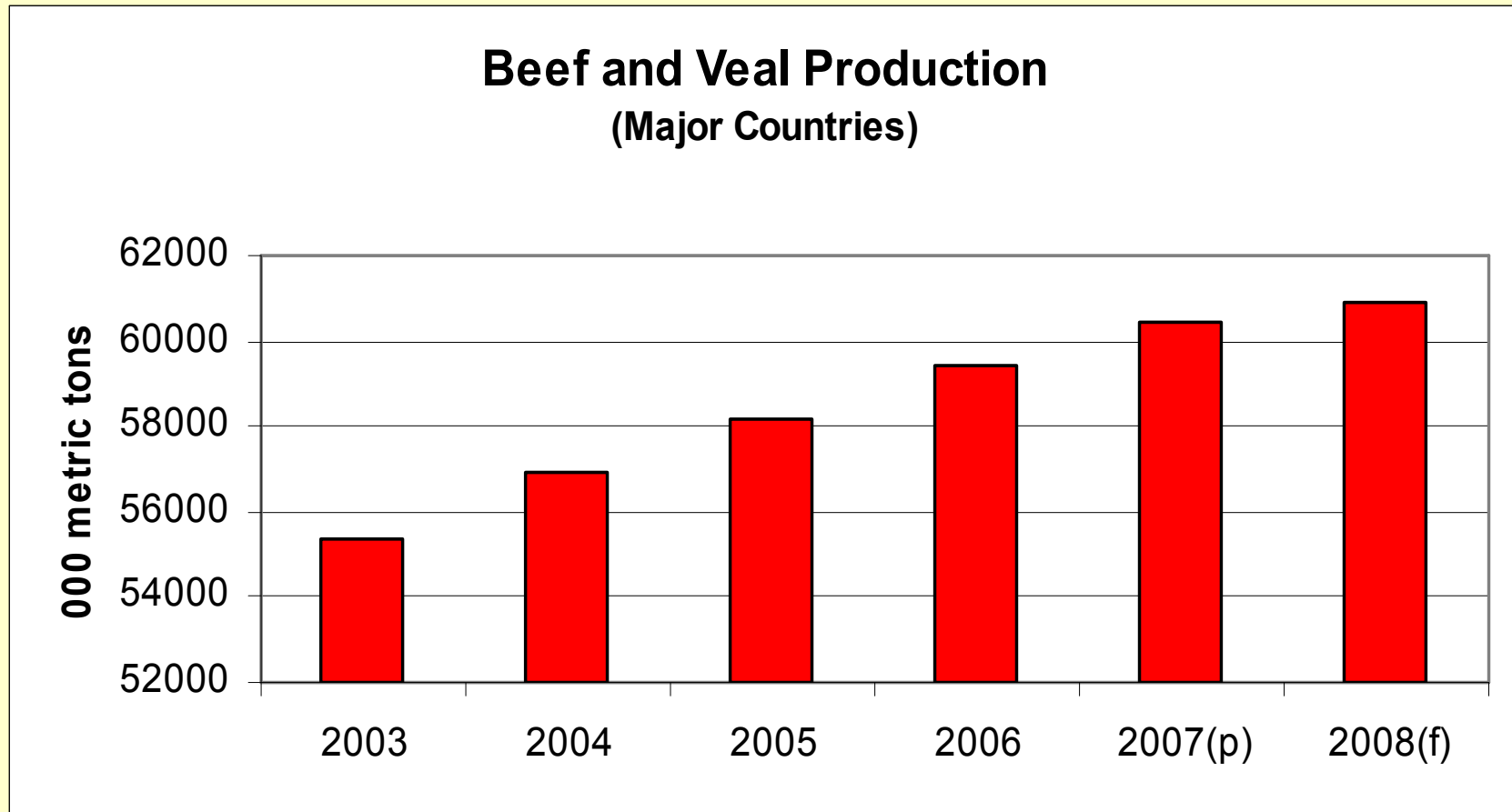
CARCASS MAXIMIZATION

- **Breeders must focus on whole carcass, not just on middle meats when making progeny selections**
- ***Middles too often have to sell at premium to offset discounts for the rest of the carcass***
- **Commodity beef industry tackled this in recent years. Added value to chuck and round, created popular new cuts – flatiron**
- ***Exotic imports 1960s-70s failed commercially***
- **Angus breed focused on carcass and meat quality**
- ***Result: CAB the most successful beef brand***

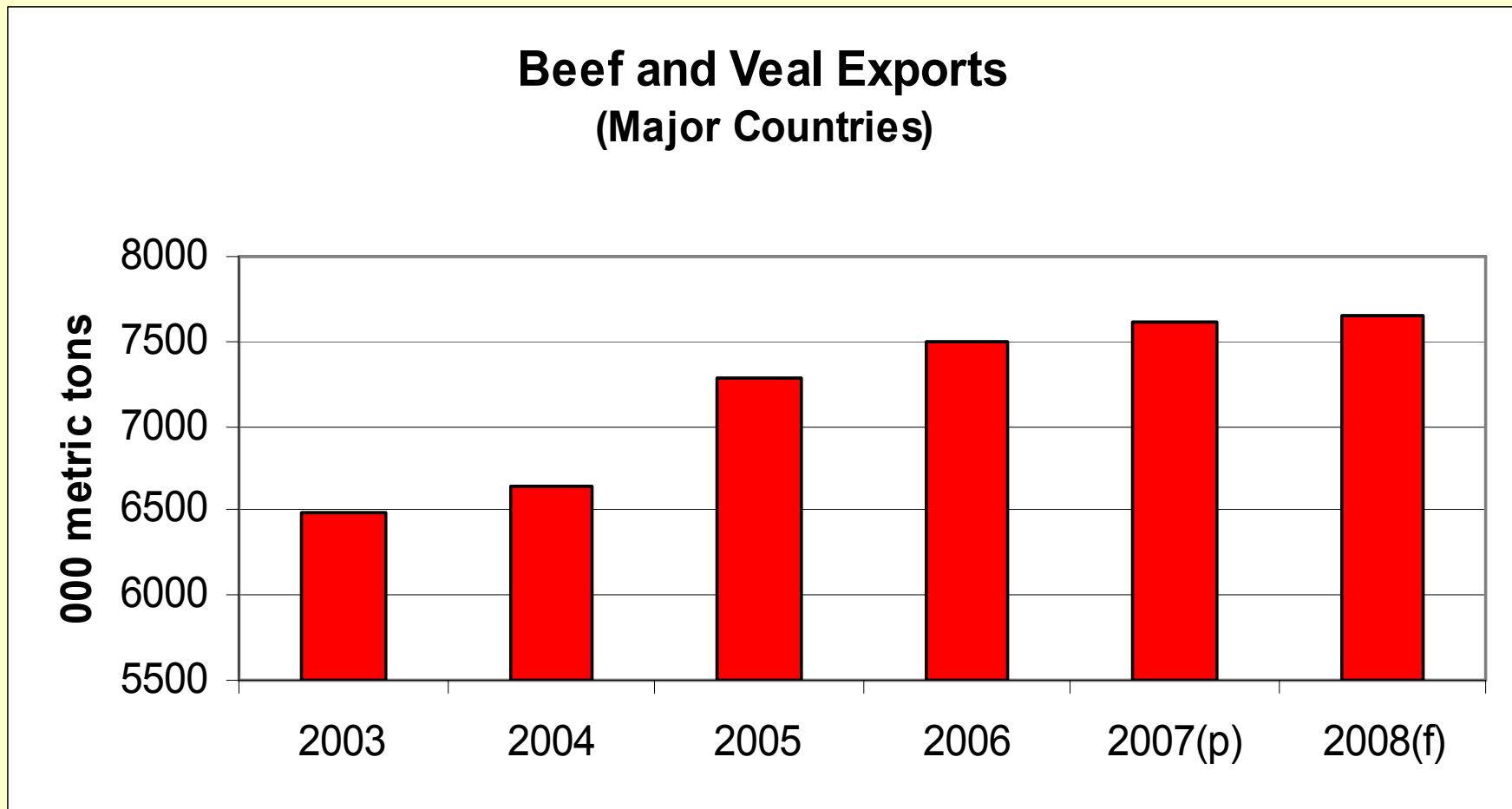
WAGYU'S FUTURE

- **Growth depends more on combining genetics with other breeds than producing pure blood Wagyu beef**
- ***Americans are eating out less –restaurant business is hurting. Market for high-end beef might not grow for a while***
- **Consumers want consistently tender but maybe less marbled beef. Hence narrow Choice-Select spread**
- ***\$5-7 per bushel corn will also reduce time on feed, keep gain costs very high for foreseeable future***
- **Breeders who get closest to the final market will be more likely to succeed**
- ***Best genetics are those that maximize the value of the entire carcass***

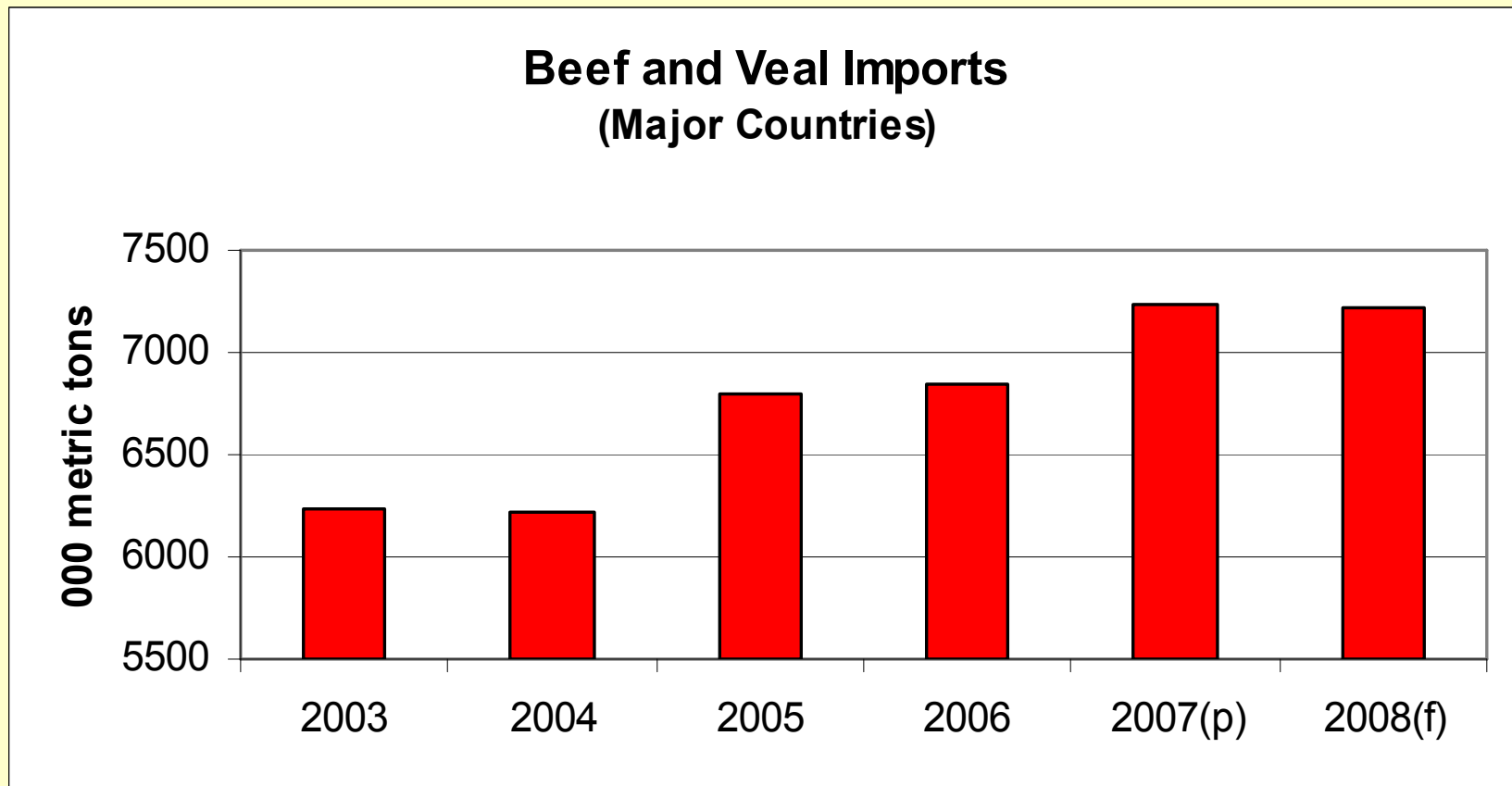
GLOBAL BEEF PRODUCTION



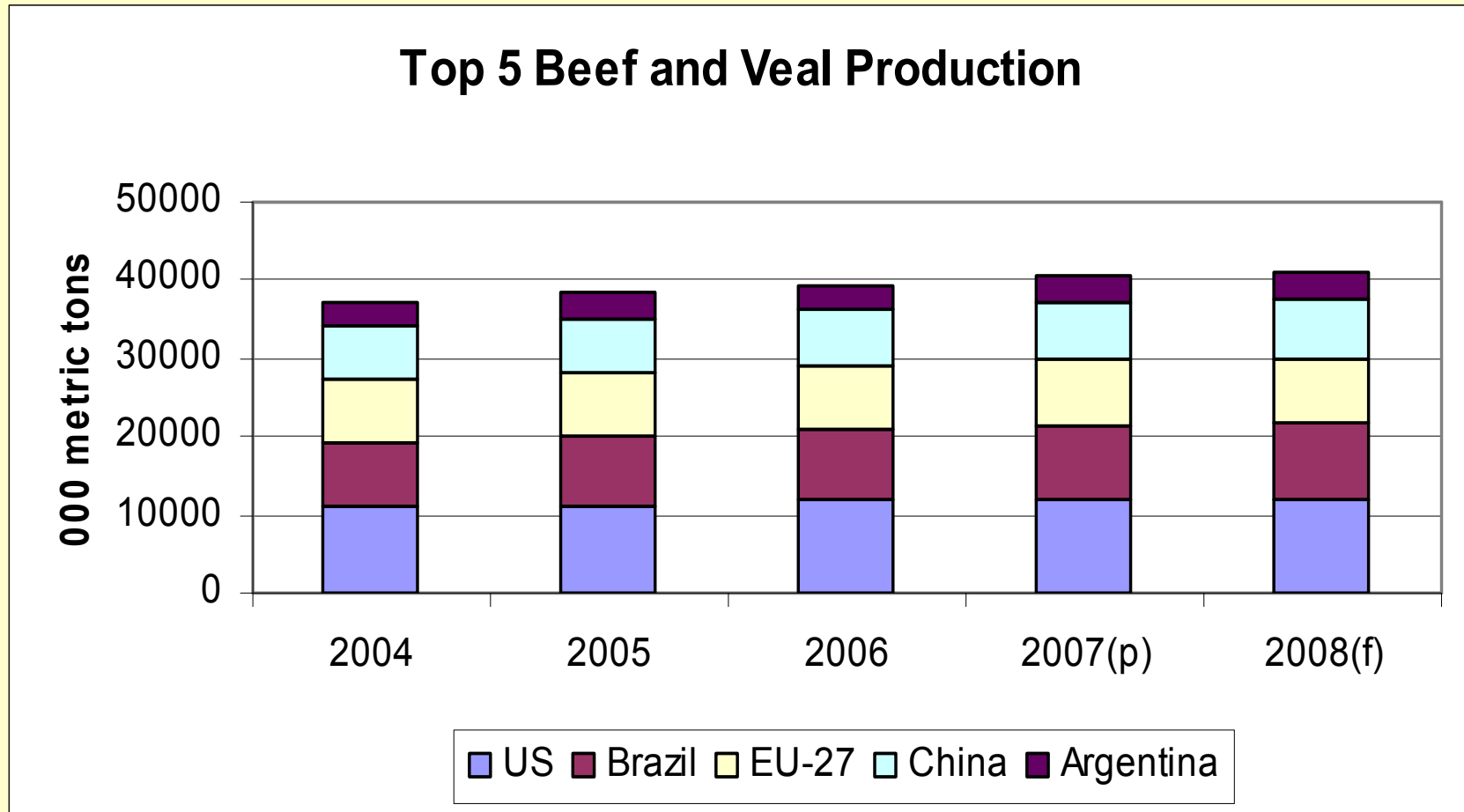
GLOBAL BEEF EXPORTS



GLOBAL BEEF IMPORTS



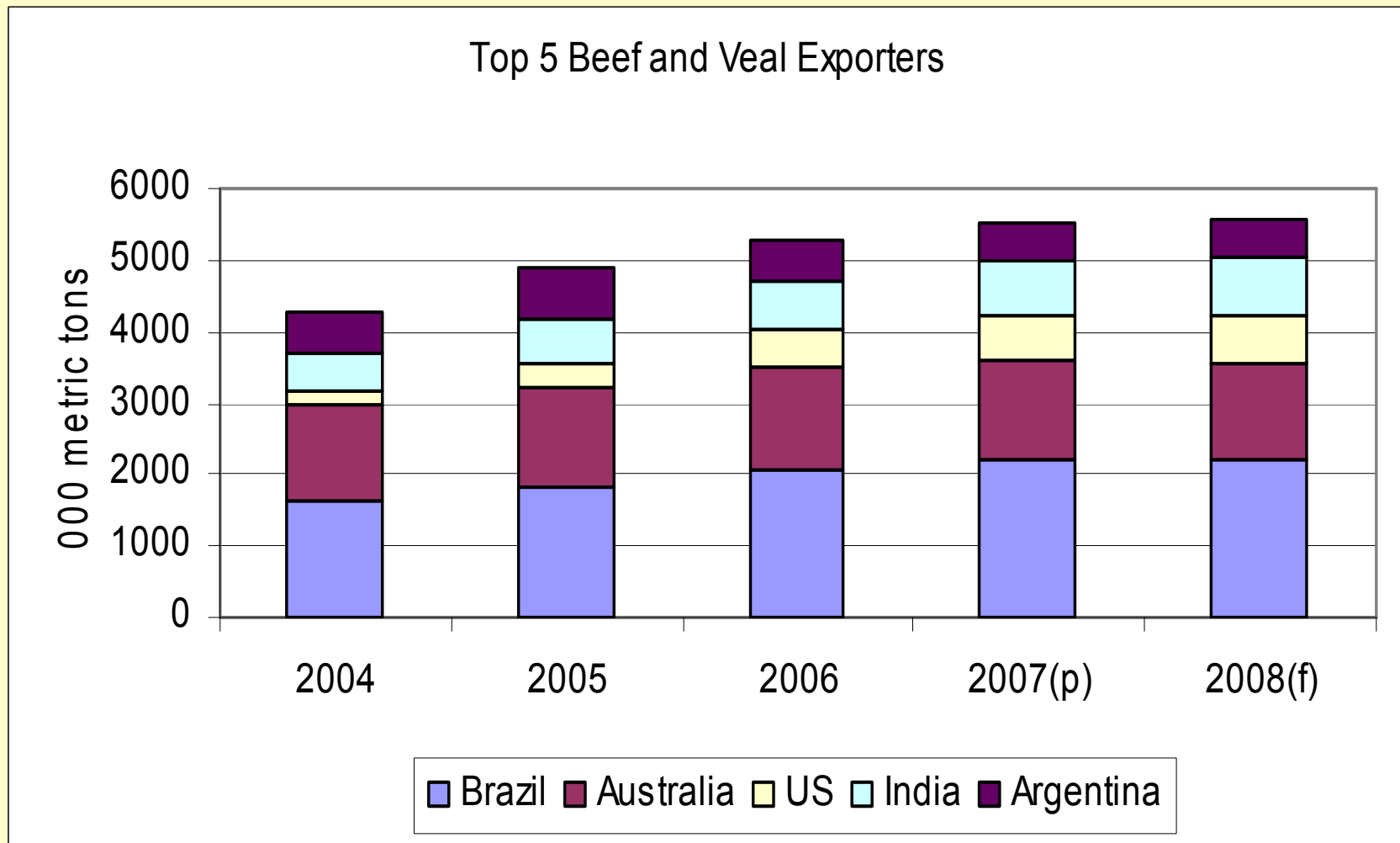
TOP 5 BEEF PRODUCERS



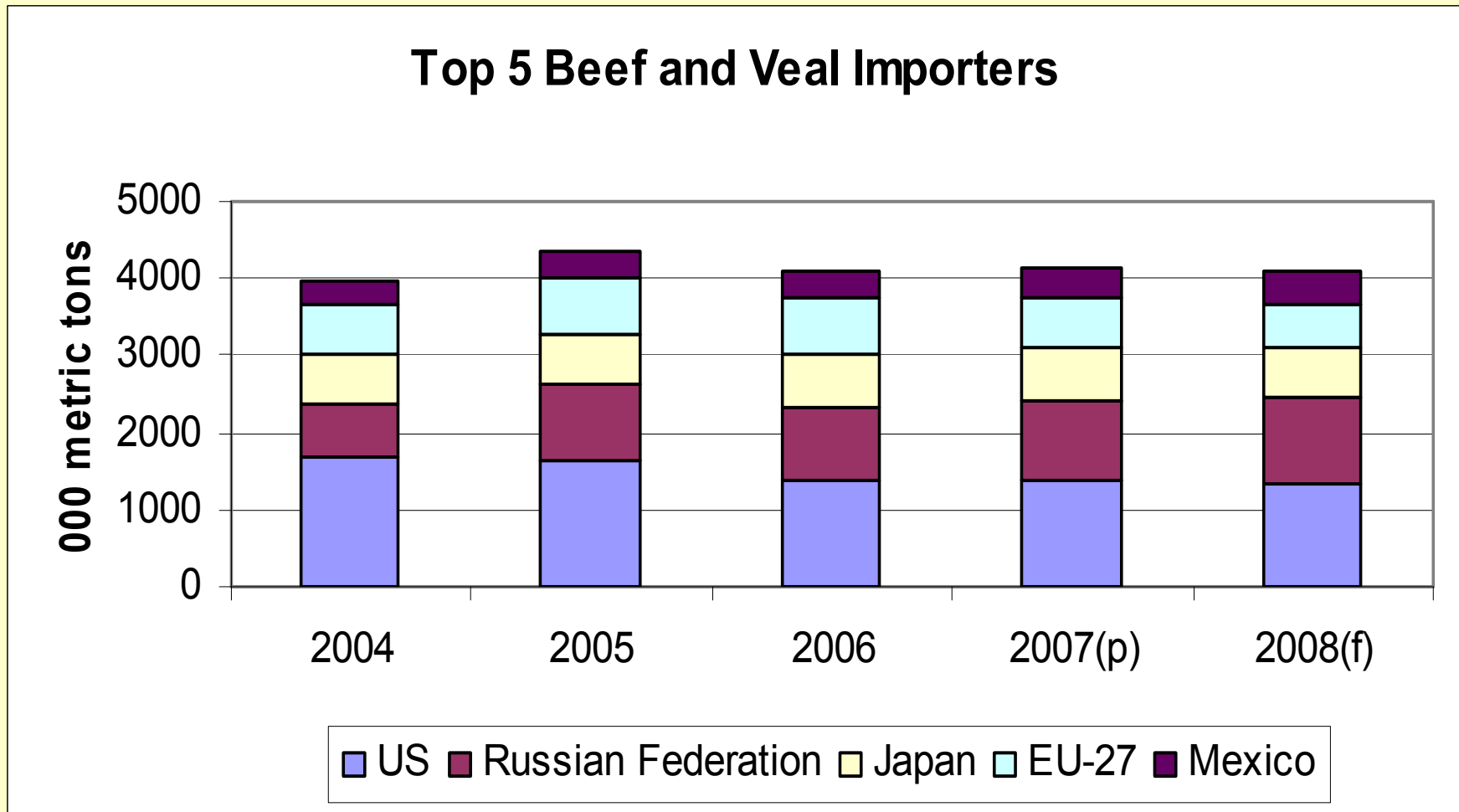
PRODUCTION IN TOP 5 COUNTRIES

	2008	2007
• U.S.	12.130M mt	12.010
• BRAZIL	9.710	9.470
• EU-27	8.125	8.175
• CHINA	7.730	7.480
• ARGENTINA	3.170	3.200

TOP 5 BEEF EXPORTERS



TOP 5 BEEF IMPORTERS



IMPORTS INTO U.S.

(YEAR TO SEPTEMBER 2)

	2008	2007	% Change
CANADA	177,668 mt	180,508	- 1.6
NEW ZEALAND	130,833	133,124	- 1.7
AUSTRALIA	126,506	181,561	- 30.3
MEXICO	11,467	10,716	+ 7.0
URUGUAY	8,727	99,252	- 91.2
OTHER	29,629	23,799	+24.5
TOTAL	484,830	628,960	- 22.9%

REASONS FOR U.S. IMPORT DECLINE

- **Weak US dollar v. most other currencies**
- ***Impact of years of Australian droughts and diversion of Australian beef to other markets***
- **Reallocation of South American beef to EU, Russia**
- ***Larger U.S. cow slaughter (up 8.3% so far) due to higher costs, drought and Canadian imports***
- **Record high manufacturing beef prices have not yet attracted more imports**
- ***2009: Continued tight supplies and record prices***

U.S. EXPORTS

- **Jan-July 2008: 544,008 mt, up 28% on 2007**
: \$1.944 billion, up 37%
- ***Top markets: Mexico, 44% volume, 42% value***
: Canada, 18% 23%
: Egypt, 8% 2.6%
: Japan, 8% 11.7%
(2008: \$300M v. \$1.4 billion in 2003)
- **Vietnam: 21,215 mt. Mostly sold on to China?**
- ***Bone-in beef re-enters South Korea early August.***
Trade is forecast to grow quickly
- **Key point – BSE ban forced U.S. to diversify**

OTHER GLOBAL TRENDS - CHINA

- **Remains wild card re consumption – third largest beef consuming nation but p.c. consumption is only 4 kg, versus 30 kg for pork, 10 kg for poultry**
- ***Still closed to U.S. beef but it enters via Vietnam, Macau and Hong Kong, for hotel-restaurant trade***
- **Australia is largest direct importer since 2003**
- ***Recent growth in imports from Uruguay***
- **Direct imports still account for less than 1% of Chinese consumption**

OTHER GLOBAL TRENDS

– EU AND RUSSIA

- **EU now a net beef importer. Production has plummeted from 1993's 1.2M mt. Could see more U.S. exports**
- ***Dramatically changed exports from, imports to EU***
- **EU was largest beef supplier to Russia**
- ***2007 saw South American beef become dominant supplier to EU and Russia***
- **Russia imported 455,626 mt from Brazil (90,000 in 2003)**
- ***EU imported 281,250 mt from Brazil (217,500 in 2003)***
- **2008 EU restrictions on Brazil open market for others**
- ***U.S. and others send beef to FSU countries***

OTHER GLOBAL TRENDS

- ***Mexico:*** Shortfall relative to consumption. Imports will continue to be large
- ***Middle East:*** Economic boom, luxury hotels & restaurants cater to tourists. Growing market for high-end beef cuts in Dubai, UAE
- ***Egypt:*** A great market for U.S. livers
- ***Indonesia/Malaysia:*** Major Halal beef markets
- ***Philippines:*** a large importer for processing
- ***Argentina:*** Major producer/exporter but political interference and FMD status impact exports. Warning that it might have to import beef by 2012

OTHER GLOBAL TRENDS

- U.S. will also have shortfall relative to consumption
- *2008 production will be up 1.0% on 2007, says USDA. Private forecasts have production down 0.5%*
- Imports are down and exports are up
- *So available per capita supplies will decline*
- P.C. supplies averaged 65.2 lbs in 2007
- *Will average 64.0 lbs in 2008, 63.5 lbs in 2009*

WHERE'S THE BEEF?

- **Global beef demand increases but supply won't**
- ***Cattle numbers in U.S., Canada, Mexico are all down slightly and will continue to shrink***
- **Cattle numbers in Australia and Argentina are flat**
- ***Brazil offers only real increase in cattle numbers. Has 170M cattle today, may increase by 13M by 2017***
- **Brazil's beef exports will increase by 32% to 2.9M mt by 2017, says Agra FNP**
- ***Growth however will have to come through efficiencies, improved feed practices and genetics, and feedlot expansion (to 6M marketed annually)***

BATISTAS BET ON BULLISH BEEF OUTLOOK

- **JBS invests \$3.67 billion in global expansions**
- ***Creates unparalleled global production platform***
- **Kill capacity: 57,500 head per day in 28 plants today**
- ***Will increase to 79,100 head when it completes acquisitions of National Beef and Smithfield Beef***
- **Will put JBS far ahead globally of:**
 - **Cargill (39,300 head in 13 plants)**
 - **Tyson Foods (29,200 head in 8 plants once it completes the sale of its Canadian plant)**
 - **Marfrig (21,100 head in 18 plants)**

WHERE JBS SPENT

- ***July 2007:*** Swift & Company – \$225M in cash, assumed \$1.2 billion in debt
- ***Dec 2007:*** Inalca (Italy) - \$342M in cash, assumed \$220M in debt
- ***May 2008:*** Tasman Group (Australia)- \$150M, including \$47M of debt
- ***Oct 2008:*** National Beef - \$465M in cash and \$95M in JBS stock, will assume \$410M in debt
- ***Oct 2008:*** Smithfield Beef - \$565M in cash

HOW IS JBS DOING?

- Remarkably well, especially in Australia and the U.S.
- *JBS USA Beef in fiscal 2008 second quarter:*
 - *EBITDA of \$133M versus \$1M in first quarter*
 - *Revenue of \$2.630 billion versus \$1.977 billion*
- JBS dramatically improves U.S. beef efficiency. Cuts total plant costs to \$164 per head from \$212 year earlier
- *Swift USA Beef is now extremely competitive for the first time in 10 years. Puts pressure on all others*
- JBS SA had EBITDA of \$186.5M, up 65% from QTR 1
- *Net debt to EBITDA was 2.8% v. 3.7% in fiscal 2007*

JBS SELLS EVERYWHERE

- **Strategy: Optimize the value of the carcass in every country it produces beef by selling the right cut in the right place at the right time**
- ***16 sales or trading offices around the globe***
- **QTR2 exports were \$1.7 billion, 37% of revenues**
- ***JBS sells Australian cap off the round to Brazil, and Australian beef to Chile, the EU, Russia and Dubai***
- **Strengthens position as No. 1 protein supplier in Russia by building cold storage/patty making facility**
- ***JBS will continue to redefine how the global beef business is conducted***