

THIRD QUARTER REPORT

GRID PERFORMANCE

Kansas Grid Performance

Grid performance for USPB cattle delivered to Kansas plants during the third quarter of fiscal year 2022 is summarized in Table 1 (page 2.)

During the second half of 2021, premiums in the boxed beef marketplace were strong for higher quality grades. During quarter three of 2022, those same premiums were similar or even higher.

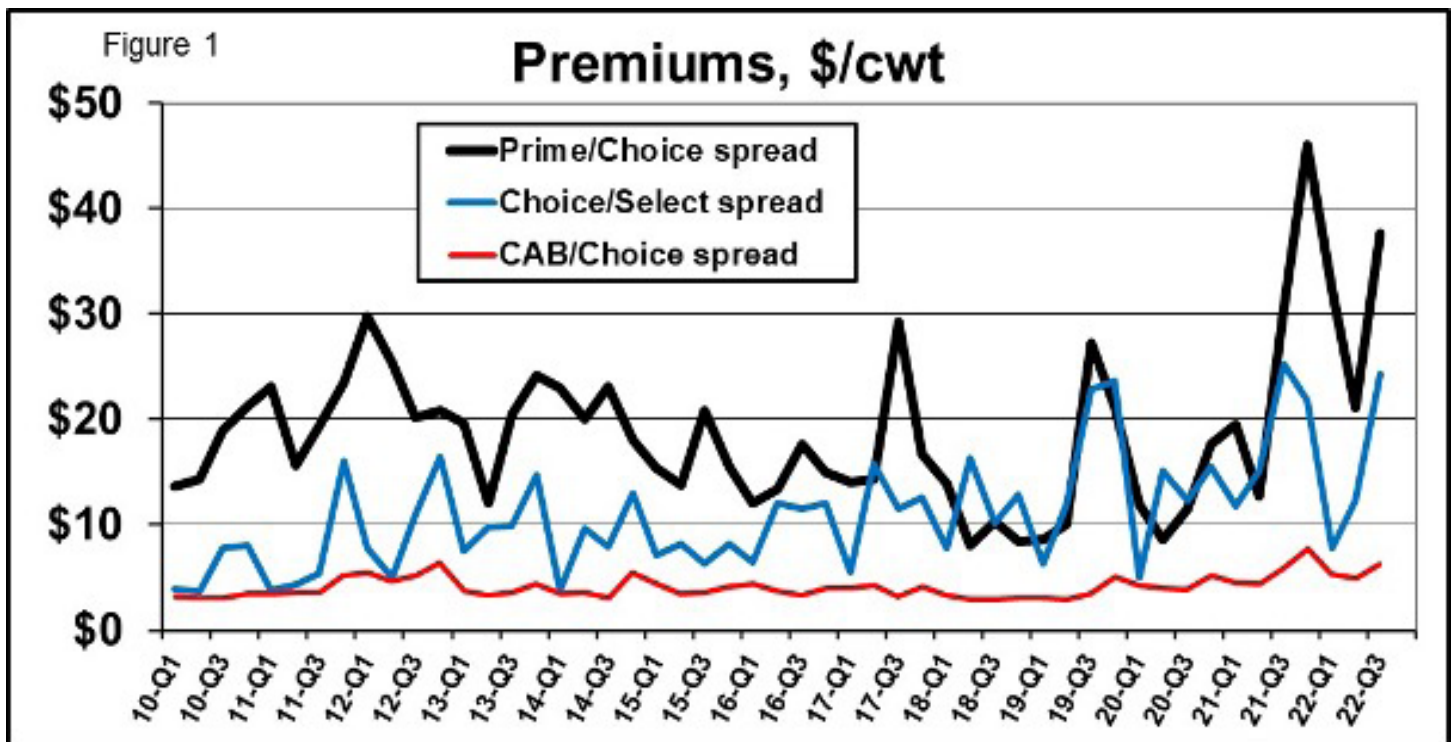
The Choice/Select spread was the second highest and within \$1 of the record high set a year ago. Premiums for *Certified Angus Beef*® (CAB) were the fourth highest.

Prime premium was the third highest quarterly average used on the USPB grid in its nearly 25-year history. Quarterly average premiums used on the USPB grid are shown in Figure 1.

USPB carcass quality grading was similar to the previous quarter and a year ago. However, USDA's reported industry average and the threshold on the grid were both down slightly as reflected in Figure 2 (page 3.) Driven by high premiums in the marketplace, quality grade premium per head, shown in Figure 3 (page 3,) was record high on the grid. This was an impressive \$15.11 per head more than the previous record set during quarter four of last year. The demand for high quality beef is strong and rewards for marbling are very high.

USPB carcasses did increase in Yield Grade 4 & 5 percentage from the previous quarter, while the plant average threshold decreased. Figure 4 (page 3) shows the Yield Grade 4 & 5 percentage for both USPB carcasses and plant average. This resulted in a discount for yield grade as shown in Figure 5 (page 4.)

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* = record high/large

USPB Grid Performance for Cattle Harvested in Kansas

Table I	FY22, Q3 (this Qtr)	FY22, Q2 (last Qtr)	FY21, Q3 (year ago)	FY22, Q4 -to-date
USDA-KS cash \$/cwt.	\$138.92	\$138.37	\$121.60	\$146.14
Choice/Pr.Threshold, %	67.63	71.55	73.95	68.14
CH/SE spread, \$/cwt.	\$24.35	\$12.29	\$25.30*	\$26.71
Prime/CH spread, \$/cwt	\$37.58	\$21.19	\$30.54	\$53.88
CAB spread, \$/cwt.	\$6.30	\$4.90	\$5.83	\$10.61
Plant Average YG 4&5, %	10.27	12.23	17.63	12.35
% steers	46.29	43.64	49.02	37.93
% black hided	76.82	74.38	75.76	72.13
Apparent Avg Daily Gain	3.46	3.38	3.51	3.45
In weight	737	732	760	746
Days fed	179	179	171	179
Live weight	1,355	1,336	1,361	1,362
Carcass weight	869	854	872	870
Yield, %	64.13	63.88	64.07	63.87
Prime, %	7.14	6.22	6.54	6.69
Choice & Prime, %	85.32	85.12	86.81	83.98
CAB, %	26.49	26.11	26.44	23.21
CHBP, %	0.53	0.63	0.53	0.61
BCPR, %	19.39	18.16	19.82	20.20
Yield Grade 1&2, %	43.13	48.10	42.18	47.12
Yield Grade 3, %	41.78	39.60	41.63	38.33
Yield Grade 4&5, %	15.09	12.30	16.19	14.55
Average backfat, inches	0.63	0.58	0.64*	0.63
Actual – Required REA, sq.in.	0.76	0.76	0.69	1.02
Total Heavyweight, %	3.43	2.96	3.67	5.01
Total Condemned liver, %	18.57	20.33	20.04	19.76
Open Abscessed liver, %	3.38	3.21	3.16	2.90
QG premium/head	\$72.86*	\$34.32	\$55.92	\$85.74
Yield benefit/head	\$21.68	\$14.19	\$18.02	\$14.79
Yield Grade premium/head	-\$2.93	+\$3.15	+\$5.46	+\$0.87
Outweight discount/head	-\$2.36	-\$2.18	-\$2.27	-\$3.85
Steer premium/head	\$6.28	\$5.76	\$6.81*	\$5.13
Subtotal premium/head	\$95.53*	\$55.24	\$83.94	\$102.68
Natural premium/head	\$0.61	\$0.46	\$1.02	\$0.88
Total premium/head	\$96.14*	\$55.70	\$84.96	\$103.56
Top 25% premium/head	\$160.60*	\$102.82	\$142.82	\$183.13

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Typically, in-weight, or placement weight, going on feed increases and days on feed decrease pretty significantly from quarter two to quarter three each year. This year, average in-weight in the third quarter was the lowest since 2011. As a result, days on feed remained high and the in-weight:days-on-feed index was the second highest in company history.

Likewise, apparent total gain was record high at 618 pounds. Live and carcass weights were down from a year ago and outweight discounts were similar. It's likely the recent droughts have brought cattle into USPB feedlots at lighter weights. Expect this trend to continue.

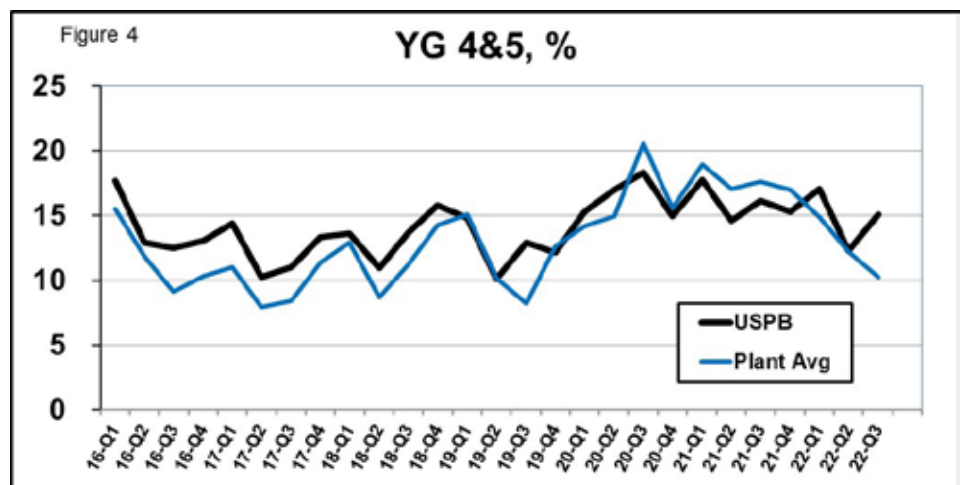
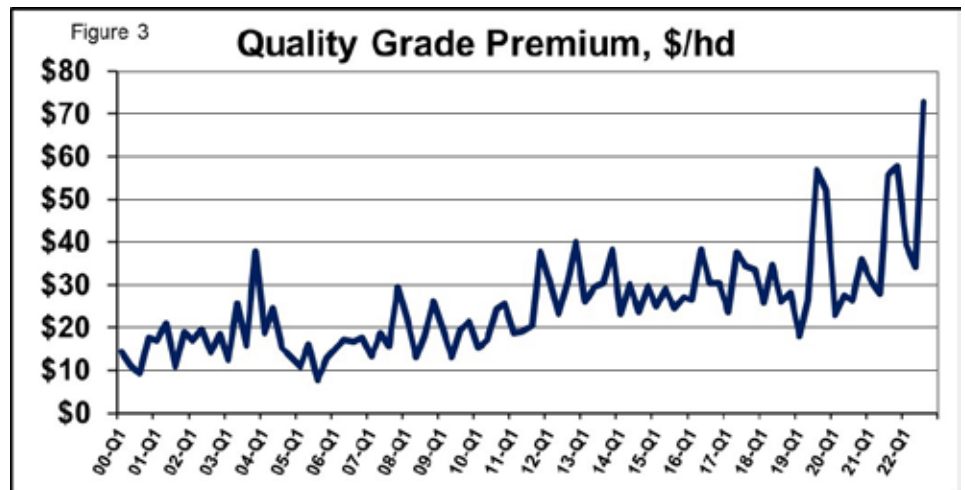
Yield benefit per head increased to the highest value in two years. Steer premium was also strong and was similar to the record high seen a year ago.

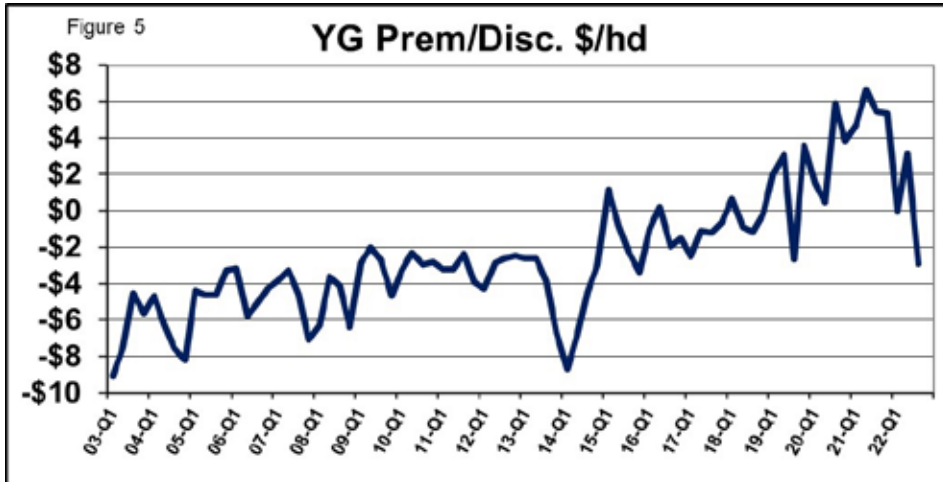
Average total premium per head, shown in Figure 6, was record high at \$96.14 per head more than if the cattle were sold on the average cash market in Kansas.

This was approximately \$40 higher than the previous quarter and \$11 more than a year ago which was the previous record. The top 25% averaged an impressive \$160.60 per head and was record high during the third quarter.

So far during the fourth quarter, premiums used on the grid for high quality grades have increased even further. The prime premium has been over \$50 per cwt each week. A new record was set for the week ending Oct. 15 at \$54.94.

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Likewise, the CAB premium has consistently been above \$10 per cwt and set a new record for the week ending Nov. 5 at \$11.01.

As a result, a new record has also been set for total premium per head for a single lot of cattle at \$496 per head on the USPB base grid! Investing in high-marbling seedstock genetics, sourcing higher quality feeder cattle and feeding longer are all ways to increase marbling and it's really paying off, even with high feed costs.

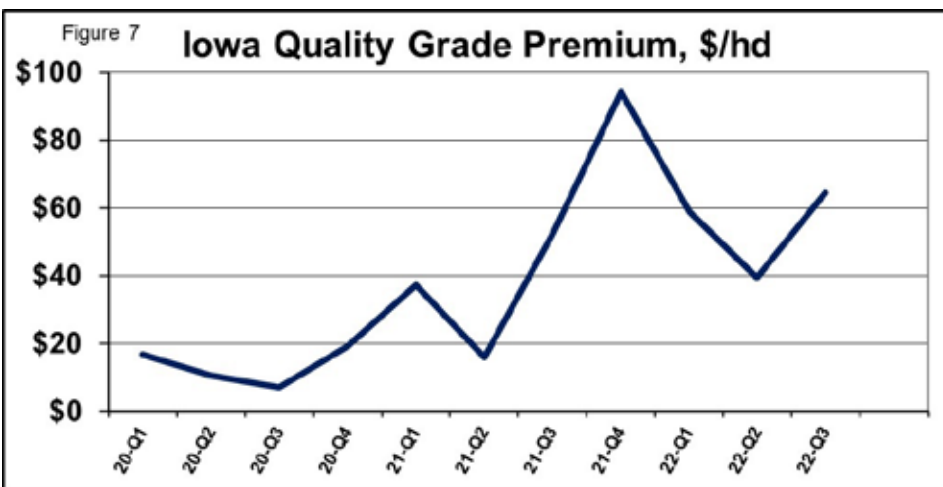
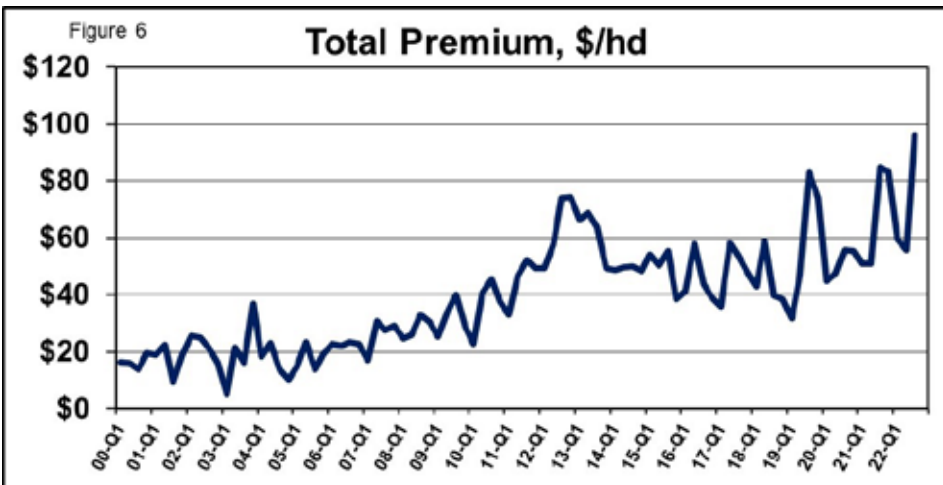
Iowa Grid Performance

Grid performance for USPB cattle delivered to the Tama, Iowa, plant is summarized in Table 2 (page 6.)

Premiums on the Iowa grid cannot be compared directly to those from 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 on the Kansas grid. Therefore, the Iowa grid does not have a "yield benefit" like the Kansas grid. Instead, the benefit of the "formula allowance," which is added to the USDA dressed delivered price is listed. 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.

Cattle-on-feed numbers in the Corn Belt decreased relative to the rest of the industry this spring. As a result, cash market prices in the Iowa/Minnesota region were the highest in the country, according to USDA reports. During the third quarter, the Iowa base carcass price

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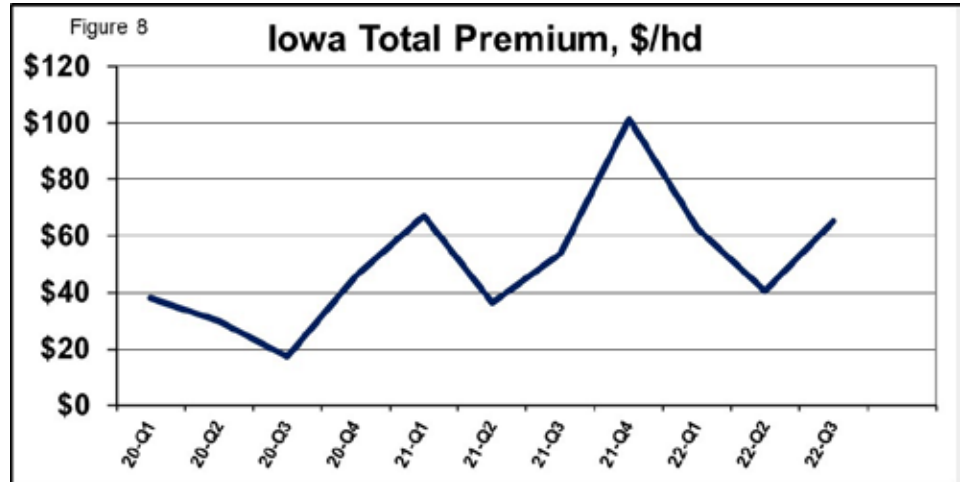
averaged \$12.44 per cwt higher than the Kansas grid. This allowed some USPB producers, who traditionally shipped to Kansas plants, to deliver cattle to Iowa — even if total freight costs were a little higher. As a result, a record large number of USPB cattle were delivered to Tama during the third quarter.

Currently, the spread between the Corn Belt and Kansas markets has narrowed, but a small, consistent advantage of around \$4 per cwt still falls in favor of the Iowa market. With a shortage of USPB Kansas delivery rights, some producers are looking at the USPB grid at Tama as a second option. Lately, the availability of Iowa delivery rights has been good. There are several differences to consider between the two USPB grids.

During the third quarter, quality grading of USPB cattle was down slightly. The percentage of CAB carcasses was the lowest in the 11 quarters the grid has been offered. Prime percentage was the second lowest. Yet, with the strong premiums in the marketplace, quality grade premium per head (shown in Figure 7 on page 4) was the second highest, second to the fourth quarter of last year when cattle graded better and premiums were very strong.

USPB cattle in Iowa were fatter during the third quarter and had the highest Yield Grade 4 & 5 percentage. This was likely related to the incentive to feed cattle to a fatter endpoint to improve quality grade when premiums are high. Iowa grid plant averages also increased,

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but to a lesser extent. As a result, there was a discount for yield grade.

Like Kansas, Iowa cattle had lighter in-weights and more days on feed. However, live and carcass weights were each only one pound lighter than a year ago.

Total premium, shown in Figure 8, was \$65.08 per head more than selling on the cash, dressed delivered market in the Iowa/Minnesota region as reported by USDA. This was nearly \$25 more than the previous quarter and almost \$12 more than a year ago. The top 25% received an impressive \$144.33 premium, which was the second largest.

Weights are up so far during the fourth quarter and so are Yield Grade 4 & 5 percentages. The plant average

has also increased and yield grade discount is up only slightly compared to the previous two quarters.

Quality rewards have set new weekly records for Prime and CAB premiums. The Choice/Select spread also continues to increase. This has likely encouraged feeders to add days on feed to maximize marbling.

As a result, Prime percentage has rebounded significantly during the fourth quarter to-date. The CAB percentage has decreased. However, plant average has done the same. Both may be due, in part, to more carcasses being disqualified from the CAB program for too much backfat or too large carcass weights.

If you have black-hided cattle you would like to deliver to the National Beef plant in Tama, Iowa, or if you have questions about this grid, please call 866-877-2525. ♦

USPB Grid Performance for Cattle Harvested in Iowa

* = record high/large
† = record low

Table 2	FY22, Q3 (this Qtr)	FY22, Q2 (last Qtr)	FY21, Q3 (year ago)	FY22, Q4 to-date
USDA-IA/MN dressed \$/cwt.	\$230.60*	\$226.45	\$199.57	\$223.86
Choice/Prime threshold, %	90.00	90.00	93.97	90.00
CAB threshold, %	31.78	32.41	32.45	27.44
Plant Average YG 4&5, %	28.97	24.86	24.82	34.20
% steers	57.70	52.40	67.51	49.72
Live weight	1,370	1,365	1,371	1,423
Carcass weight	870	862	871	903
Yield, %	63.50	63.15	63.49	63.43
Prime, %	17.71	20.71	20.53	22.68
Choice & Prime, %	93.09	94.44	94.74	94.12
CAB, %	32.48†	37.50*	33.27	29.03
Yield Grade 1&2, %	10.56†	13.81	13.18	9.45
Yield Grade 3, %	59.54	61.09	61.36	54.56
Yield Grade 4&5, %	29.89*	25.10	25.46	26.15
1050-1099 lb. heavy, %	2.62	2.07	2.02	5.44
1100+ lb. heavy, %	1.17	0.82	0.56†	1.65
QG premium/head	\$64.68	\$39.47	\$52.43	\$118.64
Formula Allowance/head	\$8.70	\$8.62	\$4.36	\$9.03
YG premium/head	-\$2.08	-\$2.36†	\$0.03	-\$3.91
Outweight discount/head	-\$6.22	-\$5.21	-\$3.04*	-\$6.29
Total premium/head	\$65.08	\$40.52	\$53.78	\$117.47
Top 25% premium/head	\$144.33	\$76.64	\$110.87	\$222.42