FRIONA INDUSTRIES, L.P.

Producing For A Brand

Tri-State Beef Conference
August 12, 2014
Friona’s Numbers

- Third largest cattle feeding co. in U.S.
- Four yards in the Texas Panhandle
- Purchase and market 750,000 head
- 15,000 head per week bought/sold
- One time capacity 300,000 head
- 190 total employees
Focus

- Consistent supply of high quality cattle
- Consistent ration
- Utilization of capacity
- Employee buy-in
BUSINESS SYSTEM

A Competitive Advantage For An Uncertain Industry

- Vertically Aligned Production System aligned with CMS
- Focus on a standardized high quality end product
  - produced by a standardized production system
End Users Expectations

Consistent Raw Product That Provides

- High Quality Grade
- High Fabrication Yield
- Consistent Tenderness
- Consistent Volume
Managing Risk

- Hedging Platform
- Timely Marketing
- Building relationships for buying feeder cattle
  - Forward Contracting
  - Back grounding
<table>
<thead>
<tr>
<th>Item</th>
<th>Appropriate Futures Contract</th>
<th>Symbol</th>
<th>Exchange</th>
</tr>
</thead>
<tbody>
<tr>
<td>Slaughter Cattle</td>
<td>Live Cattle</td>
<td>LC</td>
<td>CME</td>
</tr>
<tr>
<td>Feeder Cattle</td>
<td>Feeder Cattle</td>
<td>FC</td>
<td>CME</td>
</tr>
<tr>
<td>Corn</td>
<td>Corn</td>
<td>C</td>
<td>CME</td>
</tr>
<tr>
<td>Wheat</td>
<td>Wheat (KC)</td>
<td>KW</td>
<td>KCBOT</td>
</tr>
<tr>
<td>Silage</td>
<td>Corn</td>
<td>C</td>
<td>CME</td>
</tr>
<tr>
<td>Sweet Bran</td>
<td>Corn</td>
<td>C</td>
<td>CME</td>
</tr>
<tr>
<td>WWDG</td>
<td>Corn</td>
<td>C</td>
<td>CME</td>
</tr>
<tr>
<td>Natural Gas</td>
<td>Natural Gas</td>
<td>NG</td>
<td>NYMEX</td>
</tr>
<tr>
<td>Unleaded Gasoline</td>
<td>Unleaded Gasoline</td>
<td>RB</td>
<td>NYMEX</td>
</tr>
<tr>
<td>Diesel</td>
<td>Heating Oil</td>
<td>HO</td>
<td>NYMEX</td>
</tr>
<tr>
<td>Interest Rates (Short)</td>
<td>Euro Dollar Libor</td>
<td>ED</td>
<td>CME</td>
</tr>
<tr>
<td>Interest Rates (Long)</td>
<td>U.S. Treasury 10 Year Note</td>
<td>TY</td>
<td>CME</td>
</tr>
<tr>
<td>U.S. Dollar</td>
<td>U.S. Dollar</td>
<td>DX</td>
<td>CME</td>
</tr>
</tbody>
</table>
Benefits To FI Branded Program

Creation of Brand Equity

Attributes for Differentiation

• Timely Marketing
• Source and process verification
• Consistency/uniformity of end product
• Predictable/dependable supply
• Differentiated food safety
  – HACCP controlled production/distribution system
• Differentiated eating experience
  – Tenderness
    Electrical stimulation
    Aging
<table>
<thead>
<tr>
<th>LOGO</th>
<th>BRAND</th>
<th>OWNER</th>
<th>TARGET MARKET</th>
</tr>
</thead>
<tbody>
<tr>
<td><img src="image" alt="RR Logo" /></td>
<td>Rancher’s Registry</td>
<td>Cargill</td>
<td>U.S. Food Service</td>
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<tr>
<td><img src="image" alt="RR Reserve Logo" /></td>
<td>Rancher’s Reserve</td>
<td>Safeway</td>
<td>1720 Retail Stores – All 10 Divisions</td>
</tr>
<tr>
<td><img src="image" alt="HTR Logo" /></td>
<td>Harris Teeter Rancher</td>
<td>Harris – Teeter</td>
<td>160 Stores – Carolinas &amp; Atlantic Coast</td>
</tr>
<tr>
<td><img src="image" alt="TR Logo" /></td>
<td>Tender Ridge Angus</td>
<td>Spartan Stores</td>
<td>300 Retail Stores – Michigan</td>
</tr>
<tr>
<td><img src="image" alt="PR Logo" /></td>
<td>Preferred Angus</td>
<td>Spartan Stores</td>
<td>300 Retail Stores – Michigan</td>
</tr>
<tr>
<td><img src="image" alt="HVB Logo" /></td>
<td>HyVee – Blue Ribbon</td>
<td>HyVee</td>
<td>300 Stores in Iowa</td>
</tr>
<tr>
<td><img src="image" alt="S&amp;D Logo" /></td>
<td>Sutton &amp; Dodge</td>
<td>Sutton &amp; Dodge</td>
<td>160 Super Targets in U.S.</td>
</tr>
</tbody>
</table>

**3000 Stores & Food Service**
PROCUREMENT

The Constant Arbitrage
For Quality, Quantity, and Value
Geographical Regions for Preferred Open Procurement

Region 1
Preferred Suppliers: 4
Preferred Suppliers: 2
Preferred Backgrounders: 3

Region 2
Preferred Suppliers: 5

Region 3
Preferred Suppliers: 10
Preferred Backgrounders: 3

Region 4
Preferred Suppliers: 8
Preferred Backgrounders: 3

Region 5
Preferred Suppliers: 2

Region 6
Preferred Suppliers: 5
Preferred Backgrounders: 3
<table>
<thead>
<tr>
<th>State</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Region 3 (Texas)</td>
<td>33.29%</td>
</tr>
<tr>
<td>Region 4 (OK, KS, MO, AR)</td>
<td>24.78%</td>
</tr>
<tr>
<td>Region 6 (Southeast US)</td>
<td>29.36%</td>
</tr>
<tr>
<td>Region 2 (NM, AZ)</td>
<td>10.41%</td>
</tr>
<tr>
<td>Region 1 &amp; 5 (Northwest &amp; East)</td>
<td>.60%</td>
</tr>
</tbody>
</table>
Sourcing Feeder Cattle for a Brand

**Background**
- Feed/pasture
  - Balanced low starch diet
  - No high risk cattle
- Health
  - Long time weaned
  - 2 doses + modified live IBR, BVD type I & II
  - 8Way Clostridial
  - Internal/external parasite control

**Quality**
- English/English x Continental
- 75% + Black hided (English)
- Steers < 750 lbs
- Hfrs < 700 lbs
Sourcing Feeder Cattle for a Brand

- Quality
- Tenderness
- Health
- Background
What Does It Mean?

• We can finally plan, instead of react
• We can focus on a consistent target
• We can build an organization to fit a single task
• We can fully optimize our production capability
• Size matters, but consistent size is huge
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