



Mining The Balance Sheet
A Capital Allocation Perspective
Old Lessons, New Realities

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Black Swans & Changing Winds

Today's World....

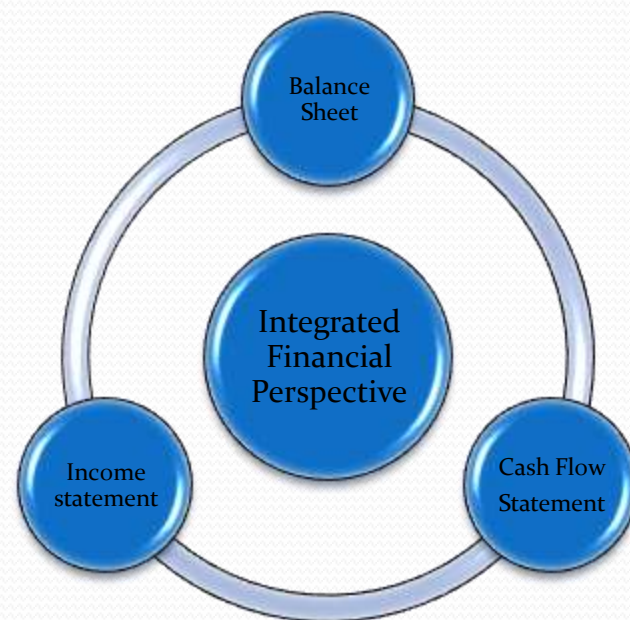
- Beauty is in the eyes of “Be-Lender”
 - When there is a crisis, all look to protect capital-valuations and access to capital is not guaranteed
 - Good information and controls are keys to assess and to guard against risks
 - Right size and structure balance sheet for the unknowns
 - Plan early for needs



Balance Sheet Reflects Your Investment

Your Business is an Investment...
...Manage it as an investment:

- Reflects current capabilities /capacities
- Understand it and what drives it
- Measure, monitor and manage – not just for audit but to build value
- Rebalance as preparation for uncertainty





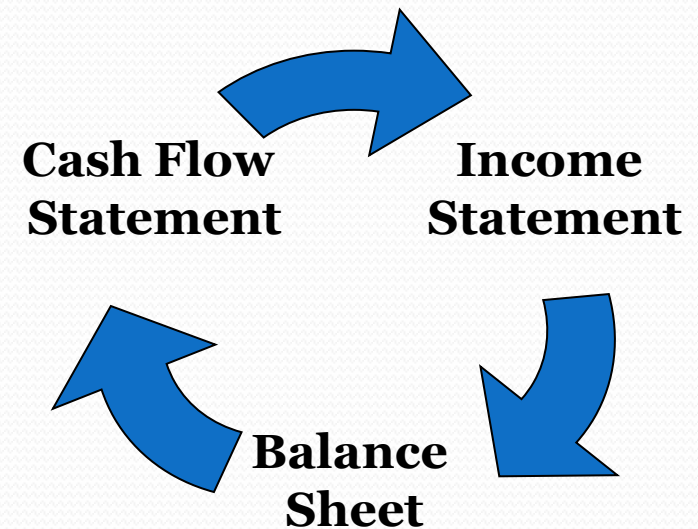
The “Key Decision” Questions

- Do you confirm/evaluate your balance sheet and effectively use audit opportunity?
- Do you use long term targets to measure performance and track your progress?
- What is your capacity for growth –is it aligned with strategic objectives, plans and risks?
- Are you creating and building value to sustain you company?



Managerial Perspective- Integrated Financial Reporting

- Mining balance sheet provides insights into overall results
- Assesses and reports the efficiency and effectiveness of strategies, plans and execution
- Improves communication
- Builds team understanding
- Tracks value creating performance





Integrated Financial Measurement

- The balance sheet along with the income statement combine to provide the information to analyze financial performance in terms of:
 - How capital is invested
 - Profitability of investments and return to equity
 - Costs of capital employed – debt and equity
 - Soft spots --- Gaps
- *This Understanding is especially important for privately held firms*

Capital Performance Cycle



- The relationship between invested capital, asset investment, profitability and profit-retention generates the “**capital performance**” that links firm's strategies, decisions and execution and determines the company’s sustainable growth :
 - **Profitability -- Net profit margin**
 - **Asset Utilization -- Sales-to-asset ratio**
 - **Leverage -- Debt-to-equity ratio**
 - **Earnings (Capital) retention rate**



Balance Sheet- Liabilities & Equity Mining Opportunities

- Debt & Equity– Capital Employed
 - S/T Debt - Renewal Risk , Interest Rate Risk
 - L/T Debt - Structure, Proportional Support –WC and cost
 - Equity- Risk Cushion
- How much variability/risk relative to your current working capital needs does your current program have? What do you need to support growth plans?
- How do you structure strategic relationships and resources to support revenue opportunities?
- How do your risk management/hedging programs impact your equity and capital structure?



Balance Sheet- Asset Investments Mining Opportunities

- **Assets – Invested Capital**
 - Cash- Liquidity - Cushion
 - Net Working Capital – Structure Herd & Inventory Valuations
 - Fixed Assets/ LT Assets – Investment Strategy, Goodwill ,Fair Value
- How do your assets grow relative to sales growth and profitability?
- How much cushion do you carry, is it enough relative to your profit cycle, risks?
- How do you structure strategic relationships and resources to support revenue opportunities?
- Do you use capital return analysis to assess investments/progress ?















Management Balance Sheet- A Managerial Perspective

- The management balance sheet presents information more in line with how the business operates:
- Invested capital: Net assets--Cash, Working Capital Cycle, Fixed & LT Capital Investment
- Capital Employed: Leverage--ST Debt, LT Debt , Shareholders Equity















S Smithfield Foods, Inc. (Main)

	Actual 2004	Actual 2005	Actual 2006	Actual 2007	Actual 2008	Actual 2009
	5/2/2004	5/1/2005	4/30/2006	4/29/2007	4/27/2008	5/3/2009
Invested Capital (Net Assets)						
Cash	\$74,300	\$86,800	\$89,400	\$57,800	\$57,300	\$119,000
Net Working Capital	\$1,087,000	\$1,496,200	\$1,347,200	\$1,569,000	\$2,525,700	\$1,717,000
Net Fixed & CLT Assets	\$2,790,100	\$3,177,300	\$3,756,900	\$4,234,900	\$5,017,900	\$4,418,000
Total Invested Capital	\$3,951,400	\$4,760,300	\$5,193,500	\$5,861,700	\$7,600,900	\$6,254,000
Invested Capital Asset Distribution						
Current Financing						
Short-Term Debt	\$104,700	\$137,400	\$258,800	\$254,300	\$409,000	\$338,300
Long-Term Debt & CLT Liab.	\$2,229,500	\$2,721,500	\$2,906,500	\$3,366,600	\$4,143,700	\$3,354,300
Owner's Equity	\$1,617,200	\$1,901,400	\$2,028,200	\$2,240,800	\$3,048,200	\$2,561,400
Total Capital Employed	\$3,951,400	\$4,760,300	\$5,193,500	\$5,861,700	\$7,600,900	\$6,254,000
Capital Employed Distribution						



SEB Balance Sheet Trends

CPS Val UBuilder Capital Performance Summary

Seaboard Corporation (Main)		Actual 2004	Actual 2005	Actual 2006	Actual 2007	Actual 2008	Actual 2009
		12/31/2004	12/31/2005	12/31/2006	12/31/2007	12/31/2008	12/31/2009
Invested Capital (Net Assets)							
Cash		\$133,879	\$412,496	\$510,228	\$334,006	\$373,274	\$469,208
Net Working Capital		\$363,209	\$369,678	\$423,489	\$523,599	\$630,748	\$521,653
Net Fixed & CLT Assets		\$693,256	\$769,111	\$764,864	\$910,166	\$959,507	\$911,831
Total Invested Capital		\$1,190,344	\$1,551,285	\$1,698,581	\$1,767,771	\$1,963,529	\$1,902,692
Invested Capital Asset Distribution							
Current Financing							
Short-Term Debt		\$62,545	\$154,353	\$126,390	\$97,000	\$224,259	\$83,599
Long-Term Debt & CLT Liab.		\$435,117	\$419,062	\$368,884	\$316,543	\$279,915	\$277,420
Owner's Equity		\$692,682	\$977,870	\$1,203,307	\$1,354,228	\$1,459,355	\$1,541,673
Total Capital Employed		\$1,190,344	\$1,551,285	\$1,698,581	\$1,767,771	\$1,963,529	\$1,902,692
Capital Employed Distribution							
Capital Cost							



HRI Balance Sheet Trends

CPS

Val UBuilder

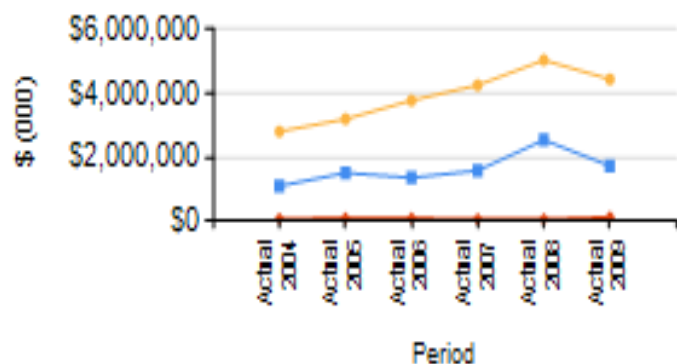
Capital Performance Summary

Hormel Foods Corp. (Main)		\$ x (1000)				
	Actual 2004	Actual 2005	Actual 2006	Actual 2007	Actual 2008	Actual 2009
	10/30/2004	10/30/2005	10/29/2006	10/28/2007	10/26/2008	10/25/2009
Invested Capital (Net Assets)						
Cash	\$288,881	\$131,046	\$172,485	\$149,749	\$154,778	\$385,252
Net Working Capital	\$291,916	\$337,941	\$384,538	\$487,248	\$602,167	\$504,452
Net Fixed & CLT Assets	\$1,504,565	\$1,781,322	\$1,918,635	\$2,161,925	\$2,178,293	\$2,117,322
Total Invested Capital	\$2,085,362	\$2,250,309	\$2,475,658	\$2,798,922	\$2,935,238	\$3,007,026
Invested Capital Asset Distribution						
Current Financing						
Short-Term Debt	\$15,760	\$11,075	\$366	\$70,049	\$100,000	\$0
Long-Term Debt & CLT Liab.	\$670,354	\$664,658	\$672,380	\$844,090	\$827,666	\$883,574
Owner's Equity	\$1,399,248	\$1,574,576	\$1,802,912	\$1,884,783	\$2,007,572	\$2,123,452
Total Capital Employed	\$2,085,362	\$2,250,309	\$2,475,658	\$2,798,922	\$2,935,238	\$3,007,026
Capital Employed Distribution						



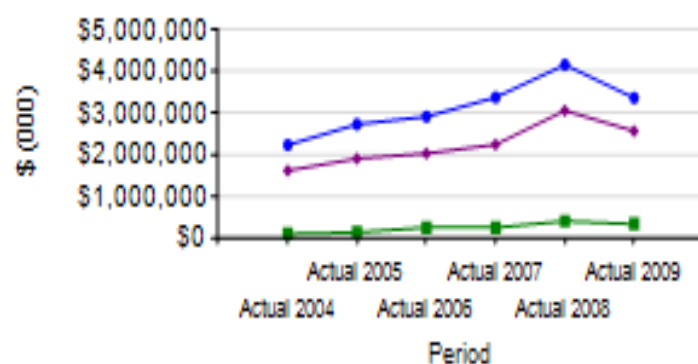
SFD>Returns & Standard Capital Cost Trends

Invested Capital Trends



— Net Working Capital
— Cash
— Net FA & Other LT Assets

Capital Employed Trends

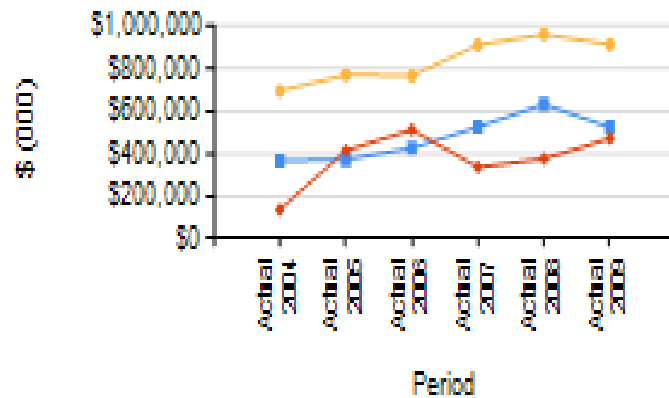


— Short-term Debt
— Owner's Equity
— Long-term Debt



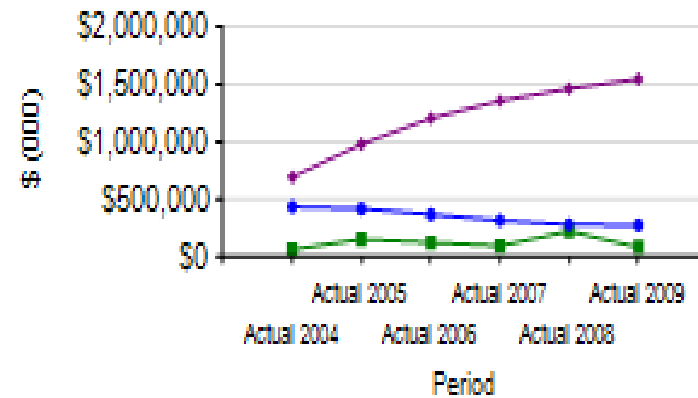
SEB>Returns & Standard Capital Cost Trends

Invested Capital Trends



Net Working Capital
Cash
Net FA & Other LT Assets

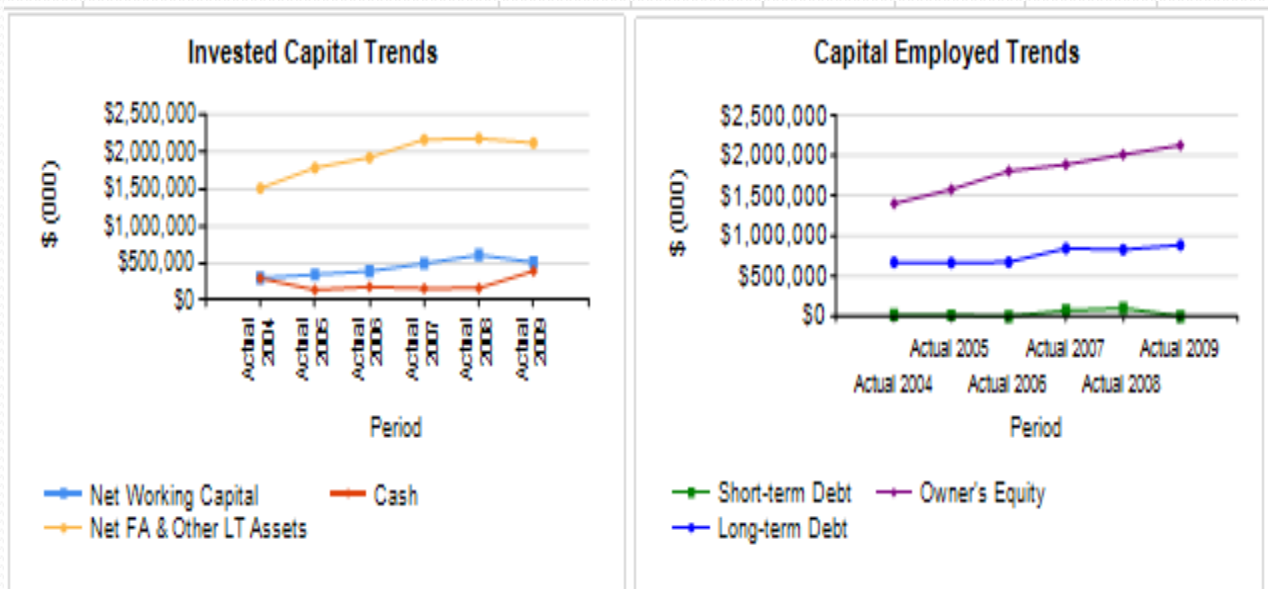
Capital Employed Trends



Short-term Debt
Long-term Debt
Owner's Equity



HRL>Returns & Standard Capital Cost Trends





Balance Sheet- Managerial Insights

- Capital Profile
 - Allocation, Structure
 - Leverage Cost and Returns
- Capacity to Grow
- Exposure to Risks

- What is your capital profile and what should it be?
- Is capital structure and investments aligned with strategic objectives?
- Do you trend to see impact of operations over time?



Lessons Learned- Some Basic Rules

- Rule 1: Access to capital must be earned
 - Leverage's cost is more than interest rate
 - Equity and retained earnings have cost but also benefits
 - Prepare and strengthen capital structure
 - Assume availability will not be there when needed



Lessons Learned- Some Basic Rules

- Rule 2: The real cost of doing business is higher than you think—profit cycles, risk premiums and higher costs require higher target returns
 - Know your “real” cost of capital, required returns
 - How you invest/finance are keys to long term sustainability
 - Develop strategies that recognize capital’s “true” cost



Lessons Learned- Some Basic Rules

- Rule 3: Manage business (Balance Sheet) for uncertainty
 - Benchmark/trend for opportunities and to monitor progress
 - Assess risk gaps:
 - Credit/Commodity, Concentration-Customer/Vendor/Markets
 - Match Funding- Herd Valuation, Liquidity & Returns
 - Financial Leverage
 - Liquidity, cash cushion
 - Balance returns against overall capital cost



Lessons Learned- Some Basic Rules

- Rule 4: Growth strategies that are built on leverage magnify risks relative to potential returns
 - Opportunity does not always grow with investment required but risk does
 - Decisions must include impact to your financial capacity, capabilities and condition
 - Remember, without balance sheet, activities do not balance



Lessons Learned- Some Basic Rules

- Rule 5: Swine industry requires significant capital for both production and processing - returns > cost over time to sustain business and attract capital is a must
 - Use capital/returns to address LT planning/strategies
 - Change perspectives/conversations to capital/ required returns...
... not just cost/profits