

## Having just Finished a Rights Offering Raise of \$200 Million in Additional Equity, Pilgrim's Corp. is Well Positioned to Strengthen its Capital Structure



**Consumer Goods**  
**Meat Products**  
**(PPC-NYSE)**



**William W. Lovette**  
**President and CEO**

**BIO:**

Bill Lovette joined Pilgrim's as President and Chief Executive Officer on January 3, 2011. He served as president and chief operating officer of Case Foods for the past two years. Before that, Bill spent 25 years with Tyson Foods in various roles in senior management, including President of its International Business Unit, President of its Foodservice Business Unit and Sr. Group Vice President of Poultry and Prepared Foods.

**Company Profile:**

For over six decades, Pilgrim's Corp. has produced healthy, high-quality food products that go into some of the world's finest recipes. We are dedicated to providing these wholesome, high-quality products at a great value, allowing everyone to eat well.

- Pilgrim's is the second-largest chicken producer in the world, with operations in the United States, Mexico and Puerto Rico. Our corporate headquarters is in Greeley, Colorado.
- We employ approximately 39,500 people and have the capacity to process more than 38 million birds per week for a total of more than 10.3 billion pounds of live chicken annually.
- Pilgrim's is ranked among the largest U.S. corporations, with net sales totaling \$7.5 billion in fiscal 2011.
- Approximately 4,100 contract growers supply poultry for the company's operations.
- Pilgrim's products are sold to food-service, retail and frozen entrée customers. The company's primary distribution is through retailers, foodservice distributors and restaurants throughout the United States and Puerto Rico and in the Northern and Central regions of Mexico.
- We currently operate in 14 U.S. states, Puerto Rico and Mexico. These states include Texas, Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, North Carolina, South Carolina, Tennessee, Virginia, West Virginia, Arizona and Utah.
- Pilgrim's operates 29 fresh processing plants and eight prepared foods cook plants. Five fresh processing and one prepared-foods cook plants are currently idle.
- Pilgrim's has 32 feed mills and 40 hatcheries supporting our plants.

- The company exports chicken products to customers in approximately 95 countries.
- JBS USA, a unit of JBS S.A. in Brazil, owns 75.3% of our outstanding common stock.

**Interview conducted by:**  
**Lynn Fosse, Senior Editor**  
**CEOCFO Magazine**

**CEOCFO:** Mr. Lovette, what attracted you to Pilgrim's Corp., and what skills and strengths do you bring to the table?

**Mr. Lovette:** Having spent two and one half decades at Tyson during its formative years, where it grew from roughly \$300 million in sales to \$27 billion in sales, the business model which Pilgrim's has assimilated primarily through acquisitions looked familiar. But more so than that, the intriguing thing about the company was that JBS, the world's largest meat company based in Brazil, is a global company wanting to grow a global chicken business and had begun this process by picking up 2/3 of the shares of Pilgrim's. Also, the chance to come in and make the changes necessary to put Pilgrim's on a trajectory to be one of the best managed and most respected companies was appealing to me. The affiliation with JBS gives us a great opportunity to create value in growing our export business from the US and becoming larger globally. This is because between now and 2050, Foreign Ag Service estimates that the world population is going to grow to 9 billion and there is going to be a huge increase and demand for protein. With chicken being from a value standpoint one of the best values for healthy protein on the planet, it speaks well of

the opportunity. Therefore, being aligned and affiliated with JBS helps make that a lot easier to do as opposed to an independent company.

**CEO CFO:** What strategies have you put into place and where is Pilgrim's today?

**Mr. Lovette:** After we hit the ground running last January, we put a strategy in place. Within four months of constructing and vetting, we realigned the organization to fit the strategy. The strategy is really built on four foundational pillars. One is we know we have to get much better in our cost and yields. Operational excellence is what we call that and we use a lot of benchmarking tools to sort of know where we are relative to the rest of the industry, with things like end cost, inefficiency, end yields, end mix and sales cost impact. All of those are key performance indicators and we have a system in place to track that relative to where we are in the industry. We plan to continuously improve those numbers. So, pillar number one is the relentless pursuit of operational excellence.

Pillar number two of our strategy is to be a valuable partner with our key customers. One thing I know is that Pilgrim's had a lot of really strong relationships, but I thought there was more value we could add in going to our customers and talking about joint value creation. For example, we are doing much more category management with our retail partners today than what was in the past. It certainly opens some eyes on the part of the retail community. They have not seen Pilgrim's do much of that in the past, but we think that is going to add value to both our customers and to our company. On the food service side of the business, we are putting in place an operator strategy to get closer to the end users of our food service products that help grow that business and make it more valuable for our customers and their customers.

The third pillar of the strategy is really more over arching and plays into everything we do. Pilgrim's Pride was

historically centrally organized and the idea was most of the decisions were made up top and sort of dragged it downward. People in middle management and even upper middle management just carried out the direction from just a few people at the top. One of the strategies was to create ownership and accountability and drive that much deeper into the organization. An example of what we did there was we created a P&L for each individual plant that we have. Therefore, we are now holding those local managers accountable for their own P&L and for the first time in the history of the company, we built our business plan for 2012 from the ground up. Our local people out in the plants built that plan and all we did here at the corporate level was consolidate the plan. Now we hold those local managers accountable for the plan that they designed and they truly

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owned, which will help us with accountability in ownership and drive better results.

**CEO CFO:** Did you find that most of your managers were onboard with the concept of taking ownership or did you need to do a fair amount of replacing personnel?

**Mr. Lovette:** We did a fair amount of replacing of management. That part of the process began when my predecessor Don Jackson got on board here. He came in during the bankruptcy and began to make some changes in the key personnel. I just sort of took that same ball and kept rolling it up the hill or downhill. Then the fourth and final and maybe one of the more important pillars of the strategy is growing our export volume and doing it with value-added products as opposed to just by-products, which was what was done in the past. We grew our exports last year at 40% and we are going to grow them again double-digit this year. We are dedicating

one of our US plants solely for a specific foreign market and tailoring our products for that market. We also have a team in place to sell nothing but some of our prepared food products to foreign markets and that is going to be something that differentiates us from most US companies. However, what those companies will find out is there is value to their business and we will most likely get some followers. Therefore, we will have to have some strategies in place to stay ahead of the competition, because you will see more and more US chicken products exported in the future, owing to the global protein demand growth and the fact that chicken is the best value product out there among chicken, beef, pork.

**CEO CFO:** What are the numbers involved, and why are countries unable to produce their own poultry?

**Mr. Lovette:** In the US, the chicken industry produces roughly 37 billion lbs. of ready-to-cook chicken a year and that is the largest in production counts on the globe. The industry exports about 20% of our production annually and our top export markets are Mexico, Hong

Kong. We also export a great deal to the Middle East, Africa and South East Asia, which are growing markets for us as well. The average weight per bird is now roughly 5 ¾ lbs. per head. That has continued to grow over the recent years, just from a cost efficiency standpoint. It is probably going to stabilize for a year or two, but eventually that may go up as well. To your question regarding why it is difficult for smaller countries to develop their own industry. It still takes around 2 lbs. of feed to produce 1 lb. of live animal, such as chicken. North America, the United States really, Brazil and Argentina are the three places on the western hemisphere that have enough suitable land to grow the crops that go into the feed. On the eastern hemisphere, it is much more limited. Eastern Europe or the former Soviet states produce quite a bit of grains and along the coast of China particularly the northeast coast of China there is some growth. However, China is not going to be able to grow

enough crops to meet its demands. That is why you are going to see meat production basically take place close to where these feed ingredients are grown, because it is much more cost effective to produce the meat. They do not have to haul 2 lbs. of feed for 1 lb. of chicken. If you put that on a boneless, skinless chicken breast basis, it takes about 3 lbs. of feed to produce 1 lb. of boneless, skinless breast. Whereas, it takes about 11 lbs. of feed to produce 1 lb. of boneless, skinless pork and around 18 lbs. of feed to produce boneless, skinless, beef. Therein lies the reason why chicken is much more of a value proposition in terms of protein around the globe.

**CEO CFO:** How does Pilgrim's ensure quality when you are shipping to remote locations?

**Mr. Lovette:** First of all, the structure of the chicken industry is more conducive to producing expected quality than some of the other animal protein industries. We are vertically integrated, which means we own and control the process from the day that baby chicken is one-day old. We own that chicken and we have contract farmers grow those chickens in their farms, but we provide technical assistants, veterinarian services and management help. We have one of our own managers that are responsible for a number of those contract growers and they are at those farms on a constant basis. We provide our managers in the field a vehicle and their entire job is going from farm to farm checking on their chickens, while they are in the growing stage. If they detect an issue, then they can call in a veterinarian or give the farmer advice as to changes to make. Therefore, we are managing those chickens throughout their lives.

When they get to market age, we go with our vehicles, pick those chickens up at the farms and haul them to our plants. We bring them to the plants and all of our plants have our own quality management plans. They are under supervision by USDA as mandated by the meat and poultry inspection act, where every single bird has to be inspected by a government inspector. We also have our own quality

staff that monitors all the processes in our plants, making sure that our standards, which are actually higher than USDA standards, are met on a continuous basis.

We have a lot of back testing we do of those processes and we test many of the products for various attributes. Our HACCP plan calls for a pre-shipment inspection such that we know before we ship if there is an issue with the product. Then, as it relates to exports, when we export products, it is under authority from USDA, on a USDA export certificate. This ensures that we have met the requirements for whatever country we are exporting to and the regulatory requirements. Then we ship by truck on either our truck or the common carriers truck, which is a truck we hire. It is shipped and managed through a cold chain that is very precise and keeps the product at very precise temperatures and conditions. Then, it is maintained that way all the way through the process of shipping either on a shipping container or bulk carrier. In addition, we have ourselves staffed out in the field globally to routinely check on product in the market in which it is transported and sold to ensure our expected quality is there.

**CEO CFO:** What is Pilgrim's most popular product and what is up and coming?

**Mr. Lovette:** Pilgrim's Pride has been involved in the prepared food business for a number of years. We do all the standard fully cooked breast filets, fully cooked wings, breast strips and blazing wings. We have a brand that is very popular at deli and food service called Pierce brand, which was part of the acquisition a few years ago. It has many innovative products under Wing Ding, and Wing Zing. We are now taking those brands globally and selling them in foreign markets. This past year, we had some really good line extensions that we did. We have a new honey-dipped chicken breast strip that we are selling at retail that is going very well. We did a licensing agreement using the Captain Morgan Rum brand as a glaze or sauce to a wing and breast chunk product that is hitting the market well and has gotten some very good re-

views by consumers initially. We launched a chicken bacon product this past year and it is doing well. We take boneless, skinless, thigh meat and make a bacon product that is really better than what you will find in other poultry based bacon products out there.

**CEO CFO:** Do many people buy chicken by brand and how do you encourage more of that?

**Mr. Lovette:** The consumers do pay attention to brands. It goes back to the quality that they have become accustomed to and brands that they can trust. Product innovation is important to keep consumers interested in meat products and different ways of consuming products, so brand is important. On the other hand, store-owned brands have become very popular. They represent quality, innovation and value for consumers. We have actually seen more growth in the product label category, store-owned brands than some of the national brands in the few years. Therefore, we participate both in our own brands and we are a heavy participant in store-owned brands as well.

**CEO CFO:** Are there areas of the chicken business where Pilgrim's would like to be involved than you are now?

**Mr. Lovette:** In the future, having more operations globally will be appealing to us, so that we can get closer to some of the local markets that we are growing in. We have a great business in Mexico and that will continue to grow. In addition, we are looking for opportunities in other parts of the world as well. Other than that, our focus is staying on track with our four point strategy that I laid, and getting the capital structure of our company in better order. We have done lots of things recently to improve our capital structure and improve our financial position.

**CEO CFO:** What is the financial picture of Pilgrim's Corp. today?

**Mr. Lovette:** Pilgrim's went into bankruptcy and came out of bankruptcy in 2009 with JBS acquiring 64% of the stock. The company came out of bankruptcy with basically \$2 billion in debt. We have reduced that now to

under \$1.5 billion. We went through probably the worst economic year in the industry's history in 2011, and we lost something just short of \$500 million in net income. However, we did a really good job of managing our working capital, preserving cash, and maintaining a balance sheet, which got us through that. We just finished a rights offering where we raised \$200 million in additional equity that we are going to use to pay down some more

of that debt. We believe that by the end of this year, we can have our capital structure at a much better position than it has been in the recent past.

**CEO CFO:** In closing, why should investors pay attention to Pilgrim's Corp. today?

**Mr. Lovette:** We are a different company than Pilgrim's has been in the recent past. We have a very strong

affiliate in JBS, which now owns roughly 75.3% of our stock. They are very committed to helping us grow our company and become a stronger company globally. Our business model has changed, and our strategy has changed. This will result in a much better financial position, and a more stable, consistent financial position in the future.



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