

HAPPY HOLIDAYS – Outlook for 2012

As another year comes to a close, we reflect on the events of the past year and look forward to 2012.

As always, it was an eventful year for the U.S. poultry industry. Broiler producers are happy to see 2011 come to a close. A record amount of chicken production, coupled with biofuels-era feed costs, made for a miserable 2011, reflecting the greatest losses ever for the industry. After two years of significant losses in the turkey sector, sharp and sustained reductions in supply allowed the industry to recover some of its equity in 2010 and again in 2011. In short, turkey producers adjusted to higher feed costs, resulting in increased meat prices which returned them to profitability. Egg producers continued to show restraint (as compared to other U.S. protein sectors) and enjoyed relatively stable profits, as 2011 marked the fifth straight year of positive margins. Given the “hohum” nature of margins in what has historically been a cyclical business, the landmark agreement between the United Egg Producers and the Humane Society of the United States was probably the landmark event for egg producers in 2011.

SO WHAT DOES 2012 BRING FOR THE POULTRY INDUSTRY?

Fortunately, all sectors of the poultry industry expect to benefit from softened corn and soybean meal prices driven by global supply and demand factors. The broiler segment began reacting mid-year 2011, with a sharp reduction (7%-plus) in egg sets which in late November led to the first reduction in meat production in 2011 versus 2010. Moreover, reductions in the breeder flock have resulted in the smallest flock since 1996, a welcome statistic indicating a longer-term reduction in supply (as opposed to a short-term impact achieved by destroying eggs or chicks). If broiler producers can be disciplined on the supply side, including keeping market weights manageable, hopefully there will be a return to profitability.

In the turkey sector, continued supply constraint, strong product demand, and lower feed prices add up to 2012 being a better year than 2011. With reductions in beef and chicken production also predicted – and a resulting overall drop in total meat/poultry production – this could very likely be the case.

With a modest increase in egg production forecasted, and in light of U.S. population growth, 2012 is predicted to be the third straight year that per capita production of eggs has declined. This should result in a sixth consecutive year of positive margins for the industry. Lower per capita supply coupled with lower feed prices mean 2012 margins should exceed those of 2011.

Despite a positive profitability outlook for all sectors of the poultry industry in 2012, we also know that 2012 will bring with it several additional challenges. Most notably in our minds is our industry image challenge. We are increasingly under pressure from animal activist groups whose agenda is to put us out of business, as the recent undercover video at Sparboe Farms sullenly illustrates. Though we know they don't reflect the views of most of the general public, they are having an impact. Implementation of best practices (many of which we noted in Volume 1, Issue 1 of NUTRIQUEST NEWS) at our farms is increasingly important. Also, supporting our industry's efforts, and those of the newly formed Farmers and Ranchers Alliance (see related article “USFRA & Discovery Communications Partnership” in this issue of NUTRIQUEST NEWS) will be critical as we attempt to educate the public regarding our noble profession of raising protein for a growing world. *(continued)*

Look for the NUTRIQUEST Team in 2012

The NUTRIQUEST team is gearing up for 2012 and preparing to participate in many swine, dairy and poultry tradeshow and conferences throughout the year. We have compiled a list of events where our team will be present. Feel free to give us a call to arrange a meeting during one of these upcoming events. We look forward to serving you in 2012!

MN Pork Congress

(January 18-19, Minneapolis, MN)

BANFF Pork Seminar

(January 17-21, Edmonton, Alberta, Canada)

International Poultry Expo

(January 24-26, Atlanta, GA)

IA Pork Congress

(January 25-26, Des Moines, IA)

Illinois Pork Expo

(January 31-February 1, Peoria, IL)

Nebraska Pork Day

(February 20, West Point, NE)

Nebraska Poultry Industries Convention

(February 22-23, Norfolk, NE)

Purchasing and Ingredient Suppliers Conference

(March 12-16, Orlando, FL)

Midwest Poultry Federation Convention

(March 14-15, Saint Paul, MN)

Midwest Animal Science Meetings

(March 19-21, Des Moines, IA)

World Pork Expo

(June 6-8, Des Moines, IA)

Joint Animal Science Meetings

(July 15-19, Phoenix, AZ)

Allen D. Leman Swine Conference

(September 15-18, St. Paul, MN)

World Dairy Expo

(October 2-6, Madison, WI)

Cornell Nutrition Conference

(October 16-18, Ithaca, NY)

HAPPY HOLIDAYS – Outlook for 2012 (continued)

AND WHAT DOES 2012 BRING FOR NUTRIQUEST?

We will continue to be driven by trying to help producers address the challenge of historically high feed prices. For 2012, we hope to further increase producers' use of our ILLUMINATE® Services DDGS utilization tool. Several producers have begun implementing ILLUMINATE Services in 2011 and several more have plans to do so in 2012. The introduction of BIOSTRONG® phytogenic feed additive will also continue. BIOSTRONG, produced by Delacon, is the most widely used phytogenic in the world.

We extend our heartfelt thanks for our association, and wish you a prosperous New Year.

Sincerely,

Ken Purser, *General Manager*

Economics Drives Oil Extraction *by Dr. Rob Musser*

The rush to oil extraction in the ethanol industry is driven by pure economics. The value of corn oil today is about \$0.40 per pound. The value of oil in DDGS is the same as the selling price of the DDGS or about \$0.10 per pound. Thus, oil extraction increases the value of the oil by about \$0.30 per pound. A 100 million gallon ethanol plant produces about 900 tons of DDGS per day typically containing 10.7% oil. By using centrifuge technology the plant can extract oil to result in DDGS with 7.2% oil, a reduction of 3.5 percentage units and 70 lb of oil per ton of DDGS. On an annual basis the plant will produce about 11,000 tons of corn oil and gain \$6.6 million in additional value from the same amount of corn as processed before oil extraction. Moreover, the equipment required to gain this value can easily be paid for within one year of operation, well within the investment hurdle rate for most companies. This is why the industry extracts oil, purely a simple business solution.

Other ethanol industry dynamics are also fueling the implementation of oil extraction. The US government's decision to eliminate the ethanol blending credit (\$0.45 per gallon) and uncertainties surrounding the extension of the import tariff (currently \$0.54 per gallon and scheduled to expire at the end of this year) are forcing ethanol producers to search for avenues to insure the sustainability of their businesses. These factors combined with the industry's transformation from a very fragmented industry with many small



Big River Resources, LLC.

players to an industry where the six largest ethanol companies now control 30% of the ethanol plants and 40% of the industry's production capacity are driving change. Experienced, professional managers recognize that financial performance and profitability are more closely tied to energy markets rather than feed markets. This realization and the drive to insure sustainability has resulted in an unprecedented rush to evaluate and implement all profit-improving new technologies, with oil extraction being the first of many.

Which Ethanol Plants Are Not Extracting Oil? *by Dr. Rob Musser*

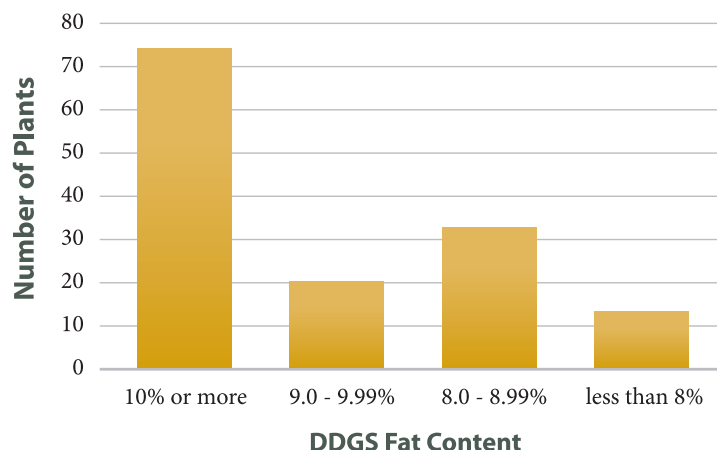
The buzz in the DDGS market today is oil extraction. Feeders of DDGS want to know which plants have begun doing it and even more importantly which plants have not. To compound the difficulty in obtaining accurate information, many ethanol plants are extracting oil without notifying their DDGS customers. Our ILLUMINATE database with nutrient loadings for 140 different ethanol plants can help sort out the facts. Figure 1 shows that of the 140 plants in the database, 66 plants (47%) are doing some oil extraction (fat content less than 10%). Moreover, there are 46 plants selling DDGS with less than 9% fat which is a reduction of almost 2 percentage points from a typical DDGS fat level of 10.7%. Equally important to note is the range in DDGS fat levels. Using a book value fat level of 10.5% when the DDGS actually contains 8.5% will likely result in less desirable feed conversion and reduced bird performance. *(continued)*

Which Ethanol Plants Are Not Extracting Oil?

(continued)

As the ethanol industry moves to more oil extraction, buyers of DDGS must be careful to monitor DDGS fat and energy levels. Equally important to gaining maximum value from feeding DDGS is the need to identify ethanol plants producing DDGS that have not been compromised by oil extraction. Producers subscribing to the ILLUMINATE DDGS monitoring tool from NUTRIQUEST have a low-cost, accurate and timely method for doing both. NUTRIQUEST will keep you updated as new research is available.

Figure 1. Number of Plants in Each Fat Category



USFRA & Discovery Communications Partnership *by Steve Weiss*

U.S. agricultural production – like all other industries in our capitalistic society – has significantly increased its technological efficiency and consolidated, resulting in fewer participants “on the farm”. Our efficiency in food production has led to a greater proportion of our population engaged in other professions such as services and high tech industries. While we have developed the world’s most efficient food production system, with an unparalleled emphasis on safety, environmental and animal welfare management, this shift has led to a serious disconnect between the average U.S. consumer and the farm.

Meanwhile, animal activist organizations have proactively and systematically telegraphed to the American consumer a biased, unscientific and negative view of U.S. agricultural practices. Many of these organizations are well funded and managed, and desire, quite simply, to put us out of business. Their tactics – like the undercover videos at Iowa Select Farms and Sparboe Foods in 2011, used to pressure giant retailers into terminating supply relationships and mandating changes in production practices – are effective and seriously damaging.

The U.S. Farmers & Ranchers Alliance is a recently formed alliance that, for the first time, unites the various agricultural organizations (from grains to meat, milk and eggs) to proactively and systematically communicate our message. And in the early market survey work of the USFRA, it is evident that we have an uphill battle. Though consumers generally have a positive feeling for “farmers” and “ranchers”, they associate such feelings with “farmers market farmers” as opposed to today’s farming and ranching enterprises, which they view negatively as large agribusiness concerns. If you haven’t studied this very worthwhile alliance, we encourage you to check-out the USFRA web site at <http://usfraonline.org>.

Recently, the USFRA developed a partnership with Discovery Networks to help Americans learn more about how food is grown.

Check out www.fooddialogues.com to view videos, featuring real farmers and ranchers answering real consumers’ questions about the agricultural community’s commitment to continuous improvement and the role farmers and ranchers play in providing healthy choices for people everywhere.

The videos reinforce farmers’ and ranchers’ commitments to having a conversation with consumers and answering questions



about food production. They are meant to reinforce these important messages and stress the Food Dialogues themes launched by the USFRA in September. Even more importantly, they reflect USFRA’s overarching strategy and key learnings from message research.

The documentary-style videos which are wholly or partially funded by Checkoff programs began airing across the Discovery Communications’ networks (TLC, Discovery, Discovery Science, Discovery Fit & Health, Identification Discovery, Planet Green and Animal Planet) on November 14 and will continue to run through December 25, 2011. Perhaps you have seen some of them.

We are a strong believer in the work being done by the USFRA and this partnership. This effort will only be effective if it is widely heard, so we sincerely hope that you will share this information with your network (suppliers, customers, friends, family) to help encourage Americans to learn more about how their food is grown and raised. Please have a seat at the growing table, and join in on the conversation.