

FISCAL YEAR 2019

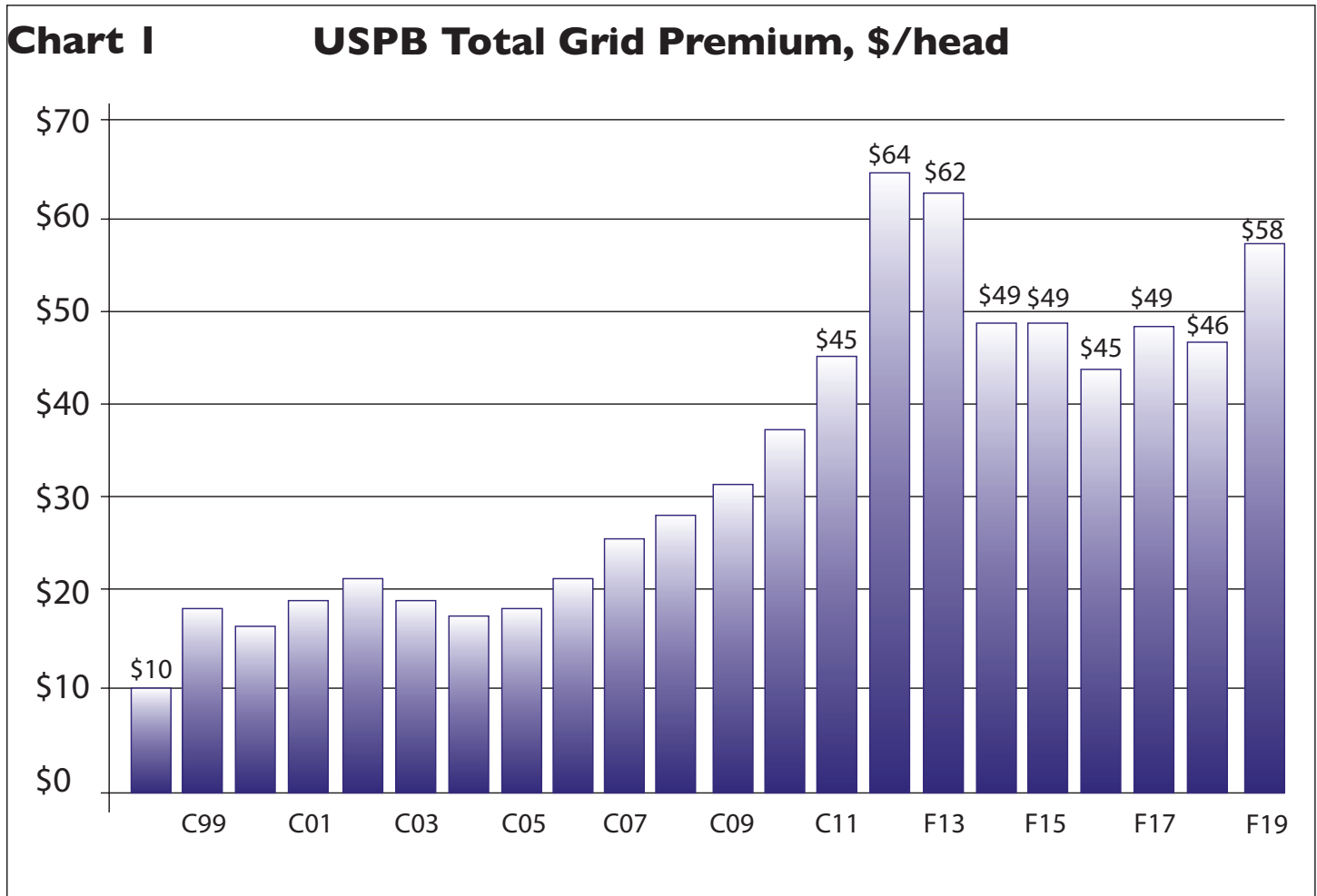
GRID PERFORMANCE SUMMARY

After 22 years of harvesting and pricing cattle on the U.S. Premium Beef, LLC's (USPB) value-based grid, new records continue to be set. Carcass performance and premiums earned remained high during fiscal year 2019, which is a testament to the grid itself and to the producers who raise, feed and deliver cattle through USPB.

For all USPB cattle delivered to National Beef Packing

Company, LLC's (National Beef) plants in Kansas, the overall total grid premium was the third highest in company history at **\$58.42 per head** more than if they were marketed on the average cash, live market. This was **\$12.68 per head** more than the previous year (Chart 1).

Table 1 on page 4 lists the carcass grid performance and Table 2 on page 5 lists the premium breakdown for the last four years. Quality grade was high during the year, similar



to recent years. The percentage of USPB carcasses that graded Prime was record high. Certified Angus Beef (CAB) and Choice & Prime percentages were both the second highest in company history. This marks the fourth consecutive year above 85% grading Choice or better.

Across the entire U.S. beef industry, quality grading was also record high during company history, according to USDA reports for all fed cattle graded in U.S. packing plants. USPB held an advantage of over seven percentage points more Choice and Prime than the entire industry, which was nearly average for the company's history.

Chart 2 shows the average annual percentage of Choice and Prime for USPB cattle, compared to the entire industry. For point of reference, the threshold for the base grid is also included.

Quality grades

The percentage of black-hided cattle delivered to USPB was down two percentage points from the record high during the previous year. This contributed to a lower overall CAB percentage within all USPB cattle. However, the CAB certification rate, or the percentage of the black USPB cattle that met all other brand specifications, was second highest, with 37.2% of all black-hided cattle qualifying for CAB. When combined with the Black Canyon Premium Reserve (BCPR) brand, a total of 61.53% of all black-hided cattle qualified for a branded beef premium on the USPB grid. These values were all quite similar to the previous year.

A new branded beef program, Certified Hereford Beef Premium (CHBP) was added to the grid in March 2019. Carcass specifications for this brand are the same as CAB, but the live animal must be red with a white face. During that time, 3.7% of all USPB cattle were red, white-faced.

Chart 2 Percent Choice & Prime

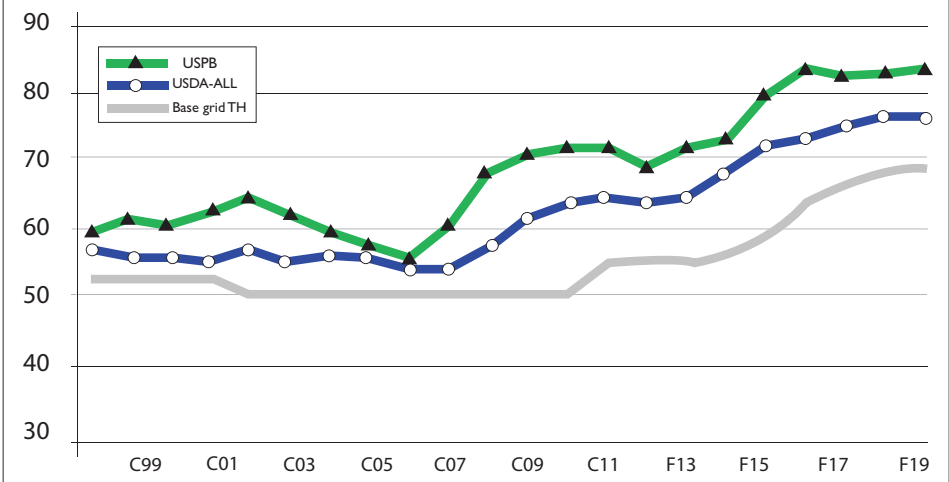
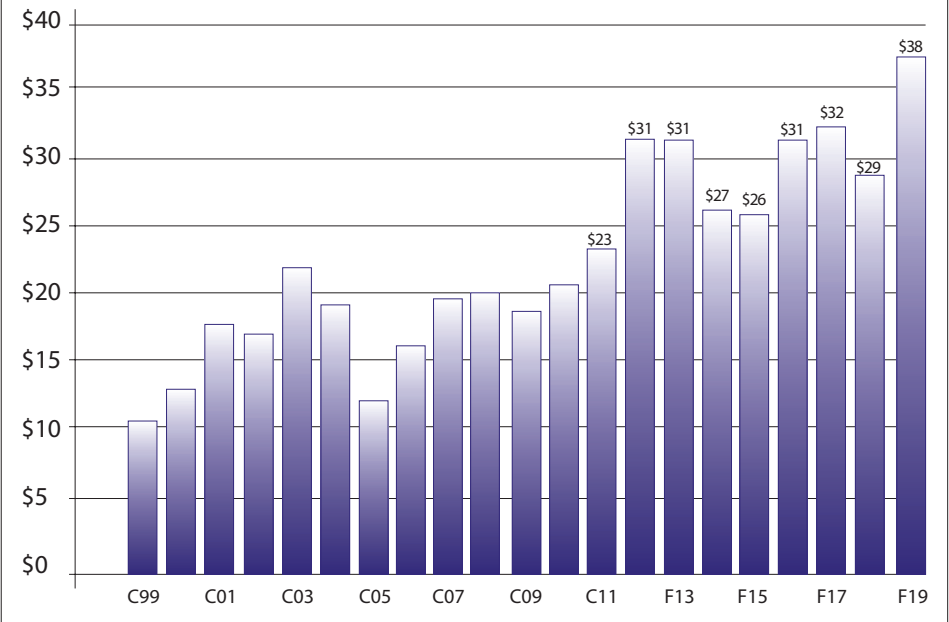


Chart 3 USPB Quality Grade Premium, \$/head



Within those red, white-faced cattle, 16.4% of them met the remaining carcass specifications for CHBP.

Ungraded (not Select or higher) percentage was record low. One reason for being in this category would be the extremely low marbling, or Standard quality grade. Dark cutters are within this category, as well.

Unfortunately, the percentage of carcasses that were over 30 months, as evaluated by dentition, was numerically, record high. Fortunately,

the overall average was still less than 2% of all USPB carcasses. However, this discount has affected the value of lots, or pens, of cattle that have a higher concentration. These are discounted because some countries still do not accept U.S. beef from animals over 30 months as a result of Bovine Spongiform Encephalopathy. Therefore, these carcasses must be segregated and have additional processing costs.

Premiums for high quality beef in the boxed beef market were stronger during 2019, especially in the second half

of the year. The Choice/Select spread was a record high average for the year. The Prime premium ended up being about average for the year, but was extremely high in the fall after being at, or near, the floor of \$8/cwt during the first six months. Similarly, the CAB premium was at the floor of \$3/cwt until September, but still managed to have an overall average for 2019 that was just below the average for the entire company history.

During 2018 and the first half of 2019, it did appear that the U.S. beef industry may have had a slight overabundance of high-quality beef available. However, since the middle of 2019, it appears demand for high-quality beef has increased significantly.

The U.S. beef industry is producing the highest overall quality product in history-- and that translates to more satisfied consumers and strong overall beef demand.

For USPB cattle, high quality grading and strong premiums for quality grade premiums in the marketplace resulted in a **record high quality grade premium of \$37.84 per head**. This was an increase of almost \$9 per head more than the previous year (Chart 3, page 3). Once again, premiums from quality grade have been the largest component of the overall premium on the grid. This has been true for all but one of the 22 years of USPB history.

Carcass trends & premiums

The year began with poor pen conditions from winter weather and continued through the spring with above-average rainfall. As a result, carcass weights were significantly lighter early, then later in the year, ran heavier. In total, USPB carcasses were 2.5 pounds heavier than the previous year and the fourth highest on record. Similarly, yield, or dressing percentage, was low in the first half of 2019, especially through March. Fortunately, yields rebounded and ended up averaging similar to the total company historical average.

Feedyard placement weight (in weight) was the fourth heaviest and days on feed (days fed) was record high. These were obviously factors in supporting heavy carcass weights. Likewise, apparent total feedyard gain was the second largest

Table I. USPB Benchmark Performance Table — KS Plants

	Fiscal Year				Fiscal Year 2020 YTD (Dec. - Feb.)	
	2016	2017	2018	2019	All	Top 25%
	All	All	All	All	All	Top 25%
In Weight	765	758	753	754	779	766
Days Fed	158	158	161	166	161	171
Live Weight	1336	1317	1313	1319	1377	1351
Carcass Weight	859	845	841	844	881	877
Yield, %	64.31	64.13	64.07	63.97	63.96	64.93
Prime, %	4.40	4.37	5.70	6.36	7.20	8.94
Choice & Prime, %	87.34	86.17	86.48	87.07	91.22	91.24
CAB, %	27.75	26.40	30.08	28.22	29.97	27.08
BCPR, %	16.99	18.13	18.03	18.42	20.86	17.93
Ungraded, %	0.84	0.79	0.58	0.77	0.29	0.28
Over 30 months, %	1.29	1.21	1.25	1.76	2.09	1.55
Hard Bone, %	0.64	0.51	0.20	0.41	0.46	0.26
Yield Grade 1, %	9.87	10.57	10.48	11.46	8.80	11.37
Yield Grade 2, %	35.40	37.41	36.20	37.28	34.13	37.39
Yield Grade 3, %	40.44	39.73	39.95	38.81	41.58	38.82
Yield Grade 4, %	12.81	11.16	12.05	11.27	14.01	11.36
Yield Grade 5, %	1.48	1.12	1.31	1.17	1.48	1.06
Avg. Yield Grade	2.61	2.55	2.57	2.53	2.65	2.53
Lightweight, %	0.21	0.27	0.25	0.33	0.15	0.13
Heavy-weight, %	3.09	1.92	1.69	2.69	4.41	3.16
Overall Premium	\$44.94	\$49.12	\$45.74	\$58.42	\$43.13	\$85.67
Prime Premium \$/cwt	\$14.52	\$18.90	\$10.21	\$16.82	\$12.95	\$12.95
CAB Premium \$/cwt	\$3.85	\$3.91	\$3.10	\$3.61	\$4.58	\$4.58
CH/SE Spread \$/cwt	\$10.57	\$11.51	\$11.79	\$16.20	\$4.90	\$4.90
Heifer lots, %	50.26	50.92	52.77	52.43	57.56	NA
Black-hided %	75.35	77.63	77.88	75.81	75.14	69.35
Total cond. liver %	15.48	15.81	19.40	18.71	18.15	14.95
Open abscess liver %	3.74	2.81	2.89	2.60	2.02	1.66

total number of pounds gained in the feedyard during the company's history. Although USPB does not collect actual closeouts from feedyards, calculations can be made from the in weight and days on feed that is submitted on the showlist form for most lots.

On average, USPB cattle gained a total of 566 pounds from their in weight to their live pay weight at delivery and averaged 3.41 pounds of gain per day in the feedyard. Apparent average daily gain was the lowest in nine years and likely attributable to the poor pen conditions early in the year.

Total heavyweight percentage was one percentage point higher than the previous year. Grid changes implemented in March 2019 included a separation of heavyweight ranges. A 7% threshold was implemented for carcasses weighing 1050 to 1099. A larger discount was also implemented for those weighing 1100 and greater. Even though the total heavyweight percentage was higher, the threshold helped keep the total outweigh discount per head nearly identical to the previous year.

Another change to the grid in March 2019 was the addition of a steer premium. For groups of 95% or greater steers, a premium of \$1.57/cwt. carcass was added. For the lots that qualified, the average steer premium was \$14.07 per head. As listed in table 2, the steer premium contributed \$4.51 per head across all USPB cattle.

Yield grades of USPB carcasses decreased from the previous year and were more similar to plant averages used on the grid. In March 2019, yield grade 1 and 2 premiums on the grid were increased. As a result, overall yield grade premium per head was record high. This was the first year yield grade premium was positive

Chart 4 USPB Yield Grade Premium/Discount, \$/head

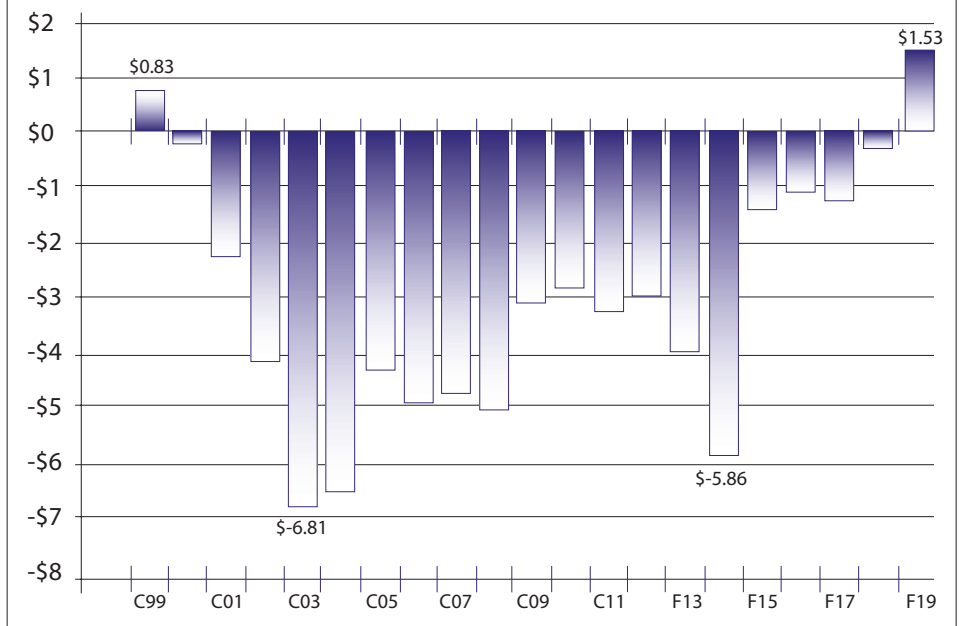


Table 2. Premium Breakdown — KS Plants

\$/Head	Fiscal Year			
	2016	2017	2018	2019
Quality Grade	\$31.02	\$32.46	\$28.85	\$37.84
Yield Benefit	\$18.18	\$20.69	\$19.03	\$15.43
Yield Grade	-\$1.04	-\$1.33	-\$0.36	+\$1.53
Outweights	-\$5.27	-\$3.85	-\$3.41	-\$3.47
Steer	N/A	N/A	N/A	\$4.51
Subtotal Premium	\$42.89	\$47.97	\$44.11	\$55.84
Natural	\$2.05	\$1.15	\$1.63	\$2.58
Overall Premium	\$44.94	\$49.12	\$45.74	\$58.42
Top 75% Premium	\$57.85	\$62.25	\$57.91	\$75.68
Top 50% Premium	\$68.31	\$74.32	\$68.30	\$91.81
Top 25% Premium	\$83.31	\$91.99	\$83.48	\$115.67

since 1999, as shown in the Chart 4 (page 5).

Backfat thickness decreased slightly from the previous year. Also, ribeye in relation to carcass weight, or “muscling” was the largest, or best, that it has ever been in the last eighteen years since the company has been tracking this data. So, on average, carcasses had enough added muscling to compensate for the level of backfat and still have an acceptable yield grade.

Natural premiums were a little higher than the previous year. This was due to a larger number of natural cattle that were marketed on the USPB NatureSource grid during fiscal year 2019. Table 2 (page 5) shows the total natural premiums divided across all USPB cattle. This explains why the natural premium values are small, even though the premiums are high for groups that qualified for the natural program.

Total premiums paid for all USPB cattle was \$47.3 million during fiscal

year 2019. This was the second highest total premium on record for the company and \$1.5 million more than the previous year.

In total, U.S. Premium Beef producers have delivered over 15.4 million head to National Beef’s Kansas plants during the 22 years since the company has been buying cattle. These high-quality cattle provide a solid base supply of carcasses that can be marketed under branded beef labels and add value to the products marketed by National Beef. ♦

FINANCIAL RESULTS

USPB’s financial results improved significantly in fiscal year 2019 as compared to the prior fiscal year. For fiscal year 2019, which ended Dec. 28, 2019, USPB recorded net income of \$118.0 million compared to net income of \$86.6 million for the prior year, an improvement of approximately \$31.4 million.

The improvement in income was a direct result of how well National Beef performed in 2019. Increased gross margins per head, and the impact of the acquisitions of the Ohio Beef patty manufacturing facility in 2019’s first quarter and Iowa Premium in the second quarter, propelled National Beef’s profitability to a record-high level of \$806.6 million — a substantial increase over the \$597.3 million of net income recognized in 2018.

In fiscal year 2019, USPB made substantial distributions to its members. In total, USPB distributed \$140.8 million, or \$186.89 per combined Class A and Class B unit, to our members. Of that total, \$97.7 million were discretionary distributions and \$43.1 million were tax distributions.

For fiscal year 2019, producers delivered 808,851 head of cattle through USPB to National Beef’s Kansas plants, which was nearly 100% of the available delivery rights. For the year, average gross premiums for all cattle delivered was \$58.42 per head, with the top 25% and 50% receiving premiums of \$115.67 and \$91.81, respectively.

USPB’s unique advantage continues to be superior quality cattle delivered by our producers, which enables National Beef to generate more value and provide more opportunities in the consumer marketplace. ♦

