

US broiler producers generate

So far US boiler companies have enjoyed a profitable year. Consumption is expected to increase and margins are predicted to remain healthy. The larger companies are giving optimistic forecasts to their shareholders.

US broiler producers are continuing a profitable multi-year run based on a number of factors driving demand and influencing costs. *Per capita* consumption is expected to increase by 2.5% during 2005 to 39.3kg. (Table 1). A small but significant increase to 40kg is anticipated for 2006. Broiler exports during 2005 will increase by 13% over 2004 to 2,467 million metric tons (mt). In 2005, exports, predominantly in the form of leg quarters, will represent 15.3% of total broiler meat production compared to 14% in 2004. Despite the substantial increase in production estimated for 2005, unit wholesale revenue for whole birds is predicted to decline by only 1%, notwithstanding the increase in products available to

consumers. Prices for boneless breasts and leg quarters firmed during the first half of 2005, contributing to wider margins (Table 2). On the cost side, increases in fuel have been largely offset by stable ingredient prices which attained high levels during the first two quarters of 2004. For example, soybean meal has declined by 26% to \$238/metric ton in July 2005 compared to \$322/metric ton during the corresponding month of 2004. Maize also declined by 20% from mid-2004 to mid-2005, representing a cushion for integrators. Unit realization for broiler parts, representing 95% of all chicken exports, attained \$757/metric ton FOB. This value is lower than the unit value achieved by exporters in Brazil who benefited from a 3.8% increase in unit revenue from \$1,058/metric ton during the first two quarters of 2004 to \$1,098/metric ton during the corresponding period in 2005. Brazil experienced an 18.6% increase in volume shipped but a corresponding escalation of 23.1% in total value.

Consolidation in industry

The top ten integrators collectively represented 73% of 2004 production amounting to 15.48 million metric

tons of broiler products (Table 3). Among the major producers, Tyson Foods and Wayne Farms can be regarded as comprehensive protein producers, having extensive investments in pork and beef. Wayne Farms is a subsidiary of the ContiGroup of companies (Continental Grain Company, prior to 1999) but all of the other "Top Ten" integrators are committed to broilers as their principal source of revenue but with Pilgrim's Pride and Perdue Farms each producing a limited quantity of turkeys. The relative performance of the four publicly-traded broiler integrators is indicated in Table 4. Data is not available for Perdue Farms which is privately held, Wayne Farms which is a subsidiary of a non-traded corporation and for the four of the lowest-ranked integrators that are owned by founding families but with varying degrees of management equity participation.

Tyson Foods

Results for the nine months, fiscal year 2005 ending July 2nd were released on August 25th. Chicken sales represented \$6,054 billion, representing 31% of the company total for the combined three quarters. The chicken (broiler) segment contributed a disproportionate 77% to operating margin for the company with a value of \$445 million, confirming that despite involvement in beef and pork, Tyson Foods is still reliant on broilers as a source of profit. Volume of broiler production increased by 0.7% for the first nine months of fiscal 2005 but generated an incremental 2.5% in sales value,

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TABLE 1. KEY US BROILER PRODUCTION VALUES

US Broiler Parameter	2004 actual	2005 estimated	2006 projected
Broiler meat production, m.metric tons	15,483	16,153	16,602
Per capita consumption, kg	38.3	39.3	40.0
Average wholesale price*, 45¢/kg	1.63	1.60	1.63
Broiler exports	1,167	2,467	2,489
Proportion of production %	14.0	13.0	15.0
Source: USDA-ERS			
* Whole broilers, ex-plant			

TABLE 2. WHOLESALE PRICES FOR US BROILER PRODUCTS (AUGUST 2005)

Product	Wholesale Price/kg	
12-City whole carcasses	\$1.57	€1.29
Boneless breasts	\$2.88	€2.36
Whole legs	\$1.32	€1.08
Leg quarters	\$1.00	€0.82
Source: USDA		

ate profits



Tyson Foods, Inc.

compared to the corresponding period in 2004. Operating income for the chicken segment was slightly lower for the first three quarters of 2005 due to rationalization and non-recurring costs including plant closings. These were in part offset by decreased cost of feed. The prepared food segment with a total sales value for the nine-month period of \$2,119 billion (11% of company total) generated a margin of \$54 million representing 9.4% of the total Company operating margin for the period. Tyson Foods has a total asset value of \$10.4 billion, carries \$2.6 billion in long-term debt and expended \$395 million on additions to plant and equipment and installations for all segments over nine months. Tyson Foods is a recognized leader in food service markets and according to John Tyson, the Chairman and CEO, value-added products should represent 40% of revenue by the end of fiscal 2005.

Pilgrim's Pride Corporation

Pilgrim's Pride is the second-largest poultry company in the US and in Mexico, with anticipated sales for fiscal 2005 exceeding \$5.7 billion. Pilgrim's Pride operates 23 processing

plants in the USA and three in Mexico in addition to facilities for further-processing and for turkeys. The largest Pilgrim's plant in Mount Pleasant, Texas, achieves a weekly production of 31,000 metric tons of product spread over 2,000 items. For the third quarter ended July 2nd, 2005, the company generated sales of \$4.1 billion and achieved a net income of \$190 million. Pilgrim's Pride has a total asset base of \$2.4 billion and long-term debt obligations of \$521 million. Capital expenditure during the first three quarters of fiscal year 2005 amounted to \$90.2 million.

O.B. Goolsby, President and Chief Executive Officer, ascribed record revenue and earnings to improved efficiency, moderate expansion, and relatively high margins on added-value products. The optimistic outlook was confirmed when the company upgraded guidance to the financial community for the fourth quarter.

During the current fiscal year, Pilgrim issued 15.4 million shares at \$31, the proceeds of which were used to redeem shares issued to ConAgra to the value of \$482 occasioned by the acquisition of ConAgra broiler complexes in 2004. In addition, the company raised an additional \$40 million from the share issue which will be used to pay down debt and fund expansion.

Gold Kist Inc

Gold Kist of Atlanta, the third largest broiler integrator in the USA,

TABLE 3. RANKING OF MAJOR US BROILER INTEGRATORS, MID-2005.

Rank	Integrator	Weekly volume million	Average liveweight kg	Weekly output processed m.tons	Proportion of US production % rounded
				@75% yield	
1	Tyson Foods	43	2.3	74,200	23
2	Pilgrim's Pride	28	2.3	48,300	16
3	Gold Kist	14	2.5	26,200	9
4	Perdue Farms	12	2.6	23,400	7
5	Sanderson Farms	5	3.0	11,200	4
6	Wayne Farms	5	2.9	10,900	4
7	Mountaire Farms	4	3.2	9,600	3
8	Foster Farms	5	2.4	9,000	3
9	OK Foods	3	3.1	7,000	2
10	Peco Foods	3	3.1	7,000	2
11-40	Other	46	2.5	78,000	27

reported results for the third quarter of fiscal year 2005 ending July 2nd, 2005. This is the first fiscal year since the Company was reorganized from a cooperative to a publicly traded corporation during September 2004. For the nine months ended July 2nd the company achieved sales of \$1.7 billion with a net income of \$87.3 million. Total asset value is currently \$948.2 million with long-term debt of \$197.6 million.



Sanderson Farms

Sanderson Farms, headquartered in Laurel, Mississippi, reported on the first three quarters of fiscal 2005 on August 23rd. Net sales for the period attained \$757.1 million, approximately 5% lower than the corresponding period in 2004. Net income was reduced by 30% to

TABLE 4. KEY FINANCIAL DATA, LARGEST PUBLIC BROILER INTEGRATORS

Integrator	Annual sales \$ billion	Net Income \$ million	Employees ¥ 1,000	P/E	Market capitalization \$ billion	Long-term debt/equity	Capital expenditure \$ million
Tyson Foods	26.6	321.0	114	14.7	6.3	0.58 ²	395 ²
Pilgrim's Pride	5.7	265.5	40	8.0	2.1	0.47 ²	90 ³
Gold Kist Inc.	2.6	136.0	16	6.6	0.9	0.44 ²	—
Sanderson Farms	1.0	75.6	8	9.6	0.7	0.02 ²	96

¹ trailing 12 months

² July 2005, 01-03

INTEGRATOR WEB SITE FOSTER FARMS

Gold Kist Inc.	www.goldkist.com
Mountaire Farms	www.mountaire.com
OK Foods	www.okfoods.com
Peco Foods	www.pecofoods.com
Pilgrim's Pride	www.pilgrimspride.com
Perdue Farms	www.perdue.com
Sanderson Farms	www.sandersonfarms.com
Tyson Foods	www.tyson.com
Wayne Farms www.fosterfarms.com	www.waynefarmsllc.com



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\$60.5 million compared to \$86.4 million for the first nine months of fiscal 2004. Total asset value for the company has increased

by 12% to \$427.6 million, reflecting expansion of production facilities which have yet to realize their potential in terms of increased volume and sales.

Joe F. Sanderson, Jr., Chairman and Chief Executive Officer, ascribed decreased sales and value and income to lower market realization, citing the 6% decrease in the reference Georgia dock price, a value for whole carcasses ex-plant, during the most recent quarter compared with the corresponding period in 2004. Concurrent reduction in the unit price of boneless meat breasts and wings were also advanced as an explanation for lower income, notwithstanding the increases recorded by the three larger integrators.

Appraisal

It is evident that the US broiler industry is enjoying a profitable year based on low and stable feed costs, increasing domestic and export demand and restrained expansion.

Companies committed to added-value products demonstrate the benefit of improved margins to the detriment of less innovative competitors supplying whole birds and portions under their own brands and for the house labels of the major supermarket chains. PPM