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# Bet on Beef May Burn Tyson

## Crucial Foreign Markets Dry Up Amid Mad-Cow Calamity

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Until late last month, it appeared that the $2.8 billion bet **Tyson Foods** Inc. made on beef was paying off in spades.

The longtime chicken purveyor had perfectly timed America's renewed love affair with beef by acquiring IBP Inc., the nation's biggest meatpacker, in 2001. Profits from those cattle-slaughtering plants were rolling into Tyson coffers.

But in the wake of the discovery of the first U.S. case of mad-cow disease, that gamble suddenly looks risky. The single case of bovine spongiform encephalopathy, or BSE, in a Holstein that U.S. investigators believe originated in Canada already has shut down crucial foreign markets for Tyson beef. Very likely the discovery will increase Tyson's cost of doing business.

**MAD COW HITS THE U.S.**

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See full coverage[2] of the first case of mad-cow disease in the U.S.

No American company has more at stake in the mad-cow calamity than Tyson, which controls 27% of the domestic beef market. Tyson recently began slapping its famous name on hundreds of beef products after an expensive two-year effort to replicate its value-added strategy for chicken items.

**WHAT'S FOR DINNER**

Tyson Foods, once a poultry powerhouse, is now a beef giant thanks to its 2001 purchase of IBP.

| | BEEF | PORK | CHICKEN |
|---|---|---|---|
| Number of plants | 14 | 8 | 60 |
| Weekly slaughter capacity | 240,000 | 427,000 | 48 million |
| FY '03 production as a percentage of capacity | 84% | 82% | 96% |
| FY '03 Sales*/ change from prior year | $11.94 billion/ +13.8% | $2.47 billion/ -1.2% | $7.43 billion/ +2.9% |
| FY '03 Operating income/ change from prior year | $320 million/ +45.5% | $75 million/ +200% | $158 million/ -63.1% |

*Doesn't include prepared foods. Tyson's overall sales for 2003 totaled $24.55 billion.

*Source: the company*

The company this week declined to make executives available for interviews. But a spokesman, responding to questions, said Tyson doesn't plan to change its business strategy, its advertising campaign or its beef-branding efforts because of the mad-cow case. "We don't believe people are going to give up eating meat because of a single cow," said the spokesman, Gary Mickelson. "Early domestic beef sales remain on track."

Tyson's operations had nothing to do with the infected cow, which was slaughtered by a tiny company in Washington state. But the repercussions are weighing heavily on the Springdale, Ark., company and the fortunes of the Tyson family. Tyson's thriving beef export business has largely been shut down by the decision of more than 30 countries to ban imports of U.S. beef, bans that many industry officials believe will last for several months.

Mr. Mickelson said Tyson is supporting efforts by the U.S. Department of Agriculture and the industry's trade group to regain access to export markets as soon as possible. In its fiscal year ended Sept. 27, Tyson exported $1.7 billion of beef from its U.S. facilities, a figure helped to some degree by importers' refusal to buy Canadian beef in the wake of a mad-cow case discovered in that country in May.

The IBP purchase was shaping up to be the biggest accomplishment of John Tyson, the founder's grandson and Tyson's chairman and chief executive since 2000, one that could pull him out of the shadow of his famous father, Don Tyson. When the deal was announced, investors worried about Tyson's heightened debt burden and questioned the wisdom of straying from its roots in poultry and buying a company twice its size.

But Tyson's profit in its latest fiscal year more than doubled from its earnings the year before it made the IBP acquisition, and its sales more than tripled in that period. Beef accounted for nearly half Tyson's fiscal 2003 sales of $24.55 billion. The company started by name branding once-anonymous slabs of beef by moving to value-added, branded products such as precooked pot roasts, frozen steaks and microwaveable red meat entrees. Initial doubts faded.

Then came Dec. 23 and the mad-cow news. Cattle futures plunged, beef prices softened at the supermarket and some consumers became leery of eating hamburgers and steaks. Tyson's stock took an immediate beating, tumbling 7.7% the following day to $12.90 on the New York Stock Exchange. Standard & Poor's Corp. placed Tyson's debt ratings on CreditWatch with negative implications. The company has $3.6 billion of debt.

But the stock has rebounded somewhat, for the simple reason that Tyson remains the leading poultry producer and the No. 2 processor of pork. Its shares closed Wednesday at $13.24, up four cents. If consumers shy away from beef, the thinking goes, Tyson still will be serving many of them dinner.

"Their balanced portfolio will help," says John McMillin, a food analyst at Prudential Equity Group Inc. So, too, will Tyson's reach into the few growth areas for food: restaurants and warehouse stores, he says. "They have very good relationships with customers in the food-service industry and the mass merchandise channels," says Mr. McMillin. "The past week has been terrible, but they can weather this storm."

Tyson got its start nearly 70 years ago when John Tyson drove a truckload of Arkansas chickens to Chicago and sold them for a $235 profit. His son, Don, revolutionized the chicken industry by owning both poultry farms and slaughtering plants. Thanks to a special class of stock, Don Tyson and a family trust control 80% of all shareholder votes, although they own just 28.8% of the company's common shares.

In a statement posted on its Web site last week, Tyson said it doesn't typically slaughter older cattle, such as the animal identified by the Agriculture Department as having mad-cow disease. Tyson said it follows stringent guidelines for removing animal parts that carry the risk of BSE during slaughter and carefully monitors the health of live animals brought to its slaughterhouses. It said it supports -- and already practices -- various safeguards mandated earlier this week by the Agriculture Department. They include not buying "downer" cows, those that can't walk, and not using air-injection stunning in its plants.

"This is an animal-disease challenge -- not a food-safety problem," Tyson said. Asked if Tyson is considering testing its cattle for BSE, Mr. Mickelson, the spokesman, said the company supports compliance with the Agriculture Department regimen of testing only "high risk" cattle.

So far, consumers haven't panicked. "U.S. consumers have not changed their behavior with past food-safety problems," writes David Nelson, a food industry analyst for Credit Suisse First Boston. "Demand has certainly been strong since the mad-cow incident in Canada in May. How could it be different this time?"

The export business is another issue. The effect of industrywide export curbs could lead to a temporary glut of cattle, further depressing beef prices in the U.S. And a meat glut could put pressure on the prices of other commodities, such as chicken and pork. Prices in the meat counter tend to move in the same direction.

For some analysts, the mad cow discovery simply pushes back the payoff for Tyson from the IBP acquisition. "Longer term, you can still say it was a wise move for them," says Wesley Moultrie II, a food-industry bond analyst for Fitch Ratings. Moving into beef and pork diversified Tyson and put it into a position where it can grow and gain efficiencies, he says.

Mr. Mickelson, the spokesman, says Tyson "absolutely" believes the acquisition built a stronger company and created more selling opportunities than either had on its own. Tyson remains committed to its goal of increasing sales from value-added meats to 50% from the current 35% within five years, he adds.

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