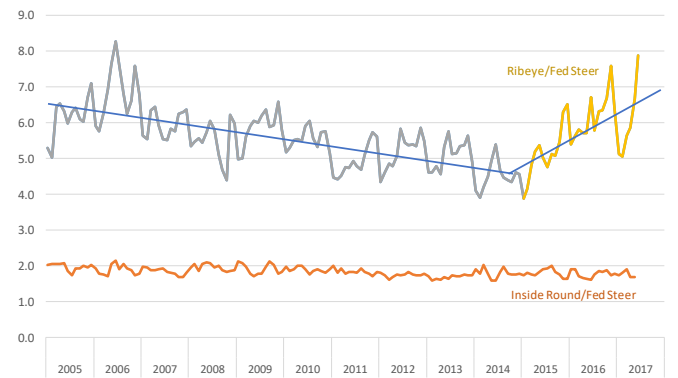


Whether it is highly marbled choice ribeyes, succulent bacon, inventively flavored chicken wings, or full fat milkshakes, consumers are voting with their dollars for more flavor. Why the shift? Maybe it was the natural generational need to question inherited “wisdom.” After all, decades of squeezing out flavor and joy from food had led to a cacophony of offerings that included dozens of ingredients and yet claimed to be ok since they were “low fat.” You can fool all the people some of the time... In the summer of 2014, journalist Nina Teicholts published a book with the title: “The Big Fat Surprise.” The book turned on its head much of the nutritional conventional wisdom (ahem...dogma) about fat consumption and its impact on consumer health. The book, and others that followed, did not mold consumer behavior, this is simply too big and varied a nation for that. Rather, they reflected the shifts that were taking place, both at the consumer and scientific level. Since then the trends have accelerated and one needs only look around to recognize the shift. The price of boneless ribeyes in the last two weeks has shot up above \$10/cwt, an all time record level. The price ratio of boneless ribeyes to the price of fed steer has been trending higher in the last three years after steadily declining between 2005 and 2013. The current 8x price multiple (\$10 ribeyes / \$1.27 cattle) is dramatically higher than the sub 5x multiple we saw in 2013 and 2014. This compares with lean beef items, the price ratio of which has been steady to lower for the past decade. We chose the choice inside rounds for comparison purposes (chart), the typical lean beef cut, with little intramuscular fat. The price of insides is higher today than a year ago but that’s because cattle prices are higher. When adjusting for the cattle price changes, however, little seems to have changed.

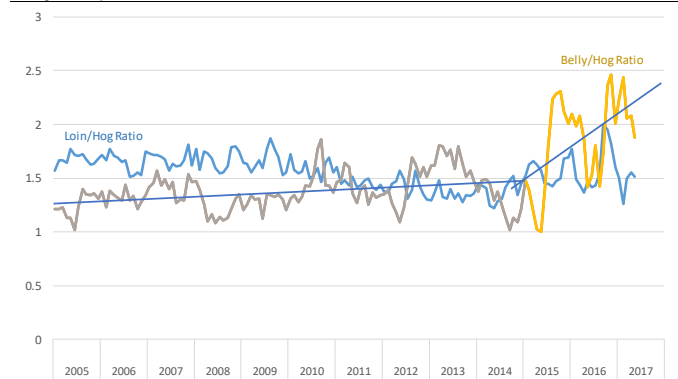
Similarly, we have seen a dramatic shift in the price ratio of items such as pork bellies or pork trimmings relative to the price of hogs. Pork belly prices have accelerated once again this spring as retailers took advantage of the price pullback in the spring to book Memorial Day and Father’s Day features. Foodservice operators have also become consistent large users of bellies, with bacon a preferred flavor enhancer on burgers, sandwiches and even salads. When retailers decide they want to jump on the bandwagon and run \$3.99 or \$4.99/lb. specials, the quantity demanded becomes explosive. But while crispy bacon is the epitome of flavor, other fattier pork items have benefited as well. Pork 72CL trimmings are currently trading at an almost 1.2x multiple to lean hogs, the highest in more than a decade. Hot dogs are the perennial summer favorite but in recent years there has been a proliferation of gourmet sausages in dozens of flavors. This appears to be the situation in the retail meat case as well as foodservice. A recent Technomic report conducted with Pork Checkoff funds concluded that “processed pork (in foodservice) is growing (+1.5% - 2 year CAGR), while fresh pork is declining (-1.1%). Compared to other proteins, processed pork remains among the fastest growing, while fresh pork is declining at the most aggressive rate.” One also need look at retail features to observe that processed pork (bacon, sausages, deli meats) far outpace other pork features.

Bottom line: Consumers are telling us that they demand flavor. Gone are the days when a consumer would accept a flavorless slice of “protein” simply because it promised to be “good for you.”

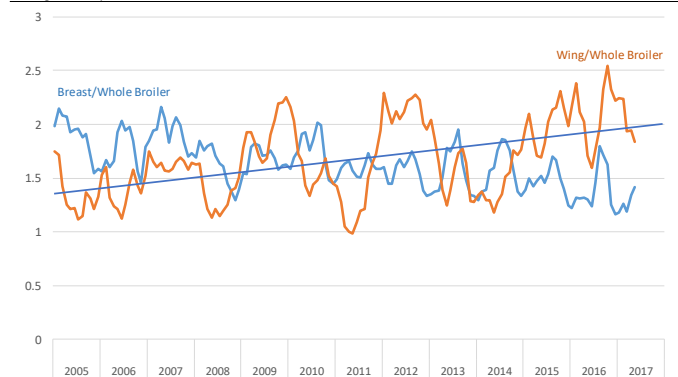
Price Ratio of Boneless Ribeyes (Choice) and Inside Rounds (Choice) vs. Fed Steer
Average Monthly Prices Used. Data Source: USDA



Price Ratio of 1/4" Pork Loins and Pork Belly Primal vs. Lean Hog Carcass Price (IA/MN)
Average Monthly Prices Used. Data Source: USDA



Price Ratio of Broiler B/S Breasts and Broiler Wings vs. Whole Broiler
Average Monthly Prices Used. Data Source: USDA



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