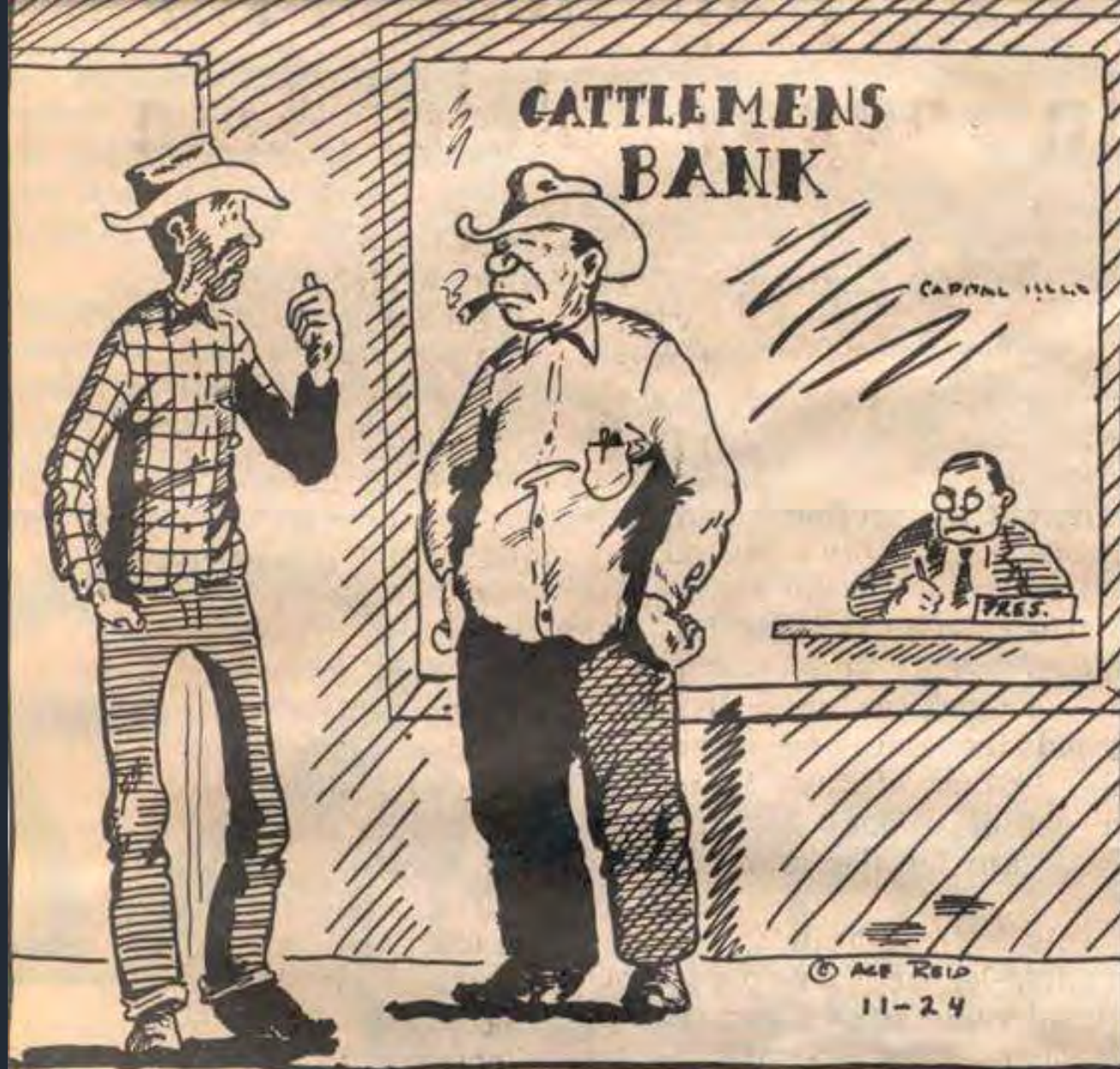


Market and Industry Trends in the Beef Business

Trey Warnock

Amarillo Brokerage Company, LLC

Amarillo, TX

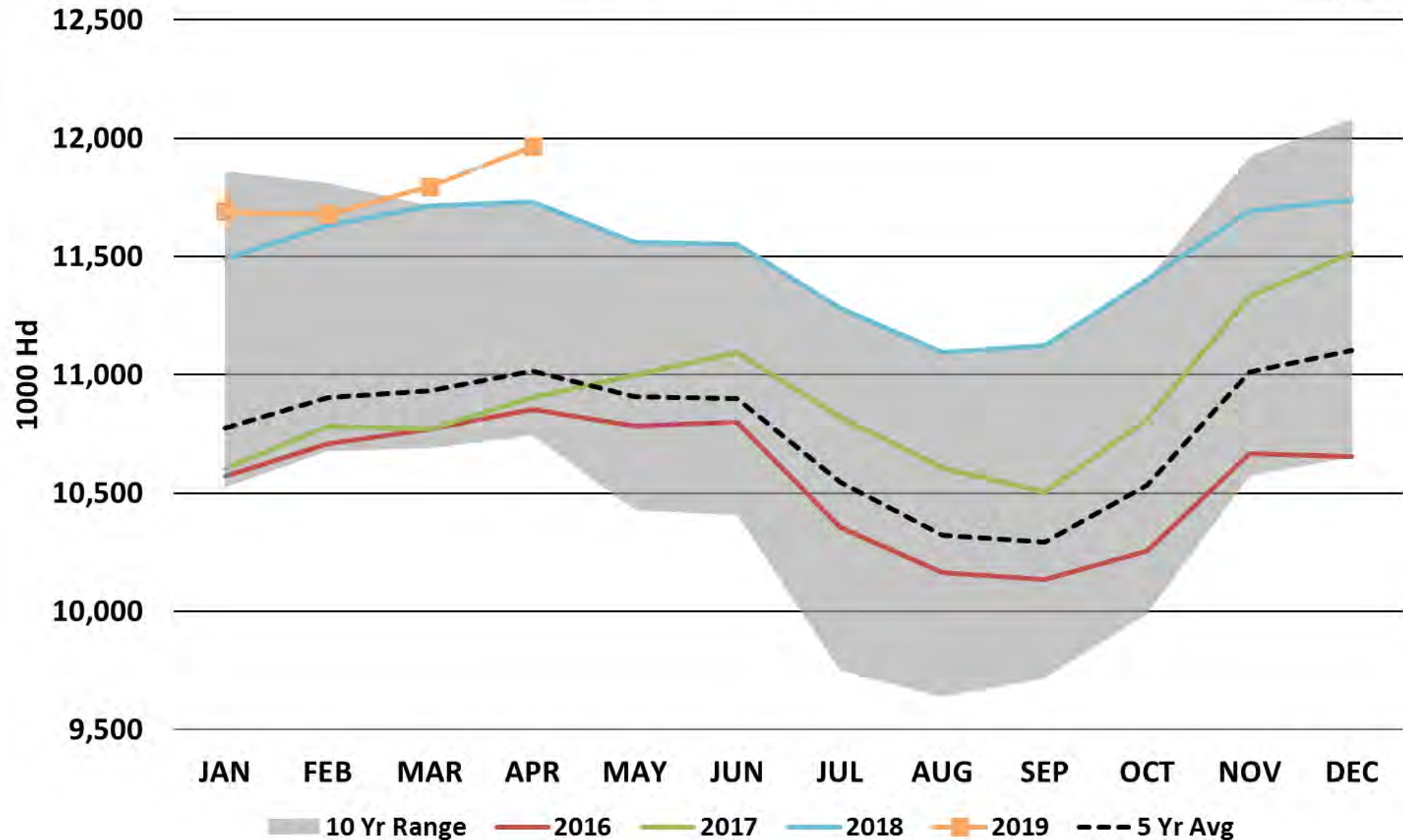


'Ol' Tufernal said if I could get ahead as fast as I
git behind, I'd shore be rich!"

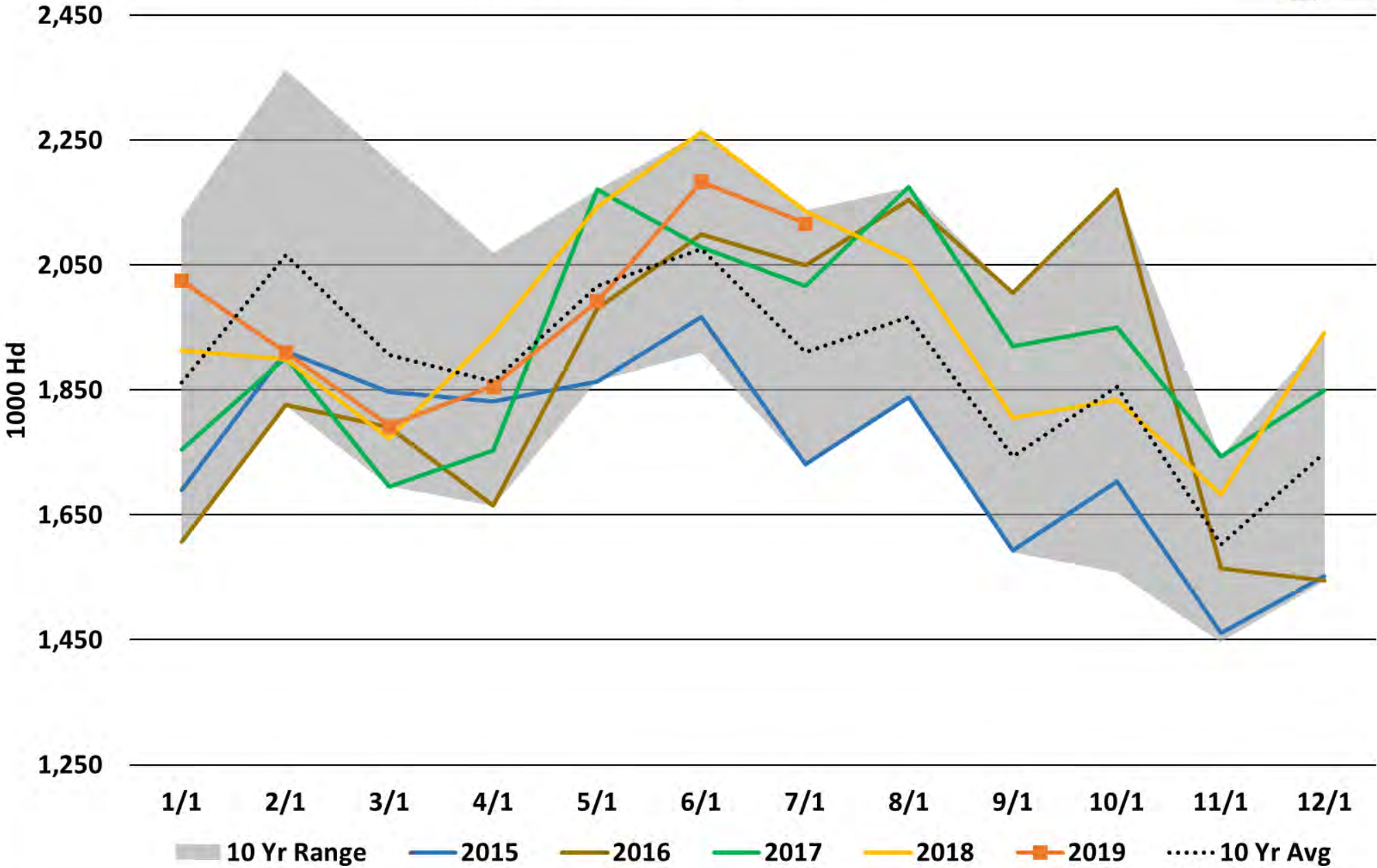
Today's Beef (Feeding) Industry

- Things are changing...huge understatement
- Fundamental developments
 - Supply/demand
 - Basis
 - Leverage...pen space versus kill capacity
- Outside influences...hugely diverse
 - Money flow
 - Interest rates
 - Leverage...equity
- Post-weaning sector is crowded...multiple business models
 - Corporate
 - Private
 - Investor
 - Farmer
 - Guy that won't put his hand down
- Industry Overview
- Quality Grading
- Fed Cattle Marketing
- Feedlot Ownership Shifts
- What will my calves bring?

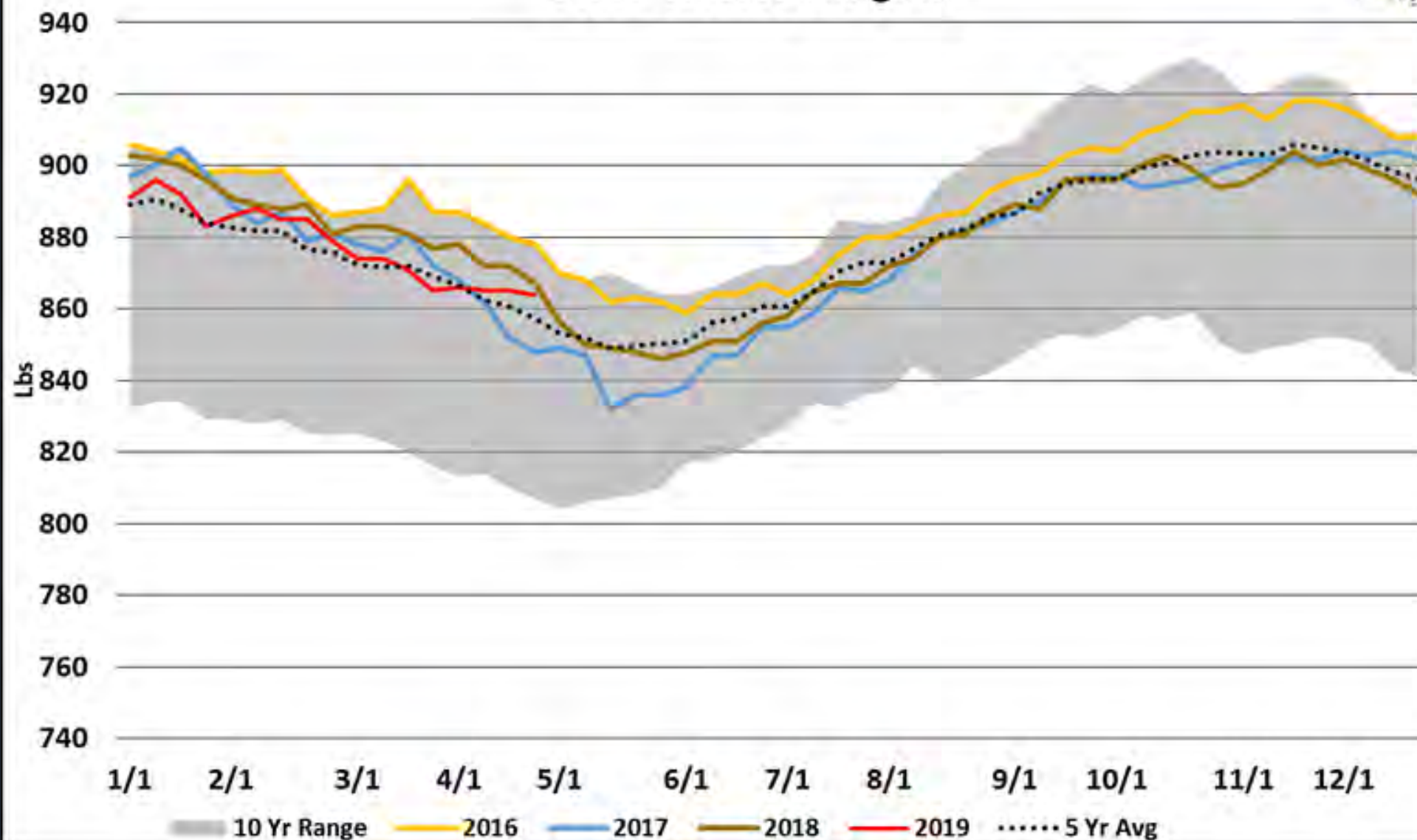
U.S. Cattle on Feed



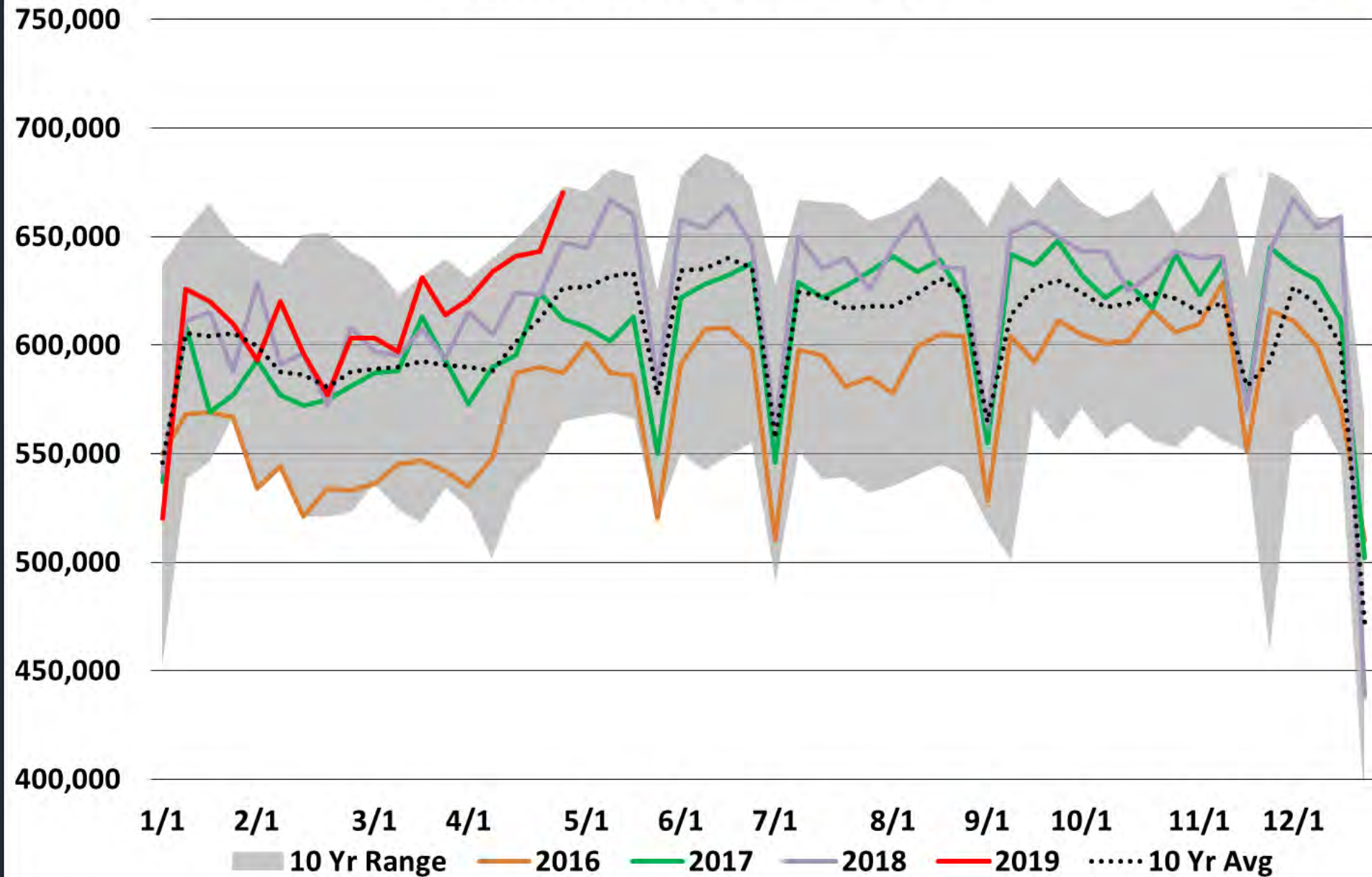
U.S. Expected Cattle Supplies



Steer Carcass Weights

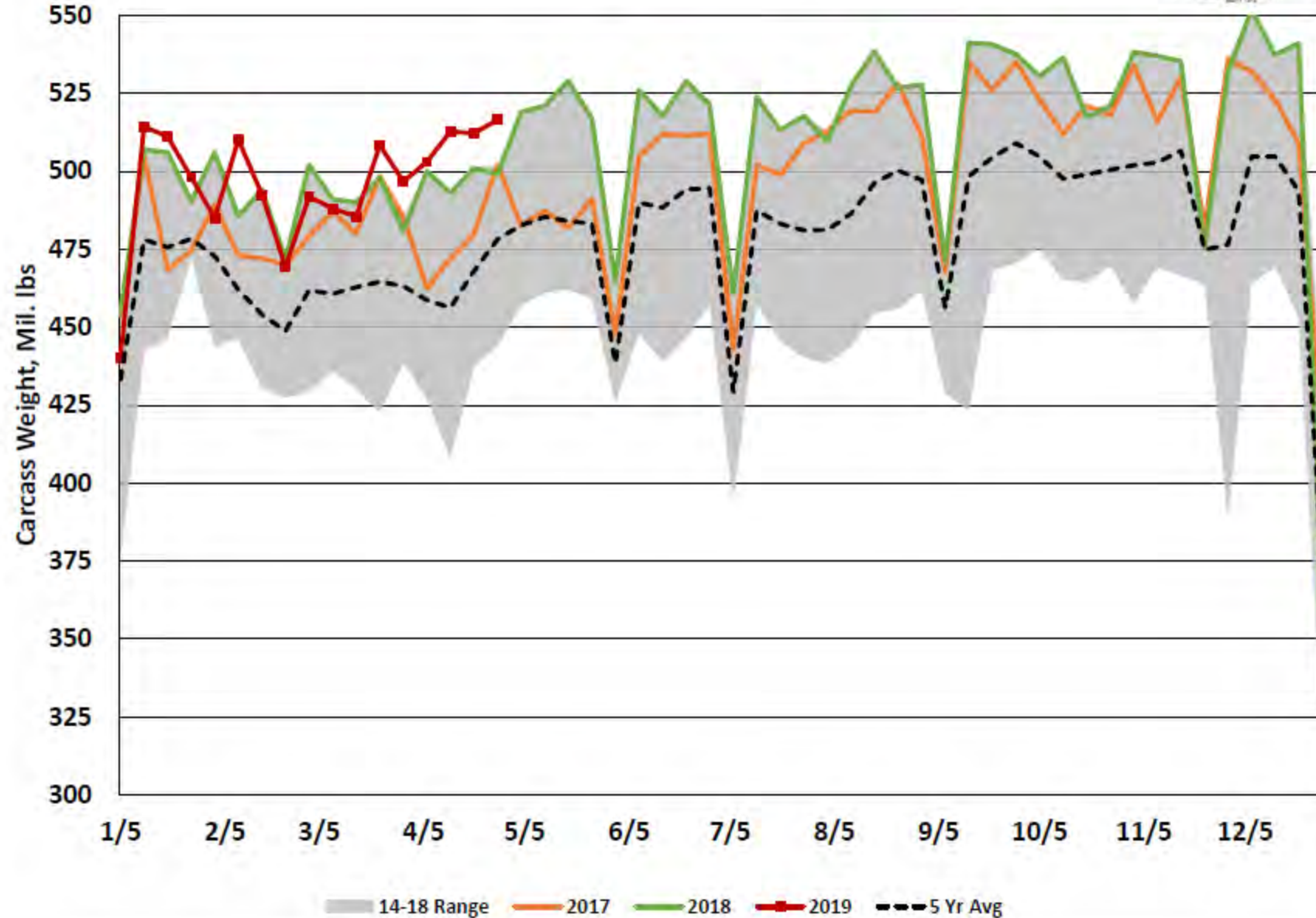


Estimated Weekly Cattle Slaughter

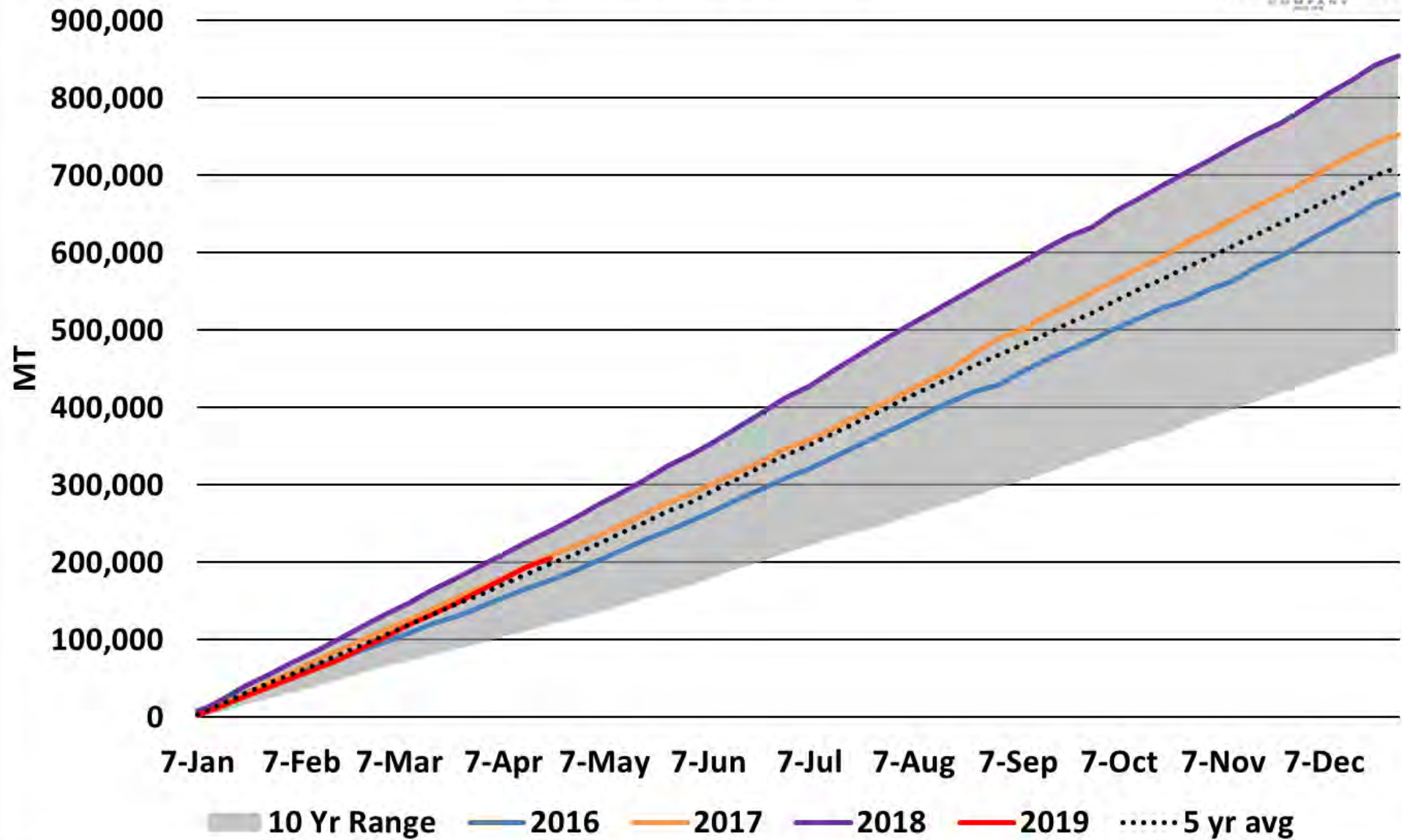


Domestic Beef Production

ABC
AMARILLO BROKERAGE
COMPANY
SINCE 1942



Accum. Beef Exports



So what?

- Fed cattle basis...loss of leverage
- Out front/forward sales...smaller
- Early Apr 2018 versus Apr 2019
 - 102.50 vs 120.50
- Winter weather and cattle performance losses
- Seasonally increasing supplies into the summer
- Need to remain current...keeps all sectors supported



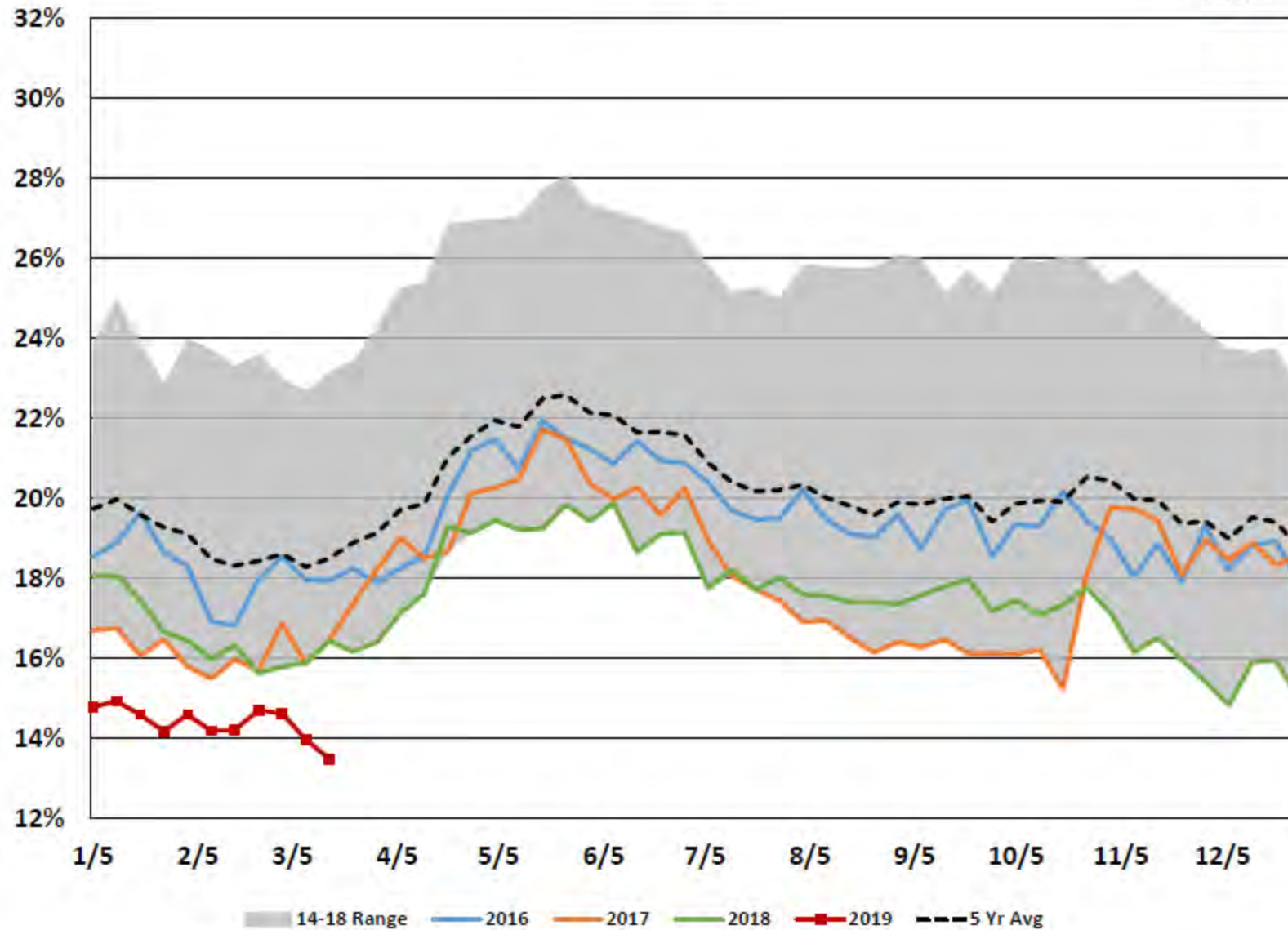
Beef Grading

Advancing Quality Grade

		2016	2017	2018	2019	5 Yr Avg	WOW	YOY Δ	Δ v 5 Yr	3 Wk Avg	3 Wk Δ, YOY	2019, YTD	2018, YTD	YTD Δ
Prime	NE Prime	5.9%	7.7%	10.6%	13.4%	6.5%	0.4%	2.8%	6.9%	12.9%	1.7%	12.0%	9.9%	2.1%
	KS Prime	3.7%	4.4%	4.8%	6.8%	3.5%	-0.3%	2.0%	3.3%	6.6%	1.6%	6.2%	4.8%	1.4%
	TX Prime	1.4%	1.9%	3.1%	4.1%	1.5%	0.1%	1.1%	2.6%	3.8%	0.5%	4.0%	3.0%	1.0%
	National Prime	5.3%	6.3%	8.5%	10.0%	5.1%	0.0%	1.5%	4.9%	9.7%	1.1%	9.3%	7.9%	1.4%
Choice	NE Choice	70.6%	73.9%	71.3%	72.7%	71.7%	-0.3%	1.4%	1.0%	73.4%	1.3%	73.7%	73.4%	0.3%
	KS Choice	76.2%	76.8%	72.8%	76.1%	71.3%	-0.5%	3.3%	4.8%	76.4%	1.9%	77.7%	75.1%	2.5%
	TX Choice	63.0%	64.5%	67.0%	68.7%	60.6%	1.9%	1.7%	8.1%	67.1%	0.1%	67.8%	66.3%	1.5%
	National Choice	70.7%	72.4%	70.9%	73.0%	69.0%	0.3%	2.1%	4.0%	72.9%	1.3%	73.2%	72.3%	0.9%
Choice +	NE Choice+	76.6%	81.7%	82.0%	86.2%	78.2%	0.1%	4.2%	8.0%	86.3%	3.0%	85.7%	83.3%	2.4%
	KS Choice+	79.9%	81.2%	77.6%	82.9%	74.8%	-0.8%	5.4%	8.1%	83.0%	3.5%	83.9%	79.9%	4.0%
	TX Choice+	64.4%	66.4%	70.0%	72.8%	62.1%	2.1%	2.7%	10.7%	70.9%	0.6%	71.8%	69.3%	2.5%
	National Choice+	76.1%	78.6%	79.5%	83.0%	74.1%	0.3%	3.6%	9.0%	82.6%	2.4%	82.5%	80.2%	2.3%
Select	NE Select	14.2%	11.7%	12.7%	8.2%	13.2%	-0.2%	-4.5%	-5.0%	8.6%	-3.1%	9.9%	12.5%	-2.5%
	KS Select	17.1%	16.7%	20.7%	14.1%	22.5%	0.5%	-6.6%	-8.4%	13.8%	-5.2%	14.0%	18.8%	-4.8%
	TX Select	31.9%	30.1%	27.7%	24.8%	34.2%	-2.2%	-2.9%	-9.4%	26.8%	-0.8%	26.0%	28.6%	-2.7%
	National Select	18.0%	16.5%	16.4%	13.5%	20.1%	-0.5%	-3.0%	-6.7%	14.0%	-2.0%	14.4%	16.6%	-2.2%
Other	NE Other	9.3%	6.6%	5.4%	5.7%	8.6%	0.1%	0.3%	-2.9%	5.1%	0.2%	4.4%	4.3%	0.1%
	KS Other	3.0%	2.1%	1.8%	3.0%	2.7%	0.3%	1.2%	0.2%	3.1%	1.7%	2.0%	1.2%	0.8%
	TX Other	3.8%	3.5%	2.2%	2.4%	3.7%	0.1%	0.2%	-1.3%	2.4%	0.2%	2.2%	2.1%	0.2%
	National Other	6.0%	4.9%	4.1%	3.5%	5.8%	0.1%	-0.6%	-2.3%	3.4%	-0.4%	3.1%	3.2%	0.0%

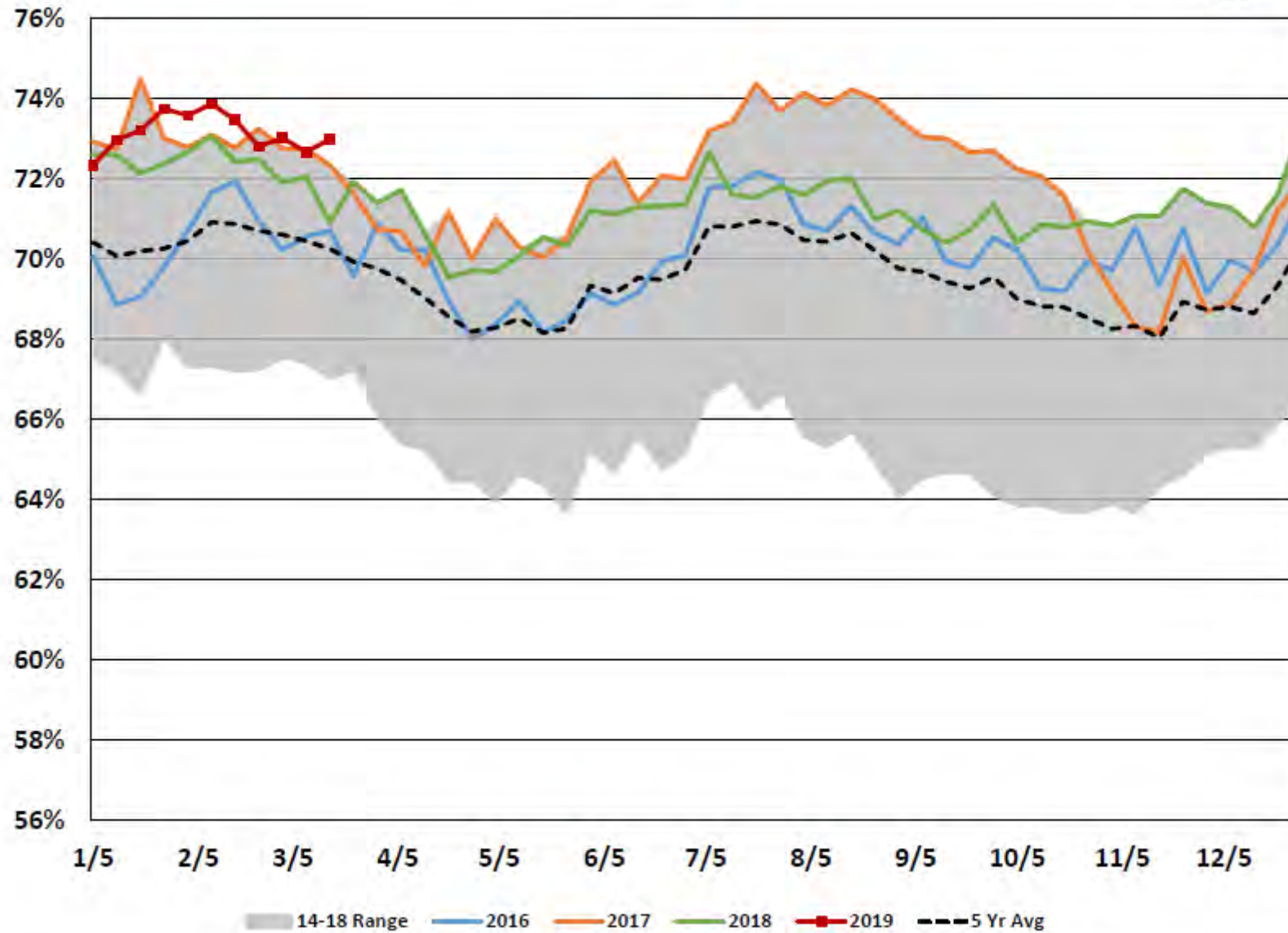
Select Grading

ABC
AMARILLO BROKERAGE
COMPANY



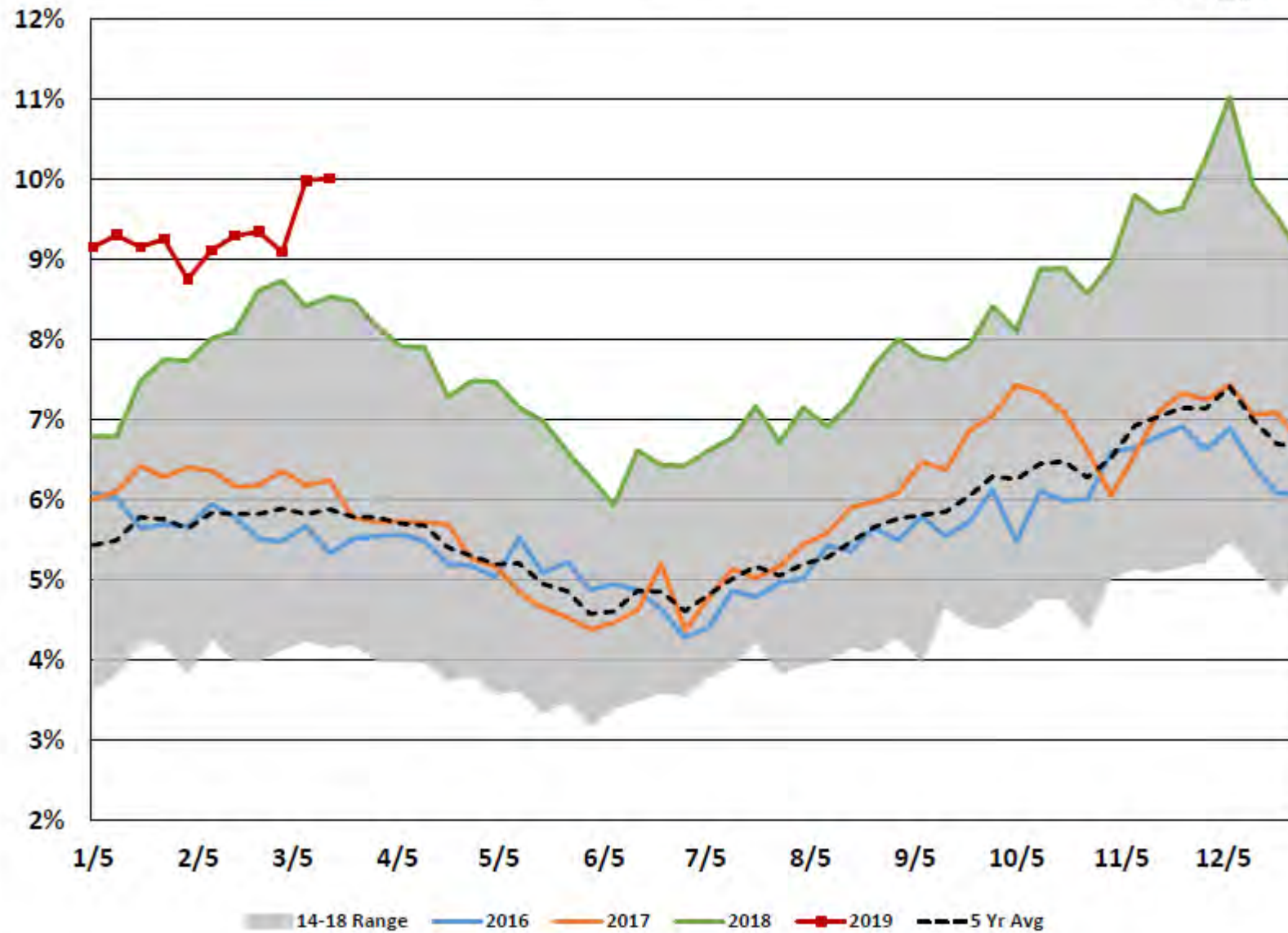
Choice Grading

ABC
AMARILLO BROKERAGE
COMPANY



Prime Grading

ABC
AMARILLO BROKERAGE
1000 10th St. Suite 100
Amarillo, TX 79101
(806) 485-1111



Why?

- Improved genetic composition of cow herd (bulls)
- Changes in instrument grading
- Revisions in utilization of bone ossification for determining carcass maturity for cattle < 30 months
 - Age documentation and dentition
- Changes in grid performance and premiums
 - Yields
 - Dressing %
 - Weights
 - Plant Averages

Fed Cattle Marketings

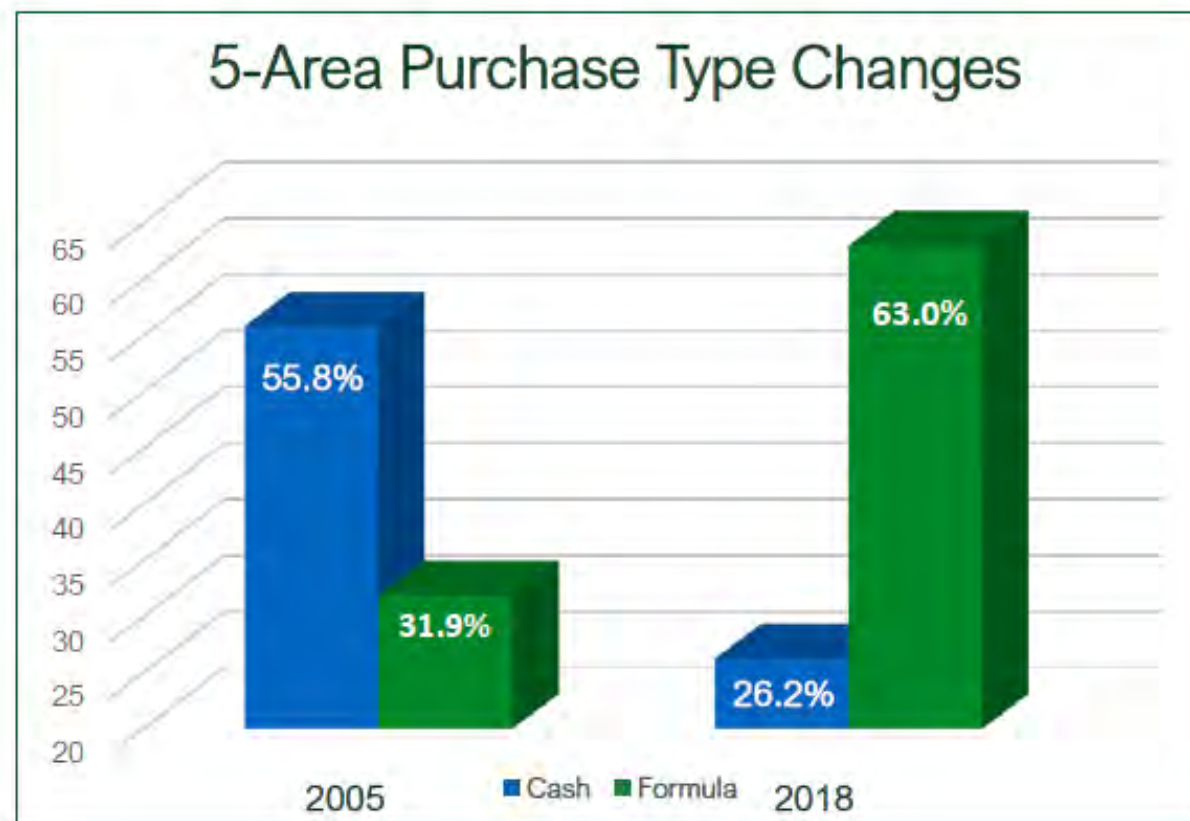
How we sell fed cattle

- Marketing methods has changed materially
- Reasons for the change
 - Efficiency
 - Relationships
 - Synergies...fed cattle sales, beef sales, feeder sales

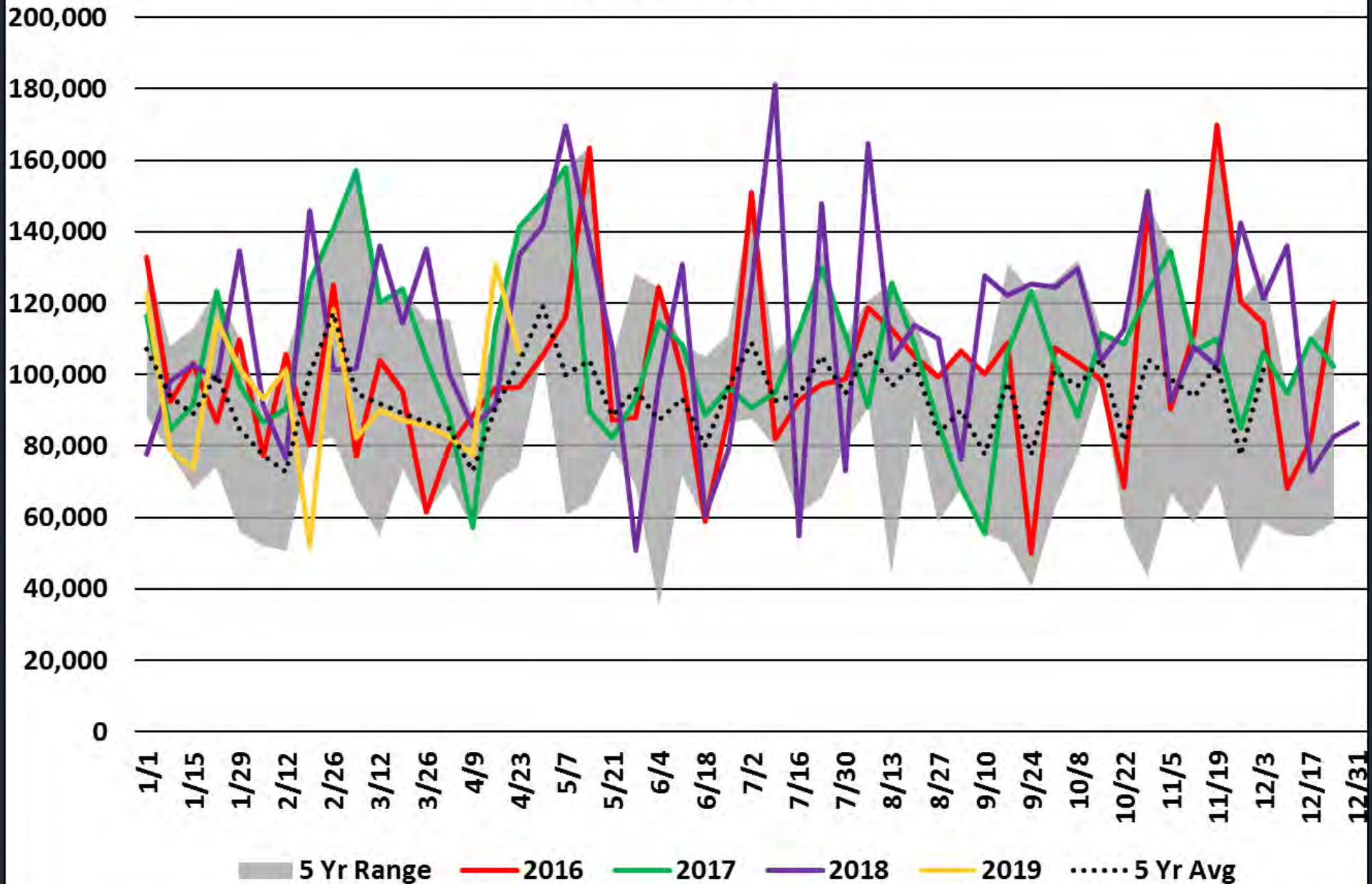
2018	National	5-Area	TX/OK/NM	KS	NE	IA
Negotiated	25.5%	26.1%	6.2%	19.3%	43.0%	57.1%
Formula	61.1%	64.2%	86.2%	76.4%	45.2%	22.3%
Forward Contract	9.6%	7.0%	4.9%	3.9%	8.5%	13.6%
Negotiated Grid	3.8%	2.7%	2.7%	0.4%	3.3%	7.0%

Shift in 5-area Purchase Types

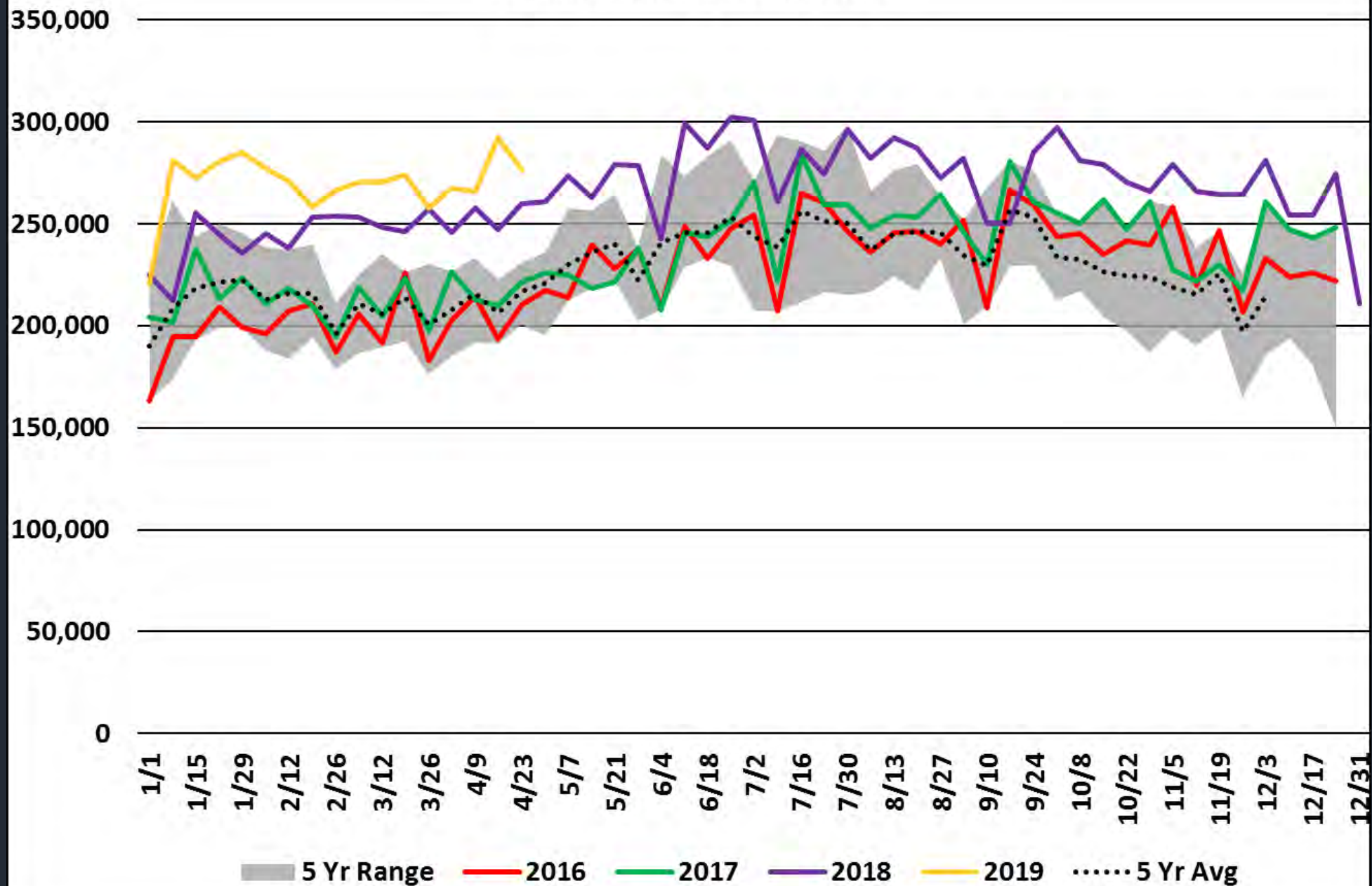
	2005	Jan - June 2018
Cash	55.8%	26.2%
Formula	31.9%	63.0%
Forward Contract	4.6%	8.1%
Negotiated Grid	7.7%	2.7%



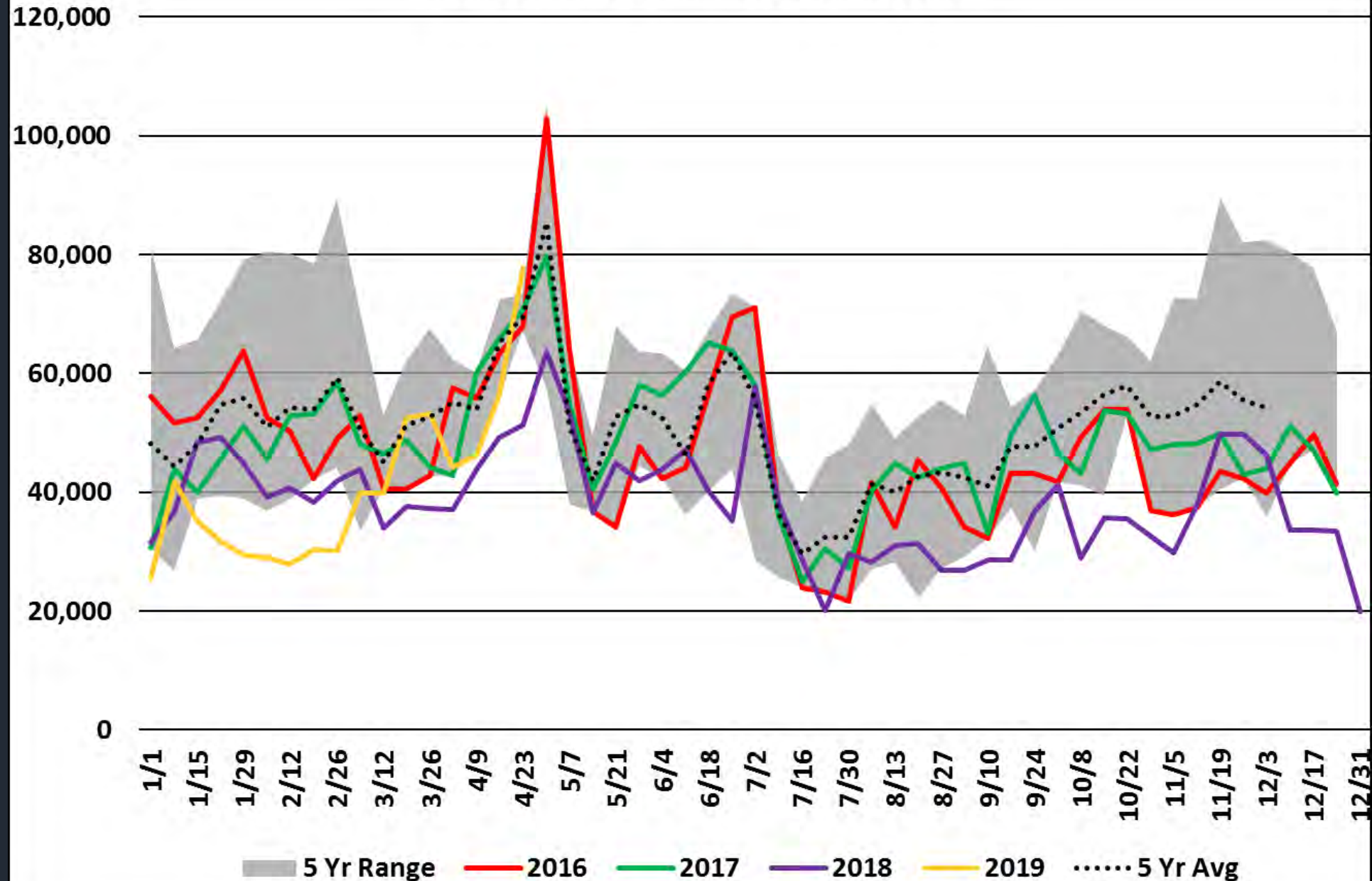
National Negotiated Volume, Hd



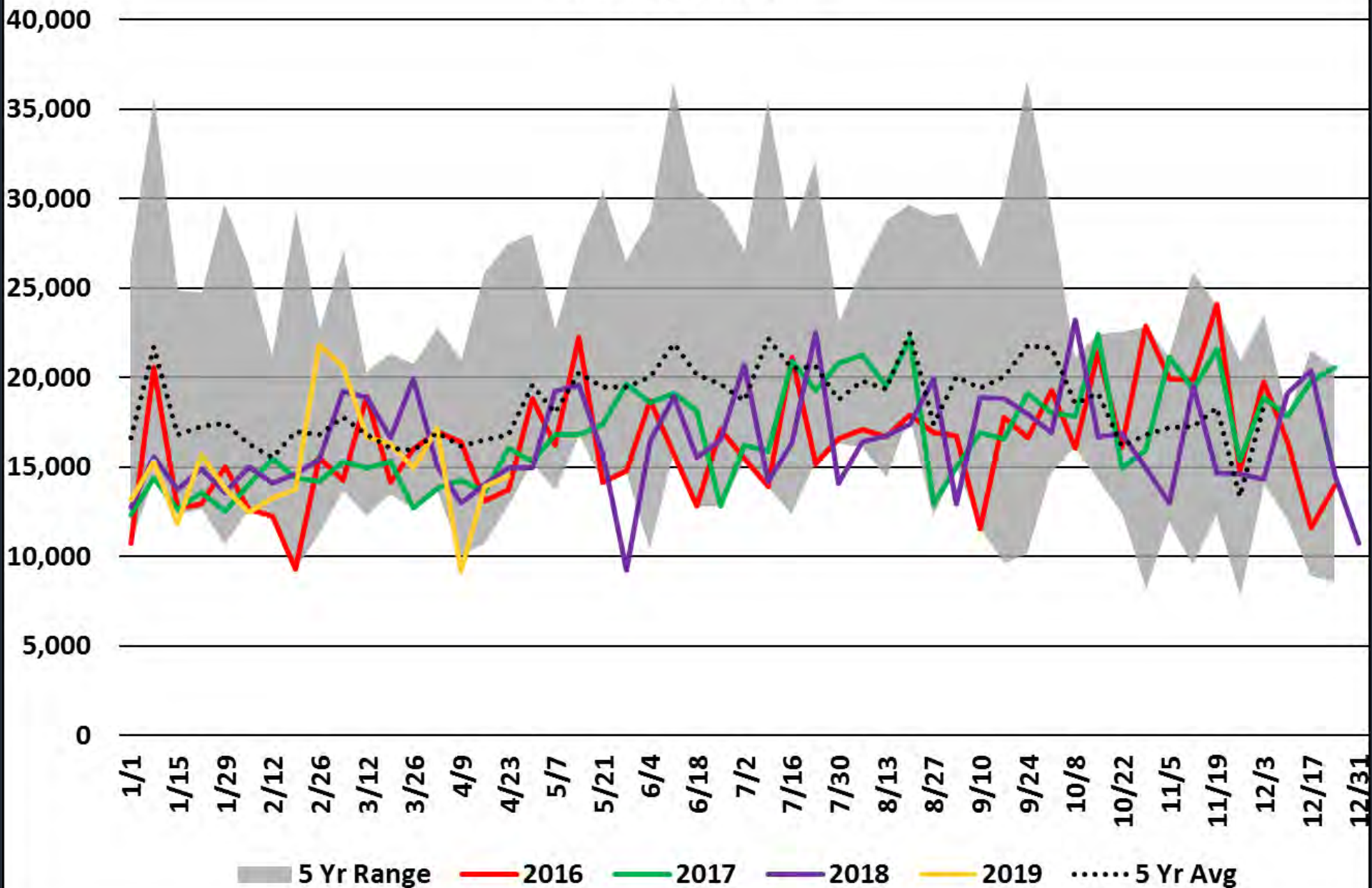
Total Formula Volume, Hd



Total Forward Contract Volume, Hd



Nat Neg. Grid Hd



What does this mean?

- The transition from negotiated trade has long been a point of contention within the beef industry
 - Current lawsuit
- The cattle and beef markets are both trending further in this direction...how will the cow/calf sector behave?
- Transparency does not have to suffer as a result
- Negotiating something is better than negotiating nothing at all

Feedyards – Recent Changes

Top 20 Feedyards

Rank	Feedyard	Rank	Feedyard
1	Five Rivers Cattle Feeding, LLC	11	Cattle Empire, LLC
2	Cactus Feeders	12	Tejas Feeding Group
3	Friona Industries, LP	13	Pinal Feeding Co.
4	Irsik & Doll Feed Services, Inc.	14	Harris Feeding Co.
5	Green Plains Cattle Company, LLC	15	Adams Land & Cattle, LLC
6	Foote Cattle Co.	16	Dinklage Feed Yard, Inc.
7	JR Simplot Co.	17	Bar-G Feedyard
8	Oppliger Feedyard, Inc.	18	Barrett-Crowfoot, Inc.
9	Innovative Livestock Services, Inc.	19	Agri Beef Co.
10	Gottsch Cattle Co.	20	Hitch Enterprises, Inc.

Changes in feedyard sector

- Largest packers divest themselves of cattle feeding
- Cattle feeding entities acquired by managed money/publicly traded companies
- The top end of the feedyards get larger through acquisitions of smaller private and corporate yards
- Large private yards increased size by adding bunk space
- Ag entities feeding cattle in a large way for the first time
- Losing some of the old guard

Changes in packing sector

- JBS
- National – Leucadia
- Harris Ranch Beef – Central Valley Meat
- CS Packers – Caviness/Simplot
- Caviness – Hereford
- Kane Beef – STX Beef

So...does it matter?

- Type and kind of cattle we buy
- When we buy, how we buy, aggressiveness or lack thereof
- Entering and exiting the business
- Core business, returns, shareholders or investors
- Interest rates

So how much will my calves bring?

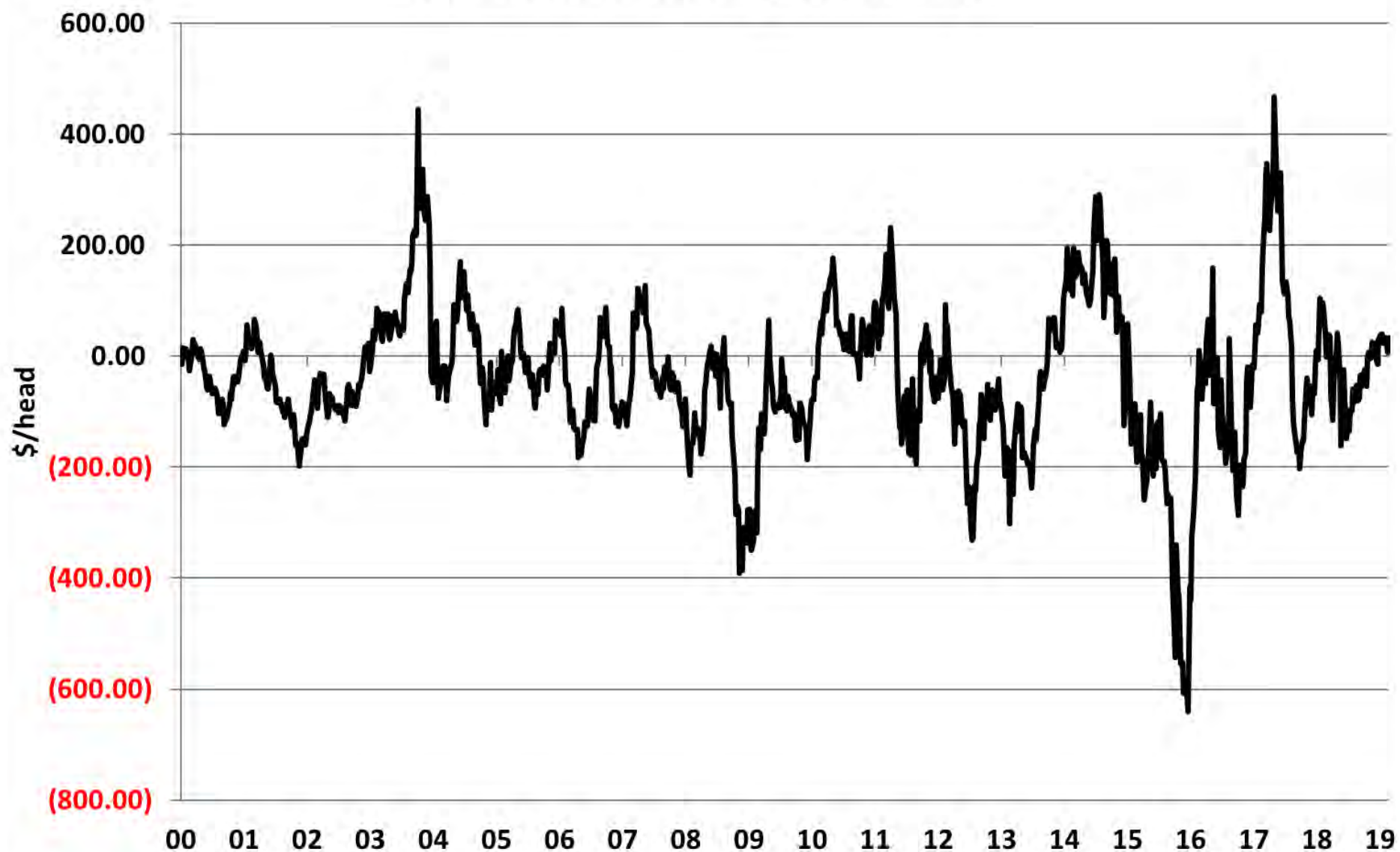
- Fed cattle prices
- Cost of gain
- Pen space
- Margin/Available capital
- Crush/Feeder-Fat spread
- Supply
- Optimism



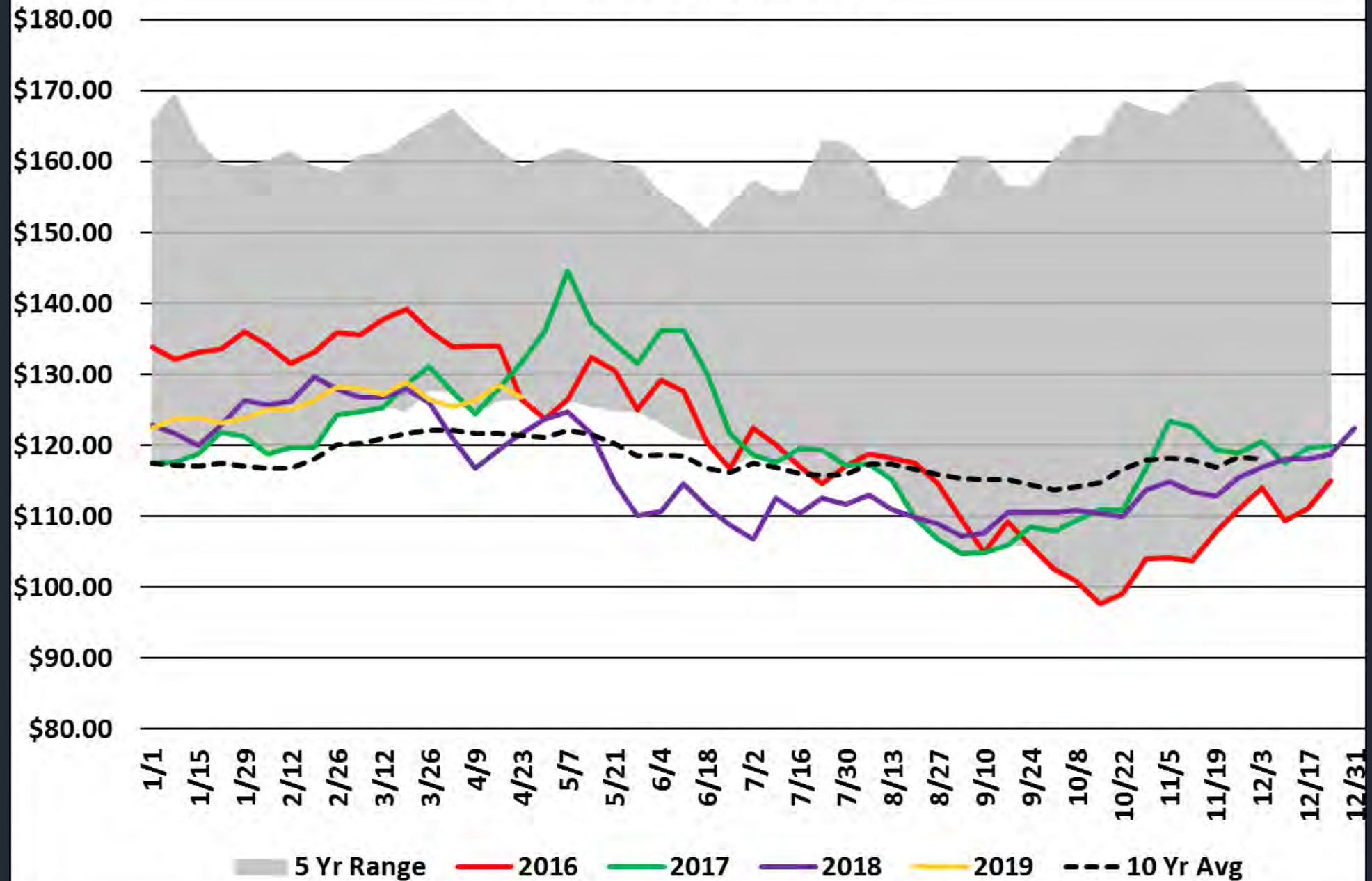
OPTIMISM

It doesn't matter if the glass is half full or half empty if you have a lot of glasses

Historical Cattle Feeding Profitability

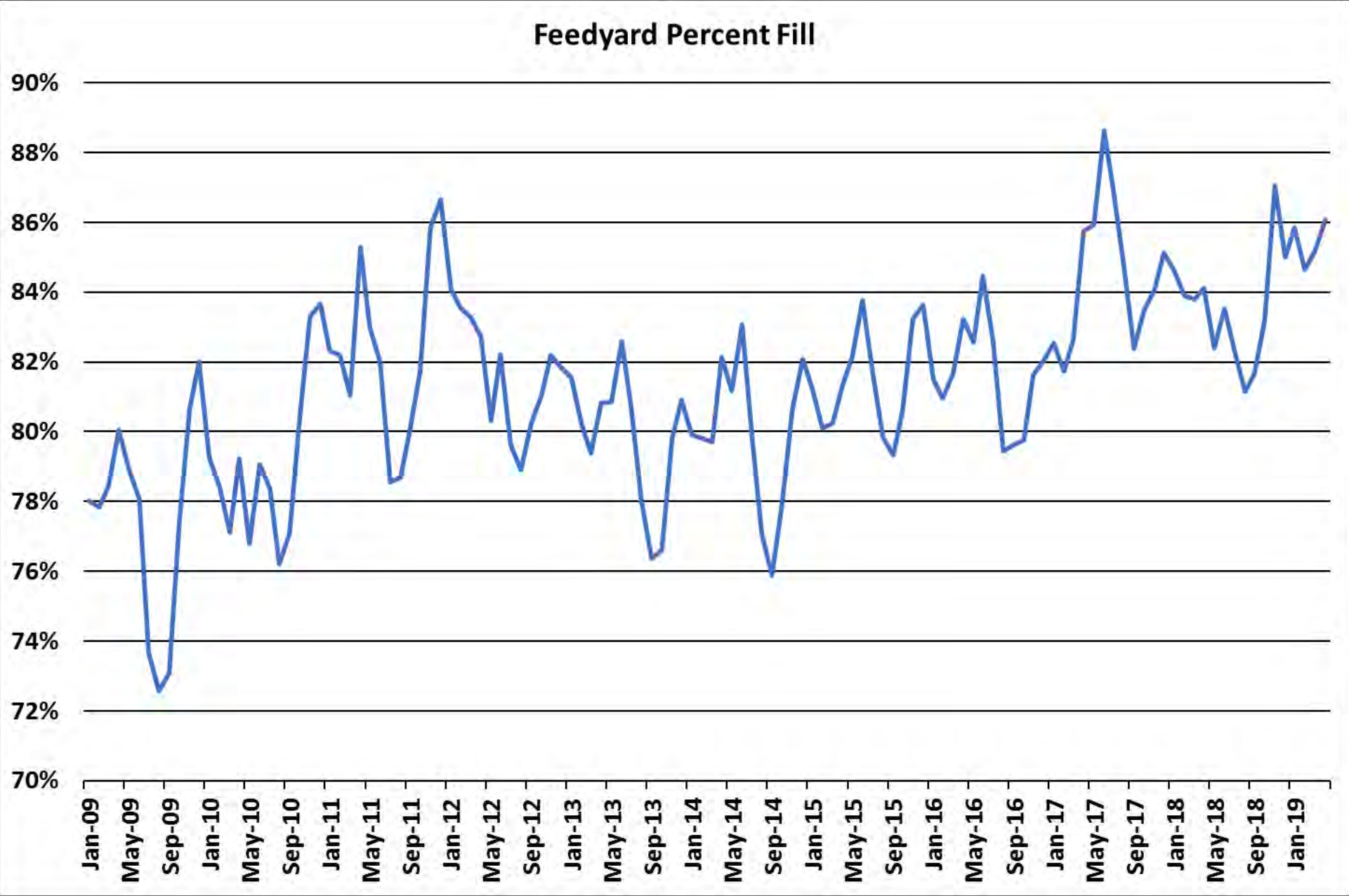


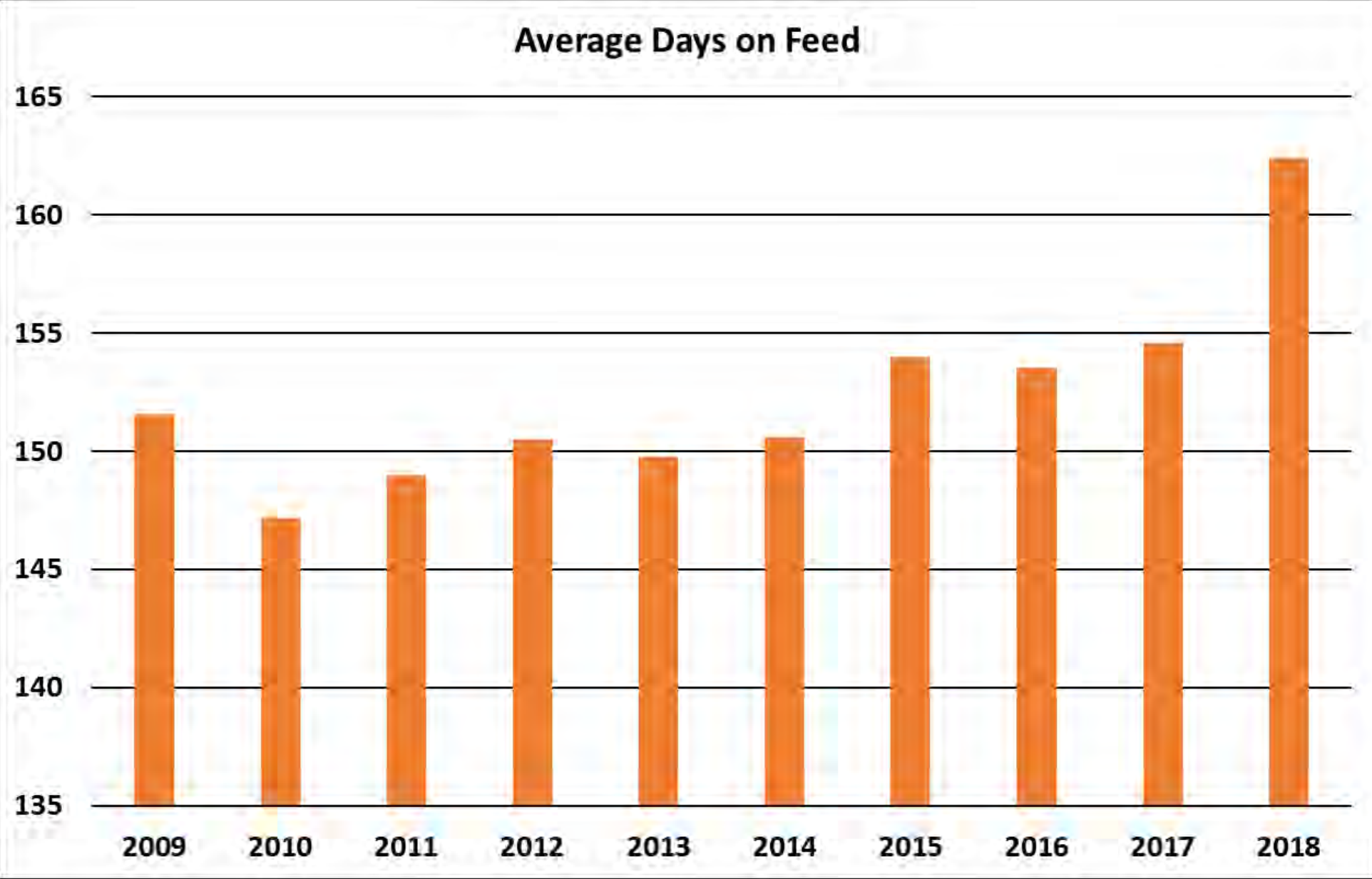
Nat Live Str Price, \$/CWT



Estimated COG

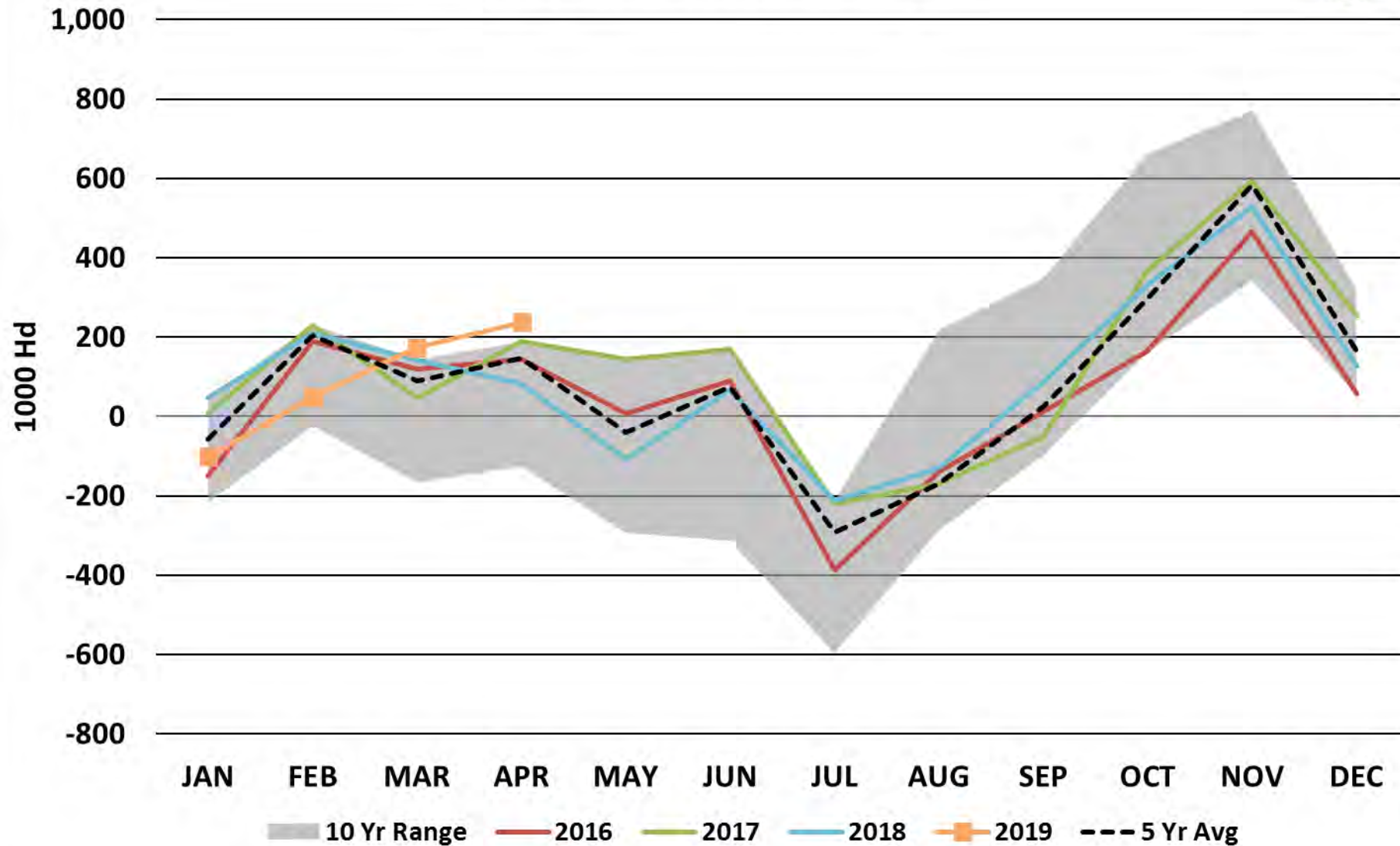


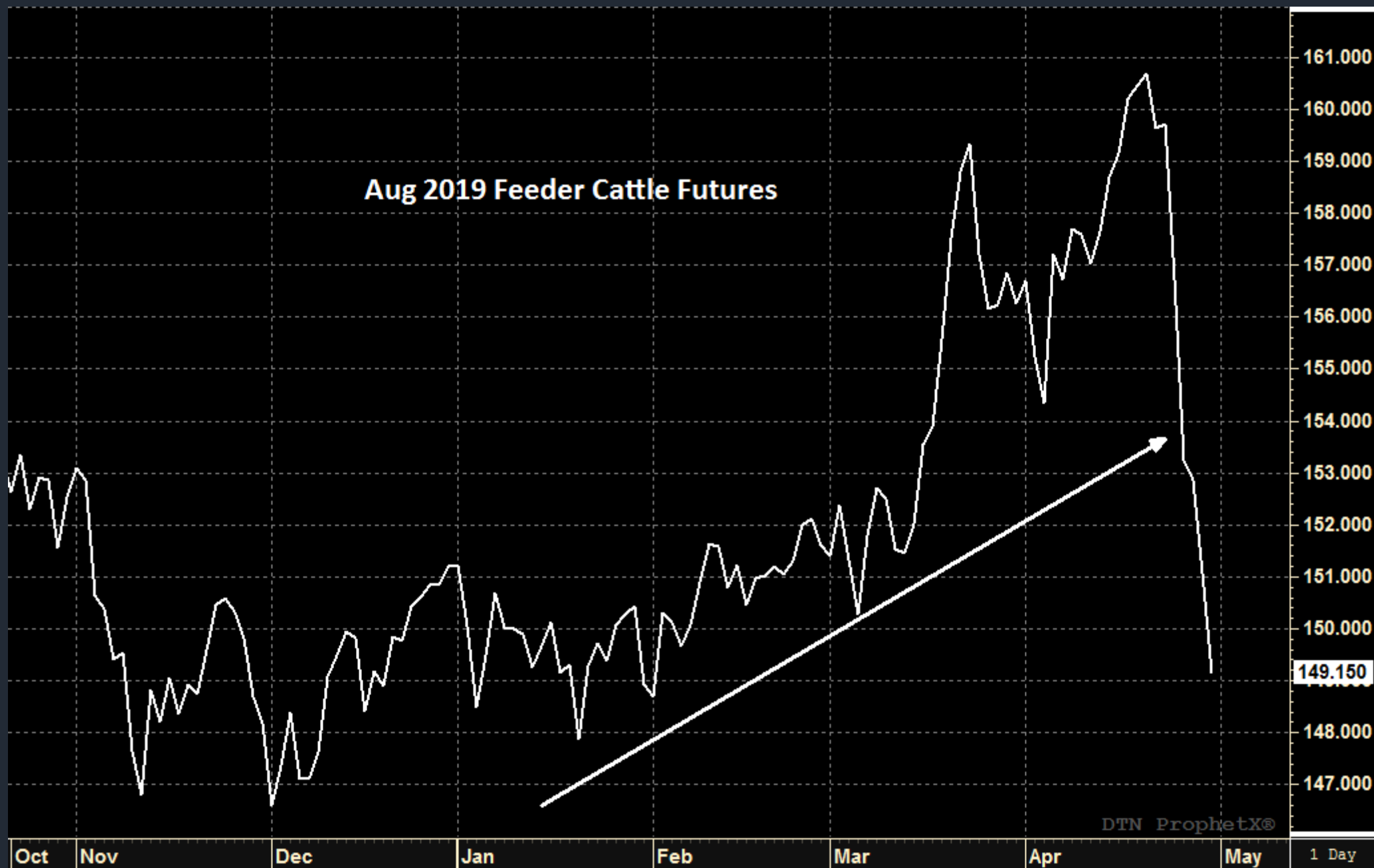




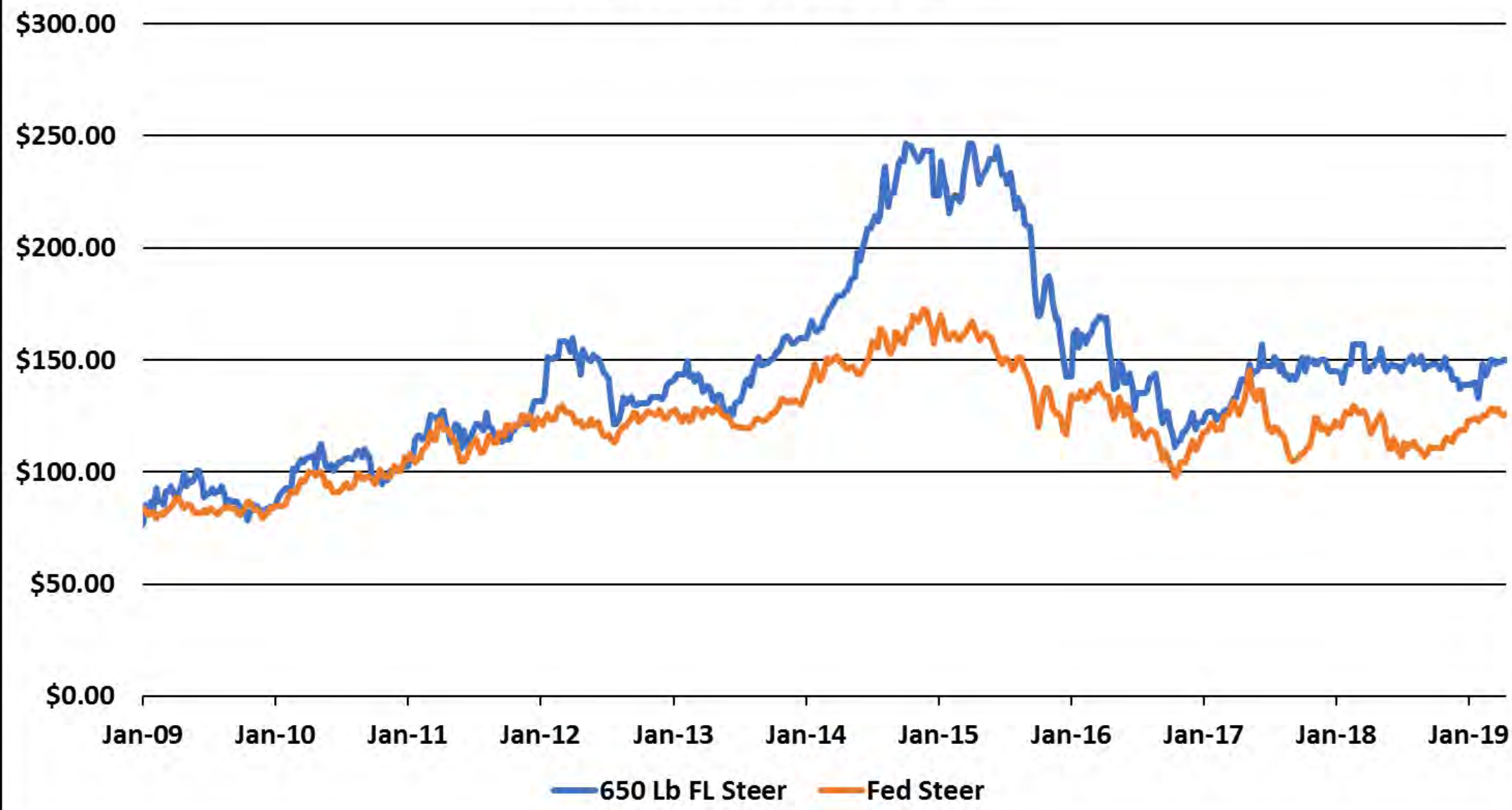
U.S. Placements-Marketings

ABC
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CORP.

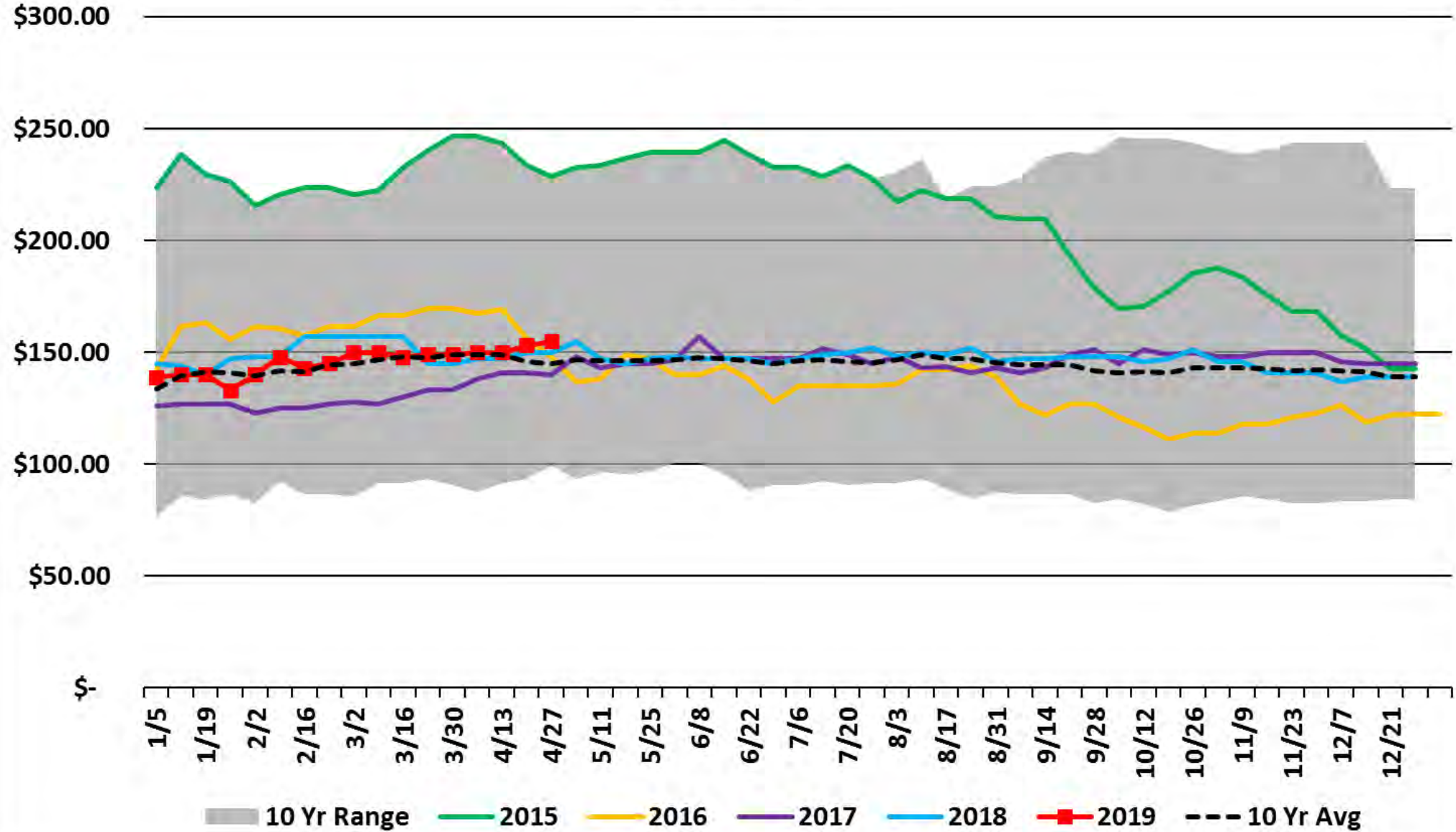




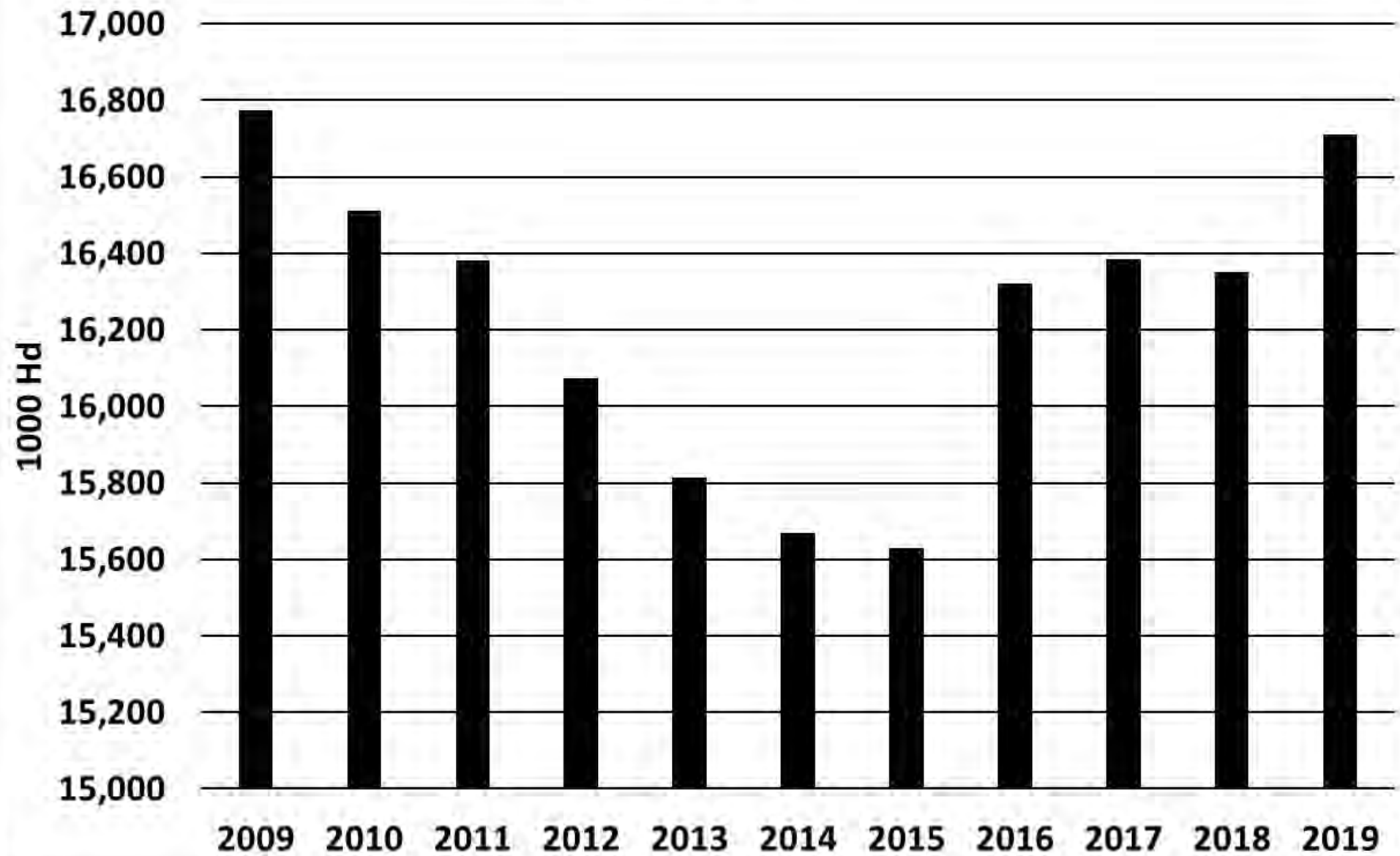
650 Lb FL Str Vs Fed Steer



650 Lb FL Str



Steers 500 lbs +



So I am saying...

- Avg spot August basis around -4.00
- Avg August 650 Lb FL Steer 147.00
- Aug 19 FC Futures 144.35 now
- Pen capacity should loosen
- Days on feed likely remains strong
- Optimism possibly remains high...
- Late Summer and early fall calf prices possibly lower than last year but similar to longer term averages

I will leave you with this

- High supply cycle
- Stable markets
- Margin compression for now but not forever
- Absolutely a heads up and eyes open setup



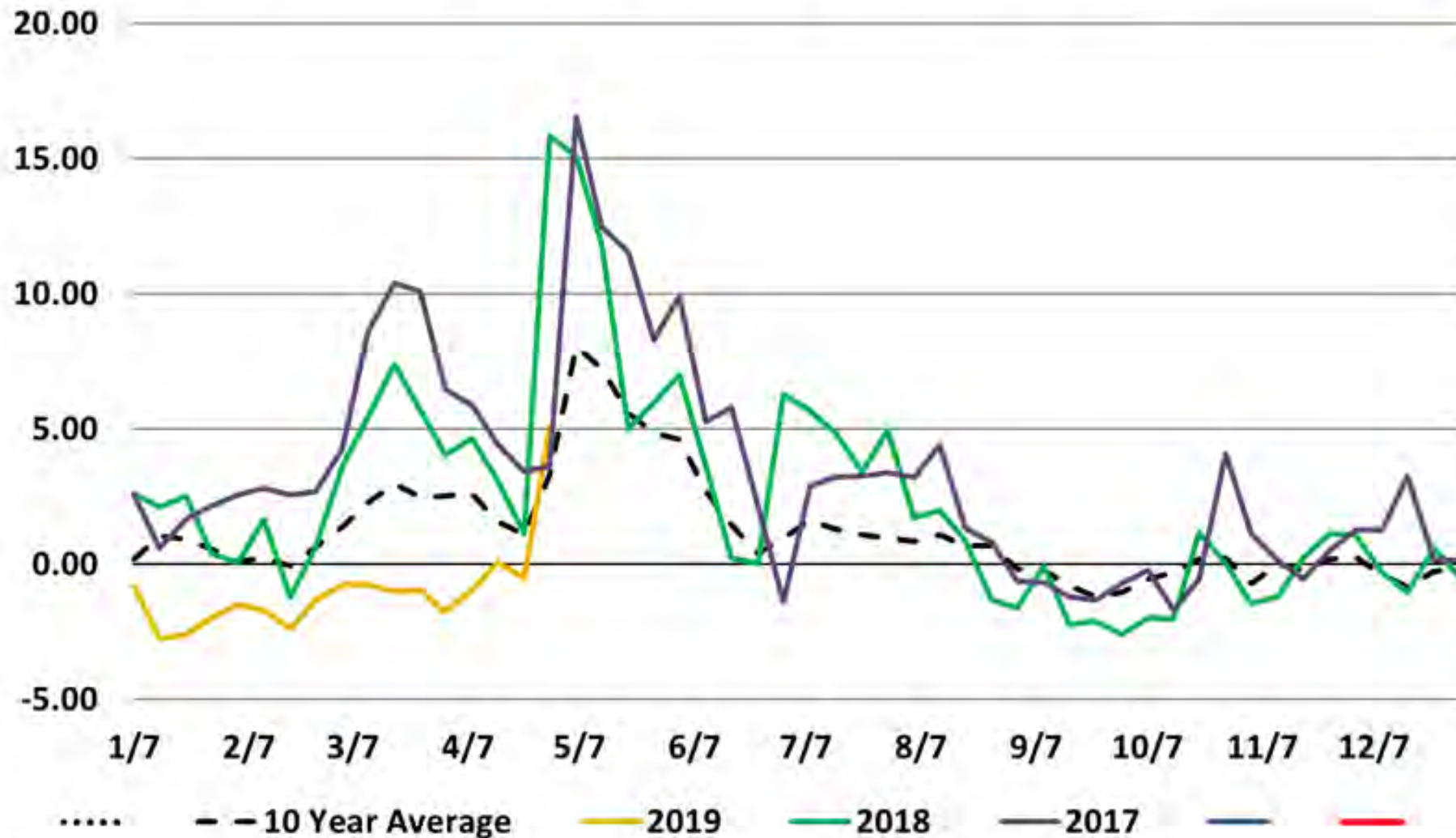
"He sez if we're so dang smart, how come we're always borrowin' HIS money to stay in business?"

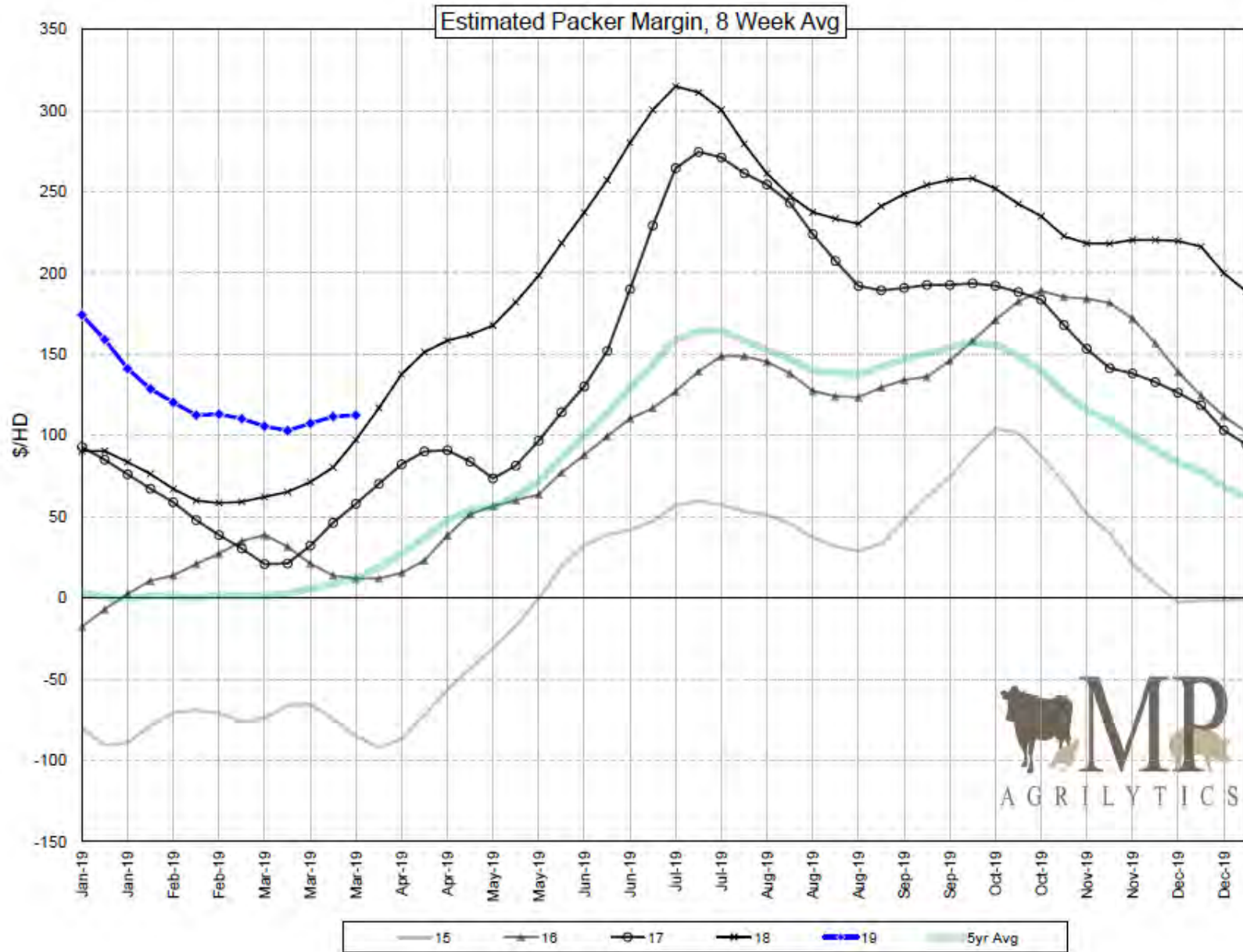
Thanks and Go Gators

Trey Warnock / trey@amarillobrokerage.com

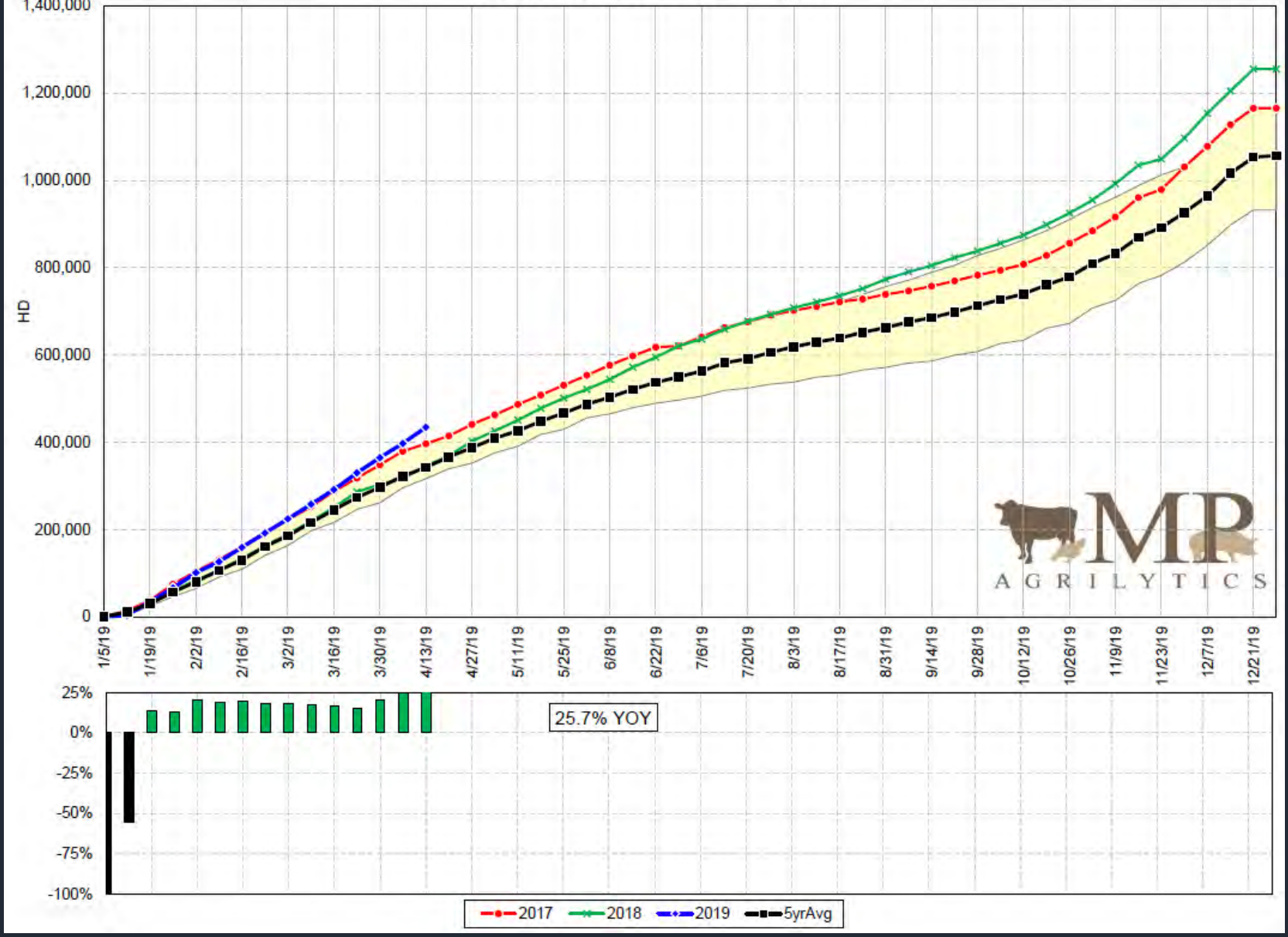
Random slides

January - December : 3 State Basis Average Prices

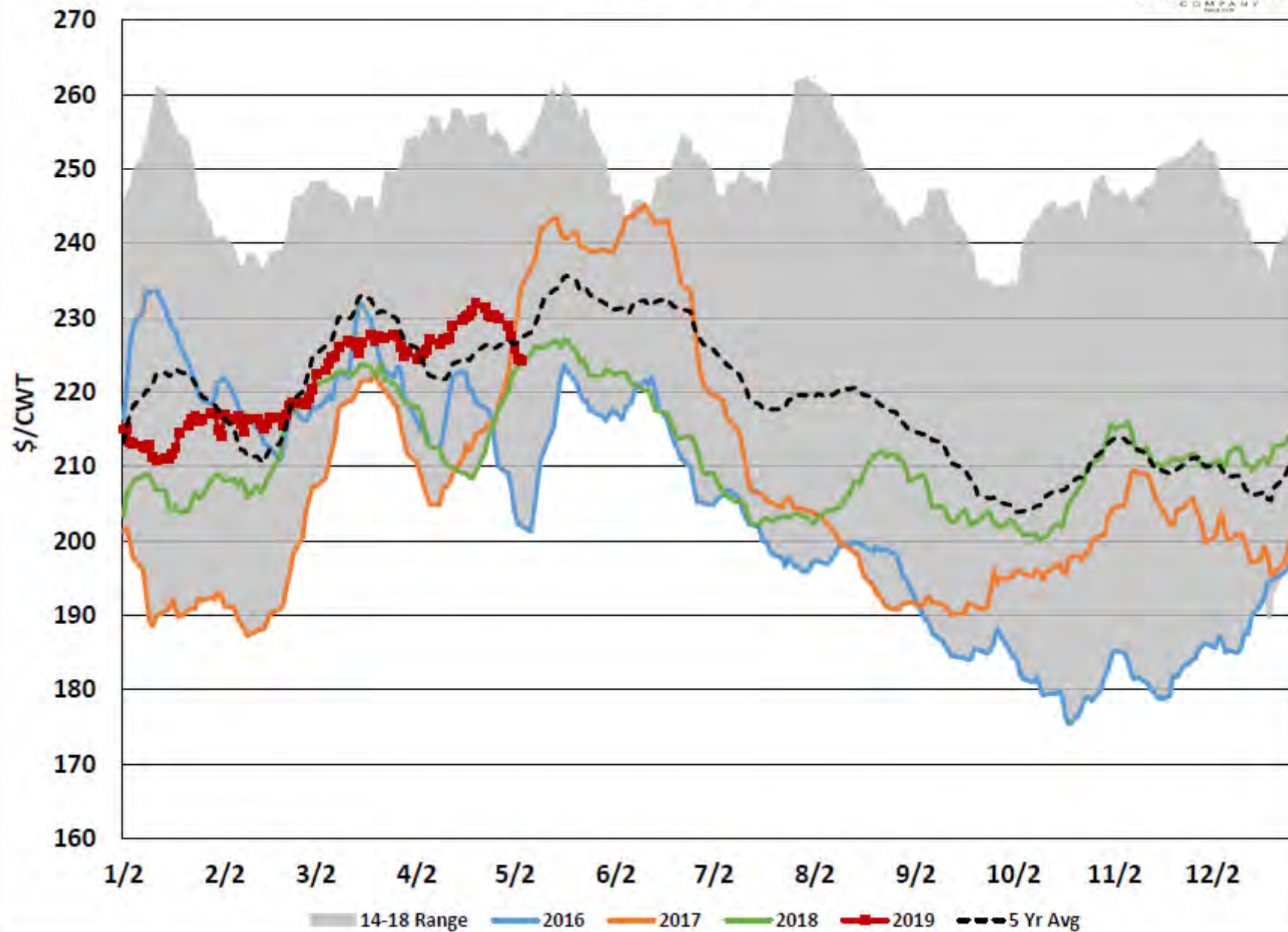




US Imports of Mexican Feeder Cattle, YTD



Blended Cutout



Summary, 4-25-2019						
	Current Wk	Year Ago	YOY	4-Wk Avg	YOY%	YTD YOY
Beef Sales	10,612	16,210	-35%	18,582	-3%	-12.5%
Beef Shipments	11,736	15,747	-25%	13,459	-13%	-20.8%
Pork Sales	16,098	17,437	-8%	40,639	95%	12.49%
Pork Shipments	26,442	26,314	0%	25,638	14%	-1.7%

Beef Shipments							
% Trade		Current Wk	Year Ago	YOY	4-Wk Avg	YOY%	YTD YOY
Japan	35%	4,067	5,197	-22%	4,401	-10%	-17.4%
Korea, Republic of	27%	3,172	3,806	-17%	3,757	-7%	-15.6%
Hong Kong	5%	622	1,507	-59%	870	-40%	-51.2%
Mexico	11%	1,255	1,972	-36%	1,357	-28%	-16.2%
Canada	5%	529	981	-46%	688	-41%	-32.3%

Pork Shipments							
	% Trade	Current Wk	Year Ago	YOY	4-Wk Avg	YOY%	YTD YOY
Mexico	26%	6,766	9,965	-32%	6,343	-25%	-18.7%
Japan	10%	2,666	3,474	-23%	2,504	-21%	-31.6%
Korea, Republic of	14%	3,575	3,997	-11%	3,834	-8%	-20.9%
China	17%	4,377	822	432%	4,354	380%	215.4%
Canada	7%	1,842	2,028	-9%	1,710	4%	-8.6%

*** Stated in Metric Tons

