

FISCAL YEAR 2021 PERFORMANCE REPORT

GRID PERFORMANCE

Kansas Grid

During fiscal year 2021, pandemic related challenges in total industry slaughter volume still occurred, but less than the previous year. According to USDA reports, industry-wide, total fed cattle slaughter volume for 2021 was similar to 2019 — the year prior to the pandemic — although the industry had to rely more on Saturdays to accomplish this slaughter level. About 119,000 more fed cattle were harvested across the industry on Saturdays in 2021 compared to 2019. Divided by 52 weeks, that is almost the equivalent of one shift at a large-scale U.S. packing plant each week. Once again, ownership of U.S. Premium Beef, LLC (USPB) delivery rights proved extremely beneficial for cattle feeders to market cattle in a timely manner and have market access.

Premiums in the marketplace were especially strong during fiscal year 2021 for higher quality, particularly in the second half of the year. As a result, well managed, high quality cattle experienced unusually large premiums on the USPB value-based grid, setting new records. Unfortunately, due to tighter margins in cattle feeding during recent years, it was apparent some cattle feeders purchased lower quality feeder cattle, which decreased the average quality grading of USPB carcasses overall. Yet, cattle delivered on the USPB grid with superior genetics for carcass traits were rewarded and captured extremely

high premiums. One lot of 33 head harvested in November captured a record high premium of \$391 per head.

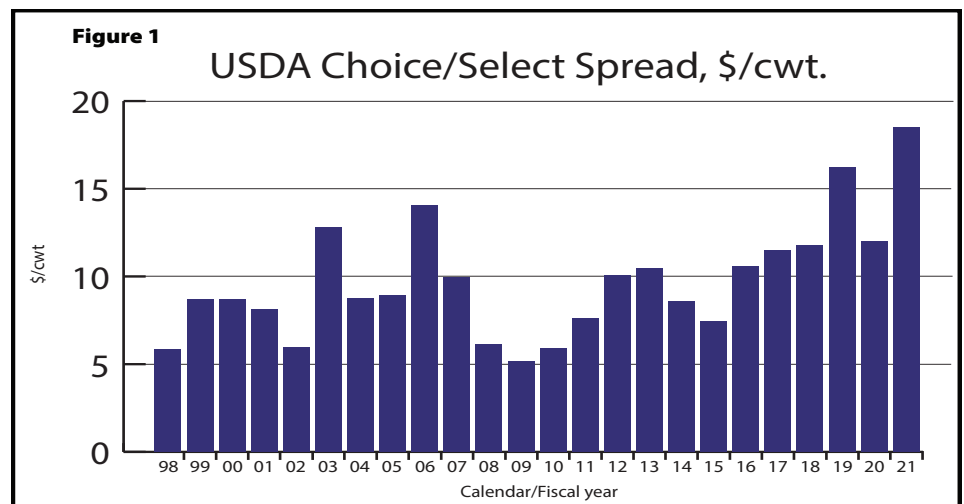
Table 1 on page 2 lists the carcass grid performance for the last four years. Rewards on the grid for superior quality grades were very high, especially in the second half of the year. Average Prime premium for the year was the second highest in company history. During the week ending Nov. 6, the USPB grid offered a Prime premium of \$49.86/cwt — the highest weekly premium in company history. Average premium for Certified Angus Beef® (CAB) and the Choice/Select spread, shown in Figure 1, were both record-high in 2021. The average carcass performance in each of those categories was down slightly from the previous year. Figure 2 shows the annual Choice and Prime average for USPB cattle, the total industry average and the USPB base grid threshold.

As mentioned, there was an increase

in the number of lower grading cattle. Looking specifically at lots that graded less than 60% Choice and Prime, more than 24,000 head were delivered during fiscal year 2021. This was the highest percentage of total USPB cattle grading that low within the last six years. Fortunately, the percentage of high grading cattle remained strong. The total number of cattle in lots grading over 90% Choice and Prime was very similar to the previous five years, which helped maintain the overall average. During fiscal year 2021, 48% of all conventionally fed USPB cattle were in lots grading over 90%. As a result, quality grade premium per head was record high, driven by large premiums in the marketplace.

Live weights of USPB cattle at harvest were record high for the year. Hot carcass weight was the second highest, down just one pound from the record set the previous year. Placement, or “in

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GRID PERFORMANCE

USPB Benchmark Performance Table — KS Plants

Table I	FY 2018	FY 2019	FY 2020	FY 2021	Fiscal Year 2022 (Dec. 26 - Feb. 19)	
	All	All	All	All	All	Top 25%
In Weight	753	754	760	761	782	768
Days Fed	161	166	168	173	165	172
Live Weight	1313	1319	1366	1370	1398	1386
Carcass Weight	841	844	876	875	894	895
Yield, %	64.07	63.97	64.11	63.92	63.98	64.55
Prime, %	5.70	6.36	7.88	6.68	7.22	12.95
Choice & Prime, %	86.48	87.07	88.70	86.58	88.54	92.62
CAB, %	30.08	28.22	27.24	25.88	26.70	30.58
BCPR, %	18.03	18.42	20.33	19.93	22.03	21.86
Over 30 months, %	1.25	1.76	2.25	2.16	2.87	1.32
Yield Grade 1, %	10.48	11.46	8.92	9.02	7.71	6.81
Yield Grade 2, %	36.20	37.28	33.49	33.63	32.37	29.83
Yield Grade 3, %	39.95	38.81	41.14	41.33	42.76	43.77
Yield Grade 4, %	12.05	11.27	14.59	14.37	15.35	17.19
Yield Grade 5, %	1.31	1.17	1.87	1.64	1.80	2.38
Avg. Yield Grade	2.57	2.53	2.67	2.66	2.71	2.78
Lightweight, %	0.25	0.33	0.17	0.16	0.09	0.07
Heavyweight, %	1.69	2.69	4.83	4.64	6.65	5.08
Quality Grade	\$28.85	\$37.84	\$27.89	\$41.80	\$44.90	\$72.95
Yield Benefit	\$19.03	\$15.43	\$18.16	\$14.01	\$17.70	\$34.95
Yield Grade	-\$0.36	\$1.53	\$2.96	\$5.57	-\$1.42	-\$4.96
Outweights	-\$3.41	-\$3.47	-\$5.01	-\$3.19	-\$4.72	-\$3.15
Steer	NA	\$4.51	\$5.96	\$6.51	\$6.47	\$5.75
Subtotal Premium	\$44.11	\$55.84	\$49.96	\$64.70	\$62.93	\$105.54
Natural	\$1.63	\$2.58	\$0.81	\$1.10	\$0.92	\$3.66
Overall Premium	\$45.74	\$58.42	\$50.77	\$65.80	\$63.85	\$109.20
Top 75% Premium	\$57.91	\$75.68	\$65.70	\$82.91	\$79.46	NA
Top 50% Premium	\$68.30	\$91.81	\$77.39	\$98.92	\$92.01	NA
Top 25% Premium	\$83.48	\$115.67	\$93.05	\$123.22	\$109.20	NA
Prime Premium \$/cwt	\$10.21	\$16.82	\$12.43	\$27.23	\$36.09	\$36.09
CAB Premium \$/cwt	\$3.10	\$3.61	\$4.39	\$5.64	\$5.87	\$5.87
CH/SE Spread \$/cwt	\$11.79	\$16.20	\$12.02	\$18.50	\$9.26	\$9.26
Steer, %	43.12	43.73	44.26	47.51	44.59	NA
Black-hided %	77.88	75.81	74.76	74.57	76.75	81.22
Total cond. liver %	19.40	18.71	20.31	20.32	16.33	15.77
Open abscess liver %	2.89	2.60	2.64	3.08	2.19	2.11

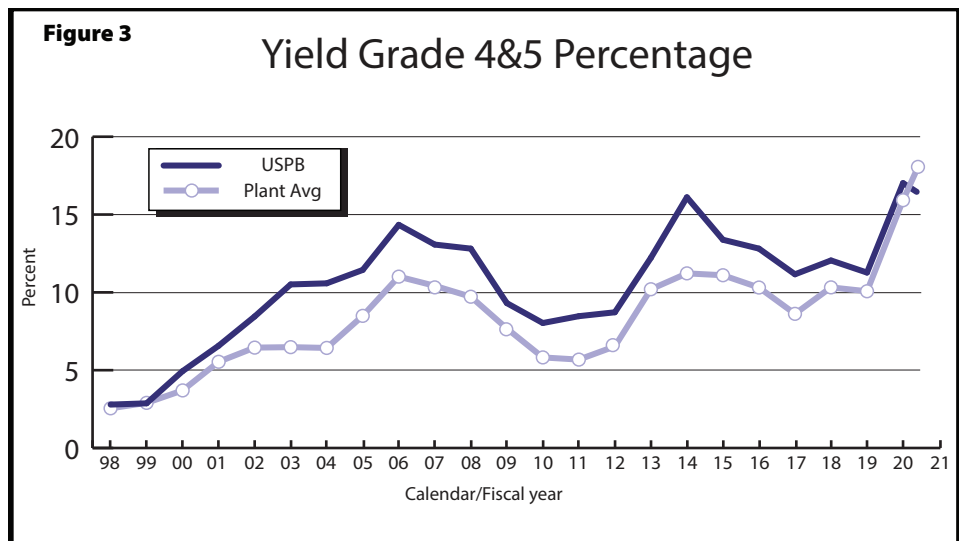
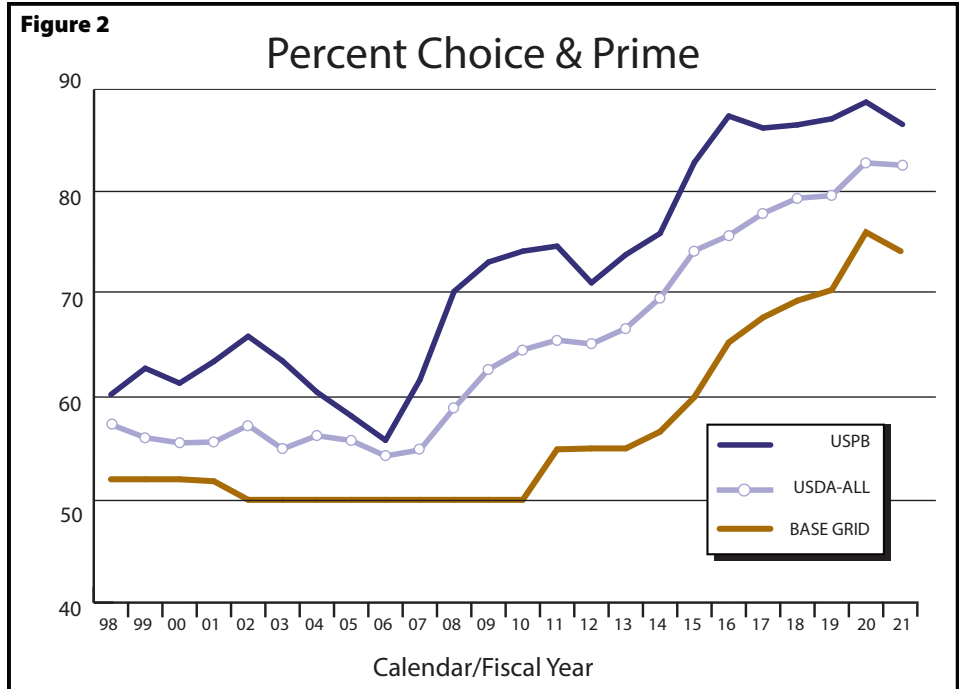
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weight,” was the second heaviest going on feed, and days fed was record high. Despite elevated feed costs, quality grade rewards were high enough to keep cattle on feed longer.

A greater percentage of steers were delivered on the USPB grid in 2021. This resulted in a record steer premium per head. More steers, heavier placement weights and more days on feed all contributed to the second highest percentage of heavyweight carcasses weighing 1,050 pounds or more. Fortunately, the grid changes implemented in October 2020 helped decrease the discounts for heavyweights. As a result, outweigh discount was less than the previous year and was the smallest, or best, in the past seven years.

Yield Grade 4 and 5 percentage decreased slightly from the previous year but was still the fourth highest in company history. During 2020, decreased slaughter capacity at packing plants during the pandemic caused a backlog of market-ready cattle, resulting in higher yield grades, or fatter cattle. The average backfat of USPB cattle during fiscal year 2021 was record high at 0.63 inches, up only slightly from the previous year. Muscling, in terms of ribeye area in relation to carcass weight, improved slightly to help decrease, or improve, yield grades. Figure 3 shows the Yield Grade 4 and 5 percentage for USPB cattle and plant average used on the grid. Cattle that NBP purchases on the cash market make up the plant average, or threshold. In fiscal year 2021, the plant average percentage of Yield Grade 4 and 5 carcasses was record high, resulting in USPB cattle receiving record high yield grade premiums per head.

Total premium for USPB cattle, shown in Figure 4 on page 4, set a record of \$65.80 per head more than if they were marketed on the average cash, live market. This was \$15 more



than the previous year. An impressive 140,598 head of cattle were in lots that captured more than \$100/head in premiums on the USPB grid. Of those, 10,237 head were in lots with premiums of \$200/head or greater.

USPB delivery rights and our value-based grid continue to benefit marketing cattle, especially during periods of decreased slaughter capacity in the industry. Even with industry-wide improvements in quality grading, rewards for quality were extremely high during fiscal year 2021. It was

unfortunate USPB cattle decreased slightly in quality grade. By comparison, if USPB cattle had maintained quality grades equal to the previous year, premiums would have been \$9.90/head greater, on average. This trend further illustrates the value of quality on USPB’s grid, especially when premiums in the marketplace are strong. The USPB grid continues to be a valuable tool for rewarding producers for quality cattle and a source of high quality carcasses for NBP.

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Iowa

Fiscal year 2021 was the second full year of harvesting cattle on the USPB grid at the NBP plant in Tama, Iowa. Grid performance is summarized in Table 2 on page 7 for cattle delivered to the Iowa plant.

Grid premiums from Iowa cannot be compared directly to those on the Kansas grid. Only black-hided cattle are harvested at the Tama plant. The Iowa grid compares back to a dressed delivered price in Iowa/Minnesota instead of a live price at the feedyard in Kansas. Therefore, the Iowa grid does not have a “yield benefit” like the Kansas grid. Instead, Table 2 lists the benefit of the formula allowance that is added to the USDA dressed-delivered price. There are also other differences in the structure of the two grids. These are different cattle, harvested at a different plant, in a different region, on a different grid.

The total volume of cattle delivered increased 261% from the previous year. More producers are using this new grid in a region where grid marketing is less common. Some producers have previous experience with grid marketing and know how their cattle grade. Others are learning about their cattle and how to use the grid as a marketing option. Combined with Kansas deliveries, a record high number of cattle were delivered to all plants in fiscal year 2021.

During 2021, USPB cattle delivered to Iowa improved slightly in quality. Prime, Choice and Prime, and CAB percentages were all numerically higher than the previous year. This is impressive when compared to national averages of all cattle USDA graded within the entire industry, which had a slight numeric decrease from the previous year. Figure 5 shows the Choice and Prime percentage of all cattle delivered on the Iowa grid, the Kansas grid and the USDA industry average. Figure 6 shows the CAB percentage for those same categories.

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Figure 4

USPB Total Grid Premium, \$/head

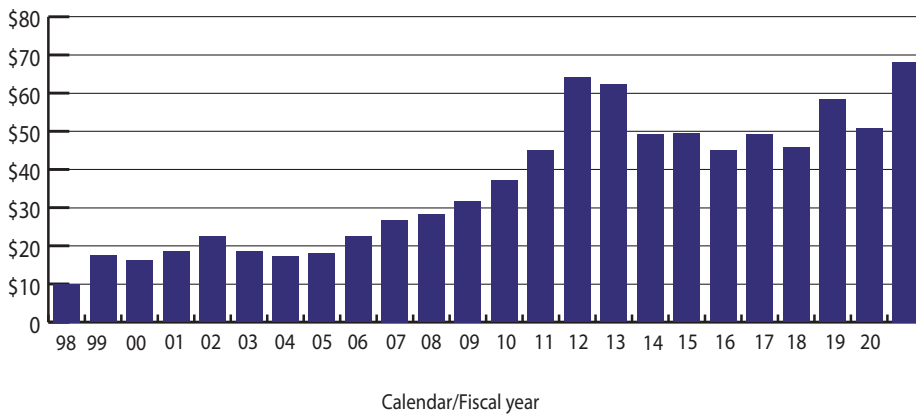


Figure 5

Choice & Prime %

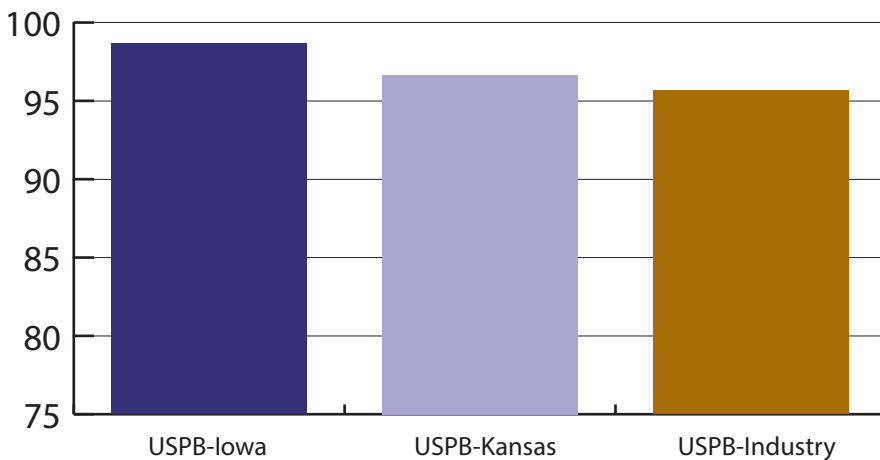
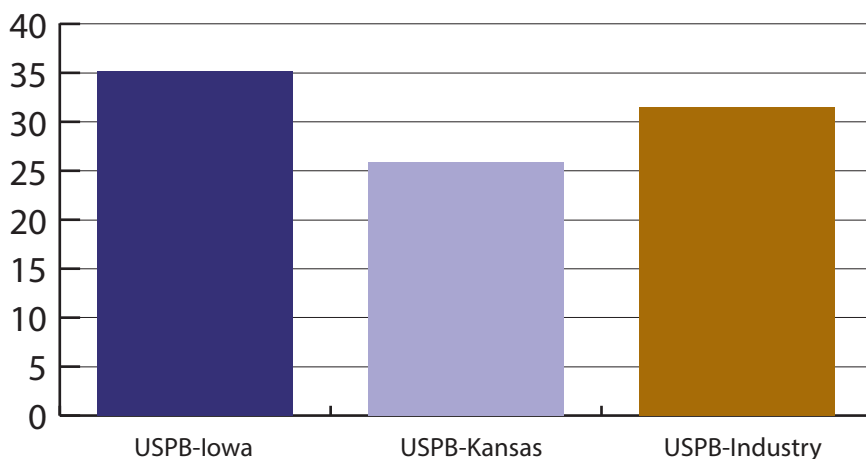


Figure 6

CAB %



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Note the USDA reports the industry average as the total percentage of all cattle grading in the upper 2/3 Choice, which is the marbling specification for CAB, but this industry average applies to all breeds and hide colors.

Figure 7 shows the percent Prime. The superior quality grades delivered on the Iowa grid was extremely valuable with the strong premiums in the marketplace. Prime is especially influential on the Iowa grid. Strong premiums and superior grading resulted in an average quality grade premium that was nearly \$40/head more than the previous year.

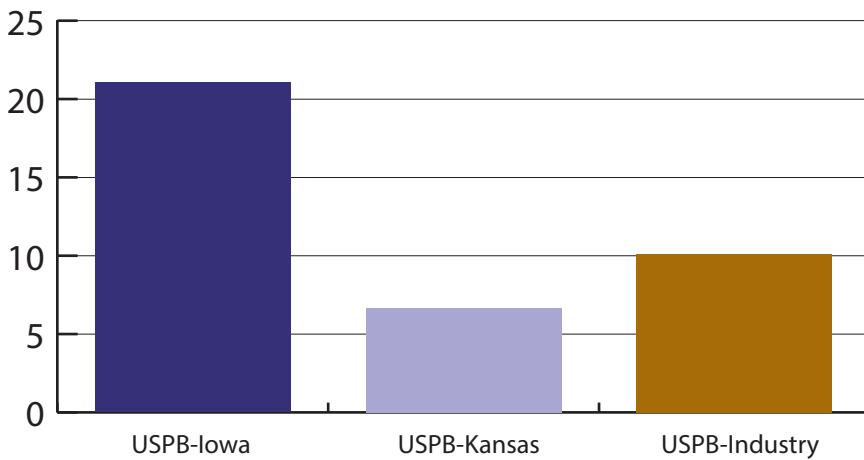
USPB cattle on the Iowa grid did have a slight increase in Yield Grade 4 and 5 percentages. The incentive for maximizing quality grade premiums resulted in more days on feed relative to placement weight going into the feedlot. The Iowa grid has significantly higher plant averages, or thresholds, for Yield Grade 4s and 5s. As a result, the yield grade premium per head remained positive and was only \$3.84 lower than the previous year — substantially less than the improvement in quality grade premium.

Carcass and live weights also increased from the previous year. However, through better management and marketing, total heavyweight percentage and the overweight discount per head were smaller. Changes to the grid made in October 2021 also helped decrease the overall discount of carcasses weighing 1,050 pounds and higher.

The average overall premium improved almost \$36, and the top 25% improved \$69/head to average \$136.23/head on the Iowa grid. Even though the industry now has higher quality grades in recent years, the rewards in the marketplace were even larger in 2021. Consumer demand for high-quality beef continued to provide producers with incentive for improving quality. ♦

Figure 7

Prime %



USPB Performance, Iowa Premium Grid

Table 2	FY 2020	FY 2021	Fiscal Year 2022 (Dec. 26 – Feb. 19)	
	All	All	All	Top 25%
In Weight	712	751	741	613
Days Fed	197	201	216	299
Live Weight	1,376	1,387	1,427	1,442
Carcass Weight	873	877	900	909
Yield, %	63.44	63.22	63.11	63.02
Prime, %	20.92	21.06	19.21	34.18
Choice & Prime, %	92.83	94.66	94.20	97.58
CAB (Choice only), %	34.04	35.15	37.31	37.82
Ungraded, %	0.85	1.08	1.26	0.75
Over 30 months, %	2.87	2.49	2.15	1.44
Yield Grade 1, %	1.85	1.46	1.27	0.63
Yield Grade 2, %	14.00	12.53	12.78	10.46
Yield Grade 3, %	61.54	60.57	58.36	60.25
Yield Grade 4, %	17.60	20.19	21.43	22.08
Yield Grade 5, %	5.01	5.24	6.16	6.57
Avg. Yield Grade	3.10	3.31	3.18	3.24
Lightweight 699/dn, %	0.28	0.50	1.34	0.97
Heavyweight 1050/up, %	5.10	4.22	7.28	8.06
Quality Grade premium	\$12.32	\$52.21	\$66.28	\$126.60
Formula allowance benefit	\$12.41	\$11.56	\$9.03	\$9.17
Yield Grade premium	\$11.18	\$7.34	\$5.94	\$5.95
Overweight discount	-\$5.58	-\$4.90	-\$8.60	-\$7.66
Overall Premium	\$30.33	\$66.21	\$72.65	\$134.06
Top 25% Premium	\$67.12	\$136.23	\$134.06	NA
Steer, %	68.54	61.37	46.48	47.89
Black-hided %	100.00	100.00	100.00	100.00
Prime Premium, \$/cwt.	\$12.43	\$27.23	\$36.09	\$36.09