

# CAB CONNECTION

## The path to 2 billion

by Mark McCully, Certified Angus Beef LLC



Could the Certified Angus Beef® (CAB®) brand reach 1 billion pounds (lb.) in sales?

It was an audacious question back at the turn of the century when first considered. Some other CAB team members at the time were more optimistic than I was. We did the math and looked at so many of the trend lines that were in place — from acceptance rates to certified head counts.

I wondered if the industry could respond.

We knew demand was strong, but could cattlemen make changes fast enough? Was the signal being sent clearly and persistently enough? Were we going to be able to produce the supply and turn around some of those trend lines to meet that demand?

That's been proven, and proven in an enormous way now. We surpassed 1 billion lb. of sales in 2017 and marketed 1.212 billion lb. last fiscal year.

That story has already been told. Now we're wondering, "What about 2 billion?"

We think it's not an "if" question; it is probably more of a "when" question.

It's not a matter of arrogance. It's a matter of confidence in Angus producers, what we've learned about demand, the growing equity

in the brand, and about this premium-beef marketplace. We don't believe there's any going back, and so I look at this with a lot of optimism and amazement at how much the industry has responded thus far, and likely how much is still to come.

### How and why

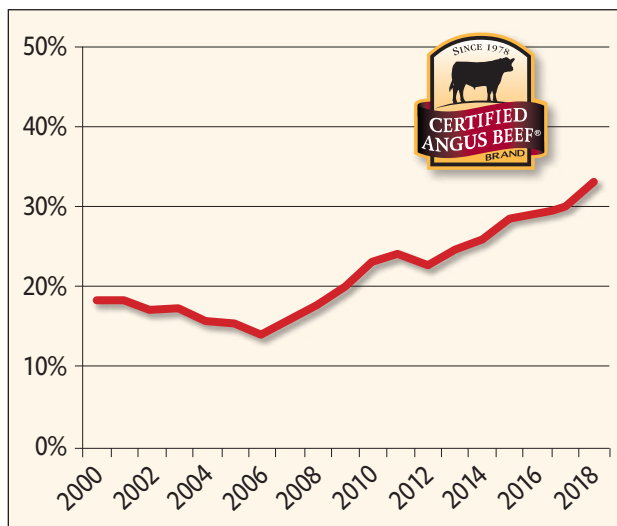
Of course, our supply is highly dictated by overall cattle numbers. Experts assume we're going to peak out on fed-cattle numbers next year, and then likely see lower inventories as we enter a 10- to 12-year kind of normal cattle cycle.

We know brand supply has benefited from the most recent herd rebuilding, but that's not necessarily going to be the case for the next five to eight years as we head into this cycle downturn. It's hard to predict, but it could be something like a peak of 26.8 million and then a decline of a couple million head at the cycle bottom.

In the early years of the CAB program, to increase supply, we'd license another packer. Could we pick up additional supply by licensing another one now? Perhaps, but today 85% of the North American packing base already certifies product for the brand. We anticipate that number remaining stable.



Fig. 1: Historical CAB® brand acceptance rate



There are two major places we anticipate growth:

**1. ANGUS INFLUENCE.** The trend has been toward more and more Angus genetics used in the North American cow herd, and we believe that will continue an upward swing to about 80%. That's recognizing we're not going to turn the entire cow herd black, but it follows the pattern we've seen for the past several years, with a percentage-point increase annually.

**2. INCREASED BRAND ACCEPTANCE RATE.** Even though we'll see an increase in Angus type, it's not enough to offset what we predict for a drop in cattle inventories. That means we will see fewer head identified, or eligible for brand evaluation. (Basically there will be fewer Angus-type cattle walking into plants, even though the percentage of Angus usage is larger

than ever.) That means of the ones evaluated, more will have to meet all 10 carcass specifications — and the "Modest<sup>0</sup> or higher" marbling specification will continue to be the most limiting.

### Sound genetics

The rate of change on CAB acceptance rates, or the number of cattle certified for the brand out of all possible candidates, has been incredibly dramatic the past 10-12

years (see Fig. 1). It starts with our seedstock operations, and today that genetic focus is still being managed to include selection for marbling.

Those are the genetics that are going to be out in our commercial population in the next three to six years. There's nothing that indicates a handful of years from now we're going to see anything other than a continuation of high-marbling-potential genetics, especially considering yet another generation of selection pressure.

The biggest threat to quality grade would be a catastrophic weather event that pushes feed prices beyond the value of beef. Economics that force shorter days on feed (DOF) would negatively affect acceptance rates.

### Other variables

Beyond head count, the pounds sold from each carcass, or what we refer to as "carcass utilization," is the next big variable to consider when thinking about hitting 2 billion lb. We need to identify about 8 million head of cattle in order to reach 2 billion lb. if we keep carcass

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utilization steady. Last year, an average of 233 lb. of each carcass certified for the brand was sold as CAB. That number is governed by factors such as supply in relation to demand, as well as overall demand for other upper- $\frac{2}{3}$ -Choice branded programs.

In the past few years, brand sales growth has been strong, but short of keeping pace with supply due to the combination of large fed-cattle numbers and dramatically higher acceptance rates. In the end, our per-head utilization has been lower. As brand sales continue to grow and supplies become tighter, we expect utilization to grow.

Taking fed-cattle inventories and factoring in a consistent packing base, increasing Angus-type cattle and rising quality grades, with either a steady or increasing carcass utilization, we can forecast a conservative, likely and aggressive model for reaching

annual sales of 2 billion lb. of CAB.

Static carcass utilization puts us there by 2030. If demand dictates we sell more pounds per head, then maybe we only need 7.5 million head and we start seeing that number hit by 2026 or 2027.

If you're a cattleman who has been aiming for the high-quality beef market, this might all sound fascinating, but also a little concerning. Will your premium still be there if the rest of the industry is catching up?

It's a valid concern as CAB goes from accounting for 18% of the fed-cattle business today to a quarter or even higher by the end of the next decade.

That is, until you talk about the buyers of this product.

All of our assumptions are based on the fact demand has kept pace with supply, and we have every reason to believe that will continue. Access to more product has helped us grow demand in a significant way

during the past five to 10 years, and we think that will be the case in the future.

When we have supply available, it allows us new customers. We can access new markets. That allows us to keep that premium — the difference between a CAB carcass and a Choice carcass — constant or growing. Now we have more cattle able to bring a premium value in the marketplace, which we think is good for the overall beef industry and definitely continues to drive our mission of increasing demand for registered Angus genetics.

We currently have a dedicated focus on our CAB Prime sales and believe this brand extension will become a more significant component to our overall sales. As that supply doubled in the last few years, we've doubled down on sales and marketing efforts. Last year, CAB Prime grew 31.2%.

About one-third of all brand

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growth last year came from international sales. We will continue to see that in the mix based on prospects for global demand. Yet, knowing it's never smart to "put all of our eggs in one basket," we will rely on strategies that include growth in domestic foodservice and the retail business, as well.

Of course, no one has the perfect crystal ball, but it's fun to think about what it could look like. As we've grown supply the last few years, demand has kept pace; our premiums and our spreads have stayed large and significant. Every indication is that if we produce 2 billion lb., there will be healthy demand and consistent premiums paid for it.

That begs the question: Will you be one who supplies it? |



**BULLS BUILT FOR MISSOURI**

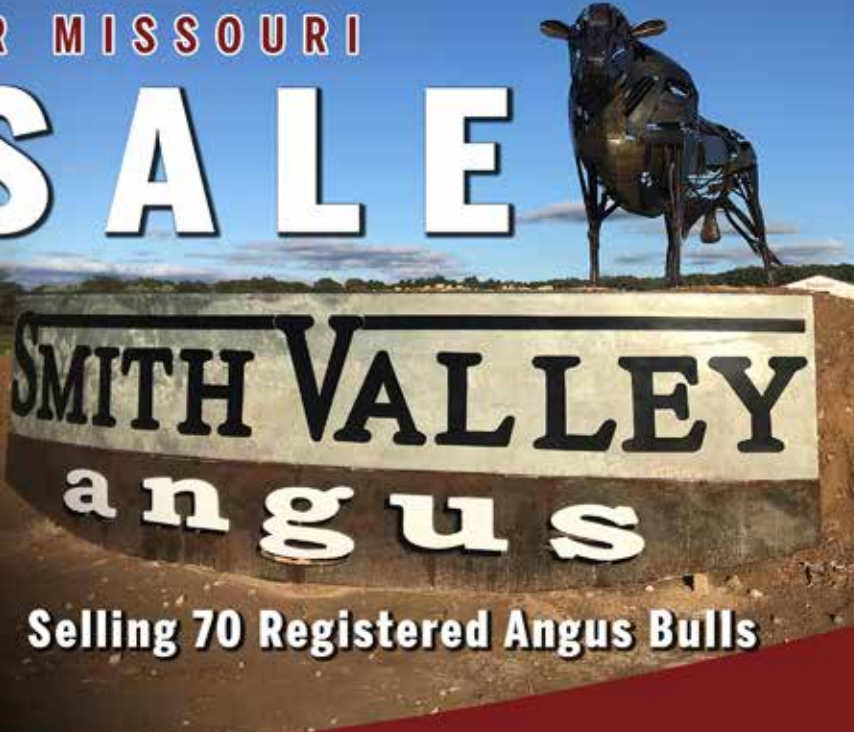
# BULL SALE

**THURSDAY, APRIL 11, 2019 - 5:00 PM**

**At the Smith Valley Angus Sale Facility**  
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1.2 miles south of Salem, Missouri on Highway HH


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