

SNA Philadelphia 2008

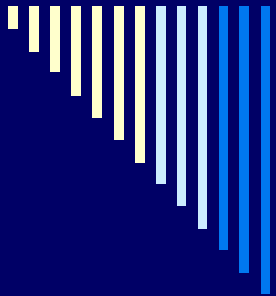


**The Effects of Current Grain Markets on
Commodity Chicken and Chicken
Processing Costs.**

**“Chickens are nothing but corn
with feathers”**

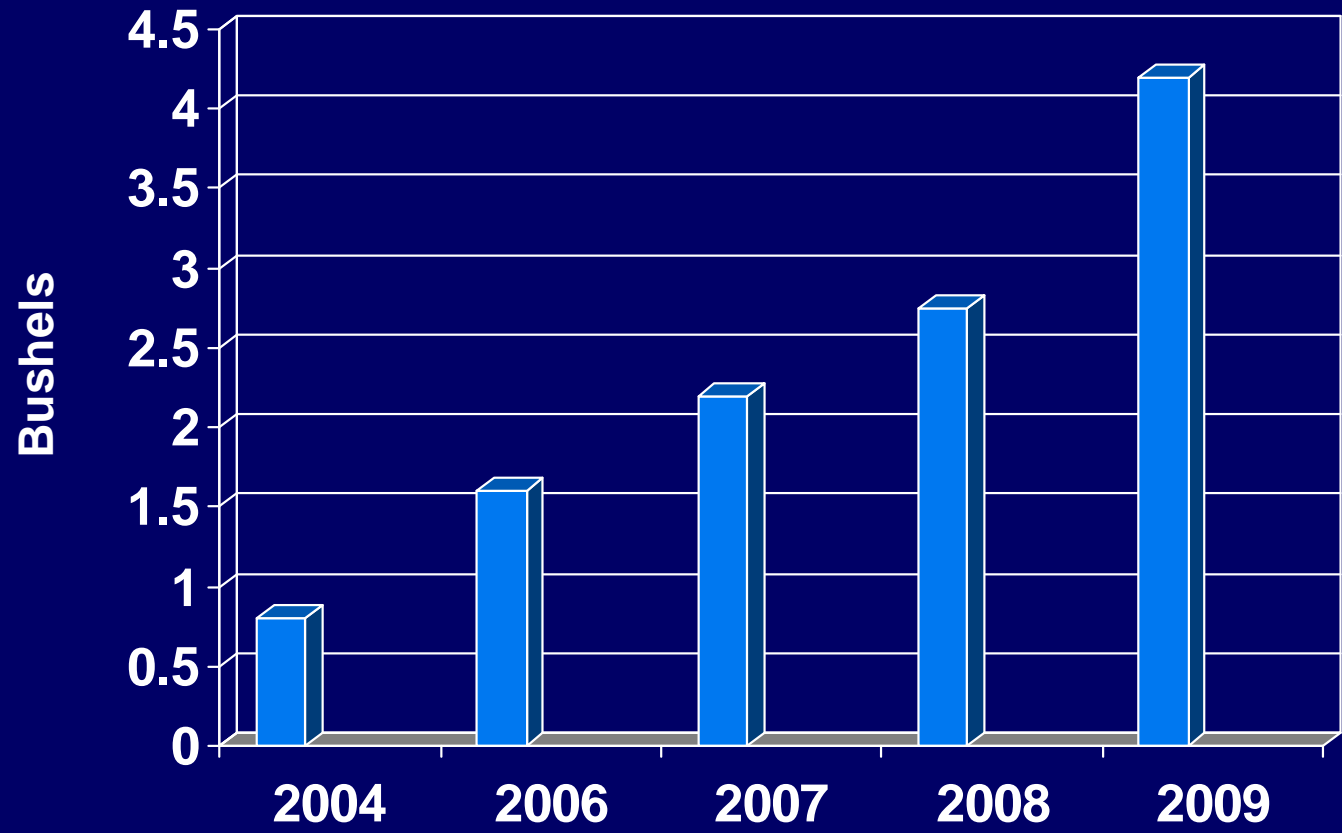


**Don Tyson
Former CEO
Tyson Foods**



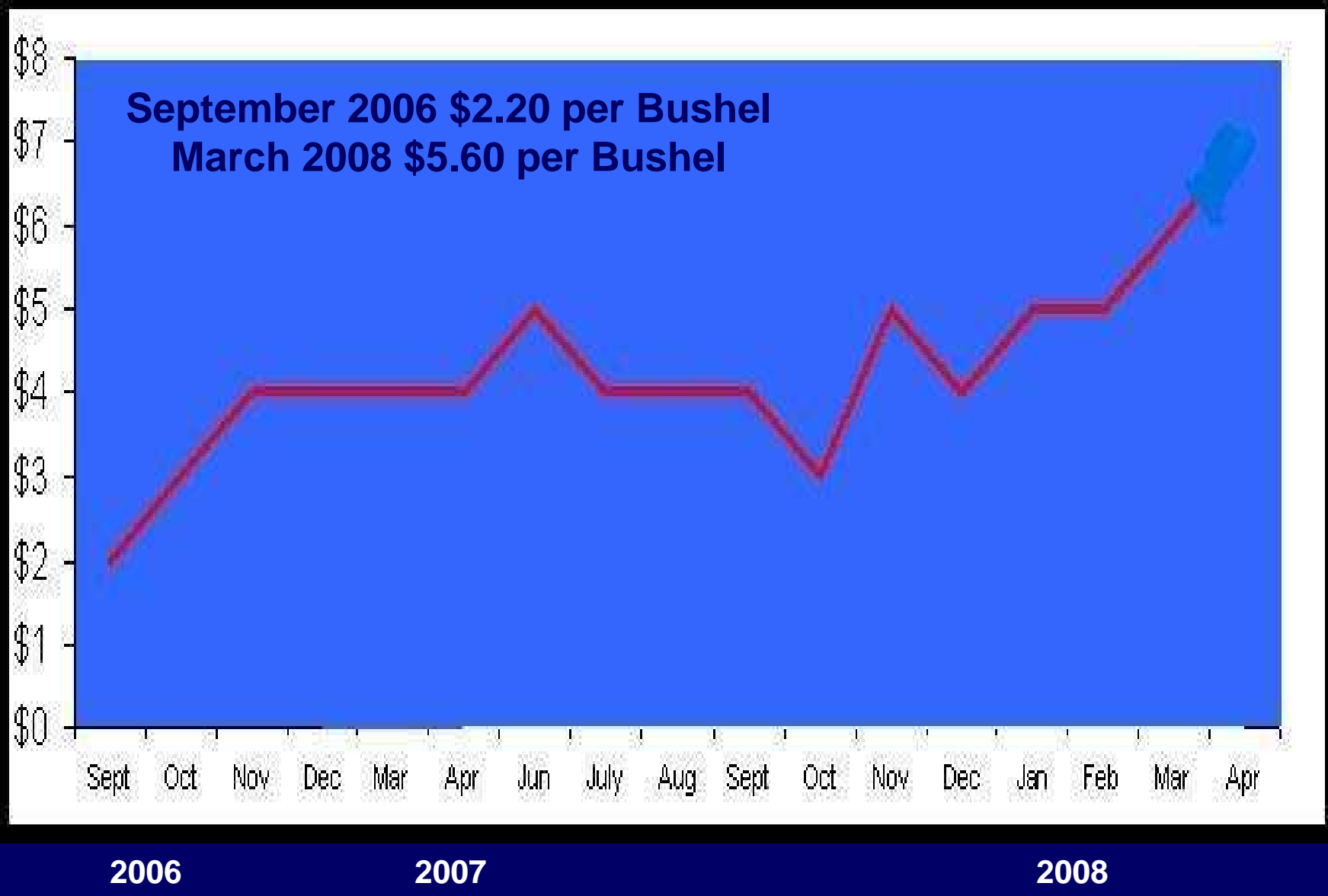
Forecasted Yearly Corn Use For Ethanol

(bushels in billions)



Bushel Price

Current Corn Prices



Per Ton Price

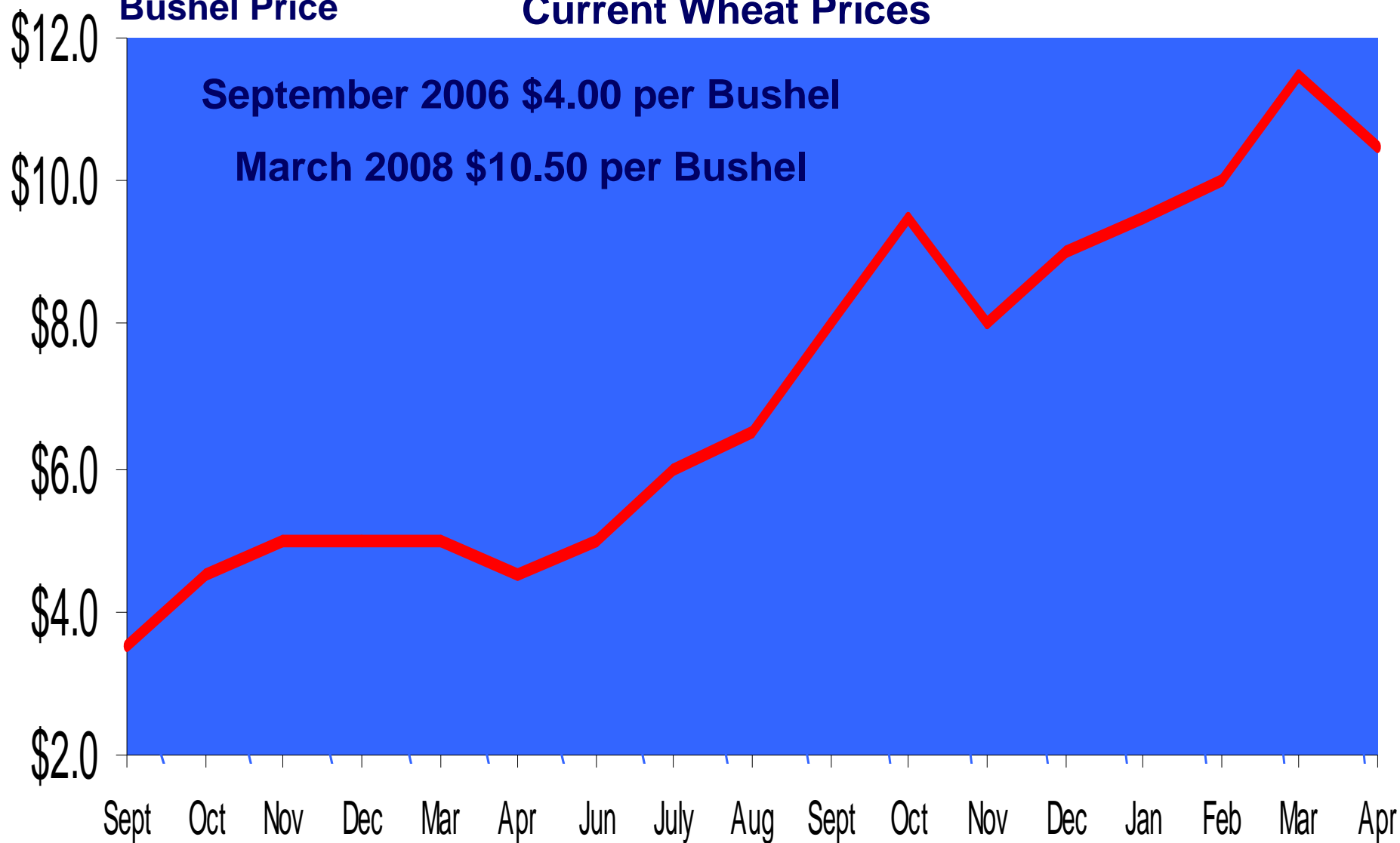
Current Soy Meal Prices

September 2006 \$160.00 per Ton
March 2008 \$360.00 per Ton



Bushel Price

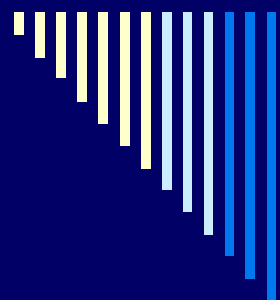
Current Wheat Prices



2006

2007

2008



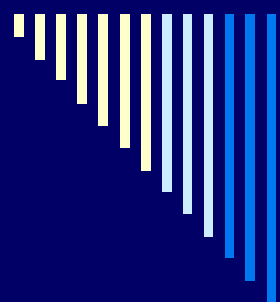
Program Impact

- Increase Grain Costs effect the cost of Chicken supplied to the USDA Commodity Program AND....
- The cost of processing chicken for the USDA Commodity Program, in 4 primary areas.



Program Impact Due To Increased:

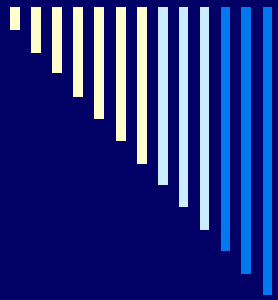
- I. Cost to Grow Chicken
 - II. Purchase Price by USDA
 - III. NOI Gross Sales Price and NOI Processor cost
 - IV. Finished Product Ingredient Cost
-



Increased Cost to Grow Chicken

The Chicken Industry works under the Rule of 10's:

- Corn – \$.10 cents per Bushel Increase = \$.003 cents per lb. increase to grow a chicken.
- Soy Meal - \$10.00 per Ton Increase = \$.004 cents per lb. increase to grow a chicken.



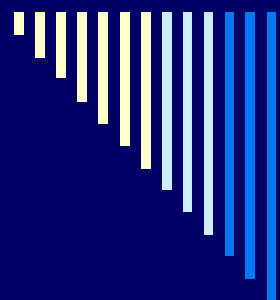
Increased Cost to Grow Chicken

- Corn at \$2.20 to \$5.60 per Bu = 34/\$.10 Bu. Unit Increase AND,
- Soy Meal at \$160.00 to \$360.00 per Ton = 20/\$10.00 Ton Unit Increase

Corn - 34 Units x \$.003 = \$.102 cents per WOG Lb.

Soy Meal - 20 Units x \$.004 = \$.08 cents per WOG Lb.

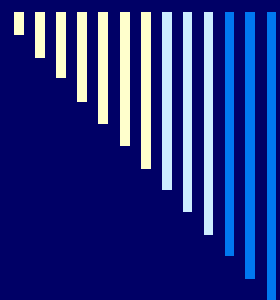
Total Increased Cost = \$.182 cents per WOG Lb.



Increased Purchase Cost of Commodity Chicken by USDA

Potentially reduces the targeted purchase level by USDA

- November 2005 A-522 USDA Value \$.569 cents
- November 2006 A-522 USDA Value \$.6502 cents
 - Actual March 2006 USDA Purchase Price \$.43 cents/lb.
 - Actual March 2008 USDA Purchase Price \$.685 cents/ lb.



Increased NOI Gross Sales Price

- The higher the USDA November 15 value for A-522 chicken, the higher the NOI distributor sales price with the same target net “Fee for Service” Value.
- **Example:**
 - Processed Product with a 100% finished product yield and 30 pound finished product case weight = 1,200 cases finished product per load.
- November 2007 USDA A-522 Value \$.485 cents
- November 2008 USDA A-522 Value \$.6502 cents



USDA A-522 Value

November 2007:

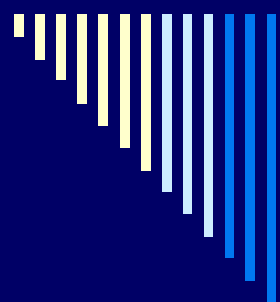
36,000 Load Weight
X \$. 485 USDA Value
\$17,460 Load Value
÷ 1,200 Finished Cases
\$14.55 per case NOI Discount

30 lb. Case
X \$1.00 per lb. Net Target
\$30.00 Per Case Net Target
+ \$14.55 NOI Discount
\$44.55 Distributor/Bid Price

November 2008:

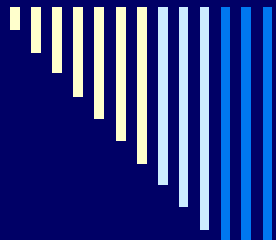
36,000 Load Weight
X\$. 6502 USDA Value
\$23,407.20 Load Value
÷ 1,200 Finished Cases
\$19.50 per case NOI Discount

30 lb. Case
X \$1.00 per lb. Net Target
\$30.00 Per Case Net Target
+ \$19.50 NOI Discount
\$49.50 Distributor/Bid Price



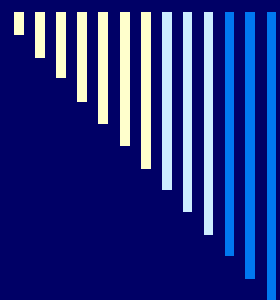
Increased Standard Yield Processing Cost

- The premise of Standard Yield poultry processing is a yield established by the USDA that is higher than a processor can achieve. So....,The processor can determine the exact number of cases of finished product that will be produced.
- Under Standard yield processing, no yield loss is permitted by USDA. So....,The processor must add his own meat/furnished product to meet the pre-determined Standard Yield.



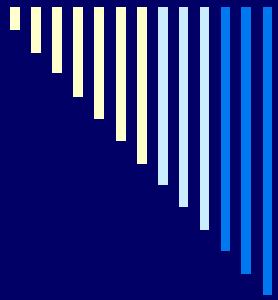
Increased Standard Yield Processing Cost Example

8-PC Roasted Chicken GMY	8-PC Roasted Chicken Std.Yld 2006 SY	8-PC Roasted Chicken Std.Yld 2008 SY
<p>36,000 Load Weight <u>x 63%</u> Processing Yld. 22,680 lb. Fin. Prod.</p>	<p>36,000 Load Weight <u>X 96%</u> USDA Std. Yld. 34,560 Starting Wt. <u>X 1.12%</u> Marination 38,707 lb. Fin. Product</p> <p>38,707 Std. Yld. <u>-22,680</u> "Natural Yld." 16,207 lb. Difference</p> <p>#16.207x\$1.75=\$28,047 \$28,047÷38,707=\$.72 lb.</p>	<p>36,000 Load Weight <u>X 96%</u> USDA Std. Yld. 34,560 Starting Wt. <u>X 1.12%</u> Marination 38,707 lb. Fin. Product</p> <p>38,707 Std. Yld. <u>-22,680</u> "Natural Yld." 16,207 lb. Difference</p> <p>#16.207x\$1.93=\$31,279 \$31,279÷38,707=\$.81 lb.</p>



Increased Ingredient Cost for Further Processed Finished Products

- Increases in grain markets have significantly increased the cost of almost all ingredients used to produce finished products.
- Batter/Breading Systems
- Non-Trans Fat Oils for the fryer
- Isolated Soy Protein
- Dried Whole Egg



Increase Batter Breeding Cost

- Batter/Breeding has increased from \$.25 cents per pound to \$.45 cents per pound.

Example: 1,000 Pound Meatblock

$\div .72$ 28% Breeding Pick-up

1,388 Total Finished Pounds

- 388 pounds of breeding x \$.20 cents increase = \$77.60 cost increase.
- \$77.60 Breeding Cost Increase \div 1,388 Total Product Weight = \$.055 cents per pound breeding cost increase.

**“There is nothing permanent
except change”**

Heraclitus

