

SECOND QUARTER PERFORMANCE REPORT

GRID PERFORMANCE

Grid performance during the second quarter of fiscal year 2020 is summarized in **Figure 1** (page 2).

The table's first six rows are a few of the Base grid inputs. The remaining rows summarize the performance of cattle delivered to Kansas plants during this quarter, the previous quarter and the second quarter a year ago. Please note that "100% steer lots" pertains only to lots that are 100% steers. Not all remaining lots would be all heifers since some are reported as "mixed sex."

The coronavirus (COVID-19) pandemic caused significant disruption to most meat processing plants throughout the United States, as some plants were closed

for up to two weeks. When in operation, some ran at only 50% of normal capacity. This decrease in slaughter capacity resulted in a backlog of market-ready cattle within the industry during much of the second quarter.

COVID-19 caused some influence on carcass performance and grid results of USPB cattle this quarter. However, USPB unitholders who own delivery rights were able to market on an allocation system. This helped reduce the backlog's effects on carcass performance. **Figure 2** (page 3) shows the weekly total fed cattle slaughter volume as reported by USDA.

One of the most noticeable effects was a significant

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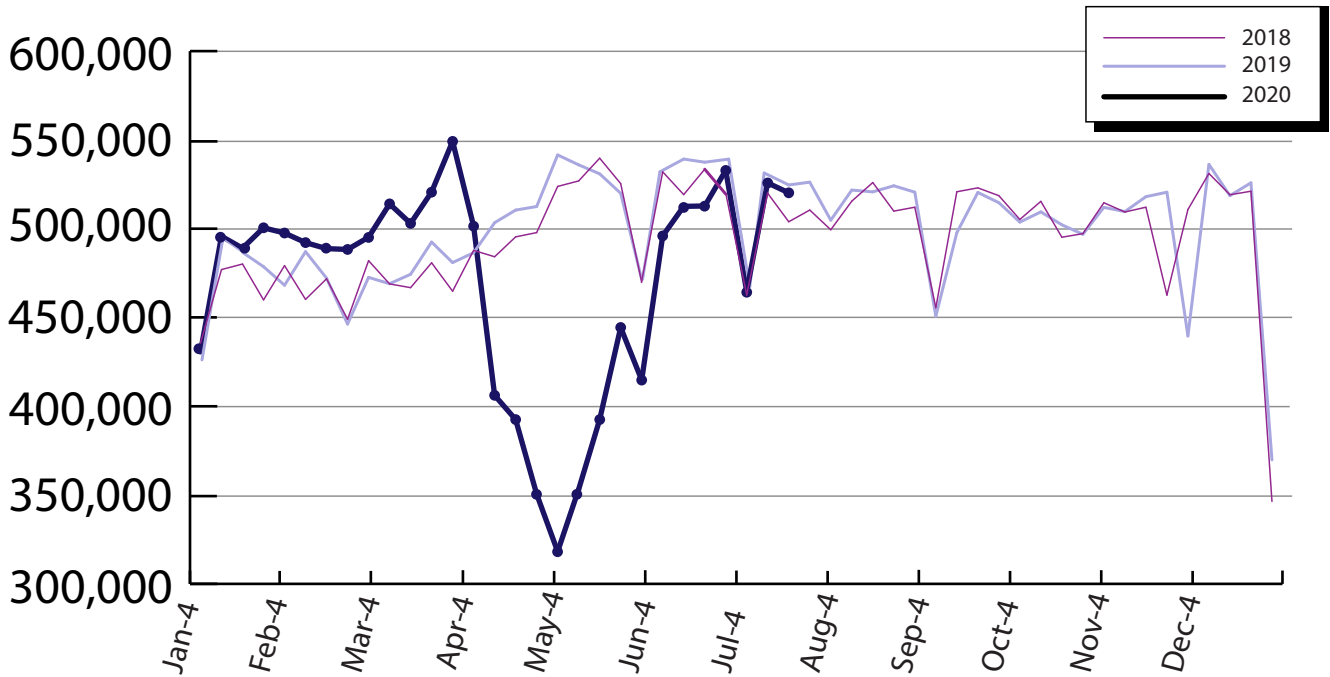
USPB Grid Performance for Cattle Harvested in Kansas

a = record high/large

Figure 1	FY20,Q2 (this Qtr)	FY20,Q1 (last Qtr)	FY19,Q2 (year ago)	FY20,Q3 -to-date
USDA-KS cash \$/cwt.	\$109.75	\$119.19	\$118.85	\$95.52
Plant Average Yield, %	63.50	63.50	63.50	63.50
CH/SE spread, \$/cwt.	\$15.14	\$5.03	\$11.94	\$10.42
Prime/CH spread, \$/cwt	\$8.62	\$11.94	\$10.04	\$9.40
CAB spread, \$/cwt.	\$4.06	\$4.32	\$3.00	\$3.87
Plant Average YG 4&5, %	14.95	14.22	10.18	19.98
100% steer lots	42.22	36.62	45.92	42.02
% black hided	74.39	74.41	76.80	74.91
Apparent Avg Daily Gain	3.50	3.65	3.29	3.51
In-weight	736	773	724	744
Days fed	173	163	173	175
Live weight	1,344	1,368 ^a	1,293	1,359
Carcass weight	861	875 ^a	825	875
Yield, %	64.08	63.98	63.83	64.37
Prime, %	9.30 ^a	7.52	6.63	8.95
Choice & Prime, %	89.09	90.97 ^a	86.78	89.57
CAB, %	28.51	29.88	29.69	28.04
CHBP, %	0.73 ^a	0.69	0.62	0.44
BCPR, %	18.63	20.28	17.52	20.17
Over 30 months, %	2.63 ^a	2.20	1.64	2.07
Yield Grade 1&2, %	41.49	43.20	52.28	39.34
Yield Grade 3, %	41.47	41.48	37.64	42.10
Yield Grade 4&5, %	17.03	15.32	10.08	18.56
Average backfat, inches	0.59	0.59	0.55	0.64
Actual-Required REA, sq.in.	0.51	0.54	0.74	0.59
Total Heavyweight, %	4.23	4.33	1.47	4.65
Total Condemned liver, %	19.76	18.53	20.74	23.29
Open Abscessed liver, %	2.88	2.02	2.63	2.73
QG premium/head	\$27.67	\$22.97	\$26.24	\$24.31
Yield benefit/head	\$16.84	\$18.22	\$11.36	\$21.22
YG premium/head	+\$0.47	+\$1.53	+\$3.06	+\$3.80
Outweight discount/head	-\$4.06	-\$4.71	-\$1.74	-\$5.49
Steer premium/head	\$6.26 ^a	\$5.36	\$6.10	\$6.25
Subtotal premium/head	\$47.18	\$43.37	\$45.02	\$50.09
Natural premium/head	\$0.41	\$1.39	\$2.05	\$0.42
Total premium/head	\$47.59	\$44.76	\$47.07	\$50.51
Top 25% premium/head	\$90.81	\$88.50	\$87.40	\$86.94

Figure 2

USDA Fed Cattle Slaughter Volume, head per week



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increase in live and carcass weights. This was even more notable as the second quarter is known for harvesting more calf-feds, plus there was a little lower percentage of steers delivered compared to a year ago.

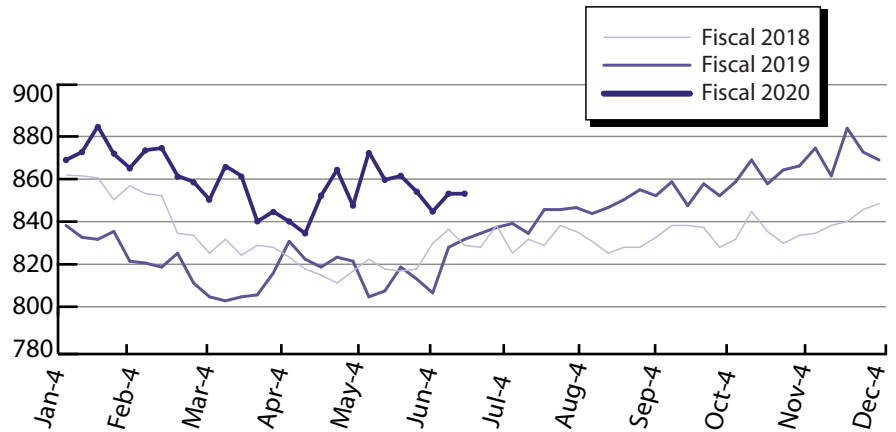
Weights were still lighter than the records set during the previous quarter, but significantly higher than the same quarter a year ago. This can certainly be attributed, in part, to the backlog.

However, the trend for increased weights compared to previous years, was already evident before the backlog. **Figure 3** shows the weekly USBP average carcass weight during recent years.

Days on feed was the second highest, although the second quarter is known for generally lighter in-weights and more days on feed due to calf-feds. Compared to a year ago, placement

Figure 3

USBP Carcass Weight



weights were a little heavier with the same days on feed. This resulted in a record-large apparent total feedyard gain of 608 pounds. Likewise, the days on feed in relation to the in-weight index was record large.

Similarly, yield, or dressing percentage, was high for USBP cattle.

Total heavyweight percentage was also high, but not record high. The total heavy percentage was the fifth highest quarter in company history, although it was numerically lower than the previous quarter. But again, the second quarter is when we usually

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see less heavyweights and they were significantly higher than a year ago. Outweight discount per head followed suit — down slightly from the previous quarter, but significantly higher than the second quarter last year.

Quality grading was outstanding. Average marbling score and Prime percentage were both record high. USPB Choice and Prime percentage was the fourth highest. The total U.S. cattle industry also had the second highest percentage of carcasses grading Choice and higher.

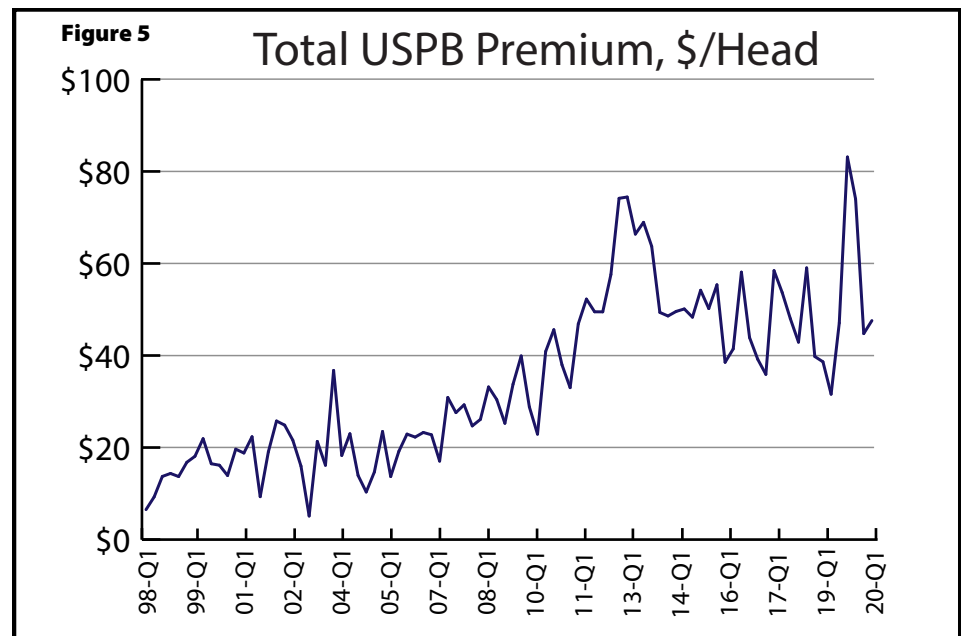
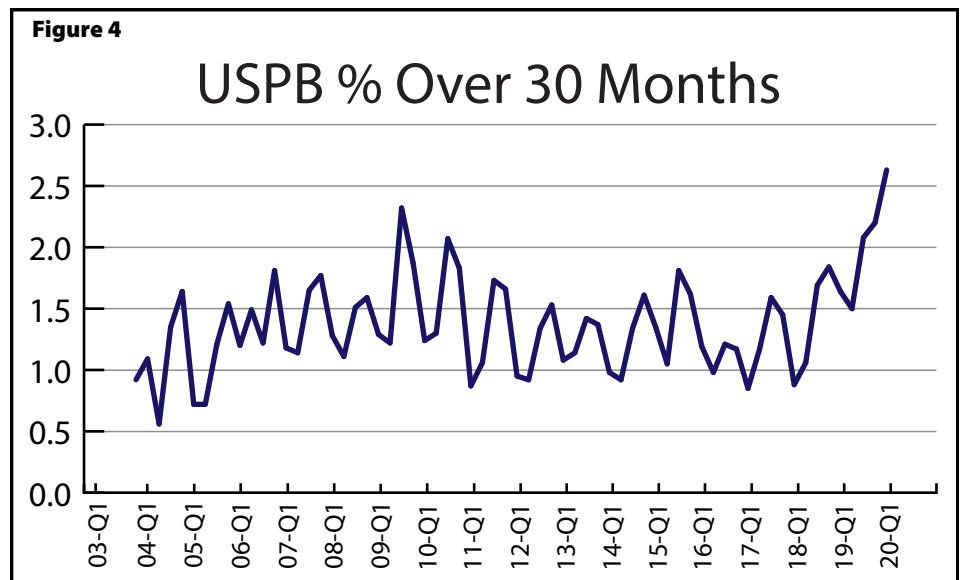
Fortunately, the Choice/Select spread was about \$5 above average for the second quarter. Premiums in the marketplace for *Certified Angus Beef®* (CAB) were also strong. In total, the average Quality grade premium per head was up slightly.

Compositionally, USPB carcasses were similar in backfat and muscling to the previous quarter but were fatter and lighter muscled than a year ago. The percentage of Yield Grade 4 and 5 carcasses was higher. However, plant average thresholds also increased. As a result, Yield Grade premium per head was lower, but still positive.

The percentage of carcasses that were Over Thirty Months (OTM) was record high during the second quarter (**Figure 4**). Since Bovine Spongiform Encephalopathy (BSE), some countries will still not allow imported beef from animals more than 30 months of age, as measured by dentition, or teeth, at slaughter.

Fortunately, this is still a small percentage of the overall mix of USPB cattle. However, the concentration has been slowly and steadily increasing over the past three years.

This low percentage is not significant overall. Although, some lots or groups of cattle have a high



percentage of OTM and discounts for those lots are large. Within the last two years, 60% of the carcasses that were OTM were heifers and 40% steers. At this point it is unclear if the cattle are truly older at harvest or if something environmentally has caused their incisor teeth to erupt through the gumline earlier.

Total premium per head for all USPB cattle harvested in Kansas is shown in **Figure 5**. During the second quarter, USPB cattle average premium was \$47.59 per head more than if they were sold on the cash, live market.

This was up slightly from the previous quarter and similar to a year ago.

Due to COVID-19, the industry has gone through extreme, historic challenges during the past quarter. Market access, through USPB delivery rights, was even more valuable than ever. Fortunately, National Beef and most beef processing plants have recovered and are back to a more normal level of slaughter capacity. This was challenging for everyone. We appreciate the USPB producers and feedlots who cooperated and delivered cattle during the second quarter. ♦