

A STUDY OF THE ADVISABILITY AND
FEASIBILITY OF OPERATION OF A
CATTLE SLAUGHTERING PLANT BY
ASSOCIATED TEXAS CATTLE FEEDERS

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TABLE OF CONTENT

	<u>Pages</u>
Summary and Conclusions	A - B
Advisability of Investment in a Cattle Slaughtering Plant	1 - 3
Total U. S. Cattle Production	4
U. S. Annual Cattle and Calf Slaughter	4 - 5
Cattle and Calves Balance Sheet	5 - 6
Distribution of U.S. Cattle Slaughter	7
Inventory of Cattle on Feed	7 - 8
Cattle Feeding Margins	8
Gross Killing Margins and Variability	9
Cattle Kill Plant Investment	10
Cost of Plant Including Breaking and Fabrication Facilities	10-11
Estimated Working Capital Requirements	11
Total Investment Requirement	11
Variability in Meat Industry Earnings	11-12
Beef Plant Earnings Ratios	12
Beef Industry Margins and Earnings	12-14
Estimated Return on Investment in a Slaughtering Plant	15-16
Prospective Earnings in Perspective	16-17
Consideration of a Cooperative	17
Management Caliber	17-18

Exhibit No.

Cattle and Calves on Farms	1
Annual U.S. Cattle and Calf Slaughter	2
Cattle and Calves Inventory Balance Sheet	3
Distribution of U.S. Cattle Slaughter	4
Inventory of Cattle on Feed	5
Cattle Feeding Margins	6
Gross Margins, Cattle Kill Plants	7
Actual Beef Industry Data on Summary of Operations and Balance Sheets	8

Graph No.

Cattle and Calves on Farms	1
Net Cattle Feeding Margins	2
Gross Margins, Cattle Kill Plants	3

SUMMARY AND CONCLUSIONS

On the basis of the review conducted, it is concluded that it would only be advisable for an associated group of feedlot operations to consider operating a slaughtering plant under the concept of the investment decision being based solely upon the anticipated rate of return on investment being satisfactory.

Profits which have been projected from a potential investment in a slaughtering plant are at a level considered adequate to attractive, in terms of investment return. However, they are not at a sufficiently high level to be considered a secondary major profit center to supplement the profitability of feedlot operations.

The operation of a plant should not be expected to stabilize price levels and realization values of feedlot cattle when marketed, nor to contribute to stability or improvement in cattle feeding margins.

Investment in a cattle slaughtering plant would appear justified only on the basis of projected rate of return on investment, and the total feasibility.

U. S. cattle production and the level of cattle feeding in the United States, together with major increases occurring in cattle feeding through the Texas area, all indicate that slaughter supplies for cattle kill plants in coming years will hold at or near current record levels. Current kills and projections over the next five years are well above any previous kill rates in the industry, indicating the potential for the successful introduction of new slaughter capacity, well supported by cattle supplies for the kill.

Our review concludes that on a total investment basis, the rate of return on investment from a cattle kill plant will be approximately 15% on a gross earnings basis or if income tax liability is incurred, the net income would be estimated to be at an average annual rate of 10% on total investment.

With the potential increase in plant earnings resulting from postponement of income tax liability at the plant level, consideration of operating a kill plant and its associated cattle procurement activities as a cooperative, is believed to merit careful consideration.

Based on a 300,000 head per year kill capacity, it is estimated that the plant investment, including land and organizational development costs, will be approximately \$10. million. In addition, \$7.5 million is estimated to be required to provide basic working capital needs. A total investment of \$17.5 million is projected as being required.

It is recommended that no investment in a cattle killing plant be considered unless a breaking, boning and fabrication operation is included.

With the gross rate of return on investment estimated to average 15%, it appears advisable to consider financing any kill plant through a combination of investment and longterm debt issue. To the extent that the rate of return exceeds the cost of money, such financing would increase the rate of return on actual investment or net worth.

In the event a positive investment decision is made to enter into cattle slaughtering, it is urged that the selection of and securing the services of a top management team be given first priority in subsequent procedural moves. It is probable that any vertical integration of feedlots into a slaughtering operation would encounter a strong competitive reaction from established and entrenched operations. In an already highly competitive investment area with narrow margins, a strong, capable management team will be needed to initiate and maintain successful operations, protecting the investment of the feedlot group.

A REVIEW OF THE ADVISABILITY
OF OWNERSHIP OF A CATTLE SLAUGHTERING PLANT
BY ASSOCIATED FEEDLOTS

The purpose of this review is to examine the advisability and feasibility of investment by associated cattle feeders in cattle slaughtering facilities.

In reviewing the matter of advisability, this study concludes that only if the investment in a cattle slaughtering facility is justified by the projected rate of return on investment, is such investment considered advisable.

The decision to consider establishing slaughtering facilities may also involve the concept that such facilities would provide an advantageous outlet for feedlot production of finished cattle. Such an outlet, if controlled by the group of feedlots involved, might be expected to provide maximum currently available market values for the feedlot cattle processed, after plant margins covering a reasonable return on investment.

Kill plant margins, whether in hog or cattle plants, are highly variable. During periods of high marketing rates by producers, plant margins are favorable since a liberal supply tends to reduce the urgency to acquire numbers to provide efficient operations. It is equally true in periods of short livestock supplies and reduced marketings, that kill plant margins are often reduced to low levels, since until kill margins fall below fixed costs, there is some contribution to overhead even though total costs may not be covered.

It is not believed that an associated group of cattle feeders, through operation of even a major plant, could significantly effect the national level of beef plant margins. During a period of short cattle supplies for the kill, any attempt by the cattle feeder investment group to maintain margins for the kill in their plant at a satisfactory level would be expected to result in cattle supply moving to other plants which are willing to pay some premium for the cattle in order to secure the desired numbers.

Conversely, during periods of liberal cattle marketings, cattle feeder-investors could not be expected to supply cattle to their plant at a cost above the general market value, since this would minimize the profit potential for the plant, placing it at an operational disadvantage relative to competition in the industry. In terms of the total return to the individual cattle feeder and his associated investment in the plant, no net benefit would result,

It is suggested that a jointly owned slaughter facility accepting all or part of a feeder group's production would be unlikely to show a benefit to the individually owned feedlot operation in terms of an additional major profit center. The net return on investment, after taxes, would be expected to be at an average annual basis showing only a satisfactory return on investment. Conceivably, it would be possible for a group of associated feedlots to establish a cattle marketing cooperative with ownership of the slaughter plant under consideration assigned to this cooperative. Under existing tax structures, this would mean that the packing plant return on investment on a pre-tax basis, would flow through the market cooperative for distribution to its membership, thereby increasing the rate of return on investment.

Because of legal requirements, the desirability of approaching the owner-

ship of a slaughtering plant via a marketing cooperative, would require careful and close scrutiny. Its single advantage is considered to be the potential for returning approximately an average 20% return on plant investment to marketing cooperatives for distribution to its membership, as opposed to such a plant returning a 10% rate of return on investment in post-tax dollars to the individual shareholder. Such a cooperative ownership of a packing plant appears to merit consideration since the plant ownership by a cooperative would have a continuing advantage versus competition, in transferring pre-tax net margins and earnings to the ownership, with the tax liability accepted by the cooperative membership after distribution.

It is probable that the marketing cooperative would have a total option of assigning pooled cattle to the owned slaughtering plant or, alternatively, of selling these cattle in the open market for the account of the cooperative. This immediately creates a question as to the value of cattle assigned by individual feedlots to the marketing cooperative, with the probable necessity of grading the cattle live on both a grade and yield basis. A second question is that it may prove desirable to consider the cooperative approach only on the basis of each member assigning an equal number of cattle to the marketing organization for distribution either through the owned slaughtering plant or for sale through the open market. A third question would be the administrative costs involved in the operation of a cooperative. An examination of this approach may well demonstrate that the costs of operating a cooperative are more than covered by the administrative costs incurred in operation of a slaughtering plant.

While this is considered essentially a separate matter from the prime objective of this study, which is to determine the advisability and feasibility of feedlot ownership on a joint basis of a slaughtering plant, it is recommended that the cooperative approach be considered in the total review of this question.

It is not to be anticipated that ownership of a slaughtering plant by associated feedlots would affect the market level for either cattle or beef on a national basis. The major basic factor in changes in market levels is shifts in supply. It is not a decision factor made by the cattle killing industry and is affected only moderately, typically on a short term basis, by shifts in margin advantages in the vertical structure. Since the operation of a plant by associated feedlots will not of itself affect the national supply level of beef and competitive red meats, such a plant would not be expected to affect market levels.

In the area of potential marketing advantages for feedlot inventories, the consideration of an owned slaughtering facility would be expected to provide a positive but intangible benefit. Such a plant would provide a marketing alternative to the cash market provided by cattle buyers for existing plants. Secondly, such a plant might well provide a basis for delivery of cattle at an optimum cattle cost/finishing cost basis. This concept relates to the frequent experience wherein cattle are purchased but left in the feedlots for an additional one to two weeks prior to delivery to the slaughtering plant. Such additional time period in the feedlots is of course a cost increment to the feedlots, reducing the actual return based on sales price, particularly during periods where the cost of gain exceeds the market value of the cattle. To the extent that the participation of ownership in the slaughtering plant would permit individual feedlots to schedule cattle for delivery at their least cost option, an increment of benefit not subject to precise measurement, would be realized.

In summary, this section concludes that the consideration of joint ownership

of a cattle slaughtering plant by associated feedlots, be based primarily on the projected ratio of return on investment, subject to the determined feasibility of establishing such a plant. No benefit is to be expected in terms of establishing general market prices for cattle. The plant would not be expected to affect processing margin levels in the industry nor feeding margins in the cattle feeding industry. The plant is likely to provide an intangible benefit in that feedlot cattle can be marketed at an optimum value/cost ratio, with the plant providing an alternative market outlet for the cattle even if packer buyers are absent or are buying at a reduced rate during the period of the feedlot's most advantageous timing for movement of finished cattle.

In addition, if the joint ownership of a slaughtering plant is concluded to be feasible, consideration of ownership through a cooperative appears to have merit. To the extent that plant earnings could be distributed on a pre-tax basis, joint cooperative ownership by feedlots of a slaughtering plant would appear to offer double the return on investment earned by the balance of the beef industry.

A REVIEW OF THE TOTAL U.S. CATTLE
PRODUCTION WITH PROJECTIONS

As shown in Exhibit No. 1 and Graph No. 1 attached, total U. S. cattle production has been increasing on a longterm trend basis interrupted only by cyclical movements.

Currently, U.S. cattle and calf numbers in 1975 are at record high levels. Nevertheless, with the prospect of a moderate cyclical downturn during the 1976-78 period, U.S. cattle and calf numbers are expected to return to and moderately above present levels by 1981.

	<u>ESTIMATED</u>
1976	131,571
1977	129,171
1978	127,001
1979	128,421
1980	129,576
1981	132,556

It is apparent from Graph No. 1 that the cattle cycle now is in a ten-year interval phase and that the current record level of inventories corresponds to a peak in 1965, 1955, and 1945. We have shown in the graph the projections for the 1976-1981 period. With the exception of the shortterm cyclical reversal during the 1976-1978 period, it is clearly apparent that cattle production continues on an increasing trend. On the basis of its cyclical action for the past forty years, it would be expected that the next peak in cattle and calf inventories is likely to occur in 1985 and be well above 140 million head.

On the basis of the trend in U.S. cattle production and the potential supply to be derived from this inventory to meet slaughter plant capacities and the U.S. demand for beef, there is ample justification for establishing ownership of slaughtering facilities. No deficit in slaughter supply appears in prospect in the decade ahead. It will be commented upon subsequently, that slaughter rates are increasing and are currently well above a forty million head per year rate. This rate represents peak slaughter rates in the beef industry, with the probability that such slaughter rates will be maintained at or above current levels in the years ahead.

U.S. ANNUAL CATTLE AND CALF SLAUGHTER

We have shown on Exhibit No. 2 the record of U.S. cattle and calf slaughter for the period 1907 to date, together with projections for the period 1975 through 1980.

The consistent increase in U.S. cattle slaughter shown in this exhibit, together with projections of a shortterm cyclical decline in U.S. cattle and calf total inventories, followed by cyclical advance in numbers, leads to the conclusion that the U.S. cattle slaughter rate is likely to range from a high of 44 million head in 1976 to a low of 40½ million head in 1980. However, it should be quickly noted that this range of slaughter is far above the 35 million head per year average slaughter rate during the past five years and the 27 million head per year rate existing early in 1960.

All available data, and its review, strongly indicates the probability that

the U.S. beef industry is moving to a new record high plateau in cattle slaughter volume. Year to year variability is to be anticipated, but it appears totally improbable that slaughter will return to lower rates existing prior to 1975.

In terms of adequate cattle supplies to support the plant capacity of the beef industry as well as additional capacity, the outlook is favorable. Consideration of the acquisition of a part of the industry's capacity or the creation of additional capacity by associated feedlots is considered well supported by the forecast growth in the cattle and beef industries in the United States.

CATTLE AND CALVES BALANCE SHEET

We have shown in Exhibit No. 3 attached the balance sheet approach used to arrive at the projected cattle slaughter estimates for the 1975-1980 period, resulting in the projected levels of cattle and calf inventories on January 1 of each of these years.

During 1975, 1976 and 1977, liquidation of the inventory is anticipated, representing the declining phase of the cattle cycle covered in earlier discussion. This would result in an inventory low of cattle and calves on farms on January 1, 1978.

In subsequent years, an inventory increase would be anticipated, particularly since slaughter during the 1978-1980 period is estimated to range from 40.3 million to 41 million head. With this gradual decline in slaughter forecast for the 1978-1980 period, prices will be expected to be advancing as a result of the strong demand for beef by the U.S. consumer. Under the production incentives represented by the advancing market, it appears most probable that the liquidation of inventories would be ended, and that a new trend of increase in cow herds, calf crops and cattle inventories would be initiated.

During the five year period immediately ahead, therefore, it is suggested that slaughter would initially range from approximately 42 million to 44 million head per year in the beef industry, followed by approximately a 7 to 8% decline in slaughter in the 1978-1980 period. However, this decline in slaughter still results in the forecast beef industry kill rates being far above any levels prior to 1975.

One of the questions requiring consideration in the review of feasibility of joint ownership of feedlots of a cattle slaughtering plant is the necessity of these feedlots to support the plant by directing a sufficient portion of their feedlot production to the plant to permit operation at an efficient, low cost and competitive cost basis relative to the balance of the industry. During the period of anticipated reduced slaughter in the 1978-1980 period, it is likely that the ownership of a plant would be tested in this regard. It is probable that with the advancing price level for beef and cattle forecast for this time period, that there will be multiple opportunities for disposing of feedlot production as individual lots, that may prove fully equal to or at an advantage to delivery of the cattle to the packing plant being supported. No problem in this area is anticipated during the 1975-1977 period.

Nevertheless, in consideration of acquisition of a plant, it is recommended that at the outset, adequate provision be made to guarantee support of the

plant's kill requirements by participants.

In the event that the marketing cooperative approach is used as a vehicle for distribution and allocation of feedlot production through the slaughter plant and the alternative open market, the problem is likely to be minimized since the allocation of a sufficient number of feedlot cattle to cover the plant's kill needs is under centralized control, although remaining of course subject to the approval and general supervision of the members of the cooperative. The allocation under this procedure, would be expected to result in the management maximizing realization of value from the feedlot cattle assigned to the cooperative, with the plant's projected margins and earnings an integral part of the decisions made as to the distribution of the supply.

Under the cooperative marketing and ownership approach, it would be anticipated that the general cattle market for the area would be somewhat higher than if the feedlot plant were not operated. Such a plant provides an alternative market opportunity as contrasted to the open market, and in addition, this restriction in numbers available to competitive plants would also tend to direct such competitive plants to operate in competition with the margin level and possible margin advantages held by the feedlot owned slaughter operation.

DISTRIBUTION OF U.S. CATTLE SLAUGHTER

As shown in Exhibit No. 4, the distribution of slaughter by geographical areas also favors the concept of establishing ownership of a cattle slaughtering plant in the Texas area.

In Exhibit No. 4, we have shown that the level of commercial slaughter in the state of Texas during the 1944-1962 period was approximately 6% of the U.S. total, making up approximately one-half the total commercial slaughter in the southwestern portion of the United States. In 1974, the Texas slaughter had increased to 11% of the U.S. total, making up approximately two-thirds of the slaughter in the southcentral area.

Shown in Exhibit No. 4 are projections of U.S. cattle slaughter for the years 1975 through 1980, based on the estimate that commercial cattle slaughter in Texas will average approximately 12% of the U.S. total and two-thirds of the total commercial cattle slaughter in the southcentral portion of the country. On this basis, Texas cattle slaughter is expected to move from the 1974 level of 4,079 thousand head to approximately a 5 million head annual average for the 1975-1980 period, representing a 20% increase in slaughter in the state of Texas.

On the basis of the Texas share of slaughter forecast for the years ahead, it is evident that all of the present existing capacity in Texas will be required to process the supply of livestock projected for slaughter in coming years.

No deficit in slaughter supplies are anticipated for any plant in Texas, owned by an associated feedlot group. Slaughter supplies are expected to range from ample to liberal over the next five years.

INVENTORY OF CATTLE ON FEED JANUARY 1

We have shown in Exhibit No. 5 attached, the inventory level of cattle on feed on January 1 for the years 1933-1975, with projections for the years 1976-1980.

On the basis of the review of data for previous years, we are projecting that the inventory of cattle on feed in Texas during 1976 will move to 17% of the national total, about equivalent to the level reached in 1974 but well above inventory levels resulting from reduced placements during 1975. Following the estimate of a 17% of annual total projected for 1976, a moderate increase to the 18% level is forecast for the 1977-1980 period.

On the basis of these projections, we therefore expect Texas feedlot inventories and resultant fed cattle marketings to continue to advance during the next five year period, moving to record high levels during 1977-1978, approximately 17% above the previous highs reached during the years 1973-74.

It is concluded that in addition to total U.S. cattle and calf inventories moving and holding to record high levels, and the projection that Texas cattle slaughter will consequently move to levels well above those reached previously, that such increases will be well supported by feedlot inventories and marketing rates during the 1976-1980 period.

A second facet in relation to projected cattle numbers in Texas relates to the major increase in volume to be marketed in coming years. To the extent

that ownership of a slaughtering facility contributes to ease in marketing these increased numbers for full market values, consideration of the acquisition of a slaughtering plant by associated feedlots is supported. It is during such periods of increased cattle marketings that beef industry margins tend to be at highest levels. To the extent that the benefits of such high margin realizations can be captured and returned to the feedlots producing the cattle, the plant would have the effect of allowing the feedlot owners to share in the margin advantage probable for the beef industry for the next several years.

This is unrelated to the trend on cattle feeding margins since such margins are more dependent upon costs assumed and subsequent market changes, than by shifts in margins at the processing level.

CATTLE FEEDING MARGINS
ACTUAL AND PROJECTED

In the earlier discussion, we have projected feedlot inventories in the years immediately ahead as moving up sharply from the current low, depressed level. In order for such increase in placements and inventories to occur, feeding margins must improve from recent and present depressed levels. As we have shown in Exhibit No. 6 attached, a review of estimated margins from the feeding of steers and heifers for the period 1962-1974 including placements through the Apr.-June quarter of 1974, shows variability of results.

Also attached is Graph No. 3 where these estimated net margins on the feeding of Choice steers have been plotted on a time series basis.

The graph clearly shows the cyclical nature of feeding margins wherein typically margins reach a peak level at approximately \$5. per finished cwt. or \$50. per head every fourth year, followed by approximately a two year period of declining margins.

We are projecting that feeding margins realized will continue to improve from current low levels, reach a breakeven point in terms of current placements early in 1975, and that later placements will prove to result in feeding margins averaging \$2.50 per finished cwt. or approximately \$25. per head when marketed in 1976 or 1977. This will follow the pattern of previous cycles in the cattle feeding industry, with no margin problems anticipated for feedlots earlier than 1978 placements, at which time the cycle indicates the probability that feeding margins will move toward a small negative value on placements made during the last half of 1978 and the forepart of 1979.

On the basis of past cyclical trends in the feeding industry, the projected increase in feedlot placements forecast for the years ahead, contributing to supportive supplies for the kill of the plant being considered, are believed to be fully warranted.

ESTIMATED GROSS MARGINS AND MARGIN VARIABILITY
IN CATTLE KILLING PLANTS

Any consideration of an investment in a cattle killing plant by the Texas Cattle Feeders Association members must necessarily consider two critical realities:

1. There is extreme variability in cattle killing plant gross margins and consequent earnings rates.
2. The variability is of such degree that only superior management, with adequate financing, can be expected to produce earnings, representing a satisfactory rate of return on investment, on an average basis.

We have shown in Exhibit No. 7 attached, the estimated gross margins for the killing operation only of a cattle killing plant. This gross margin is the computed gross prior to the application of plant operations, administrative and sales expenses. Also attached is Graph No. 3, on which is shown graphically the variability in margins listed in Exhibit No. 7. If it is recognized that the average gross margin for the prior ten year period covered was approximately \$2.50 per carcass cwt. or approximately \$15. per head, then the graph fully illustrates that in 1970 and 1973, margins were inadequate, that in 1971 and 1972, they were adequate to produce a moderate return on investment and only during late 1973 and the year 1974 were meat plant margins well above the five year average.

Before further considering the advisability and feasibility of establishing a cattle slaughtering plant controlled by feedlots, it must therefore be recognized that annual results will be variable from year to year and that gross margins will be strongly affected by the supply of livestock available for slaughter by the nation's beef plants. It was in late 1973 and during 1974 that the cattle kill moved significantly above prior levels. It is clearly apparent that in mid-1973, that the reduction in feedlot marketings and restraint on supply of cattle available for beef plants resulted in establishing a negative gross margin in the midyear period. In 1970, industry gross margins were also below the average of the five year period.

The review of margins as shown both in Exhibit No. 7's data and by Graph No. 3 identifies the margin variability to be anticipated in the beef industry in the years ahead.

Any consideration of an investment in a cattle killing plant must therefore be subject to the recognition that year to year results can be expected to be highly variable, with a major variability in the rate of return on investment.

The foregoing commentary relates to a kill plant killing margins only. Margin variability in breaking and fabrication departments now operated by a significant part of the industry is not included in the foregoing data. Nevertheless, one major indicator of beef plant earnings potential is reflected by the gross margins covering killing operations which carry beef through to the cooler in carcass form, either for sale or for transfer to breaking and fabrication departments for further processing prior to merchandising.

CATTLE KILL PLANT INVESTMENT REQUIREMENTS

For the purposes of this review, in order to arrive at absolute dollar levels of investment required, it is projected that the annual slaughter capacity of the plant will be 300 thousand head, requiring a slaughter rate of 6 thousand head per week or 1200 head per day.

It is further suggested that at this level of plant capacity, it is feasible to project investment requirements for any larger operational units, on a straight line ratio of the relative volumes. Once plant capacities have moved to the 300 thousand head per year level, it is believed that no significant change in investment requirements, working capital requirements, or operational costs results from an increase in size, when viewed on a per unit basis.

It is also recommended that no consideration of a beef kill plant be undertaken unless breaking and fabrication operations are to be included in the total plant operation. Currently, many of the larger companies are moving in excess of 50% of their production as primals or fabricated beef cuts, rather than in carcass form and the percentage of total production moved in this form is increasing. It is estimated that within the next few years that 75% of the beef sold by major primary production plants will be merchandised as either primals or as fabricated cuts. Consequently, in order to be able to merchandise plant production to a maximum number of alternative outlets, it will be necessary to have the capacity to produce beef in the form desired by the market.

In summary, then, the following discussion of the plant will be based upon the concept that the annual capacity will be 300 thousand head per year and that the plant will have the additional capacity to break and fabricate at least 75% of the carcass beef produced, so as to be able to merchandise beef production to maximum advantage to all possible accounts, in the years ahead. It is strongly recommended that no consideration be given to establishing a slaughter plant of a 300 thousand head per year capacity level unless the breaking and fabricating capacity is included. Failure to do so is considered likely to impose an unacceptable restriction on potential return on investment in the plant.

ESTIMATED COST OF PLANT, INCLUDING FABRICATING DIVISION

In the current period of inflation, any estimate of a plant cost is necessarily tentative. For the purposes of this review and analysis, however, it is suggested that an estimate of plant cost equal to \$20. per head of annual capacity be assigned to cover the basic plant unit and that an additional \$10. per head of annual capacity be assigned to cover the estimated cost of creating a breaking and fabricating division. This results in a total cost of approximately \$30. per head of rated capacity.

For a plant designed for a 300 thousand head per year annual production rate, this would result in a \$9. million plant cost.

In order to fully cover the additional costs including land, design, and other contingent cost including the development of the corporate structure, it is suggested that a \$10. million capital investment be accepted as a reasonable cost estimate. It is believed that a basic but efficient plant could be constructed at this capital investment level, fully capable of producing the

projected 6 thousand head per week slaughter rate.

ESTIMATED WORKING CAPITAL REQUIREMENTS

Given the estimated 300 thousand head per year annual production rate for a beef kill plant, estimates of working capital requirements will be largely influenced by projected levels of prices for both cattle and beef. With the major variability in cattle and beef prices during the past several years, the estimated dollar sales volume resulting from a 300 thousand head per year kill would be in a range from \$120. million per year to \$150. million.

It is suggested that the estimated investment in working capital be rated as 5% of \$150. million of sales, resulting in an invested working capital of \$7.5 million.

In addition, it is urged that consideration be given to establishing a credit line for an equal amount of working capital, which would then result in a total working capital availability amounting to 10% of annual sales or of \$15. million.

Since this would reflect a turnover of working capital every five weeks as opposed to a more probable experience closer to three-and-a-half weeks, the projected working capital requirements are believed to be fully adequate for this time and period of price levels. By using a credit line for a portion of the working capital, the investment is held to a minimum level and cost of credit used will be limited to actual needs.

TOTAL INVESTMENT REQUIREMENTS

On the basis of the projected \$10. million cost of plant and the \$7.5 million investment in working capital needs, a plant providing an annual capacity of 300 thousand head per year, with sales of approximately \$150. million per year, would be estimated to require an investment of \$17.5 million.

VARIABILITY IN OPERATIONAL RESULTS IN THE MEAT INDUSTRY

While this study will present positions in terms of estimates of return on investment and earnings in relation to volume, it is to be recognized that actual operational results in the meat industry are highly variable within the industry. This results from variations in locational advantages, shifting competitive forces within the industry and the level of managerial skills and competence within each company. In the following table, we show the major degree of variability in results within the meat industry for the years 1972 and 1973, with the data presented as a median, as an upper quartile and as a lower quartile. The data is expressed as net profit on sales, on net worth and on net working capital.

	<u>Net Profit on Net Sales</u>	<u>Net Profit on Net Worth</u>	<u>Net Profit on Net Working Capital</u>
1972 Upper Quartile	1.33%	14.79%	25.89%
Median	.67%	8.57%	17.96%
Lower Quartile	.20%	2.59%	5.73%
1973 Upper Quartile	1.09%	15.85%	30.17%
Median	.64%	9.85%	16.31%
Lower Quartile	.33%	3.48%	5.54%

In addition to the variability of the ratio of profits to sales, net worth and net working capital shown by the general meat industry, approximately the same degree of variability is identified by examining data for selected units of the beef industry. In the following table, we show the variability in the ratios of profits to sales, net worth and net working capital for selected beef plants for the years 1972 and 1973.

SELECTED BEEF PLANT EARNINGS RATIOS
1972 & 1973

	<u>Net Profit on Net Sales</u>	<u>Net Profit on Net Worth</u>	<u>Net Profit on Net Working Capital</u>
Upper	.82%	24.30%	34.45%
Median	.63%	17.79%	27.98%
Lower	.26%	12.84%	11.36%

For the purposes of this review and analysis, we are adopting the average results of operations for the meat industry and for beef plant operations, as a criteria for projecting possible earnings and rates of return on investment. The variability of results within the meat industry is emphasized since it indicates that superior management can exceed the average results which will be presented herein, while at the same time, failure to meet the performance standards of the average of the industry would result in a sharp reduction in the rates of return below projected levels.

This underscores the necessity of considering only the very best management obtainable, in the event a decision is made to proceed with an investment in a cattle slaughtering plant.

BEEF INDUSTRY MARGINS

The beef industry is characterized by extremely narrow margins per units of sale, indicating the critical necessity of closely controlling operations through competent management.

In Exhibit No. 8 attached, we have summarized operational results and average balance sheets for four major companies in the beef industry, operating multiple plants. The data represents the average of recent years.

For ready reference, the operational data, shown as percent of sales, is repeated in the following table:

SUMMARY OF OPERATIONS AS A PERCENT OF SALES DOLLARS

	<u>Co. No. 1</u>	<u>Co. No. 2</u>	<u>Co. No. 3</u>	<u>Co. No. 4</u>	<u>Average</u>
Sales	100.00%	100.00%	100.00%	100.00%	100.00%
Cost of Sales	97.11%	97.55%	97.48%	97.66%	97.36%
Selling, Adm., Misc. Exp.	1.10%	.98%	.77%	1.48%	1.07%
Interest	.38%	.50%	.29%	.47%	.41%
Gross Earnings	1.41%	.97%	1.46%	.39%	1.16%
Income Tax	.70%	.34%	.64%	.13%	.53%
Net Income	.71%	.63%	.82%	.26%	.63%

The intense competition within the beef industry is perhaps best exemplified by the cost of sales data shown as a percent of sales dollars. In the above

table, this ranges from 97.11% of sales to a high of 97.66% of sales, for an average of 97.36%. In other words, prior to covering sales, administrative, advertising and miscellaneous costs, the total expense incurred represents approximately 97.5% of the sales volume, leaving a very minor 2.5% of sales for overhead and earnings. When selling, administrative, advertising and interest costs are covered, the average of the companies observed results in gross earnings ranging from a high of 1.46% of sales to a low of .39% of sales, for an average of 1.16% of sales. We interpret this as indicating that operations must be closely controlled by constant, superior management, in an extremely competitive industry, so that variations in continuing performance shall not exceed a very small fraction of 1% of sales.

The imposition of excessive selling and administrative costs would be punitive in terms of final profits earned.

After income taxes for standard corporate operations, the net profits as percent of sales range from a high of .82% to a low of .26% for an average of .63% of sales.

We refer to these very small percentages of earnings relative to sales as a basis for the statement that if the investment is made in a beef plant, the operation must be fully supported at its optimum volume level through directing livestock supplies through the plant for slaughter.

In the case of a present consortium expressing an interest in a killing plant, it would be indicated that the supply of cattle for the kill would normally be fed cattle from feedlots. However, it is to be recognized that the slaughter of cows is typically quite profitable and the plant under consideration would be located in a general area providing a significant number of cows for the kill plant.

In addition, under the recommendation that breaking and fabrication operations be conducted, it would also be presumed that cow production would be boned as an integral part of the breaking and fabricating units.

Consequently, slaughter volume for the plant, required for efficient operation and possible achievement of the earnings levels indicated above, could consist partially of cow slaughter. Cow slaughter typically has seasonal variability and an assured flow of feedlot cattle through the plant would be required in order to achieve the potential earnings rates and rates of return that are projected in this review. In an earlier section of this study, it was projected that the average sales volume for the plant would be approximately \$135. million per year.

Based on the rate of return shown in recent years by multi-plant companies in the beef industry, resulting in gross earnings at the level of 1.16% of sales, the earning potential for a 300 thousand head per year plant operated at the average managerial competence level of these four major companies, would result in projected gross profits of \$1,566,000. per year. However, these results would not be expected until such time as the plant has completed its initial operational adjustments, achieved full volume at efficient cost levels based on trained personnel, and has further achieved the market entry for its production resulting in sales levels fully at realization of value achieved by strongly entrenched, established competition.

In the initial operational stage of any plant, it is most probable that operational losses would be incurred, with the decrease in losses and conversion to profits a direct function of the competence and aggressiveness of the management.

The time period required for the movement of operational results to levels fully at average industry performance would be influenced by the investment approach. If a new plant were to be built from "scratch", it is suggested that the investment opportunity be viewed on the basis that it would probably require two years of operations to move the plant to industry average performance levels.

On the other hand, if an operating plant currently having access to market outlets and a trained labor force were to be acquired, it is considered probable that not more than a six months to one year period would be necessary to establish fully successful operations.

Under either approach, however, an initial period of probable unsatisfactory results in terms of rate of return on investment, and possibly even actual losses, would be probable.

This review is being prepared on the concept of the validity of an investment in the beef industry in terms of rates of return, unrelated to a specific plant or a specific location for operations. Consequently, a projection of operational results over time must be highly theoretical. However, for reference, as to the probable pattern of initial operations, the following summary of operations of a theoretical plant is presented as a probable initial experience pattern to be anticipated, with projections covering five calendar quarters. In the table, we have used an annual sales volume of \$135. million dollars, resulting in quarterly sales of \$33,750,000.

THEORETICAL OPERATIONAL RESULTS
First Five Quarters

<u>% of Sales</u>	<u>1st.Qtr.</u>	<u>2nd.Qtr.</u>	<u>3rd.Qtr.</u>	<u>4th.Qtr.</u>	<u>5th.Qtr.</u>
Sales	100.00%	100.00%	100.00%	100.00%	100.00%
Cost of Sales	98.40%	98.15%	97.90%	97.65%	97.40%
Selling, Adm. Expense	1.30%	1.25%	1.20%	1.15%	1.10%
Interest	.40%	.40%	.40%	.40%	.40%
Gross Earnings	- .10%	.20%	.50%	.80%	1.10%
Income Tax	- - - -				
Net Profit	- .10%				
Sales	\$33,750	\$33,750	\$33,750	\$33,750	\$33,750
Cost of Sales	33,210	33,126	33,041	32,957	32,872
Selling, Adm. Expense	439	422	405	388	371
Interest	135	135	135	135	135
Gross Earnings	- .34	67	169	270	372
Income Tax	-----	20	50	90	120
Net Profit	- .34	47	119	180	252

ESTIMATED RETURN ON INVESTMENT ON A SLAUGHTERING PLANT

A considerable variation in returns on investments is occasioned by the many combinations possible in the financing structure of the enterprise.

In order to achieve a measurement of return on investment on the total complex, regardless of financing arrangements, we are establishing data representing a hypothetical operation with zero debt, totally financed by investment.

By eliminating interest costs and moving the debt structure to investment, in the financial data shown in Exhibit No. 8, the following pattern of operational summary is established. This data on operational summary represents the adjusted results for the four actual companies examined, covering all of their plants, on a debt free investment basis.

DEBT FREE OPERATIONAL SUMMARY

	Thousands \$	% of Sales
Sales	\$694,056	100.00%
Cost of Sales	675,725	97.36%
Selling, Adm., Misc. Expense	7,453	1.07%
Gross Earnings	10,878	1.57%
Income Tax	3,677	.53%
Net Income	7,201	1.04%

Based on this operational summary, and again referring to the hypothetical structure that would exist for the four actual companies examined, if they were debt free, financed totally by investment, the balance sheet shown below would result. On the basis of this balance sheet, we have constructed a corresponding balance sheet for a theoretical company covering 300 thousand head per year capacity.

DEBT FREE BALANCE SHEET (Thous. \$)

<u>Assets</u>	Actual Company	300 thousand head per year theoretical company
Cash	3,840	\$ 831
Receivables	37,075	8,013
Inventory	13,834	2,990
Other	495	107
Total Current Assets	55,244	11,941
Fixed Assets	<u>29,517</u>	<u>6,395</u>
Total Assets	84,761	18,336
<u>Liabilities</u>		
Accounts Payable	12,091	2,612
Income Taxes	1,989	427
	14,080	<u>3,039</u>
Net Worth	<u>70,681</u>	<u>15,297</u>
Total Liabilities	84,761	18,336

Based on the debt-free balance sheet, the following rates of return would be projected:

Gross Income

Thousands \$	\$10,865	\$ 2,351
% of Net Worth	15.37%	15.37%
% of Total Assets	12.82%	12.82%

Net Income

Thousands \$	\$ 7,190	\$ 1,556
% of Net Worth	10.17%	10.17%
% of Total Assets	8.48%	8.48%

On this basis, it is concluded that the gross income from a stabilized operation after the initial period of startup experience has passed, would be 15.37% on the basis of net worth representing actual investment, and on the basis of total assets employed including established current liabilities, that the rate of return would be 12.82%. On a net income basis, with gross income adjusted by the rate of tax liability incurred on the four companies examined, the net income for a 300 thousand head per year plant, would represent 10.17% of net worth or 8.48% of total assets including current liabilities.

It is concluded that on the basis of average performance at a level successfully competing with the major corporate enterprises already in the beef industry, that the gross rate of return on total investment would be approximately 15% and that if established on a standard corporate structure subject to tax liability, that the rate of return would be approximately 10% on invested capital.

We recommend that in considering the possibility of establishing a cattle killing plant, that these projected rates of return be accepted as a realistic estimate of the probable rates of return available after the proposed plant has successfully entered the industry and successfully stabilized its operations in relation to competition.

PROSPECTIVE EARNINGS IN PERSPECTIVE

In the foregoing sector, it was estimated that a 300 thousand head per year beef plant had the potential of earning a profit of approximately \$2,350,000. on a pre-tax basis and approximately \$1,550,000. on an after-tax basis.

To place these dollars in perspective in relation to the cattle industry, this represents the equivalent of \$7.75 per head pre-tax profits and approximately \$5. per head on an after-tax basis. In turn, these are equivalent to 75¢ per cwt. and 50¢ per live cwt., far less than the market variability occurring in the cattle market on an annual basis.

In perspective, the possible return from operation of a beef plant has a minimum impact on the per head value or the per cwt. value of feedlot cattle processed through the plant.

In previous discussions and presentations, it has been repetitively urged that the consideration of a beef plant be limited only to a possible return on investment and that no significant contribution of such a plant, to the

associated feedlots' operational results be expected.

Since the projected earnings present only a satisfactory return on investment rather than a significant additional profit opportunity, we again recommend that all consideration of a beef plant, to be owned by an associated group of feedlots, be limited to return on investment concept, and that no additional benefit be expected as an additional contribution to feedlot results.

CONSIDERATION OF A COOPERATIVE

If an investment in a kill plant were decided upon, there appears to be considerable merit in establishing the operation as a cooperative.

Based upon our understanding of the laws and regulations regarding cooperatives, feedlots are perfectly free to form an agricultural cooperative structure for the proposed kill plant. The creation of such a cooperative would in effect eliminate income taxes at the plant level.

The projected difference between gross income and post-tax income is estimated as approximately \$800,000. per year. The cooperative approach would appear to offer an opportunity to recover plant investment in not more than a ten-year period through the retention of that portion of gross earnings representing income tax liabilities under a non-cooperative corporate structure.

Such retention on the basis of the estimates made in this study would still permit a payout on the basis of a 10% return of the total investment, with the additional 5% return on investment represented by residual earnings, retained within the cooperative for later distribution.

The cooperative approach would require very careful structuring, since it must necessarily involve an assignment of production by the participating feedlots on a guaranteed basis, with significant penalties imposed for failure to direct the guaranteed livestock numbers to the kill. It is to be anticipated that there will be multiple occasions when alternate marketing outlets provide temporarily improved value realizations over and above the agreed upon transfer values to the kill plant.

The possible tax advantage appears significant to a degree warranting consideration of this type of corporate structure. In the event consideration of the kill plant proceeds sufficiently far, it would appear desirable to secure as much directional and experience guidance as possible, from established cooperatives such as Farmland Industries.

MANAGEMENT CALIBER

In the event the decision is made to proceed with ownership of a killing plant to provide a market outlet for at least a portion of the production of the associated feedlots, it is to be fully expected that the establishment and entrance of such a plant into the industry will be strongly opposed by those companies already operational.

In the event the new company were to be established as a cooperative, the opposition would be increased, in all probability.

It is deemed critical that an extremely strong and competent management team

be created in order to assure the success of the plant. All of the major divisions of a management team will bear equal responsibilities for performance comparable to their peers, including the operation of the plant, the overall management and administration of the enterprise, and in particular, the development of a successful merchandising program.

In order to move the proposed investment to an adequate rate of return promptly, it appears that the merchandising sector will initially require the greatest level of competence. Alternatively, if it is necessary to discount product value in order to secure an adequate outlet for production, significant losses on operations would be anticipated.

It is urged that beyond preliminary consideration of the feasibility and advisability of establishing a kill plant to support feedlot operations and to supply an outlet for feedlot production, that no actual commitments be undertaken until such time as the assured services of a top management team have been secured, with particular care exercised in the selection of the merchandising executive.

EXHIBIT NO. 1

U.S. CATTLE AND CALVES ON FARMS
JANUARY 1 NUMBERS
THOUSAND OF HEAD

<u>Year</u>	<u>Number</u>	<u>Year</u>	<u>Number</u>	<u>Year</u>	<u>Number</u>
1875	35,361	1925	63,373		<u>Estimated</u>
1876	36,140	1926	60,576	1976	131,571
1877	37,333	1927	58,178	1977	129,171
1878	39,396	1928	57,322	1978	127,001
1879	41,420	1929	58,877	1979	128,421
1880	43,347	1930	61,003	1980	129,576
1881	44,501	1931	63,030	1981	132,556
1882	45,738	1932	65,801		
1883	47,387	1933	70,280		
1884	49,804	1934	74,369		
1885	52,463	1935	68,846		
1886	54,868	1936	67,847		
1887	56,602	1937	66,098		
1888	58,599	1938	65,249		
1889	59,178	1939	66,029		
1890	60,014	1940	68,309		
1891	59,968	1941	71,755		
1892	58,126	1942	76,025		
1893	55,119	1943	81,204		
1894	51,713	1944	85,334		
1895	49,510	1945	85,573		
1896	49,205	1946	82,235		
1897	50,447	1947	80,554		
1898	52,868	1948	77,171		
1899	55,927	1949	76,830		
1900	59,739	1950	77,963		
1901	62,576	1951	82,083		
1902	64,418	1952	88,072		
1903	66,004	1953	94,241		
1904	66,442	1954	95,679		
1905	66,111	1955	96,592		
1906	65,009	1956	95,900		
1907	63,754	1957	92,860		
1908	61,989	1958	91,176		
1909	60,774	1959	93,322		
1910	58,993	1960	96,236		
1911	57,225	1961	97,700		
1912	55,675	1962	100,369		
1913	56,592	1963	104,488		
1914	59,461	1964	107,903		
1915	63,849	1965	109,000		
1916	67,438	1966	108,862		
1917	70,979	1967	108,783		
1918	73,040	1968	109,371		
1919	72,094	1969	110,015		
1920	70,400	1970	112,369		
1921	68,714	1971	114,578		
1922	68,795	1972	117,862		
1923	67,546	1973	121,880		
1924	65,996	1974	127,670		
		1975	131,826		

Source: U.S.D.A. - Actual
H.V.A. - Estimates

EXHIBIT NO. 2

U.S. ANNUAL CATTLE AND CALF SLAUGHTER

Thousand of Head and
Percent of Jan. 1 Inventory

<u>Year</u>	<u>Cattle Slaughter</u>	<u>Calf Slaughter</u>	<u>Total Slaughter</u>	<u>Percent of Inventory</u>
1907	12,486	5,395	17,881	28.0%
1908	12,169	5,496	17,665	28.5%
1909	12,726	5,732	18,458	30.4%
1910	12,740	5,817	18,557	31.5%
1911	12,442	5,755	18,197	31.8%
1912	12,036	5,778	17,814	32.0%
1913	11,639	5,305	16,944	29.9%
1914	11,401	4,952	16,353	27.5%
1915	11,726	5,079	16,805	26.3%
1916	12,668	5,653	18,321	27.2%
1917	14,666	6,397	21,063	29.7%
1918	16,043	6,535	22,578	30.9%
1919	14,077	7,251	21,328	29.5%
1920	12,520	7,556	20,076	28.5%
1921	11,478	7,469	18,947	27.6%
1922	12,756	7,932	20,688	30.1%
1923	13,383	8,427	21,810	32.3%
1924	13,917	8,971	22,888	34.7%
1925	13,975	9,131	23,106	36.5%
1926	14,132	8,575	22,707	37.5%
1927	12,820	7,743	20,563	35.3%
1928	11,544	6,997	18,541	32.3%
1929	11,578	6,779	18,357	31.2%
1930	11,569	7,084	18,653	30.6%
1931	11,576	7,302	18,878	30.0%
1932	11,263	7,178	18,441	28.0%
1933	12,317	7,722	20,039	28.5%
1934	18,681	10,774	29,455	39.6%
1935	14,173	8,766	22,939	33.3%
1936	15,288	9,120	24,408	36.0%
1937	14,684	9,519	24,203	36.6%
1938	14,253	8,581	22,834	35.0%
1939	14,050	8,436	22,486	34.1%
1940	14,387	8,361	22,748	33.3%
1941	15,848	8,568	24,416	34.0%
1942	17,387	9,077	26,464	34.8%
1943	17,137	9,320	26,457	32.6%
1944	18,990	13,518	32,508	38.1%
1945	20,775	12,904	33,629	39.3%
1946	18,881	11,410	30,291	36.8%
1947	21,533	13,013	34,546	42.9%
1948	18,386	11,767	30,153	39.1%
1949	18,013	10,828	28,841	37.5%
1950	17,901	9,973	27,874	35.8%
1951	16,376	8,418	24,794	30.2%
1952	17,856	8,894	26,750	30.4%
1953	23,605	11,668	35,273	37.4%
1954	25,017	12,746	37,763	39.5%
1955	25,722	12,377	38,099	39.4%

EXHIBIT NO. 2
(Continued)

Year	<u>Cattle Slaughter</u>	<u>Calf Slaughter</u>	<u>Total Slaughter</u>	<u>Percent of Inventory</u>
1956	26,862	12,512	39,374	41.1%
1957	26,232	11,904	38,136	41.1%
1958	23,555	9,315	32,870	36.1%
1959	22,930	7,683	30,613	32.8%
1960	25,224	8,225	33,449	34.8%
1961	25,635	7,701	33,336	34.1%
1962	26,083	7,494	33,577	33.5%
1963	27,232	6,833	34,065	32.6%
1964	30,818	7,254	38,072	35.3%
1965	32,347	7,420	39,767	36.5%
1966	33,727	6,647	40,374	37.1%
1967	33,869	5,919	39,788	36.6%
1968	35,026	5,443	40,469	37.0%
1969	35,237	4,863	40,100	36.4%
1970	35,025	4,072	39,097	34.8%
1971	35,585	3,689	39,274	34.3%
1972	35,779	3,053	38,832	32.9%
1973	33,642	2,252	35,894	29.4%
1974	36,776	3,006	39,782	31.2%
		<u>Estimated</u>		
1975	41,955	4,000	45,955	34.9%
1976	44,000	4,500	48,500	36.9%
1977	43,925	4,000	47,925	37.1%
1978	40,950	3,500	44,450	35.0%
1979	40,665	3,000	43,665	34.0%
1980	40,260	2,500	42,760	33.0%

Source: Actual data - U.S.D.A.
Estimated data - H.V.A.

EXHIBIT NO. 3

CATTLE AND CALF SLAUGHTER AND
INVENTORY BALANCE SHEET
(Thous. of head)

	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>
On hand January 1	131826	131571	129171	127001	128421	129576
Calf Crop	52100	52500	52000	52000	51000	52000
Net imports	<u>950</u>	<u>900</u>	<u>900</u>	<u>900</u>	<u>900</u>	<u>900</u>
	184876	184971	182071	179901	180321	182476
Cattle Slaughter	41955	44000	43925	40950	40665	40260
Calf Slaughter	<u>4000</u>	<u>4500</u>	<u>4000</u>	<u>3500</u>	<u>3000</u>	<u>2500</u>
Total Commercial	45955	48500	47925	44450	43665	42760
Farm Slaughter	600	550	500	500	500	500
Other Disappearance	<u>6750</u>	<u>6750</u>	<u>6645</u>	<u>6530</u>	<u>6580</u>	<u>6660</u>
Total Disappearance	53305	55800	55070	51480	50745	49920
Year End Inventory	131571	129171	127001	128421	129576	132556

Source: H.V.A.

EXHIBIT NO. 4

DISTRIBUTION OF U.S. CATTLE SLAUGHTER
(Thous. of head)

	U. S. Total	South Central*		Texas	
		Numbers	% of U.S.	Number	% of U.S.
1944	18990	2399	12.6%	1121	5.9%
1945	20725	2937	14.2%	1351	6.5%
1946	18881	2686	14.2%	1195	6.3%
1947	21533	3049	14.2%	1409	6.5%
1948	18386	2722	14.8%	1182	6.4%
1949	18013	2182	12.1%	942	5.2%
1950	17901	2145	12.0%	950	5.3%
1951	16376	2108	12.9%	989	6.0%
1952	17856	2343	13.1%	1175	6.6%
1953	23605	3357	14.2%	1658	7.0%
1954	25017	3598	14.4%	1700	6.8%
1955	25722	3690	14.3%	1744	6.8%
1956	26862	3887	14.5%	1891	7.0%
1957	26232	3782	14.4%	1655	6.3%
1958	23555	3060	13.0%	1267	5.4%
1959	22930	2752	12.0%	1223	5.3%
1960	25224	3248	12.9%	1492	5.9%
1961	25635	3281	12.8%	1526	6.0%
1962	26083	3299	12.6%	1539	5.9%
1963	27232	3484	12.8%	1723	6.3%
1964	30818	4309	14.0%	2180	7.1%
1965	32347	4722	14.6%	2383	7.4%
1966	33727	4783	14.4%	2427	7.2%
1967	33869	4886	14.4%	2573	7.6%
1968	35026	5359	15.3%	2779	7.9%
1969	35237	5506	15.6%	3011	8.5%
1970	35025	5441	15.5%	3184	9.1%
1971	35585	5726	16.1%	3529	9.9%
1972	35779	5537	15.5%	3516	9.8%
1973	33642	5524	16.4%	3471	10.3%
1974	36776	6479	17.6%	4079	11.1%
			<u>Estimated</u>		
1975	41955	7550	18.0%	4825	11.5%
1976	44000	7920	18.0%	5280	12.0%
1977	43925	7905	18.0%	5270	12.0%
1978	40950	7370	18.0%	4915	12.0%
1979	40665	7320	18.0%	4880	12.0%
1980	40260	7245	18.0%	4830	12.0%

* Kentucky, Tenn., Ala., Miss., Ark., La., Okla., Texas

Source: Actual - U.S.D.A.
Estimates - H.V.A.

EXHIBIT NO. 5

INVENTORY OF CATTLE ON FEED - JANUARY 1
(Thous. of head)

<u>Year</u>	<u>Total U.S.</u>	<u>Texas</u>	
		<u>Number</u>	<u>% of Total</u>
1930	3113	50	1.6
1931	3025	60	2.0
1932	2878	125	4.3
1933	3080	120	3.9
1934	2890	78	2.7
1935	2215	50	2.3
1936	3202	120	3.7
1937	2759	115	4.2
1938	3336	150	4.5
1939	3303	144	4.4
1940	3633	144	4.0
1941	4065	168	4.1
1942	4185	185	4.4
1943	4445	194	4.4
1944	4015	130	3.2
1945	4411	150	3.4
1946	4211	115	2.7
1947	4322	121	2.8
1948	3821	115	3.0
1949	4540	144	3.2
1950	4390	161	3.7
1951	4534	177	3.9
1952	4961	186	3.7
1953	5762	193	3.3
1954	5370	129	2.4
1955	5786	132	2.3
1956	5880	148	2.5
1957	6067	154	2.5
1958	5830	122	2.1
1959	6601	178	2.7
1960	7064	219	3.1
1961	7529	254	3.4
1962	7919	323	4.1
1963	9108	450	4.9
1964	9256	478	5.2
1965	9381	488	5.2
1966	9967	538	5.4
1967	10698	674	6.3
1968	10835	810	7.5
1969	11965	1075	9.0
1970	12644	1417	11.2
1971	12209	1480	12.1
1972	13330	1781	13.4
1973	13861	2245	16.2
1974	13067	2205	16.9
1975	9619	1327	13.8
		<u>Estimated</u>	
1976	13845	2355	17.0
1977	14520	2615	18.0
1978	14495	2610	18.0
1979	13515	2435	18.0
1980	13285	2390	18.0

Actual -
Source: U.S.D.A.

Estimated -
H. V. A.

EXHIBIT NO. 6

Estimated Net Cattle Feeding Margins
\$ Per cwt. Finished Weight

Placement Dates	<u>Steers</u> Choice to Choice	<u>Hiefers</u> Choice to Choice	Price Change Choice Cattle 6 mos. after plcmt.
1962 Jan.-Mar.	5.63	4.19	+1.67
Apr.-June	4.86	4.42	+2.97
July-Sept.	.37	.46	-1.82
Oct.-Dec.	(.62)	(.75)	-4.89
1963 Jan.-Mar.	(.56)	.04	-.81
Apr.-June	(.70)	(1.01)	+.09
July-Sept.	(2.80)	(2.55)	-2.55
Oct.-Dec.	(.88)	(1.03)	-2.24
1964 Jan.-Mar.	2.73	1.90	+2.36
Apr.-June	2.41	1.68	+2.91
July-Sept.	2.92	2.35	-.38
Oct.-Dec.	5.49	4.84	+2.14
1965 Jan.-Mar.	4.47	4.08	+2.56
Apr.-June	2.46	2.57	+.08
July-Sept.	4.56	4.35	+1.15
Oct.-Dec.	2.68	3.12	+.35
1966 Jan.-Mar.	.84	.41	-2.12
Apr.-June	(.62)	(.52)	-1.84
July-Sept.	(.61)	.76	-.70
Oct.-Dec.	.88	.79	-.24
1967 Jan.-Mar.	2.19	1.72	+1.64
Apr.-June	1.32	1.14	+1.81
July-Sept.	2.69	2.82	+1.04
Oct.-Dec.	4.04	3.23	+.94
1968 Jan.-Mar.	2.33	2.10	+.15
Apr.-June	2.00	1.96	+1.18
July-Sept.	4.08	4.07	+1.83
Oct.-Dec.	7.16	6.19	+4.43
1969 Jan.-Mar.	2.14	.67	+.90
Apr.-June	(1.77)	(2.67)	-4.20
July-Sept.	2.11	1.78	.00
Oct.-Dec.	2.97	3.03	+2.22
1970 Jan.-Mar.	.53	(.36)	+.23
Apr.-June	(2.33)	(2.88)	-2.39
July-Sept.	2.01	2.10	+.22
Oct.-Dec.	2.91	3.93	+3.85
1971 Jan.-Mar.	1.62	1.67	+1.82
Apr.-June	1.92	2.17	+.59
July-Sept.	4.25	4.09	+2.77
Oct.-Dec.	6.20	6.14	+2.86
1972 Jan.-Mar.	1.92	1.94	+.81
Apr.-June	2.27	2.26	+.77
July-Sept.	8.41	7.81	+6.53
Oct.-Dec.	9.05	9.28	+10.73
1973 Jan.-Mar.	4.49	5.02	+6.30
Apr.-June	(3.94)	(3.83)	-5.37
July-Sept.	(7.49)	(7.51)	-3.30
Oct.-Dec.	(7.38)	(6.24)	-.46
1974 Jan.-Mar.	(6.61)	(7.94)	-2.18
Apr.-June	(6.53)	(6.21)	-1.70

Source: H.V.A.

EXHIBIT NO. 7

ESTIMATED GROSS MARGINS IN CATTLE KILLING PLANTS

1970 to Date

BASED ON CHOICE GRADE STEERS

		<u>Cost per</u>	<u>Drop Credit</u>	<u>Net Live Cost</u>		<u>Choice Car.</u>	<u>Gross Margin *</u>	
		<u>Live cwt.</u>	<u>Per Live cwt.</u>	<u>Per Lv.cwt.</u>	<u>Per Car.cwt.</u>	<u>Beef Value</u>	<u>Car.cwt.</u>	<u>Per hd.</u>
<u>1970</u>	Jan.	29.41	2.31	27.10	44.07	47.00	2.93	18.02
	Feb.	30.21	2.41	27.80	45.20	46.50	1.30	8.00
	Mar.	31.86	2.42	29.44	47.87	49.25	1.38	8.49
	Apr.	31.59	2.45	29.14	47.38	48.50	1.12	6.89
	May	30.62	2.32	28.30	41.02	47.00	.98	6.03
	June	30.70	2.18	28.52	46.37	48.25	1.88	11.56
	July	31.37	2.14	29.23	47.53	49.25	1.72	10.58
	Aug.	30.50	2.19	28.31	46.03	48.00	1.97	12.12
	Sept.	30.29	2.21	28.08	45.66	46.25	.59	3.63
	Oct.	29.83	2.27	27.56	44.81	45.00	.19	1.17
	Nov.	28.30	2.21	26.09	42.42	43.75	1.33	8.18
	Dec.	27.60	1.94	25.66	41.72	42.75	1.09	6.33
Annual Avg.							<u>1.37</u>	<u>8.42</u>
<u>1971</u>	Jan.	28.76	1.90	26.86	43.67	47.50	3.83	23.55
	Feb.	32.18	2.12	30.06	48.88	51.25	2.36	14.51
	Mar.	31.87	2.13	29.74	48.36	50.50	2.14	13.16
	Apr.	32.35	2.30	30.05	48.86	51.50	2.64	15.24
	May	32.70	2.33	30.37	49.38	53.25	3.87	23.80
	June	32.16	2.21	29.95	48.70	51.50	2.80	17.22
	July	32.53	2.15	30.38	49.40	51.50	2.10	12.91
	Aug.	33.11	2.14	30.97	50.36	52.75	2.39	14.70
	Sept.	32.64	2.18	30.46	49.53	51.50	1.97	12.12
	Oct.	32.19	2.18	30.01	48.80	50.75	1.95	11.99
	Nov.	32.92	2.22	30.70	49.92	53.00	3.08	18.94
	Dec.	33.96	2.24	31.72	51.58	55.00	3.42	21.03
Annual Avg.							<u>2.71</u>	<u>16.67</u>
<u>1972</u>	Jan.	35.14	2.39	32.75	53.25	56.50	3.25	19.99
	Feb.	36.28	2.60	33.68	54.76	57.50	2.74	16.85
	Mar.	35.17	2.98	32.19	52.34	53.75	1.41	8.67
	Apr.	34.52	3.40	31.12	50.60	52.50	1.90	11.69
	May	35.49	3.48	32.01	52.05	55.50	3.45	21.22
	June	37.63	3.50	34.63	55.50	58.25	2.75	16.91
	July	38.39	3.67	34.72	56.46	57.75	1.29	7.93
	Aug.	35.96	4.03	31.93	51.92	53.75	1.83	11.25
	Sept.	34.68	4.06	30.62	49.79	52.25	2.46	15.13
	Oct.	34.92	4.55	30.37	49.38	51.75	2.37	14.58
	Nov.	33.58	4.60	28.98	47.12	50.75	3.63	22.32
	Dec.	36.84	4.05	32.76	53.27	56.25	2.98	18.33
Annual Avg.							<u>2.51</u>	<u>15.44</u>
<u>1973</u>	Jan.	40.39	4.41	35.98	58.50	61.50	3.60	18.45
	Feb.	42.92	4.69	39.23	63.79	66.00	2.21	13.59
	Mar.	45.36	4.48	40.88	66.47	67.50	1.03	6.33
	Apr.	45.02	4.67	40.35	65.61	68.25	2.64	16.26
	May	45.74	4.94	40.80	66.34	68.25	1.91	11.75
	June	46.76	4.99	41.77	67.92	70.00	2.68	12.79
	July	49.46	5.36	44.10	71.71	70.75	-.96	-5.90
	Aug.	52.94	5.30	47.64	77.46	N. Q.		
	Sept.	45.12	5.24	39.88	64.85	69.00	4.15	25.52
	Oct.	41.91	4.88	37.03	60.21	63.75	3.54	21.77
	Nov.	40.14	4.68	35.46	57.66	62.00	4.34	26.89
	Dec.	39.37	4.88	34.49	56.08	64.75	8.67	53.32
Annual Avg.							<u>2.86</u>	<u>18.20</u>

EXHIBIT NO. 7 - continued

		Cost Per Live cwt.	Drop Credit Per Lv.cwt.	Net Live Cost		Choice Car. Beef Value	Gross Margin*	
				Per Lv.cwt.	Per Car.cwt.		Car.cwt.	Per head
<u>1974</u>	Jan.	47.13	4.98	42.15	68.54	76.00	7.46	45.88
	Feb.	46.38	4.76	41.62	67.07	75.25	7.58	46.62
	Mar.	44.10	4.39	39.71	64.57	66.50	1.93	11.87
	Apr.	41.53	4.04	37.49	60.96	64.50	3.54	21.77
	May	40.52	3.73	36.79	59.82	64.75	4.93	30.32
	June	37.98	3.26	34.72	56.46	61.50	5.04	31.00
	July	43.40	3.62	39.78	64.68	71.50	6.82	41.94
	Aug.	46.29	4.20	42.09	68.44	73.50	5.06	31.12
	Sept.	41.38	3.76	37.62	61.17	63.75	2.58	15.87
	Oct.	39.69	3.44	36.25	58.85	61.75	2.90	17.84
	Nov.	38.06	3.08	34.98	56.88	61.00	4.12	25.34
	Dec.	37.20	2.77	34.43	55.98	59.75	3.77	23.10
	Annual Avg.						4.64	28.54
<u>1975</u>	Jan.	36.62	2.57	34.05	55.37	61.25	5.88	36.16
	Feb.	34.62	2.25	32.37	52.63	58.00	5.37	33.03

* Before plant operational, administrative and sales expense.

EXHIBIT NO. 8

BEEF INDUSTRY DATA, AVERAGE OF RECENT YEARS
FOUR MAJOR, MULTIPLE PLANT COMPANIES

	<u>Co. No. 1</u>	<u>Co. No. 2</u>	<u>Co. No. 3</u>	<u>Co. No. 4</u>	<u>Average</u>
<u>Summary of Operations (Thousands \$)</u>					
Sales	\$1,333,433.	\$620,405.	\$431,955.	\$390,829.	\$694,056.
Cost of Sales	1,294,946.	605,197.	421,078.	381,677.	675,725.
Selling, Adm., Misc. Expense	14,637.	6,088.	3,322.	5,766.	7,453.
Interest	5,040.	3,125.	1,264.	1,854.	2,821.
Gross Earnings	18,810.	5,995.	6,291.	1,532.	8,057.
Income Tax	9,307.	2,101.	2,775.	524.	3,677.
Net Income	9,503.	3,894.	3,516.	1,008.	4,380.

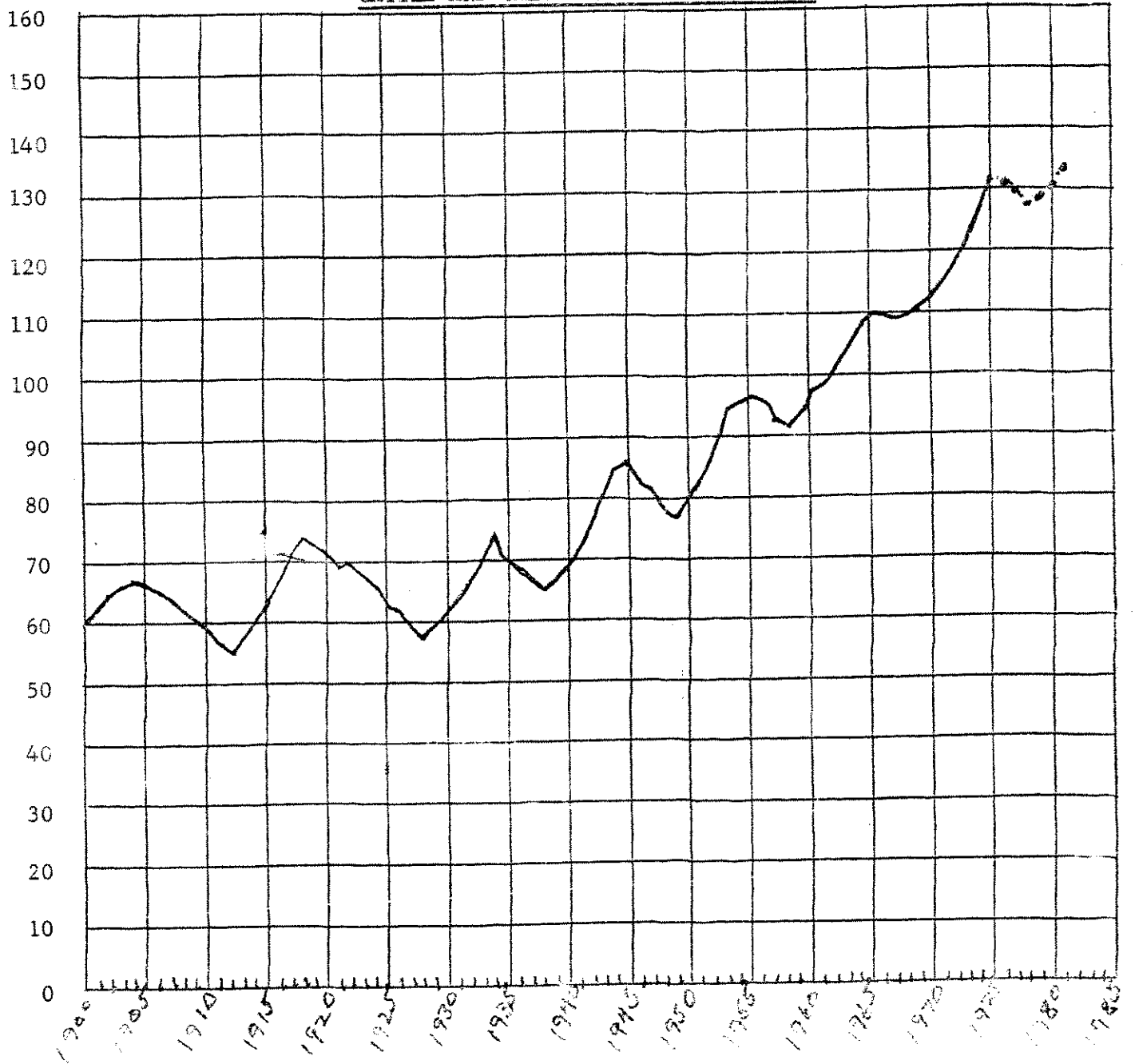
SUMMARY OF OPERATIONS AS A PERCENT OF SALES DOLLARS

Sales	100.00%	100.00%	100.00%	100.00%	100.00%
Cost of Sales	97.11%	97.55%	97.48%	97.66%	97.36%
Selling, Administrative Expense	1.10%	.98%	.77%	1.48%	1.07%
Interest	.38%	.50%	.29%	.47%	.41%
Gross Earnings	1.41%	.97%	1.46%	.39%	1.16%
Income Tax	.70%	.34%	.64%	.13%	.53%
Net Income	.71%	.63%	.82%	.26%	.63%

AVERAGE BALANCE SHEET (THOUS. \$)

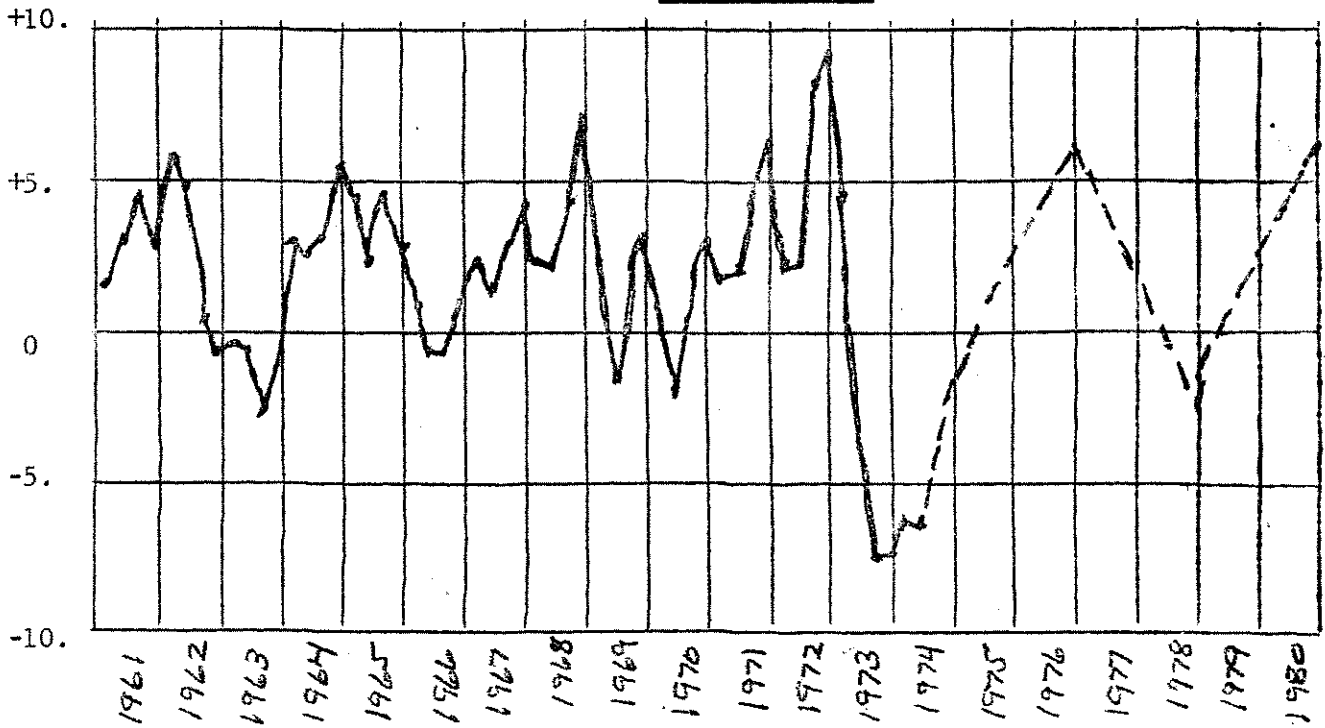
<u>Assets</u>					
Cash	\$ 7,064.	\$ 783.	\$ 3,130.	\$ 4,381.	\$ 3,840.
Net receivables	57,210.	39,283.	20,996.	20,810.	37,075.
Inventory	18,405.	20,677.	7,545.	8,710.	13,834.
Prepayments	339.	433.	996.	201.	495.
Total Current Assets	93,018.	61,186.	32,667.	34,102.	55,244.
Net Property	58,432.	22,388.	17,057.	12,333.	27,552.
Other Assets	2,303.	----	327.	971.	900.
Deferred Charges	3,048.	412.	31.	770.	1,065.
Total Assets	156,801.	83,986.	50,082.	48,176.	84,761.
<u>Liabilities</u>					
Notes payable	34,244.	30,896.	14,458.	10,810.	22,602.
Accounts payable	17,734.	13,494.	3,550.	13,586.	12,091.
Income Taxes	5,264.	1,121.	739.	832.	1,989.
Debt due	1,097.	9,576.	723.	----	2,849.
Current Liabilities	58,339.	55,087.	19,470.	25,228.	39,531.
Long Term Debt	36,836.	11,160.	9,456.	13,130.	17,645.
Deferred Income	6,592.	1,731.	1,580.	1,965.	2,967.
Common Stock	3,525.	1,941.	4,596.	992.	2,764.
Paid in Surplus	10,181.	8,171.	2,945.	939.	5,559.
Retained Earnings	41,328.	5,896.	12,035.	5,922.	16,295.
Total Liabilities	156,801.	83,986.	50,082.	48,176.	84,761.

GRAPH NO. 1
CATTLE AND CALVES ON FARMS - Jan. 1



GRAPH NO. 2

ESTIMATED NET CATTLE FEEDING MARGINS BY QUARTERLY PLACEMENT DATE
\$ PER FINISHED CWT.
CHOICE STEERS



GRAPH NO. 3

CATTLE KILLING PLANTS
ESTIMATED GROSS MARGINS
Per Carcass Cwt.
CHOICE STEERS

\$/CARCASS CWT.

