



VOICES OF CHANGE

How U.S. Premium Beef rewrote the beef marketing narrative.

Necessity is the mother of invention, so the saying goes.

When the need for change rises so high, eclipsing fear and doubt, it prompts new thinking and leads to uncharted territory.

The origin story of U.S. Premium Beef (USPB) reveals this clearly.

The beef cattle business of the '80s and '90s was completely different than where it stands today. At best, product quality was average; consumer demand waned; and the supply chain struggled with commodity prices and inconsistent market access.

Because of that landscape, the entire industry stood watch when

USPB delivered its first load of cattle for processing on December 1, 1997. Many hoped the tide would change.

In the years to come, USPB's value-based grid marketing unlocked millions of dollars in producer premiums, carcass data expedited

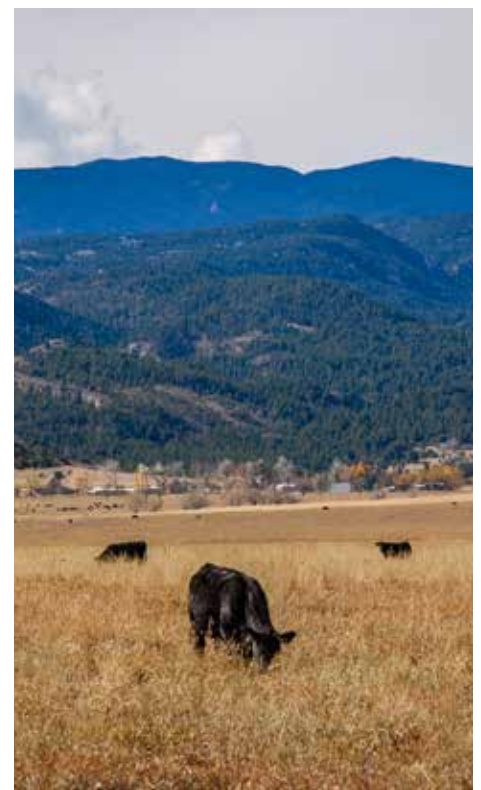
genetic progress and market access kept operations in business for the long haul.

But like all things, it did not come easy or overnight.

USPB was built on individual stories of cattle producers, feeders, managers and financial experts — all willing to take a chance to reclaim their hand in the beef market.



25
YEARS
USPB



continued on page 2

continued from page 1

Now, 25 years later, former and current board members recount this history.

Coming together

Thinking back on the summer of 1995 still makes Terry Nelson sweat.

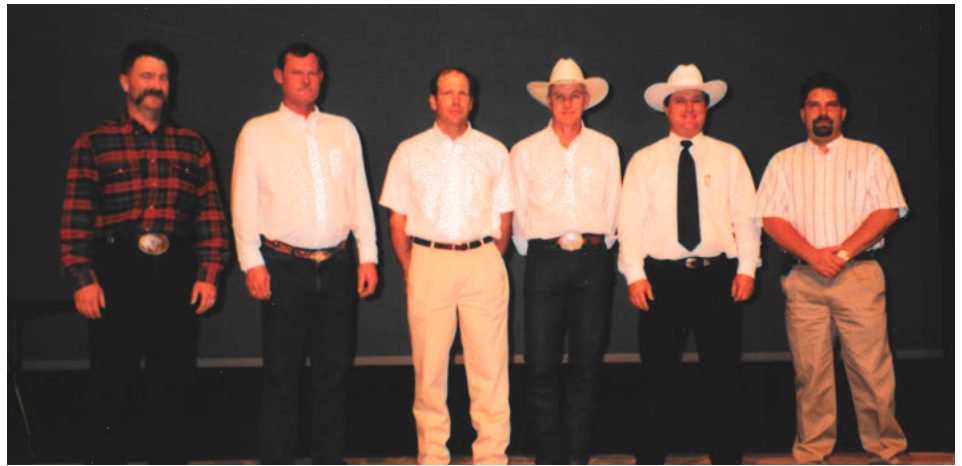
His family's business, Nelson Ag Companies, is located near Long Island, Kansas, along the Nebraska border.

They would often ship loads of backgrounded cattle some 150 miles south to Scott County, Kansas. The area's feeding industry boomed in the 1970s and remains one of the largest in Kansas.

By the mid-'90s, however, feeders were growing frustrated by the minute.

Nelson recalls that in June 1995, he had seven pens of fat cattle sitting in the feedyard. They went three weeks without a single bid. After giving up and shipping some of them to Nebraska, the cattle brought \$1.50 more per hundredweight than what they were going for in Kansas. And this was not an isolated case.

"All of the feedyards were pretty upset with how the packers were playing the game," Nelson says. "We knew what we were doing was not going to work in the future."



Pictured is USPB's first board of directors. From left to right: Mark Gardiner, Terry Ryan, Terry Nelson, Doug Laue, Kelly Giles and John Fairleigh. (Not pictured: Raymond Adams)

United in their common frustration, a group of feedyard managers and ranchers started meeting at different feedyards around Scott City, Kansas. Late into the night, they weighed ideas like establishing a closed cooperative, purchasing a packing plant or even building one themselves. Whatever it took to improve the situation.

"Fear and desperation are powerful motivators," Nelson says. "Our backs were really against the wall and we needed to change that dynamic."

After a time, people began to open their checkbooks. Feeders offered \$1 per head to help put ideas in motion. With this funding in hand, Nelson and others on an exploratory task force started laying the groundwork for what was to come.

Pressure mounts

To the south, 35-year-old Mark Gardiner faced a similarly bleak situation.

For more than a century, the Gardiner family made a living caring for cattle and the land near Ashland, Kansas. His father, Henry, was an industry trailblazer, advancing Angus genetics by taking data and information to the next level.

As a teenager, Gardiner remembers going with his dad into packing plants to record carcass data. At that point in time, if you wanted to know how cattle performed on the rail, you had to gather it yourself.

Even though the market was not rewarding end-product merit at the

continued on page 3

1995

NOVEMBER:
Cow-calf producers meet to discuss a potential concept.

DECEMBER:
Several feedlots representing more than 2 million head agree to pursue a business plan.

FEBRUARY:
Steering Committee is formed.

MARCH:
USPB name is created.

APRIL:
Producers host meetings to discuss strategic plan.

JULY:
USPB officially forms. The process began in hopes of forming a partnership with an existing beef processor.

AUGUST - DECEMBER:
USPB producer meetings are hosted in several High Plains states. There is significant interest nationwide.



continued from page 2

time, it was an investment toward improving their genetic base, offering that to their customers and, ultimately, consumers at the meat case. So the Gardiners continued going into plants, collecting data, and hoping on a prayer it would be rewarded someday.

As a young man getting his footing, Gardiner quickly became frustrated by the way their cattle were priced coming out of the feedyard. Often, they were grouped and sold with lower value animals. The same price for all.

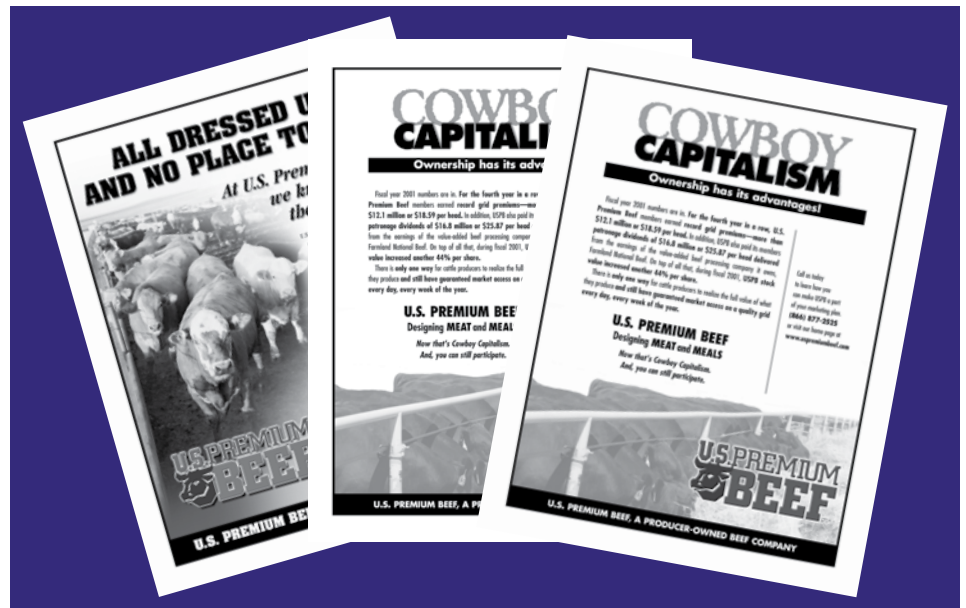
“Through the ’80s and early ’90s, there were no incentives,” Mark says. “So I started to become very fired up about our cattle being average price.”

Even worse, research studies revealed an entire industry in peril.

The National Beef Quality Audit, released in 1991 and 1995, reported one in every four steaks was considered bad, animal handling practices were less than ideal and consumer demand was on a downward trajectory.

Beef industry legend Harlan Ritchie of Michigan State University authored a paper titled *Five Years to Meltdown*, suggesting the rate at which beef was losing market share, it would not be a relevant protein in five years.

With no market incentives to improve and consumer interest on the



USPB officially launched in July 1996. These print ads and news releases from the early days told cattle producers about the newly formed closed beef cooperative.

decline, something had to change. Like so many others, Mark felt the pressure personally.

“At that time, we had two-year-old twin boys and a family business to protect,” he says. “I was scared; we were all scared. And we were losing market share.”

An idea in motion

Meanwhile, Nelson and the initial task force gained momentum.

He and many others spent hours on the road attending weekly meetings to rally support to form a marketing cooperative.

In November 1995, one such meeting in Hays, Kansas, attracted more than 20 cow-calf producers with an interest in owning cattle all the way through value-added processing.

As conversations grew, the network expanded and captured the attention of ranchers, feeders and business managers across the state and nation. Among them was Steve Hunt, a banking expert with extensive experience with cooperative lending.

Hunt was quick to call on Kansas State University fraternity brothers,

continued on page 4

1996

ATTENTION: BEEF PRODUCERS
Are you interested in learning more about the beef you produce and getting paid the full value from the beef cattle you market?

U.S. Premium Beef, Ltd., a closed cooperative for beef producers, will conduct a meeting at the PivBlissburg 4-H Center, November 25 at 7 p.m. to explain their plan for adding value and getting information along with increased profits back to its members. USPB's goal is to market one million head of cattle annually through its new cooperative. It already has more than 750,000 head committed from producers in eight states. If you would like to learn more about USPB's plan to provide an economic incentive to producers to improve beef quality and how you can become a member of this closed cooperative come listen to USPB Board Chairman Terry Nelson and CMO Bill Miller this Tuesday evening. For more information call Bill Miller at 913-529-5016.

NOVEMBER:
Nov. 21, 1996. Norton, KS, *Daily Telegram* runs the “Attention: Beef Producers” notice.

JULY:
USPB signs a letter of intent partner with Farmland Industries to purchase up to 50% of Farmland National Beef Packing Company (FNB).

OCTOBER:
USPB begins stock offerings to complete the purchase of an interest in FNB.

NOVEMBER:
USPB officially purchases an interest in FNB.

DECEMBER:
First USPB cattle arrive at plants in Dodge City and Liberal, Kansas.

1997

EARLY PERSPECTIVES

“The potential to shake up the industry is real. If you want to see things change quickly, you put the premium at the grassroots level.”

— *Dr. Don Good*, former K-State Animal Science Department Head, September 1996

“This is the first real beef marketing innovation in my lifetime. If it flies, and I think it will, it will change the marketing system for cattle in the United States.”

— *Mr. Raymond Adams*, Maple Hill, Kansas, founding USPB Board member, September 1996

continued from page 3

including Mark Gardiner, to weigh in on the concept. The two met over lunch in Medicine Lodge, Kansas, and shared ideas and hopes for what the company could become.

By early 1996, commitment to the cause was strong. More than 150 producers, representing 80,000 head of cattle, and a group of cattle feeders with more than 250,000 head, made a commitment to finance and develop a business plan.

In July 1996, USPB officially launched.

An office was set up in Manhattan, Kansas, and the first full-time employees were hired. Steve Hunt

was selected as chief executive officer, and a consulting attorney was hired shortly thereafter.

With a new USPB board of directors, of which Nelson chaired and Gardiner was a member, the objective moved to vetting out potential processing partners and recruiting members into the closed beef cooperative.

“By managing a ‘conception to consumption’ beef system, we believe we can make strides towards regaining lost market share to competing meats,” Hunt wrote in a news release dated August 12, 1996. “With the right arrangement in the

beef processing sector, we can provide more incentive for producers to deliver consistent, high-quality beef.”

The months that followed have been remembered as the “Blue Sky Tour,” where USPB advocates sought producer members and worked toward securing a processing partnership.

They hosted producer meetings in small-town community halls and attended sessions in corporate board rooms with packer executives, hoping to simultaneously build supply and secure a market.

For some, the concept was met with enthusiasm. For others, it was not.

“It was pretty brutal at times,” Gardiner says. “We had a lot of disagreements and challenges. But at the end of the day, we were all in it together. We had to figure it out. Failure was not an option.”

Betting on the future

A listening ear in the early days was Wayne Carpenter, a cattle feeder from Brewster, Kansas. He says he kept an open mind when he first heard of the USPB concept during a meeting in Hays. But he wasn’t ready to go all in until he knew how the processing partnership would turn out.

Hours of hard work, conversation and planning culminated in July 1997.

USPB announced it signed a letter of intent to purchase up to 50% of Farmland National Beef Packing Company (FNB) — the nation’s fourth largest beef processing company and an international leader in the value-added arena.

“Right then, I knew we had a market,” Carpenter says. “That’s when I decided I was going to go for it.”

continued on page 5

continued from page 4

He met with his banker to secure the needed \$55 per head investment for the right to market cattle through USPB. Deeming the loan too risky, the bank turned him down.

But Carpenter was desperate and wouldn't let that be the end of the story.

"Market access was my biggest issue," he says. "I just couldn't get cattle sold when they needed to be, and I was ready to quit."

Carpenter sought out a banker who clearly understood the risks and rewards of cattle feeding. He found a trusted advisor in Duane Ramsey, of Security State Bank, in Scott City.

Ramsey started his banking career there in 1962. The community's first commercial feedyard was built two years later, and the industry continued to grow from there.

He was seated in the crowd during the early days of exploration by the Scott County group.

"I could see this real need," Ramsey says. "As many feedlots as we had, I was quite familiar with the concept of U.S. Premium Beef. So it was easy to talk me into financing them, because I understood the value."

Security State Bank loaned Carpenter the money, and the rest is history. Today, Carpenter Cattle Co. markets nearly 95% of their fed cattle through USPB.

"It's the best business decision I've ever made," Carpenter says. "I don't think I'd be in the business right now if it wasn't for U.S. Premium Beef."

He wasn't alone in this sentiment. Cow-calf producers, feedyard managers and others were willing to put it all on the line to see USPB to fruition.

In many cases, life savings and business accounts were emptied to invest in purchasing USPB delivery rights.

Families wrote checks and lifted silent prayers that the plan called "U.S. Premium Beef" would deliver as the founders envisioned.

continued on page 6



As a revolutionary concept in the beef industry, USPB received many media mentions once operations started.



Carcass data has expedited genetic progress, helping U.S. cattle producers raise better cattle to supply the world with superior beef.

“That was revolutionary for U.S. Premium Beef to get carcass data back on each animal and share that information with the owners.”

— Mark Gardiner, Gardiner Angus Ranch



Before USPB, it was unheard of for cattle to be valued on actual end-product merit, or for producers to receive carcass data on each animal.

continued from page 5

Major milestones

At the end of the campaign, USPB raised nearly \$35 million in producer equity. And after that, progress moved quickly.

In October 1997, USPB began its stock offering to raise the additional capital to finance its interest in FNB. The goal was reached by Thanksgiving.

One week later, USPB cattle arrived at plants in Dodge City and Liberal, Kansas, on December 1, 1997. That week, just under 10,000 head were purchased from producer-members on an individual basis based on the company’s progressive pricing grid.

Gardiner was at the table with FNB when the first grid was developed and many negotiations thereafter. Since higher-quality cattle made up the majority of the packer profit margins, both parties stood to benefit from reworking the system.

USPB’s main priorities included value-based pricing, access to individual carcass data and allowing producers to deliver cattle at the optimal endpoint.

“We’ve been negotiating for 25 years now. We have never stopped,” Gardiner says. “What we did that day was make all the other major processors respond, too. That had never been done before.”

Within the next year or so, most of the nation’s leading packers were offering grid marketing in some form. In that respect, USPB’s lasting ripple effects are far and wide.

“I truly believe it forced everybody to the table with the grid and getting paid quality premiums,” Carpenter says. “I think it’s done nothing but help our whole industry put a better-quality product in front of the consumer. That was a game changer.”

Lasting impact

Beyond the producer premiums paid by USPB, the idea to relay carcass information back on each animal completely transformed how ranchers and feeders went about their businesses.

For the first time in history, cattle were evaluated for actual end-product merit and producers received a benchmark from which to improve.

“That was revolutionary for U.S. Premium Beef to get carcass data back on each animal and share that information with the owners,” says Gardiner, who admits the early results were quite humbling.

continued on page 7

continued from page 6

FNB had been running around 45% Choice at the time, and USPB's first cattle did not perform much better than average.

Gardiner recalls telling FNB, "If you give cattlemen a target, they will hit it." And producers set about their work to breed and feed better cattle with the consumer in mind.

"You had to learn what would perform best with the grid," Ramsey says. "That's where the staff of U.S. Premium Beef helped with that educational process. How long you need to feed, and the type of cattle that would perform better, and how genetics would be an important part of all this makeup."

To date, more than 18 million head of cattle have been delivered and USPB producers have received carcass data on every lot. This has helped producers improve their cattle and their management to improve results.

Today, USPB cattle average above 86% Choice or better. Recent premiums have been record-high at over \$70 per head so far this fiscal year. In total, more than \$715 million in grid premiums have been paid to USPB producers since 1997. Combining grid premiums with patronage payments and cash distributions since the start, the total benefit to USPB members equals \$2.6 billion.

Ownership in beef processing was a key strategy USPB's founders envisioned for the company's success. Having ownership and a cattle delivery agreement with National Beef has held this union together. National Beef has grown substantially since 1997, and USPB has grown with it.

Other attributes USPB's founders foresaw — timely market access, value-based pricing on a grid, receiving and learning from carcass data — combined with a healthy dose of fear, were motivating factors behind creating USPB. However, 25 years of experience have proven none of this growth would have been possible without ownership in beef processing.

"U.S. Premium Beef is everything to our cattle operation," Nelson says. "The U.S. Premium Beef model has absolutely changed the beef industry to where we are enjoying a fantastic product today."

With beef demand at a 30-year high, there's much reason to be optimistic about the future. It's a picture of profitability that could not have been imagined only two decades ago. And it is the result of passionate people willing to stand up, speak out and rewrite the narrative.

"We get celebrated for our success, but we've only just begun," Gardiner says. "So many individuals, families and the entire beef business is better today because of U.S. Premium Beef." ♦

REAL DOLLARS. REAL VALUE.



\$715 million

Total grid premiums paid to USPB producers since 1997

86% Choice

Or better; today's
average performance.



\$70 per head

Average premiums
in 2022 fiscal year.

\$2.6 billion

Total benefit to USPB members since the start —
a combination of grid premiums,
patronage payments and cash distributions.