

# Smithfield



## **BMO Capital Markets 2009 Agriculture, Protein & Fertilizer Conference**

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# Forward-Looking Statements

**This presentation contains “forward-looking” statements within the meaning of the federal securities laws. The forward-looking statements include statements concerning the Company’s outlook for the future, as well as other statements of beliefs, future plans and strategies or anticipated events, and similar expressions concerning matters that are not historical facts. The Company’s forward-looking information and statements are subject to risks and uncertainties that could cause actual results to differ materially from those expressed in, or implied by, the statements. These risks and uncertainties include the availability and prices of live hogs, raw materials, fuel and supplies, food safety, livestock disease, live hog production costs, product pricing, the competitive environment and related market conditions, hedging risk, operating efficiencies, changes in interest rate and foreign currency exchange rates, changes in our credit ratings, access to capital, the investment performance of the Company’s pension plan assets and the availability of legislative funding relief, the cost of compliance with environmental and health standards, adverse results from on-going litigation, actions of domestic and foreign governments, labor relations issues, credit exposure to large customers, the ability to make effective acquisitions and dispositions and successfully integrate newly acquired businesses into existing operations, the Company’s ability to effectively restructure portions of its operations and achieve cost savings from such restructurings and other risks and uncertainties described in the Company’s Annual Report on Form 10-K for fiscal 2008 and in its subsequent Quarterly Reports on Form 10-Q. Readers are cautioned not to place undue reliance on forward-looking statements because actual results may differ materially from those expressed in, or implied by, the statements. Any forward-looking statement that the Company makes speaks only as of the date of such statement, and the Company undertakes no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise. Comparisons of results for current and any prior periods are not intended to express any future trends or indications of future performance, unless expressed as such, and should only be viewed as historical data.**

# Agenda

1. **A(H1N1) influenza “swine flu” update**
2. **What we have been doing**
3. **Pork Group restructuring plan**
4. **Covenants, liquidity and refinancing**
5. **Bottom line**
6. **Appendix – Who we are & Exports**

# **A(H1N1) influenza “swine flu” update**

# Swine Flu “Tip” What Not To Do



# A(H1N1) Influenza Chronology

April 23-26

**News of a new flu in Mexico**

**Media and blogs speculate on possible link between flu and Smithfield joint venture in Veracruz**

April 27-May 1

**Smithfield sends team to Mexico**

**Various worldwide health organizations proclaim “Pork Is Safe To Eat”**

**Smithfield submits samples from Veracruz farm for genetic sequence analysis**

May 4-8

**Smithfield sends additional team with outside experts to Mexico**

# A(H1N1) Influenza – *Pork Is Safe To Eat*

- A(H1N1) is not a foodborne illness – pork and pork products are safe
- No evidence of A(H1N1) influenza in Smithfield's swine herds or employees worldwide
- Smithfield continues rigorous biosecurity practices

# Mexico

- **No clinical signs or symptoms of A(H1N1) influenza in joint ventures in Mexico**
- **Voluntarily submitted samples for genetic sequence analysis to confirm the absence of A(H1N1) influenza**



# A(H1N1) Impact on Demand

## Week of April 27

**Domestic retail pork sales initially down nearly 10 percent**

**Hog prices sharply declined**

**China and Russia have imposed export restrictions and demand from Mexico has weakened**

## Week of May 4

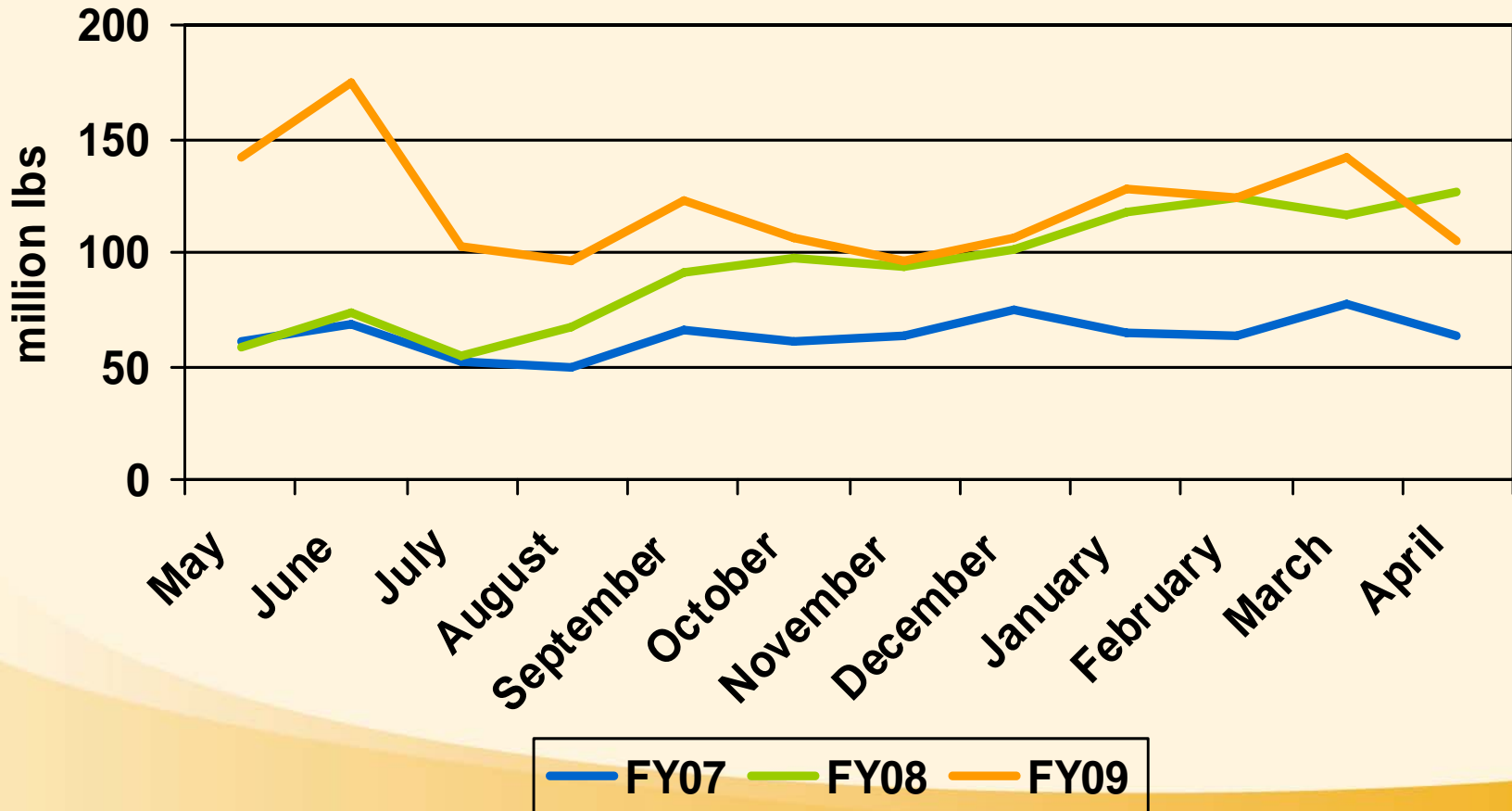
**Pork demand is recovering and packaged meats margins remain robust**

**Markets are correcting as seasonal hog supplies tighten**

**Restrictions are easing and demand from Mexico is improving**

# Smithfield Fresh Pork Exports

Smithfield fresh pork exports continue at near year ago levels



# What we have been doing

# Strategies for Today and Tomorrow

## Past

**Growth through acquisitions**

**Turnarounds with minimal corporate restructuring**

## Today and Tomorrow

**Focus on synergy, efficiency, ROIC and margins**

**Deleverage balance sheet, manage liquidity and capital expenditures**

**Restructure Pork Group for higher performance**

**Shed non-core or under-performing businesses**

# Proactively Managing the Business

<u>Date</u>	<u>Action</u>	<u>Impact</u>
February 2008	Initial Five Percent Reduction of Smithfield U.S. Sow Herd	Reduction of 50,000 sows and production of one million fewer market hogs annually by fiscal 2010
April 2008	Senior Management Changes	Strengthened overall management team to improve operations and financial performance
July 2008	\$400 Million Convertible Senior Notes Due 2013	Replaced bridge loans with permanent financing

# Proactively Managing the Business

<u>Date</u>	<u>Action</u>	<u>Impact</u>
July 2008	Sale of 4.95 Percent of Shares to China's COFCO Limited	Improved liquidity and created long term relationship with one of China's leading trading companies
October 2008	Sale of Beef Processing and Cattle Feeding Operations to JBS	Significantly improved liquidity and refocused on core business
December 2008	Second Five Percent Reduction of Smithfield U.S. Sow Herd	Total reduction of 100,000 sows and production of two million fewer market hogs annually by fiscal 2010

# Proactively Managing the Business

<u>Date</u>	<u>Action</u>	<u>Impact</u>
December 2008	Merger of Campofrío and Groupe Smithfield	Formed leading European packaged meats company and monetized joint venture into publicly-traded company
February 2009	Successfully Negotiated New Covenant Amendments	Improved financial stability through bottom of hog cycle
February 2009	Pork Group Restructuring	\$125 million in estimated annual EBT improvement by fiscal 2011

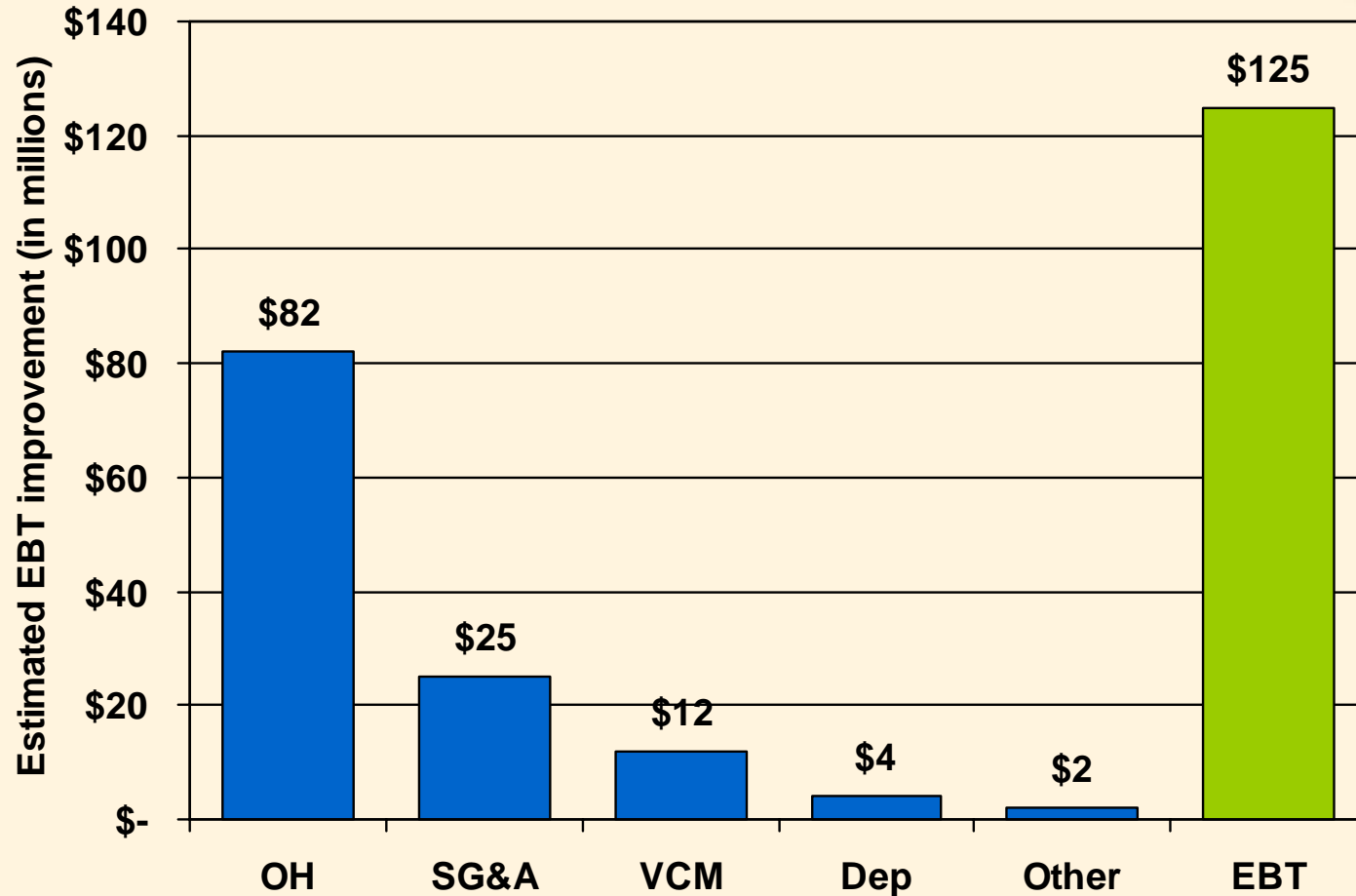
# **Pork Group restructuring plan**

# Pork Group Restructuring Plan

- **Streamline Pork Group structure by reorganizing management team under George Richter**
- **Consolidate seven IOC's into three and close six processing plants**
- **Merge three fresh pork sales organizations into two and consolidate three overseas export teams into one to improve efficiency and reduce SG&A**
- **Consolidate manufacturing platform to improve margins and lower costs by increasing plant utilization from 81 percent to 87 percent**

# Improvement from Restructuring

Restructuring will result in EBT improvement by reducing overhead, SG&A, and variable manufacturing costs

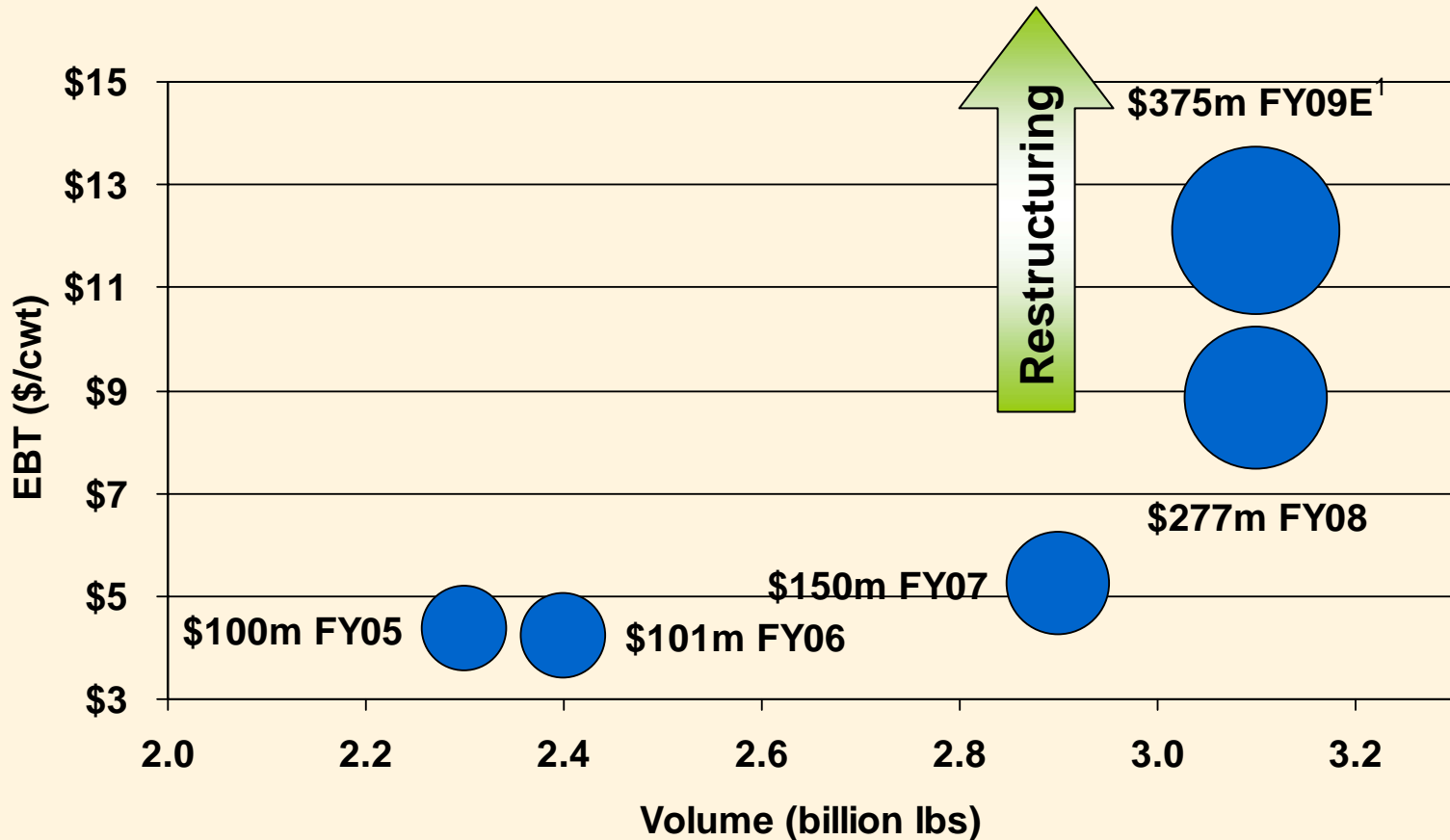


# EBT Impact from Restructuring

(in millions)	<u>FY09Q3</u>	<u>FY09Q4<sup>1</sup></u>	<u>FY10<sup>1</sup></u>	<u>FY11<sup>1</sup></u>	<u>Total<sup>1</sup></u>
Plant consolidation capital requirements	-	\$3	\$50	-	\$53
One time expenses	\$12	\$2	\$27	-	\$41
Non-cash asset write-off	\$73	\$1	-	-	\$74
EBT Improvements	-	-	\$55	\$125	

# Packaged Meats Margin Growth

Smithfield estimates \$80 million in annual EBT improvement in packaged meats as a result of restructuring

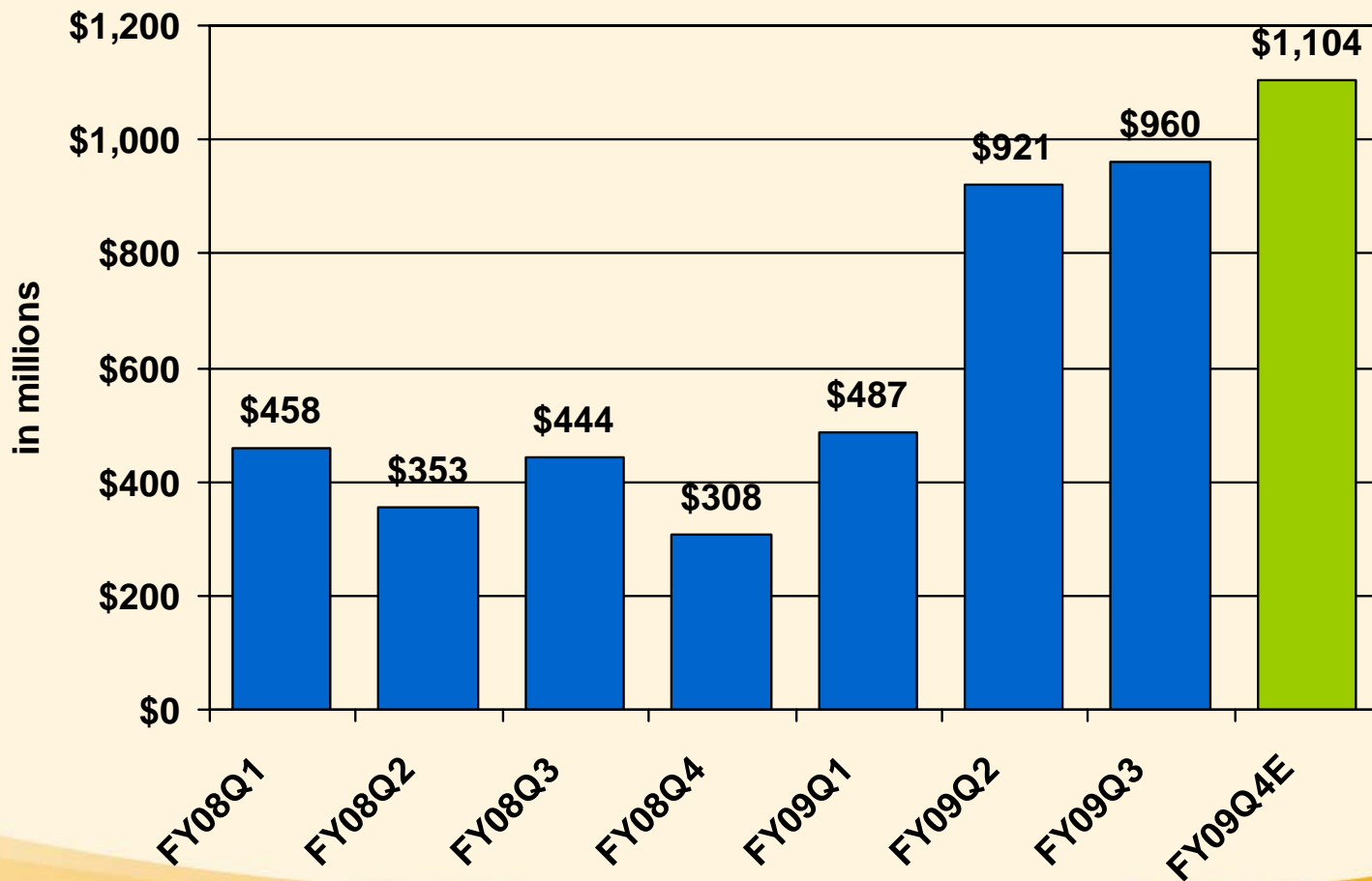


<sup>1</sup> Before restructuring charges

# **Covenants, liquidity and refinancing**

# Improved Liquidity

Smithfield continues to improve liquidity and has retired \$900 million<sup>1</sup> in debt since the fourth quarter of fiscal 2008



<sup>1</sup> Estimated

Note: Amounts reflect unused borrowing capacity at quarter end and do not include cash balances reflected on balance sheet

# New Covenant Amendments in Place

- **Interest coverage covenant**

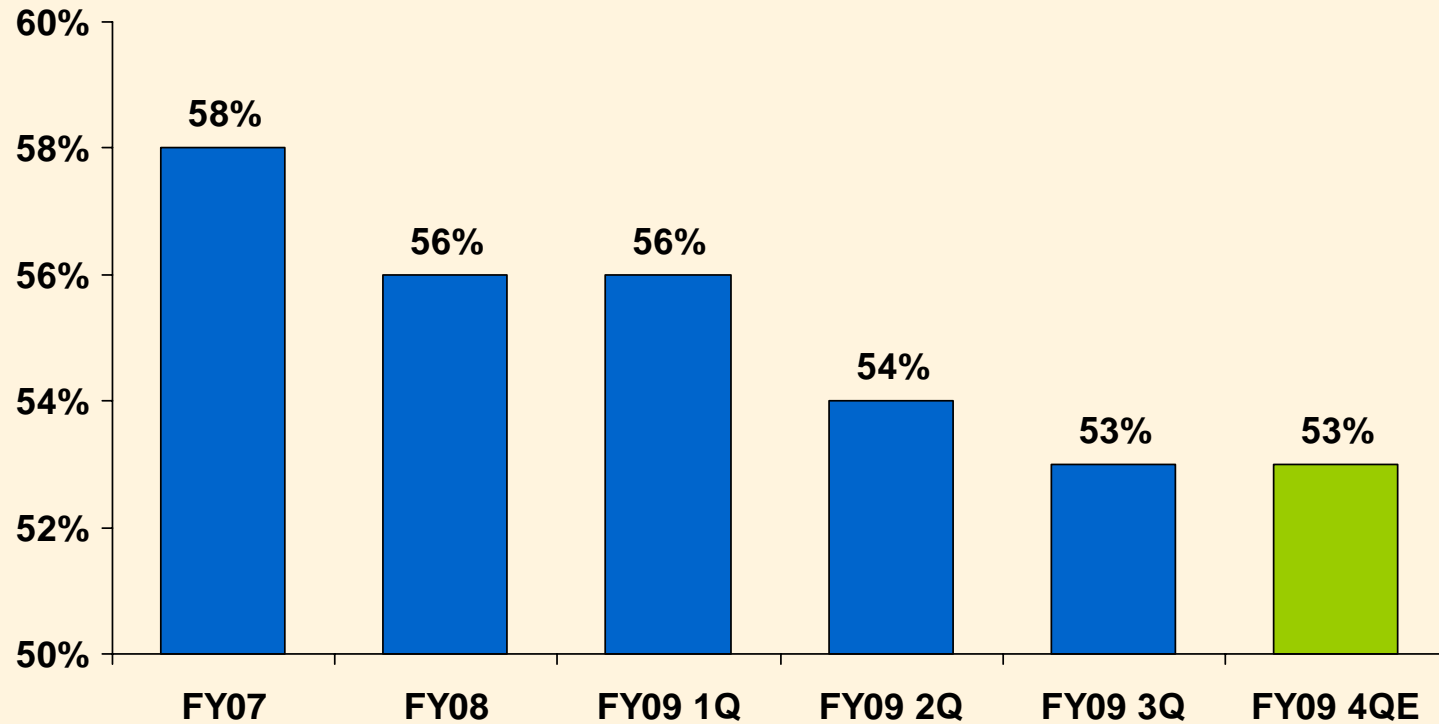
<b>FY09 3Q</b>	<b>1.6:1 versus 2.4:1 actual</b>
<b>FY09 4Q</b>	<b>1.2:1</b>
<b>FY10 1Q</b>	<b>1.35:1</b>
<b>FY10 2Q</b>	<b>1.35:1</b>
<b>FY10 3Q</b>	<b>2.0:1</b>
<b>FY10 4Q to maturity</b>	<b>3.0:1</b>

- **Estimated increase in annual interest expense of \$20-25 million and amendment fees of \$12 million**

# Debt to Total Capitalization

•Reduced debt by \$900 million<sup>1</sup> since the fourth quarter of fiscal 2008

•Goal is to reduce debt to total capitalization to below 50%



# Covenant Update

- **Smithfield expects to meet all FY09 Q4 covenants**
- **Projections show continued compliance for all of fiscal 2010**
- **Proactive discussion of refinancing ongoing**

**Bottom line**

# Bottom Line

- **Cautiously optimistic about impact of A(H1N1) influenza**
- **Already benefitting from Pork Group restructuring plan**
- **Continue to reduce debt, improve liquidity and strengthen the balance sheet**
- **Despite A(H1N1), market conditions appear to be moving in the right direction**
- **We believe that fiscal 2010 should be a better year than the current year**

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# Appendix – Who we are & Exports

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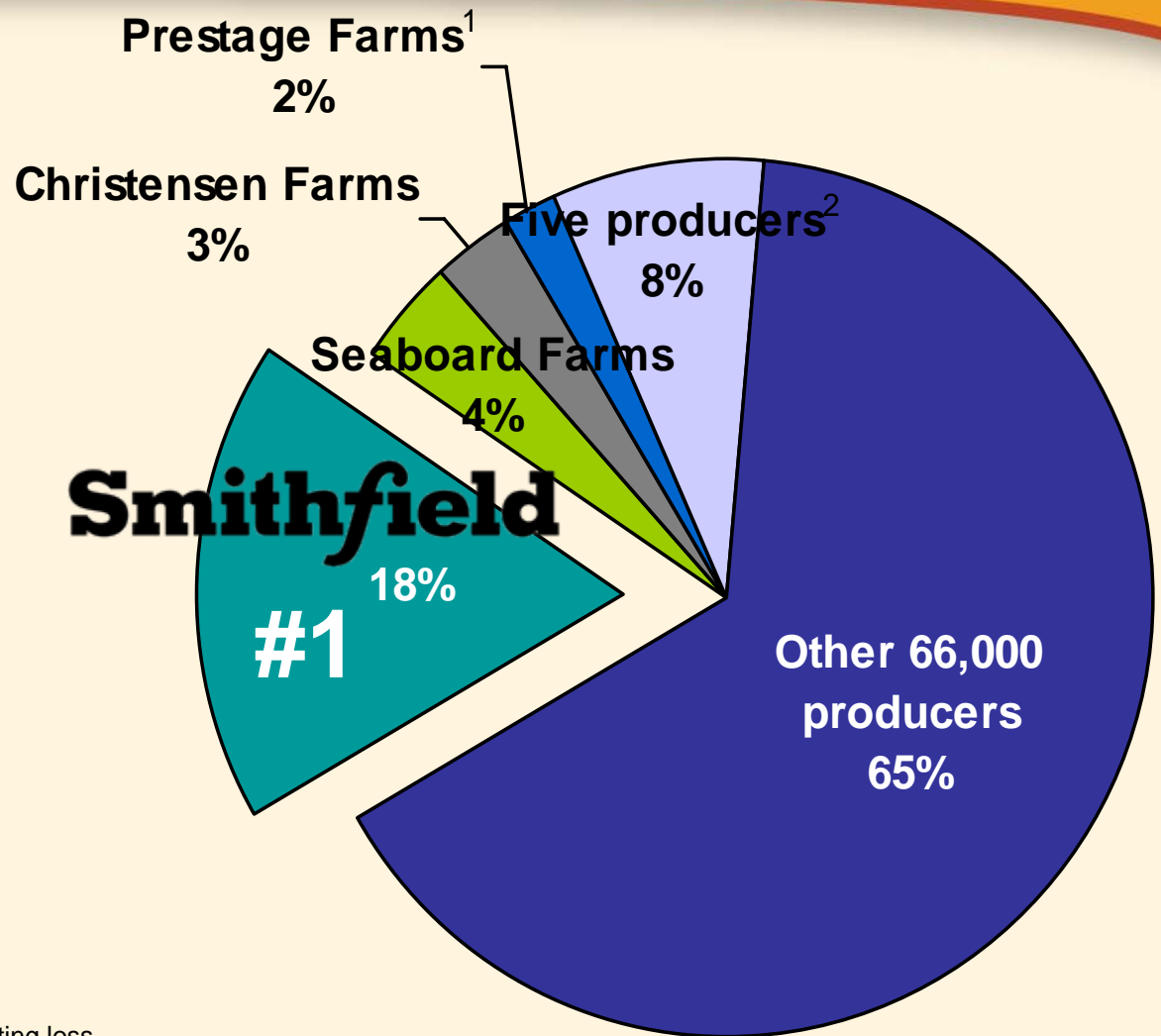
**Who we are**

**Smithfield**

# Market Leader: Hog Production

**Hog Production\***  
**Sales: \$2.4 billion**  
**Operating Loss:**  
**\$(98.1) million**

- World's largest hog producer
- Produced 19 million hogs domestically in FY08
- Produced 1.6 million hogs in Poland and Romania in FY08



\*Note: Fiscal 2008 sales (before eliminations) and operating loss

Source: United States Industry Data Successful Farming

<sup>1</sup> The majority of hogs from Prestage Farms and Goldsboro Hog Farm are sold to Smithfield Foods, Inc. under long-term contract

<sup>2</sup> Approximate market shares of Five Producers: Cargill=2%; Iowa Select Farms=2%; The Pipestone System=1%; Goldsboro Hog Farm=1%; The Hanor Company=1%; Total=8%

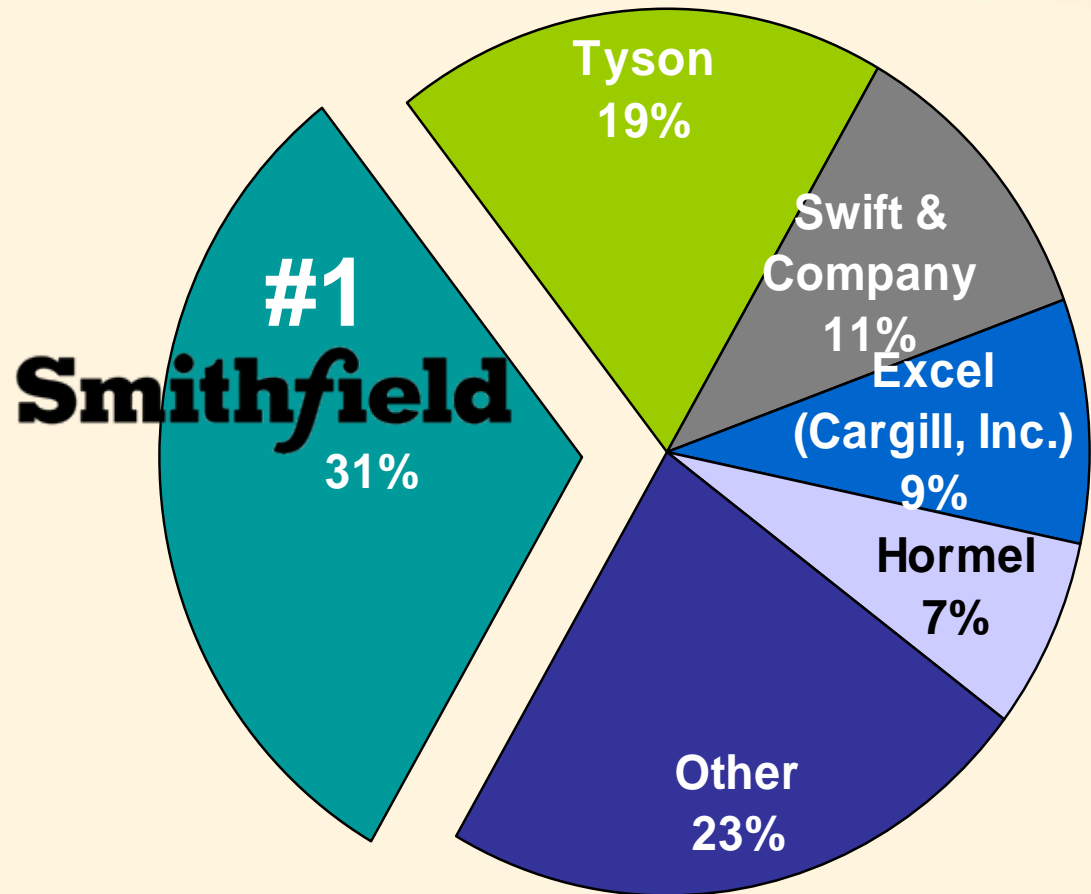
# Market Leader: Pork

## Pork\*

**Sales: \$9.6 billion**

**Operating Profit:  
\$449.4 million**

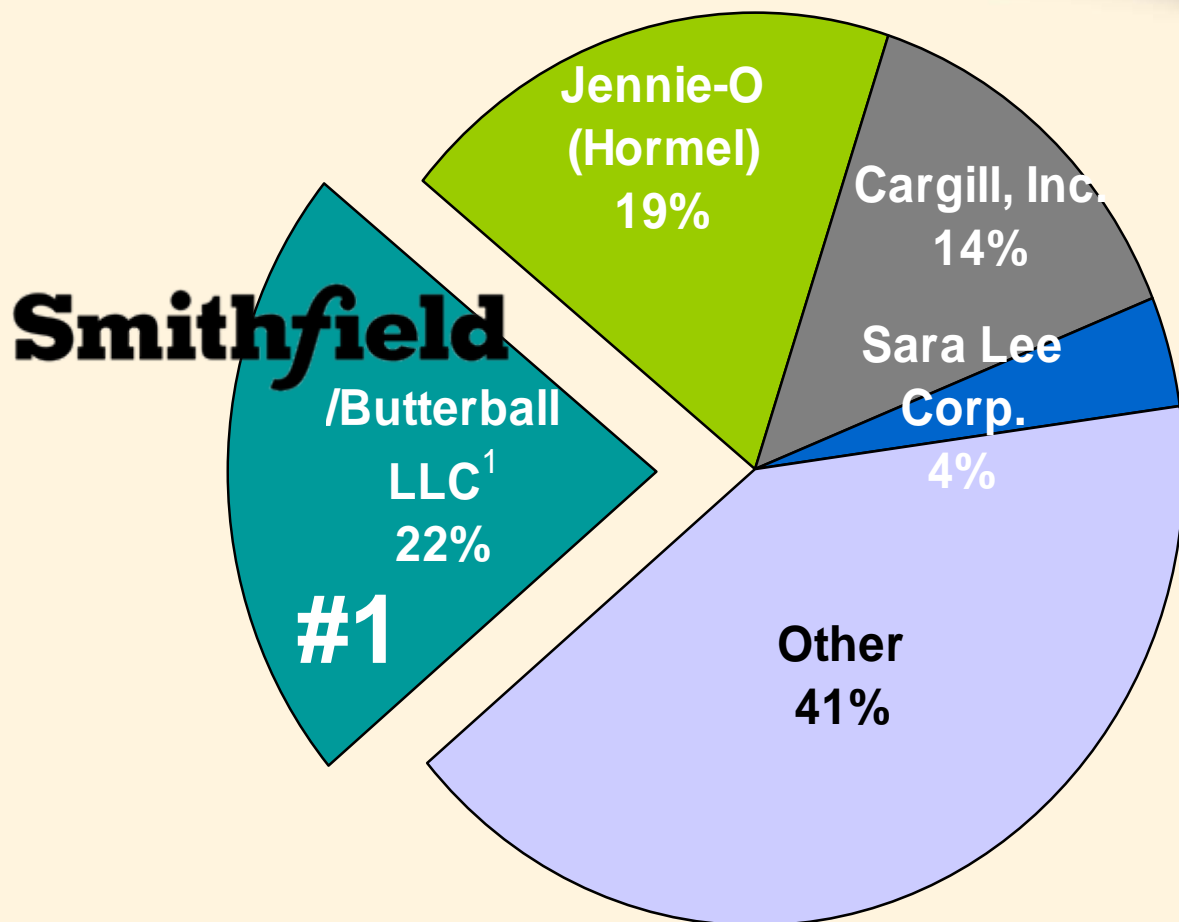
- World's largest pork processor
- Processed 31 million hogs in FY08
- Sold approximately 4.0 billion pounds of fresh pork in FY08
- Sold approximately 3.1 billion pounds of packaged meats in FY08



# Market Leader: Turkey Processing

**Other Segment\***  
**Sales: \$149 million**  
**Operating Profit:**  
**\$28.2 million**

- Comprised of turkey production operations and Butterball joint venture
- Butterball is the largest turkey processor in the U.S.
- Butterball processed 54 million turkeys in FY08



\*Note: Fiscal 2008 sales (before eliminations) and operating profit

Source: United States Industry Data Successful Farming

<sup>1</sup> 49 percent-owned joint venture

# Market Leadership: International

## International\*

**Sales: \$1.2 billion**

**Operating Profit:  
\$76.9 million**

- Subsidiaries in Poland, Romania and the United Kingdom
- 37% ownership of Campofrío Food Group (public company) with production facilities in Belgium, France, Italy, The Netherlands, Portugal and Spain
- Joint ventures or major investments in Mexico and China



# Campofrío Food Group – Dominant Brands

- **Leading European packaged meats company, and one of the largest worldwide with sales of €2.1 billion<sup>1</sup>**
- **Smithfield owns 37% of publicly-traded company**
- **Current market value of approximately \$340 million<sup>2</sup>**
- **#1 packaged meats market share in**
  - **France**
  - **Spain**
  - **The Netherlands**
  - **Belgium**
  - **Portugal**

<sup>1</sup> Pro-forma combined figure as of December 2007

<sup>2</sup> Based on May 8, 2009 closing price

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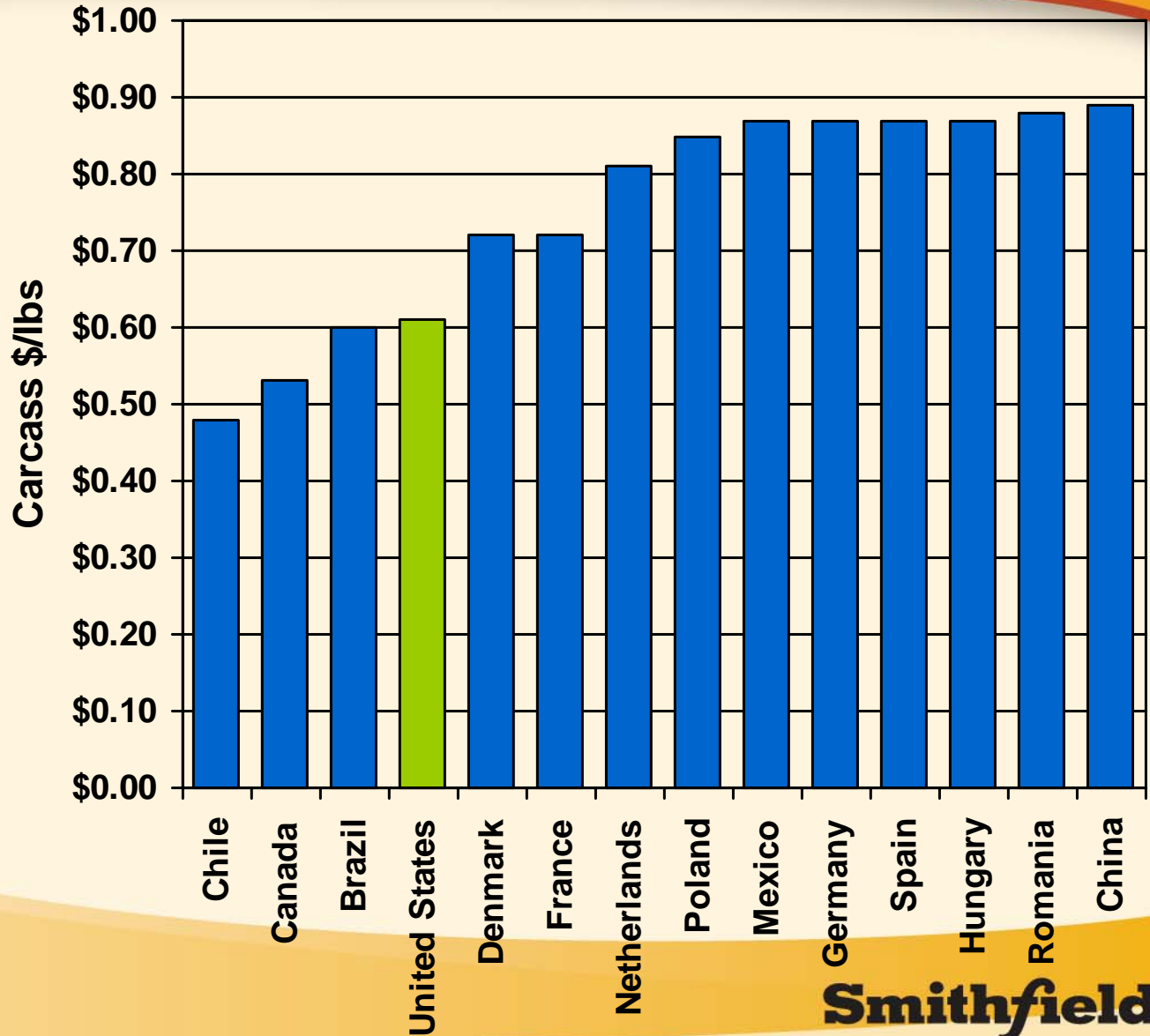
# Exports

# International Situation Analysis

- **Smithfield remains optimistic on exports**
  - **Pork production declining worldwide**
  - **Production in several major importing countries declining**
  - **Production in major exporting countries declining**
  - **U.S. pork prices are cheap**

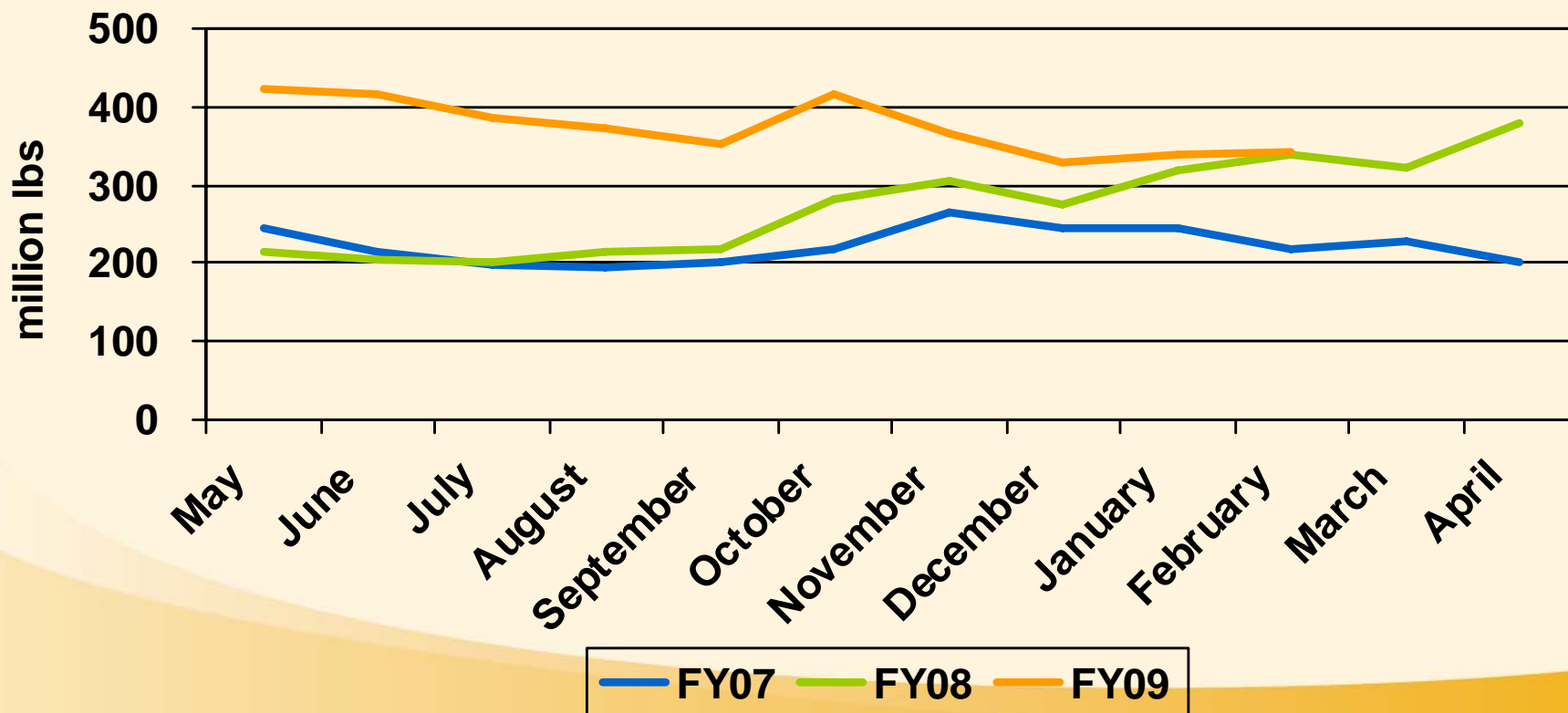
# World Pork Prices

U.S. pork prices are among the lowest on the worldwide market



# U.S. Monthly Pork Exports

U.S. exports of pork and pork variety meats continue to increase year over year



# Top Ten Worldwide Pork Producers

- Top ten producing countries account for 93% of worldwide production
- With exception of China and Russia, world pork production is shrinking
- China is "officially" projecting a 3% increase, our estimate is no annual growth

<u>Rank</u>	<u>Country</u>	<u>2008 Production (billion lbs)</u>	<u>Projected change 2008 to 2009</u>
1	China/HK	96.6	0%
2	EU-27	49.2	-6%
3	United States	23.5	-4%
4	Brazil	6.7	-1%
5	Russian Federation	4.5	4%
6	Vietnam	4.1	-3%
7	Canada	4.1	-10%
8	Japan	2.7	-5%
9	Philippines	2.6	-5%
10	Mexico	2.5	-9%
	Other	14.9	0%
<b>Total</b>		<b>211.4</b>	<b>-2%</b>

# Top Five Worldwide Pork Importers

- Top five pork importers account for 70% of all international pork trade
- Imports account for a substantial portion of domestic consumption, except for China
- Three of the top five importers are experiencing reductions in domestic production

<u>Rank</u>	<u>Country</u>	<u>2008 Imports (billion lbs)</u>	<u>Imports % of Domestic Production</u>	<u>Projected Change in Domestic Production</u>
1	Japan	2.8	100%	-5%
2	Russian Federation	2.1	46%	4%
3	China/HK	1.9	2%	0%
4	Mexico	1.2	47%	-9%
5	Korea	1.0	43%	-2%
	Other	3.9	-	-
<b>Total</b>		<b>12.9</b>	<b>-</b>	<b>-</b>

# Top Five Worldwide Pork Exporters

•Top five pork exporters account for 95% of all international pork trade

•With exception of China, all exporters have shrinking domestic production

<u>Rank</u>	<u>Country</u>	<u>2008 Exports (billion lbs)</u>	<u>Projected change 2008 to 2009</u>
1	United States	5.3	-4%
2	EU-27	3.4	-6%
3	Canada	2.4	-10%
4	Brazil	1.5	-1%
5	China/HK	0.4	0%
	Other	0.7	-
<b>Total</b>		<b>13.7</b>	<b>-</b>

# Smithfield

