



Billion, with a 'B'

Certified Angus Beef® brand sales surpass 1 billion pounds.

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Angus producers knew they could create a brand of beef that would sell millions of pounds in a year, but more than a billion? Let's not get carried away, the organizers would have said. Yet upon reflection, some might have wondered.

That year has come and gone now. The *Certified Angus Beef*® (CAB®) brand's 38th fiscal year (FY), ending Sept. 30, carved a spot in history as the first time global sales surpassed 1 billion pounds (lb.).

For the 18,000 partners joined by a common mission, CAB President John Stika said the milestone brings a reason to celebrate. More than that, it brings appreciation for thousands of individual successes that led to that historic mark.

"This number is significant, not because of what it is, but for what it represents," Stika said of the actual 1.015 billion lb. sold, up 119 million lb. and 13.3% more than last year.

The average growth during the previous five years has been 3%, but it's nearly 75% in the last decade of sequential annual records and 12 straight years of sales growth.

The market moves

After several years of record-high beef prices brought on by tight supplies, the last fiscal year began with the pendulum swinging back to favor beef marketers. Retailers made it through six years of relatively flat to declining sales to arrive at a year of explosive growth, setting an all-time record with sales of 435 million lb., an 18.5% jump. Of the top 100 retail chains carrying CAB, 70% saw a rise in beef sales.

Not to get lost in the boom, foodservice continued its consistent growth, up 21 million lb. from last year. More than 75% of the brand's 143 domestic distributors saw their businesses grow in FY 2016, selling 10% more beef to licensed restaurants than last year.

Seasons bring tradition and drive sales of particular cuts consumers want. The chuck and round owned holiday sales in every category, buoyed by a new smartphone "roasting app" to net an increase of 87 million lb. Summer's middle meats and ground beef sales carried on, up 11.4% and 7.9%, respectively. Value-added products, including smoked brisket, fresh corned beef and marinated fajita meat, were up 8.9%. Showcasing a taste for exceptional quality, sales of CAB brand Prime soared 26.4% higher for the year.

Capitalizing on its larger reach, the International Division set a record

of 138 million lb. sold, a growth of 15%. Leading the charge was Japan, historically important and up by 111% after opening CAB's Tokyo office in August of FY 2015. Canada continued near the top, as did Mexico with 16% more sales for the year.

As sales grew in the United States and 49 other countries, for the first time since 2000, CAB expanded production to another country. Four years of close dialogue with people in Russia's Miratorg

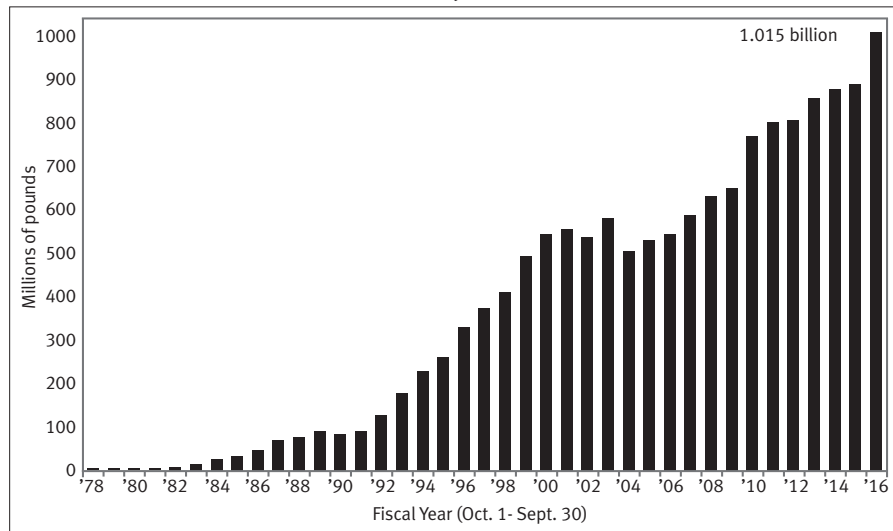
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— Mark McCully

company culminated in February with licensing its packing facility southwest of Moscow. The company, which had invested heavily in U.S. Angus genetics, now breeds, grows, feeds and harvests the cattle as a member of the American Angus Association, all geared toward the CAB end point.

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Table 1: CAB Pounds Produced Per Year, 1978-2016



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“The first pound of *Certified Angus Beef* there was produced under stringent brand-assurance protocols involving the same objective camera grading technology used in North America, along with a live video feed to our office,” Stika said.

Herd expansion here featured the use of more high-quality Angus genetics. After

years of a declining supply, the brand's 32 licensed packing plants saw an increase in Angus-type cattle identified to 13.6 million, up 6.9%, though short of the 15 million head eligible in 2010.

Higher acceptance rates allowed graders to certify a record of more than 75,000 carcasses per week, totaling 12.6% higher,

or 3.92 million for the year to set an annual CAB acceptance rate of 28.9%. That record is more than double the rate of 10 years ago when it was barely above 14%.

The best to offer

As the impact of drought subsided and replacement heifers entered herds,

“Cattlemen didn't just add more numbers,” Stika said. “They assembled the highest-quality, most Angus-influenced cow herd North America has ever seen.”

Consumers benefited from the greater supply of high-quality beef at a lower price, but herd growth helps producers, as well.

Despite four straight years with fewer brand-eligible cattle prior to FY 2016, the number of those accepted kept trending higher. Fine-tuned genetics and management tactics through those years set the stage to ensure that outcome and launched the drive past the billion-pound CAB sales mark once expansion began.

This is perhaps the most purpose-driven expansion ever for the North American beef community.

“A lot is said about herd rebuilding,” said CAB Vice President of Production Mark McCully, “but I think record acceptance rates are a reflection of cattlemen rebuilding with a purpose and quality in mind.”

That intentionality will position the brand for continued growth — even in a market that's undergone a dramatic shift, he said.

“The consumer isn't going to go backwards,” McCully said. “No doubt, some leverage has moved away from the cattle producer, but we are still operating in a market that rewards value and quality.”

Those who produce top quality and market in a way that captures that value will stay economically viable.

“As we meet global consumer demand and expose even more people to great-tasting beef, the future for quality-minded cattlemen gets exciting,” he said.

The beef market is a seesaw of sorts: for cattlemen today, for retailers then who struggled to sell high-priced beef. Stika said the key for all is to stay the course through the market lows and prepare for the future in the highs of the cycle. The long-term outlook reveals a high-quality cow herd that puts producers in position to meet the demands of a global beef market.

“From start to finish in this process, it's important for everyone to stay connected with each other's realities,” Stika said. “Doing so allows us to make sure we never lose sight of the fact that we are all in this together. The model for *Certified Angus Beef* is not just about short-term gain; rather, it's about creating an overall pull-through demand for the product that allows everyone to benefit over the long haul.”

While all may not be simultaneously successful at a given moment in time, Stika said the system will work as end users base future business decisions on demand growth.

“Cattle prices may be down currently, but quality is still the road for future sustainability of our individual businesses, because consumers demand it.”