

FOOD & AGRICULTURE INDUSTRY

CASE STUDY: CHICKEN PRODUCER

Despite bringing in US\$1.5 billion in annual sales, this chicken production Company raised concerns amongst members of its lending group who were concerned about its credit position following a spike in chicken feed prices.

Situation

- The Company had invested approximately US\$260 million in acquisitions, plant modernizations and facility expansions between 2006-2007, focusing on growth opportunities rather than debt reduction.
- Commodity prices for chicken feed (primarily corn and soybean meal) climbed to unprecedented levels in the first half of 2008 and the Company did not have sufficient liquidity to carry itself through, requiring cash investment in inventory.
- A significant portion of the Company's sales were based on fixed-price contracts and were not up for renewal in the near-term. Consequently, the Company was not able to pass on the aforementioned increases in feed cost to its customers.
- These challenges were further exacerbated by a greater than US\$100MM hedging loss.

FTI Consulting's Role

- We reviewed the Company's business plan, including both financial and operational outlook to opine on the best course of action for the lending group. The review included break-even analysis, sensitivity analysis relative to commodity and chicken prices, and assessment of the industry.
- Our team also reviewed and forecasted the borrowing base to determine if the lending group had adequate collateral in the near to medium-term.
- To determine if additional collateral could be secured by the lending group we assessed the Company's fixed assets and intercompany activity.
- Following our evaluation, we advised the lending group on strategic alternatives and liquidity sources available to the Company.

Outcome

- Based on FTI Consulting's assessment of the Company's business plan and the market outlook for the industry, the lending group extended an additional loan to the Company to preserve the value of the borrowing base.
- The lending group received additional collateral, pledges, and guarantees.
- Beginning in late 2008 and into 2009, production cuts began to prevail in the market. Chicken prices began to recover, and fixed-price sales contracts were renegotiated. As a result, the lending group's debt has been paid down to a manageable level as the Company regains its state of normalcy.

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About FTI Consulting

FTI Consulting, Inc. is a global business advisory firm dedicated to helping organisations protect and enhance enterprise value in an increasingly complex legal, regulatory and economic environment. FTI Consulting professionals, who are located in all major business centers throughout the world, work closely with clients to anticipate, illuminate and overcome complex business challenges in areas such as investigations, litigation, mergers and acquisitions, regulatory issues, reputation management and restructuring.

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