Smithfield reports strong fundamentals

By ROD SMITH

S MITHFIELD Foods Inc., the largest hog producer and processor in the U.S., has reported record results for its fiscal 2011 that showed its animal health businesses were strong across all of its operating segments.

The company said, in its November-December quarter, the U.S. hog inventory was below the year-ago period for the ninth consecutive quarter, pork exports remained strong, strong storage was lower, and pork cutout approached record highs.

The company said this set up higher hog and pork prices, increasing sales and profits.

In response, the company said it received $113 million of notes that were due in 2013 and 2014 and has retired $913.0 million of debt in fiscal 2011, decreasing its total debt level to $2.1 billion.

Smithfield’s results are shown in the Tables. The company said the third-quarter results included a number of extraordinary items, including a gain of 44 cents per share for an insurance recovery and a loss of 5 cents per share on the sale of certain assets.

For its pork segment, Smithfield reported excellent margins due to reduced supplies of and robust demand for pork.

The company reported “solid” packaged meat margins — especially in the face of considerable raw material costs — due to a more cost-effective coordinated market and sales platform that has provided a more competitive cost structure.

For its international segment, Smithfield reported favorable margins from its equity investment in Mexican hog production, lower profits for its Polish operations due to decreased hog prices and increased production; and more than offset record results in pork processing and lower earnings for its Romanian operations.

Operating results

For its hog production segment, the company normally experiences its weakest period of the year in the third quarter, the company said.

The company has said its Campbell European meat business is improving substantially.

Chief executive officer and president C. Larry Pope said industry fundamentals are continuing and “are encouraging.” It noted that costs of production are high and likely will be even higher in the fourth quarter, but he said limited meat supplies “are supporting a significantly higher live hog futures curve” for the rest of fiscal 2011 and for fiscal 2012.

Accordingly, Smithfield’s hog production should turn “positive” late in the fourth quarter and next year, he said.

Pope commended the “excellent” hog and market hogs. “We have strong fundamentals with more than 2,300 employees worldwide and in more than 75 countries,” he said.

By TIM LUNDEEN

ANIMAL Health International Inc. (AHII) and privately held Lextron announced March 14 that they have entered into a definitive merger agreement.

“Under the agreement, Lextron, with support from investment banks led with Leonard Green & Partners LP, will acquire all of the outstanding AHII common shares for $4.25 per share, or approximately $111 million, plus the repayment of AHII’s outstanding indebtedness, for a total purchase price of approximately $251 million,” said the announcement.

AHII officials were pleased with this company’s March 11 closing price.

The transaction is expected to close by June 30 and is subject to AHII stockholder approval, antitrust clearance and certain other customary closing conditions.

“This merger provides an opportunity for us to collectively create the country’s premier animal health business,” Lextron president and chief executive officer John Adent said.

Building upon Lextron’s four-decade presence in this industry, we are confident about the combined pool of industry expertise and resources we will be able to offer our customers moving forward,” he said.

Lextron founder Dr. Bob Hummel will be chair of the combined company, and John Adent will be president and CEO. AHII’s Jim Robison will be vice chair, and Bill Lacey will be chief operating officer.

Hummel established Lextron in 1967 as Great Plains Chemical Co., a distributor of animal health products for the livestock industry. The name was later changed to Lextron and has grown to five separate operating divisions: Lextron Animal Health, Lextron Micro Tech, Lextron Information Systems, Animal Feed Technologies and Precision Logistics.

Lextron Animal Health is a distributor of all the “major brand” animal health products and also markets more than 200 products under the Aspen and Cooper’s Best labels.

Its distribution network markets products to veterinarians, feed stores and feedyards, and livestock producers throughout most of the U.S. It also has wholly owned subsidiaries, distributors for a number of other animal health products sourced from 1,500 manufacturers to 71,000 customers in the U.S. and Canada. AHII was founded in 1954 and has corporate headquarters in Westlake, Texas.