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**THE PORK AMERICA INITIATIVE:
LOOKING BEYOND LIVE HOG SALES**

Jim Lewis, Director
Pork America

Pork America is a national cooperative, formed by and for independent pork producers who wanted to create a better future for their families and their rural communities. These producers represent hog operations of all sizes. They are often referred to as “independent” producers or operators of “family-owned” hog farms. What makes them unique is that they are men and women who bear the significant financial burden and risk of hog ownership, but are not in the slaughter business.

I am one of the producers who helped launch Pork America and I’m here to give you a glimpse into the future of the pork industry. This is a future that we believe is being defined by Pork America today. It is truly a unique initiative that is designed to help producers be successful in ways that extend far beyond hog sales.

In the next few minutes I will review some of the events leading to the formation of Pork America, its structure and strategies, and where we go from here. When finished, I hope you will agree that pork producers have great opportunities ahead and that we have a solid plan to capture them.

To understand Pork America it is important to understand the industry and marketplace trends that led to its development. Most of you here know that live hog prices took a dramatic dive in 1998-99 when prices dropped to levels lower than those seen even in the Great Depression. Ron Plain, a noted economist from Missouri, estimates that producers lost \$4 to \$5 billion in equity. Many were driven from the business. Those that survived were left to face a market landscape vastly different than the one they came to expect over the previous two decades. There are many factors that led to this

change. Two important ones are 1) reduced slaughter capacity and 2) the explosion of packer marketing contracts.

An inverse relationship formed between slaughter capacity utilization and hog prices in the late 90's. In the fall of 1998, due in part to the closing of the Thorn Apple Valley plant late that summer and a Canadian labor strike that sent thousands of Canadian hogs into the U.S., capacity utilization reached record highs at a time when we produced a record number of hogs.

This combination proved deadly for prices, particularly with the majority of hogs being delivered under packer contracts. These contracts were designed to help the packer stabilize his hog supply and help the producer reduce price risk. The result, however, has been the loss of a meaningful spot market for establishing fair market value for hogs, and this thin spot market is often the basis for determining hog values under packer contracts.

Neither of these situations has changed. I heard a forecast recently that we may produce 104 million hogs next year, two million more than in 1998. The future of commodity hog production does not look bright. Decades of predictable production and profit returns from cash hog markets are now a memory.

Yet, demand trends tell a very different story. We have increased demand in the domestic market. Retail prices set record highs the first seven months of 2000. We became a net exporter of pork in 1995 for the first time since the early 50's and have grown in tonnage every year since. Clearly people want what we produce.

Out of this contradiction of rising demand and lower producer prices emerged Pork America, a business that was formed as a result of recommendations from a National Pork Producer Council task force charged with investigating opportunities in the pork chain for producers beyond the live hog market. With the help of USDA Cooperative Services funds, SJH, a food industry consulting company, conducted a feasibility study for the task force. Principle, Don Senechel, summed up the results of their work by saying, "This plan has more upside potential than any other plan SJH has

worked on”. After considerable study the task force determined that opportunities do exist for those able to deliver high-quality, consistent pork products – not HOGS. To survive and go on to succeed would require pork producers to reinvent themselves, their products and/or their approach to doing business.

With significant money being made up the channel at the growing expense of hog farmers, it was time to radically change the industry for pork producers who have consistently carried nearly 80% of the capital costs of this industry on their backs. By going up the “value chain”, producers could take advantage of the profits others were enjoying. But, that was and is a totally new concept for hog farmers to understand and accept.

When we at Pork America talk about the value chain to our producers, we like to say that every time you put a knife in pork the value goes up. When value goes up, so does the profit margin. If producers participate in that process, we can capture those profits. In 1998 the average cash value of a live hog was \$80. When sold at retail, that same pig was worth nearly \$400 in meat products. Pork America is specifically designed to get as close to consumers as possible where value multiplies profit margins! Going after those profits isn’t easy and isn’t without some risk. But, as shareholders, our producers have agreed to share in the risks in order to reap the rewards of a cooperative value-added enterprise.

The concept of accepting calculated risk is an important one. It is the price of forward motion and success and our shareholders accept that. We recognize that as producers we aren’t experts beyond the sale of live hogs. We take great pains to clearly define and continuously revisit our weaknesses to ensure that we identify the skills, people, expertise and information we need to diligently evaluate and complete any and all business strategies, plans and deals. We will be vigil in keeping the quality of our company as we develop. And, that means we will always seek to hire and/or align ourselves with people who have vision, passion and knowledge, as well as well-planned, new

ideas for entry into the pork meat sector. It is both a requirement of success and a responsibility we owe to our shareholders.

The keys to success in these types of ventures come from good management, a thorough understanding of the industry, and significant control of at least one vital aspect of the business. For Pork America, that one vital resource is the control of millions of pigs - regionally through our linked local groups, and nationally under Pork America's umbrella. The beauty of the umbrella concept is that the organization provides a seamless transfer and sharing of information, resources, and support to help all producer shareholder ventures to succeed and enhance each other without competing with each other.

Pork America is not alone, but it is unique to the pork industry. There are examples of successful new generation producer cooperatives operating in other commodities. For example, in North Dakota, 1,100 member wheat growers formed Dakota Growers Pasta Company in 1992 and is now the third largest pasta producer in North America. Equity shareholders in the company have seen continuous stock appreciation and they are paid market price for the wheat they grow and deliver to the plant. Over the last five years, they have been paid dividends as high as \$1.00/share. The plant was originally designed to grind 3 million bushels of durum wheat. It now grinds 12 million bushels to produce 450 million pounds of pasta annually. The pasta is sold in foodservice and ingredient channels as well at retail under Dakota Growers' own brand and as private labeled brands.

Other pork initiatives are forming but none incorporate all three of the vital tenants of building a successful business today which include: 1) being driven by customer relationships and consumer value; 2) being shareholder designed and directed and accountable; and 3) being profit-focused.

Business must be built equally on CUSTOMER RELATIONSHIPS AND CONSUMER VALUE to succeed today. Relationships exist when suppliers and buyers define and meet mutual expectations. Success comes to those who exceed those expectations. These relationships are based on the trust that you will deliver on time, every time, as agreed. Trust turns relationships into

sustainable commitments able to withstand economic setbacks and marketplace interruptions. Trust is the key asset to being successful in a relationship-based business environment and studies show trustworthiness is an asset that is naturally attributed to farmers.

If hog producers can be trusted to deliver quality, consistent product to customers and markets whose needs are currently not being met, they have a solid foundation to build on. And, we know there are customers who do have unmet needs. As markets globalize, ethnic and specialty markets are sprouting everywhere. The first company to meet these value-driven gaps with value-based products and services takes home the profits. For example, we know of a meat processor who told us he couldn't improve the quality of his products without being able to secure a supply of meat that was consistently high in quality. Price was not an issue for him. It's all about value. Providing value boils down to a simple, fundamental formula. Quality + Consistency + Trust + Service = Value. The higher the value, the higher the premium, the higher the profit margin.

Second, it's a PRODUCER SHAREHOLDER DESIGNED AND DIRECTED organization. The critical link between creating value and capturing profits is the producer shareholder. Pork America shareholders not only share in the risk and the profits that come with that investment, they share in designing how marketplace needs are going to be met. And, maybe most importantly to our consumers, they agree to be accountable for helping to meet those needs with environmental integrity and high standards for farm operations as well as product quality. Quality starts on-farm. Sustained profits can only come from sustained quality inputs. Producers know that more than anyone else.

Third, its focus is to BRING PROFITS BACK TO SHAREHOLDERS. Pork America is designed so that producer shareholders have a wide range of option to participate in this value-driven business. By sharing the risks, they minimize them. By voting and participating as shareholders they direct the company and steer its decision-making. And, by investing in Pork America business ventures, they can build equity in their futures and the futures of their rural communities.

While the model and the concept are fairly straightforward and logical, getting shareholders to stop thinking like hog farmers and to begin thinking like competitors in the pork business is revolutionary, to say the least. Even more daunting, was to convince producers that they had the resources to compete in the pork business. That's where Pork America comes in. Before we existed, producers didn't have the size, scale, expertise, meat business relationships and dollars to consider doing business this way. Now, together, they are able to unite and reinvent the way they do business with the support and skills to succeed.... to THRIVE, not just SURVIVE.

The Pork America model is in place and on track. Significant work has been done over the last 12 months to put the expertise, relationships and support in place to get the job done. Looking out over the next 12 months, we expect to hit 3 major milestones.

First, we plan to operate a proof of concept plant. We are looking for a small, existing facility to buy and run as sort of an "incubator" that helps us demonstrate we can meet customer needs. We need to have product to "show to sell" and a place to get that done. With this plant, we will also be able to conduct research and development, as well as generate valuable production and processing information to achieve product consistency and quality. And finally, it will be a revenue and profit generator to help attract more shareholders to build our business. The plant will be small but it will be an important first step in entering the meat business.

Second, we are looking at operating a full-scale, state of the art processing plant. We are moving forward to identify the best way of owning and operating our own facility to convert proof-of-concept ideas into full-scale businesses. While this is a very real option, we have made it clear that we will not secure a site until we have a significant portion of the meat sold up front.

Lastly, we will negotiate partnerships, joint ventures and co-marketing relationships. Because our goal is to move as close to consumers as we can, working with others may be the most efficient way to get there. There are retailers and processors who can't get the products they need to meet customer expectations. As a result, they are losing sales. They now see alliances with producers as

beneficial, recognizing that the producer holds the key to meeting and delivering supply and value expectations. We can create win-win relationships with businesses with the same philosophy.

Extensive research and development provided by USDA and several noted industry consultants have helped us define the strategic direction Pork America must take to make it successful. A critical element to being successful is our ability to control, participate in, drive or create pork food activities on a very significant scale at the top tier of the industry. That challenge is great, but achievable. To accomplish these goals we will need to work in partnership with private and public sector groups to secure the funds and the expertise to fully develop these goals. Funds from a cooperative agreement between NPPC and USDA have been vital to get Pork America where it is today. Congress has authorized additional funds for efforts like this. These funds can be extremely important to the success of industry-changing businesses like ours. We're not looking for handouts, but rather a hand up to develop businesses that offer real, sustainable, and long-term solutions to the problems facing agriculture today. We hope you agree and support these initiatives.

There are many who want to see producers succeed. The very future of agribusiness and what we call the "family farm" is at stake. We see the need as CRITICAL, the time frame as IMMEDIATE. The benefit of building a solid foundation for producers to thrive and grow in the future has far-reaching benefits to society, to our communities, to consumers, to agriculture and every segment of industry in the U.S.

In summary, I want to emphasize there is enough evidence to support the fact that commodity suppliers can ONLY compete on price. Producers can no longer produce their way to profits. If they raise more, they won't have more. To revolutionize the industry meant we had to revolutionize our thinking. By combining and unifying our resources under one banner designed for and by producers, we can successfully move up the food marketing chain to access the profits generated by value. And when we do that, we will have reinvented the future for hog farmers who want to compete and profit in the meat business as shareholders in Pork America. We aren't out to FIX the pork industry for

producers. We are out to take advantage of the pork industry only for our shareholders. We could not have come this far without USDA support. And, we know it will take their continued support as well as the backing of policy-makers and regulators to help us succeed. With the help of all of those who believe the American producer and his role in our country's future, we will succeed in helping producers own and direct their future.

We know we are on the right track to helping our producers when we hear them say, "if not Pork America, who? If not now, when,"



PORK AMERICA

The logo features the words "PORK" and "AMERICA" in white, uppercase, sans-serif font. "PORK" is set against a dark blue background, while "AMERICA" is set against a red background. A white five-pointed star is positioned above the letter "A" in "AMERICA". The entire logo is contained within a white rectangular box with a thin black border, which is centered on a solid blue background.

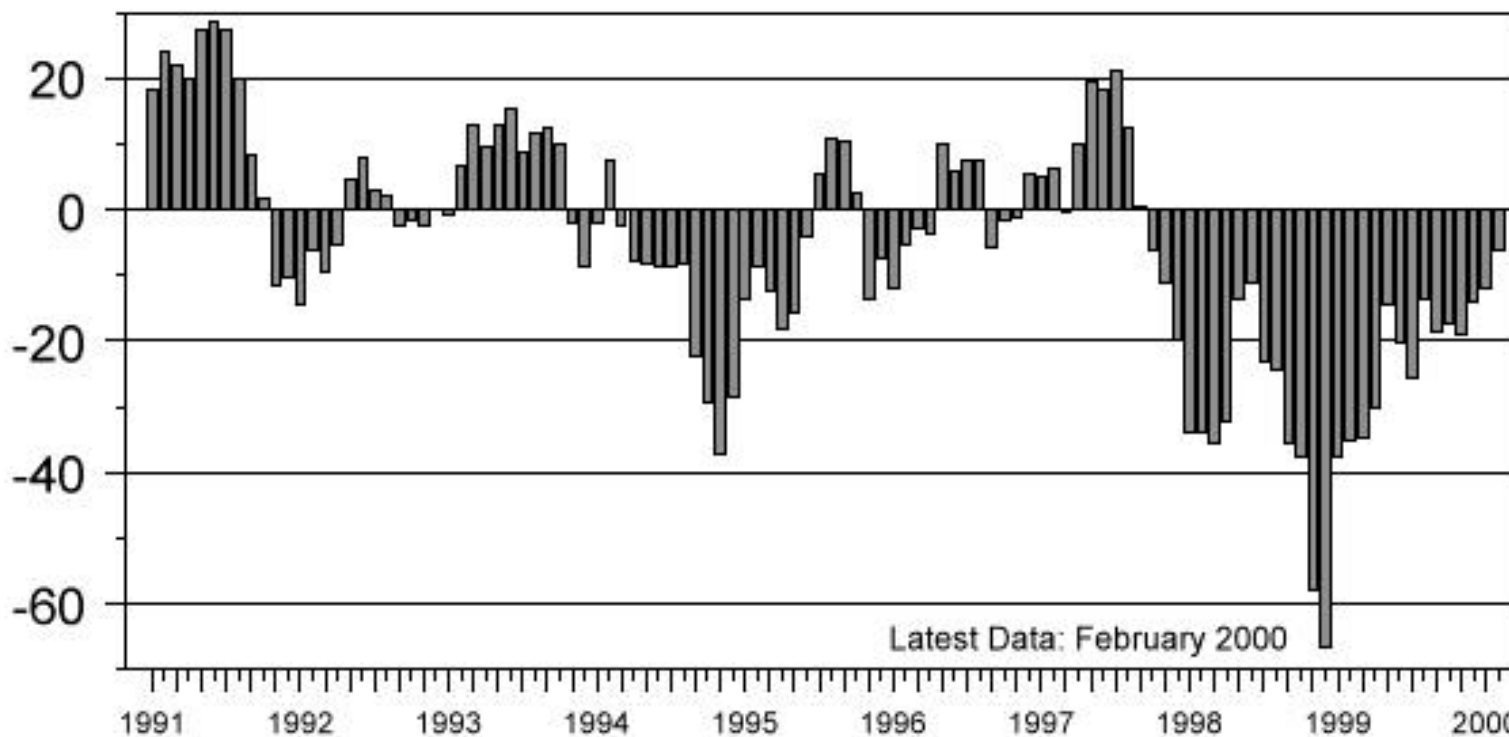
Two years of losses: \$4 - \$5 billion in equity



MONTHLY AVERAGE RETURNS -- HOGS

Farrow/Finish

\$ Per Head



Latest Data: February 2000

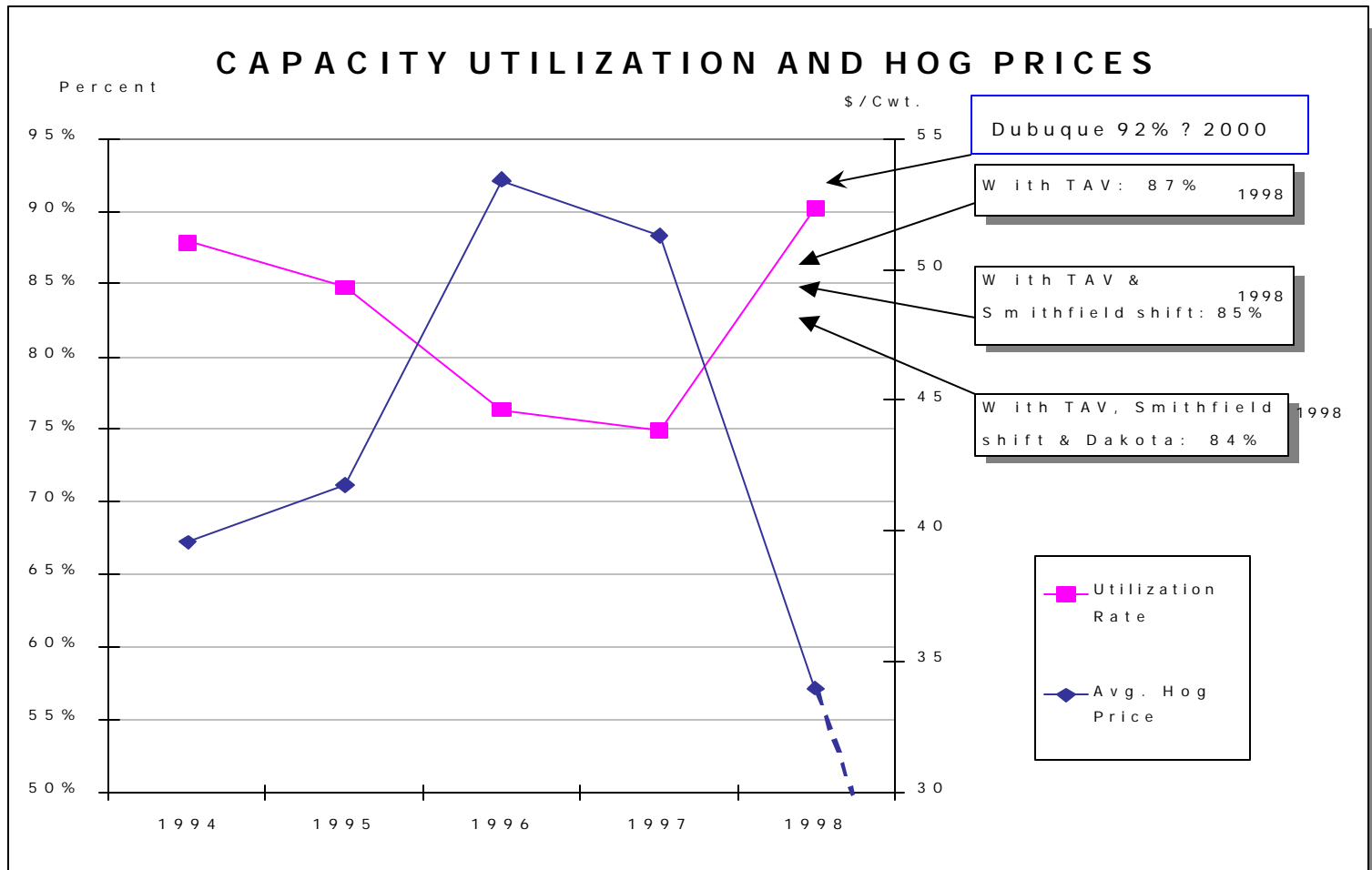
H-P-05

03/13/2000

Livestock Marketing Information Center

USDA

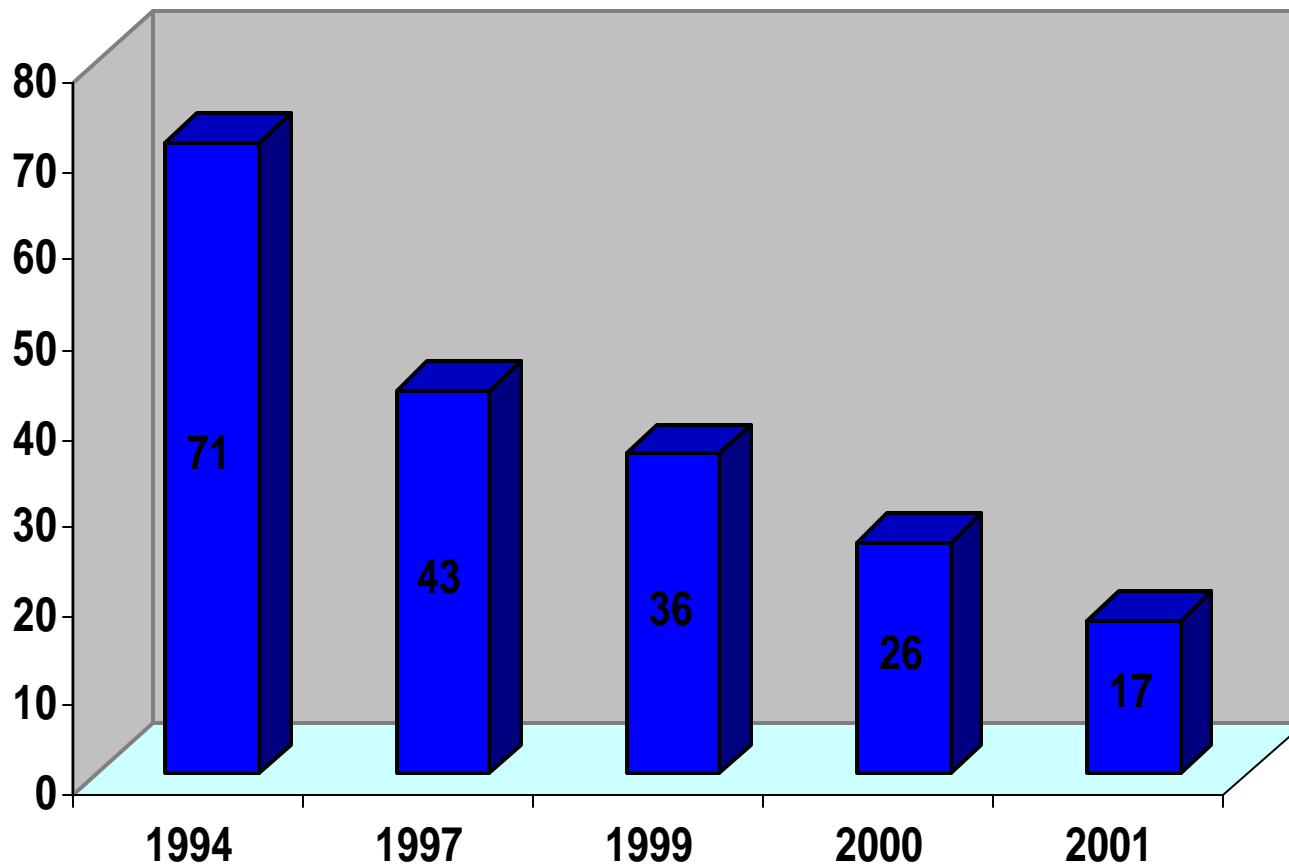
Inverse relationship: Prices & Utilization



Dramatic Increase in Packer Contracts



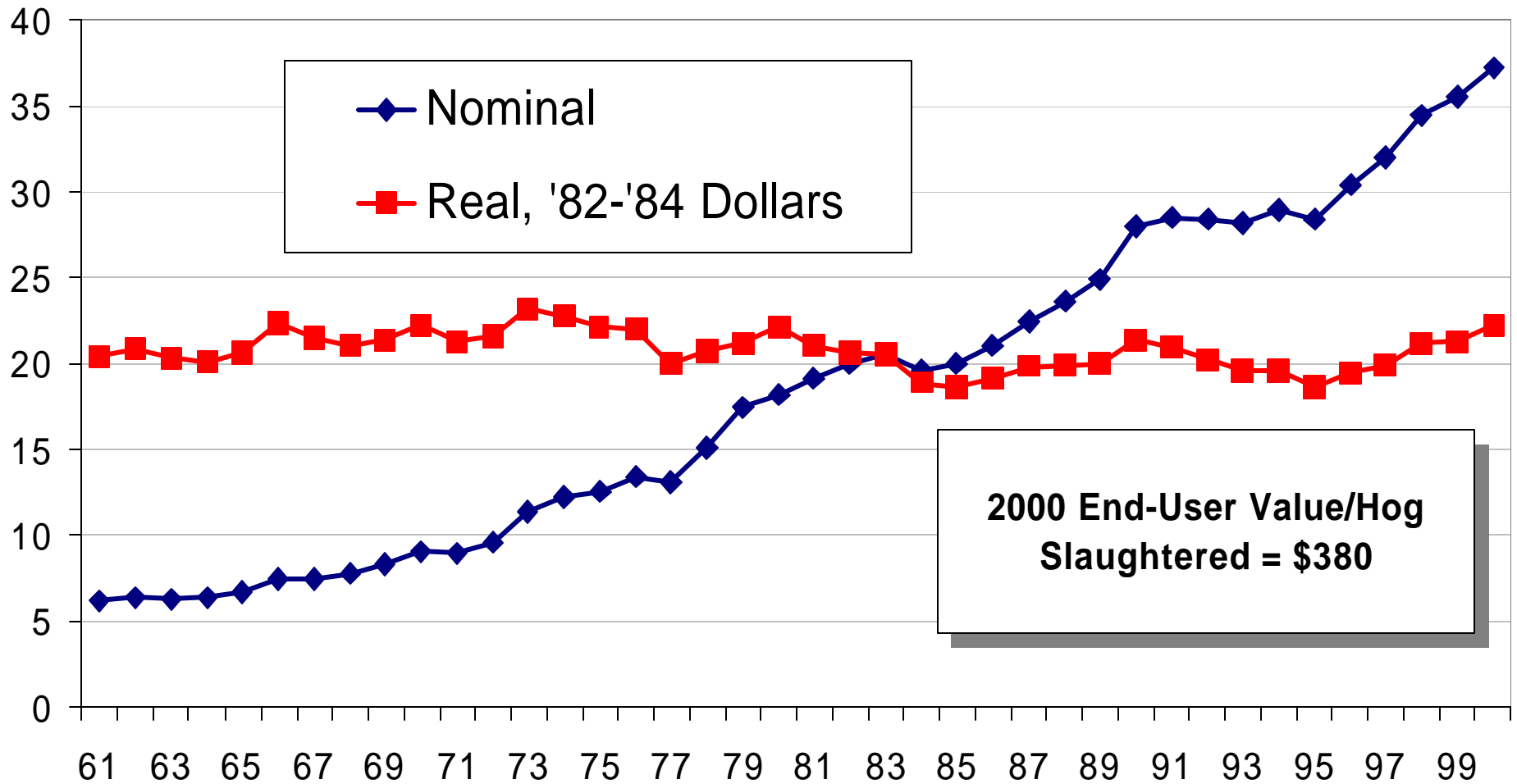
Percent of Hogs Sold On Spot Market



Value of Domestic Pork Consumption 1961-2000



Bil. dollars



2000 End-User Value/Hog Slaughtered = \$380

Computed from USDA data on domestic pork consumption (converted from carcass to retail weight) times USDA's composite retail pork price. Deflated using CPI for all goods.

The Situation



Key Trends

- Increased pork demand
- More extreme price volatility
- Increase in captive supply
- Expansion of vertically aligned systems
- Decreased slaughter capacity
- Reduced share of consumer pork dollar

Bottom Line



Potential Options

- Enter into production contracts
- Sign marketing agreement with packer
- Liquidate or lease facilities
- Do nothing
- Get involved in further up the pork chain

Opportunities Exist in Pork



- NPPC Task Force
- Steering Committee
- Pork America Incorporated as a Cooperative

Pork America Mission



The Mission of Pork America is to provide leadership in capitalizing on profitable pork merchandising opportunities by innovating a knowledge-driven, consumer-responsive system that seamlessly connects producer decisions with consumer demands and results in increased value for our producer-owners.

Recommendation / SJH



- Be market driven: Move quickly
- Think BIG
- “This plan has more upside potential than any other plan SJH has worked on.”

--Don Senechal, SJH

Keys to Success



- Good People- management, consultants, staff
- Understanding the industry
- Control of at least 1 vital aspect of the industry
 - Pigs: regionally, nationally



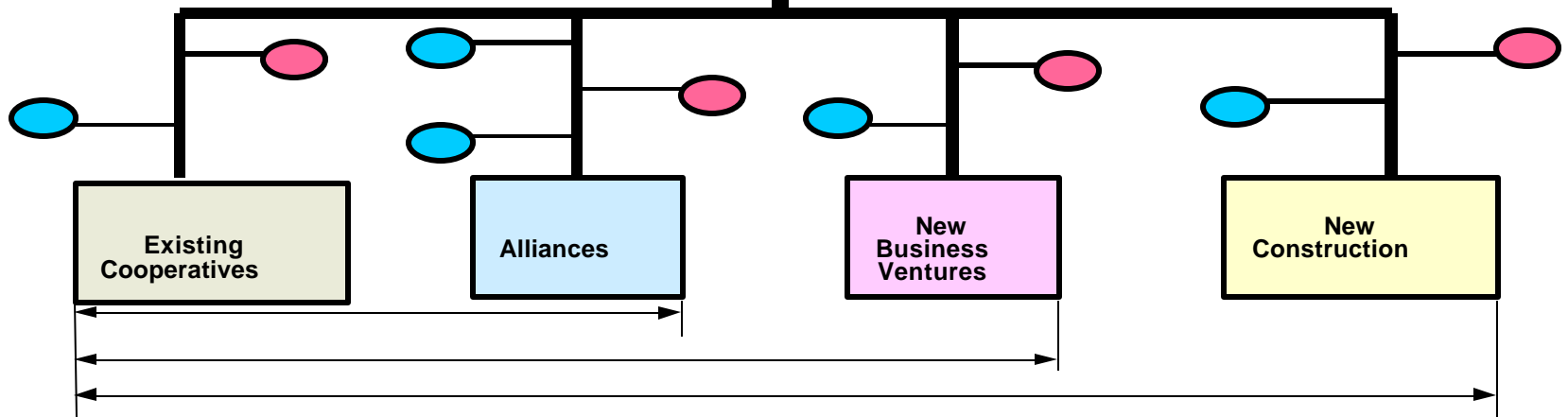
Individual Producers

Other Co-ops

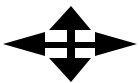
Producer Groups



A New Generation Cooperative



Information Flow



Pork America

Not alone, but unique



- Unique design
 - Local investment opportunity with options to market locally, regionally, globally
- Unique strategies
 - Customer relationship, value-driven business
 - Producer, shareholder designed, directed
 - Profit-focused for producers

Pork America – The Next 12 Months



- Proof of Concept Plant
 - proves we can deliver
 - proves we can meet customer needs
 - attracts larger customers faster
 - proves we can innovate
 - generates a revenue stream
- Partnerships, joint-ventures, co-marketing relationships

Achievable Goals With Support



- National Pork Producers Council
- USDA research and development assistance
- Noted industry consultants
- Public, private sector support
 - Cooperative agreement funds
- Leads to long-term solutions to problems facing agriculture today

Summary



- Producers can't produce their way to profits
- Unify resources, move up food marketing chain
- Create a brighter future for hog farmers
- Can't fix industry, can help shareholders

Pork America



- Thank You For Your Support
 - policy-makers, USDA



PORK AMERICA

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