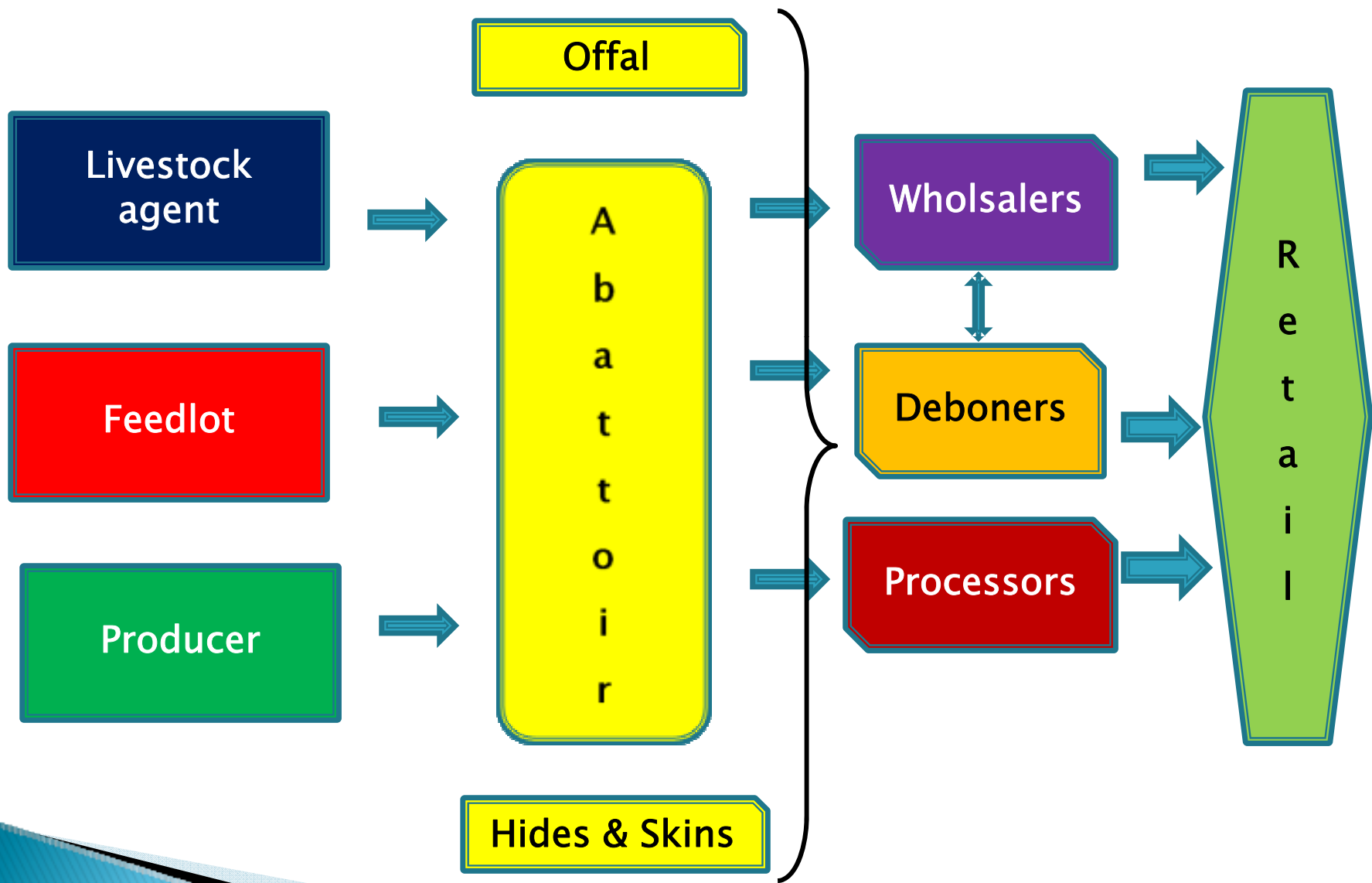


Viability of the Abattoir Industry

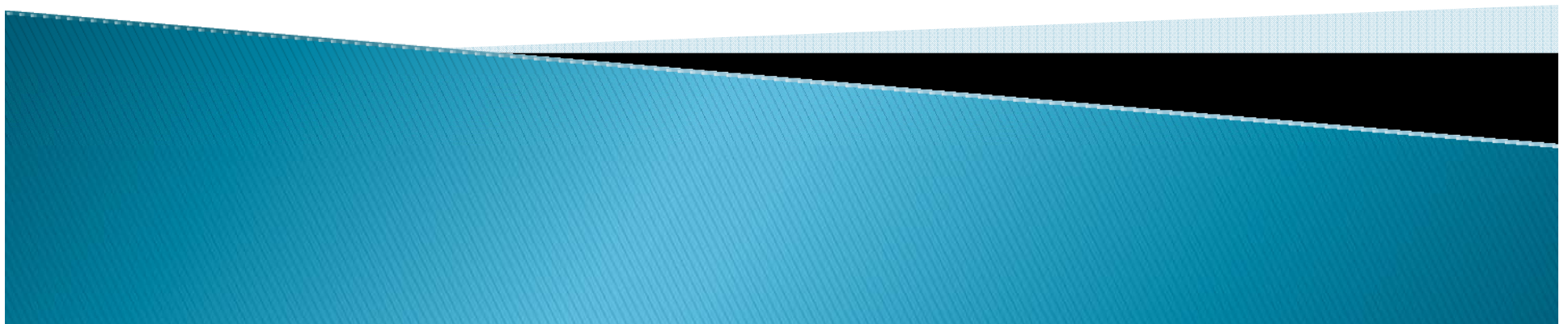


ABATTOIR CONFIGURATION



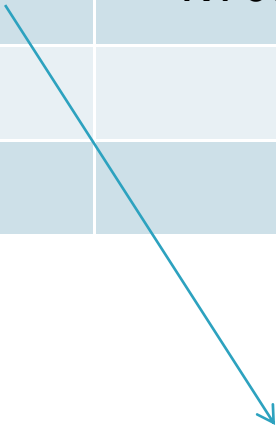
Viability =

**Constantly producing
sustainable income streams
over a prolonged period that
adequately reward risk and
effort**

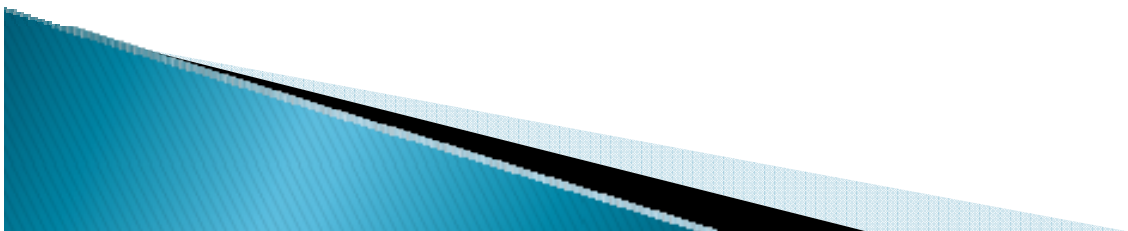


RISK vs REWARD

Investment	Amount	Expected Return (%)	Nett Profit before Tax	Nett Profit after Tax
Capital	R10m	20%	R3.3m	R2.0m
Loan Capital	R10m	15%	R1.5m	R0.0m
Turnover	R300m	2%	R10.0m	R6.0m
Risk Free Return	R10m	9%		R0.9m
Tax		40%		



R8/head sheep
R110/head cattle
=40-50 cents/kg



Pricing (Cattle)

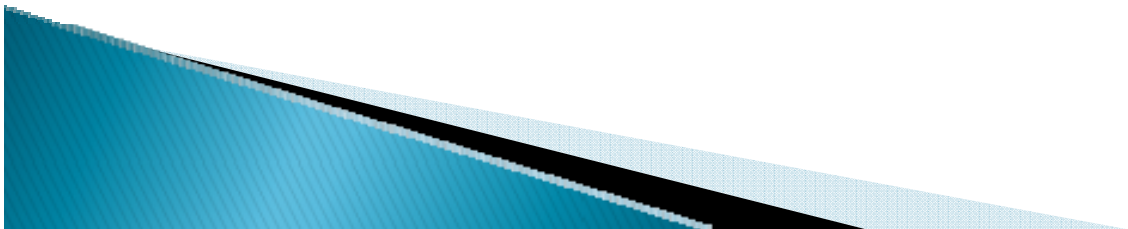
Price Component	Per Head	Per Kg (240kg)
Sale Price A2	R5400	R 22.50
Hide	R280	R 1.17
Offal	R200	R 0.80
Income	R5880	R 24.50
Purchase Price	(R5472)	(R 22.80)
Slaughter Fee	(R156)	(R 0.65)
Delivery	(R204)	(R 0.85)
Expenses	(R5832)	(R 24.30)
Nett Profit	R48	R 0.20



= R2,64m/year
= 55 000 cattle(220/day)

Questionnaire

1. Are you of the opinion that your Abattoir currently and in the past has yielded satisfactory returns given the investment in and risk profile of your business?
2. What is in your opinion the main causes for either your Abattoir's satisfactory or non-satisfactory yield?
3. What in your opinion is necessary to enhance or sustain your Abattoir's current returns?
4. Do you have a need for research/study to be conducted regarding the determination and establishment of operational and financial norms and standards for abattoirs? Anything specific you would like to be included?



Q1 Are you of the opinion that your Abattoir currently and in the past has yielded satisfactory returns given the investment in and risk profile of your business?

A1 No, yields were not satisfactory

Elements adding to the risk profile of Abattoirs

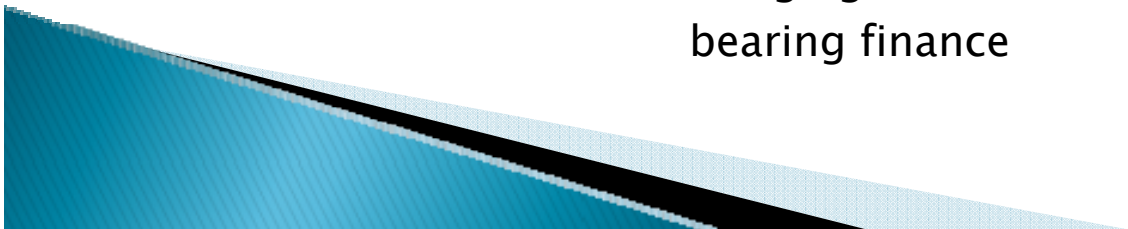
- ▶ Assets
 - Performance asset – must maintain throughput to keep unit cost under control (high fixed cost)
 - Infrastructure ageing with high upkeep and high replacement cost
 - Singular application apart from cold storage
 - Energy (Eskom/fuel) and resource (water) intensive
 - High wear and tear requiring continuous maintenance and upgrading
 - Expensive statutory prescripts and compliance

risk profile ... (continued)

- ▶ Product
 - Highly perishable – short life span
 - Commodity nature
 - Limited versatility

- ▶ Industry
 - Susceptibility to VAT fraud and schemes
 - Soft target for regulatory controls
 - Excess capacity
 - Uneven playing fields with different standards and incapacity to police, act and control
 - Lack of industry specialists/experts
 - In the hands of entrepreneurial persons with business focus

- ▶ Finance
 - Large capital investment
 - High risk debtors financing
 - Insufficient profit margins to finance growth, increased working capital levels due to price/volume increases, bringing about more and more usage of interest bearing finance

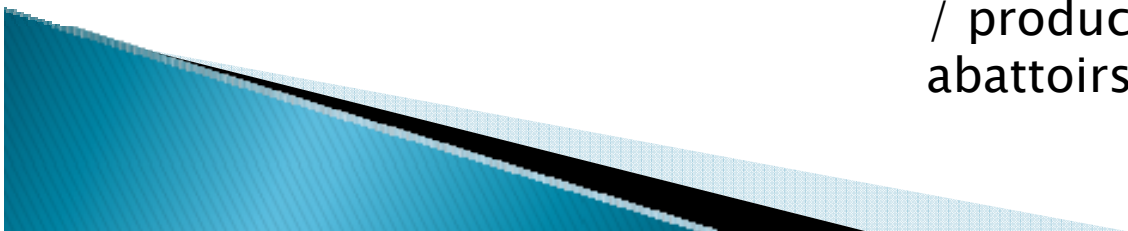


Q2 What is in your opinion the main causes for either your Abattoir's satisfactory or non-satisfactory yield?

A2 Lower margins, increased expenses and decreased levels of throughput. Cash flow shortfalls due to either increased levels of business or greater finance needs brought about by higher prices

Lower margins

- Due to competition prices are lowered to just about any level to protect market share whether still profitable or not.
- Weak bargaining position w.r.t. chain stores' big buying power and ability to pick from any number of suppliers
- Supply side competition for animals for slaughter to service capacity bring about premiums to be paid. Feedlots / producers can sell to any number of abattoirs

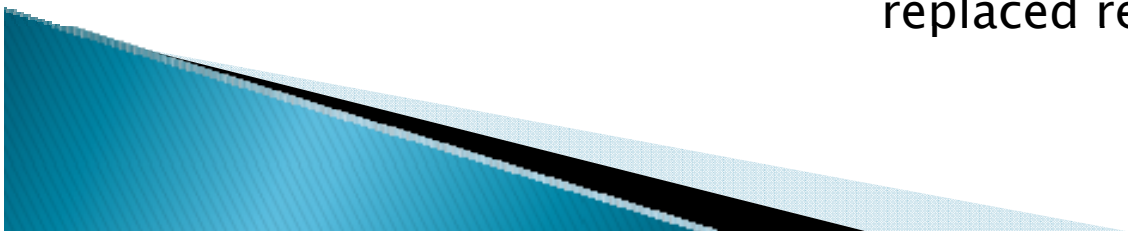


Causes... (continued)

- ▶ Decreasing throughput
 - Declining stock numbers adds pressure to maintain throughput levels
 - seasonal fluctuation in availability of certain grades in geographic regions cause imbalances in demand bringing about unrealistic prices and hence lower slaughter numbers
 - Manipulation of slaughter numbers

- ▶ Fifth quarter
 - 5thQtr prices stagnated last 5 years and have proportionately decreased as part of income.

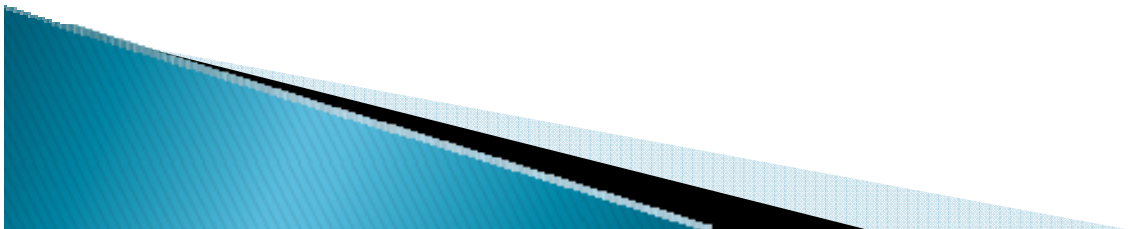
- ▶ Consumer
 - Disposable income is under pressure with meat purchases in volume terms decreasing and in R-value remaining the same or declining
 - Cheaper substitute products have replaced red meat on the plate



Causes... (continued)

- Expenses
 - Although product prices increased margins realized were still calculated in c/kg and hence not increasing at the same rate as expenses
 - Interest rate hikes, Petrol price increases and the growth in debt have impacted severely on the expense bill
 - Normal inflationary price increases

- Cash Flow
 - Higher prices, increased levels of debtors and in some instances increased business levels have brought about severe shortages of cash/capital excluding the “have not's” or “access not's” from growth and profit opportunities



Q3 What in your opinion is necessary to enhance or sustain your Abattoir's current returns?

A3 Value adding to realize better price, reduce production capacity, stop subsidizing carcass with 5thQtr yield, consolidate capacity and create focus through specialization, improve abattoir efficiencies, better manage costs, industry wide lifting of the level of margins with regular adjustments allowing for influences from outside

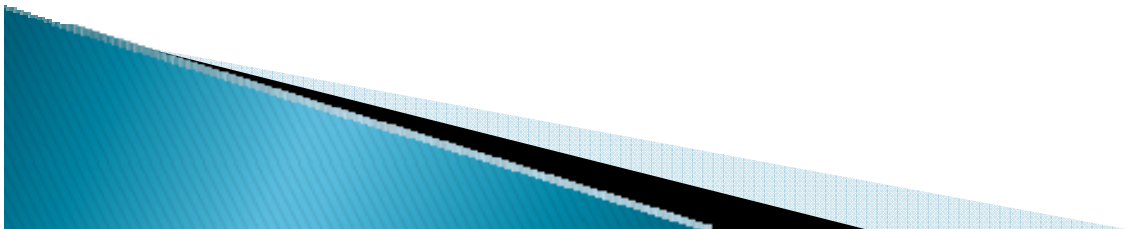
- ▶ Value adding – Add value to basic product by deboning into primal cuts, further processing, re-packing, and portioning
- ▶ Production – Reduce/remove excess capacity to level where the whole production can be sold to customers allowing for an acceptable margin
 - Consolidate capacity in region and become the dominant player. Through co-operation pool expertise and extract synergies. As focused bigger entity become more profitable

Enhancing returns ... (continued)

- ▶ Continuous improvement
 - Improve current processes. Seek alternatives either cheaper or more effective. Put every cost under severe scrutiny and look for possible savings.
 - Outsource certain functions or departments e.g. loading, transport etc.

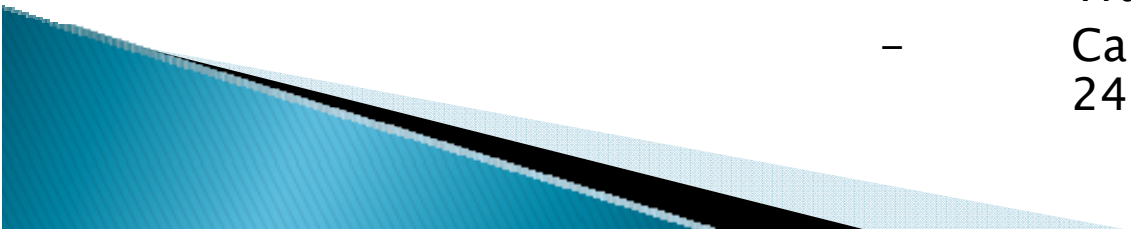
- ▶ Relationships
 - Build relationships with your customers and keep them informed of the market indicators determining your asking price.
 - Say no to non-profitable transactions

- ▶ Innovation & Technology
 - Rethink your business and renew through innovation and application of technology



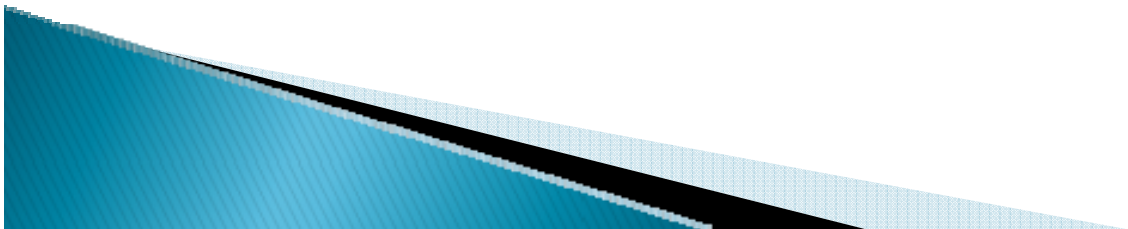
Q4 Do you have a need for research /study to be conducted regarding the determination and establishment of operational and financial norms and standards for abattoirs? Anything specific you would like to be included?

A4 Yes, it is always good to be measured against a standard or norm to lift out problem areas or as indication of conformance

- ▶ Cost of packaging for meat/offal
 - ▶ Cost of processing of hides and skins
 - ▶ Cost of rendering plants
 - ▶ Slaughter costs per head of cattle/sheep
 - ▶ Reliable slaughter statistics and price reporting
 - ▶ Water /electricity usage per animal
 - ▶ Physical info such as
 - Hide as% of carcass
 - Offal as % of carcass
 - Blood/carcass
 - Paunch content
 - Weight loss 24/36/48/72hrs
 - Transport costs (index)
 - Carcass temperature 12/16/18/24 hrs
- 

Standards ...(continued)

- › Block tests and costing for offal, sides, hind quarters, front quarters, cutlets, rump and loins, buttocks, pistola hind quarters, pistola rump & loins, trunk sides, lamb, sheep etc.
- › Slaughter percentages
- › Manpower needs



Conclusion

Abattoirs are an integral part of the livestock-to-carcass conversion process and has to be able to produce profits commensurate with its inherent risk profile

No-one or nobody is going to make it right for us. It is up to ourselves to make adequate profits

Bold steps will be necessary, but the fine tuning and attention to detail will bring about the final contribution to meet with our profit expectations

The industry will have to clean up its act regarding compliance with hygiene and meat safety prerequisites

Curb debt and exclude many wannabe entrants who will work for nothing



Thank you

13 11 2003