SIENAcollege

BJORKLUND FUND

October, 6, 2017

Company Name: PPC

Analyst: TJ Curtin

Sector: Consumer Staples
Industry: Food Products
Current Price: $28.74
Target Price: $54.88

Company Description:

Pilgrim's Pride Corporation is one of the largest chicken producers in the world, with operations in the U.S., Mexico and Puerto Rico. The company is primarily engaged in the production, processing, marketing and distribution of fresh, frozen and value-added chicken products to retailers, distributors and foodservice operators. They offer a wide range of products to customers through strong national and international distribution channels. Pilgrim's fresh chicken products consist of: refrigerated (non-frozen) whole chickens, whole cut-up chickens and selected chicken parts that are either marinated or non-marinated. The Company's prepared chicken products include: fully cooked, ready-to-cook and individually frozen chicken parts, strips, nuggets and patties, some of which are either breaded or non-breaded and either marinated or non-marinated.

BUY:

Current Price:	$28.74
Target Price:	$54.88
Market Cap:	7.25B
Volume:	1.61M
S&P Debt Rating:	A-
Ke:	10%
ROE:	24.7%
WACC:	7.5%
Total Asset Multiplier:	6.13
Cash/Total Assets:	62.93%

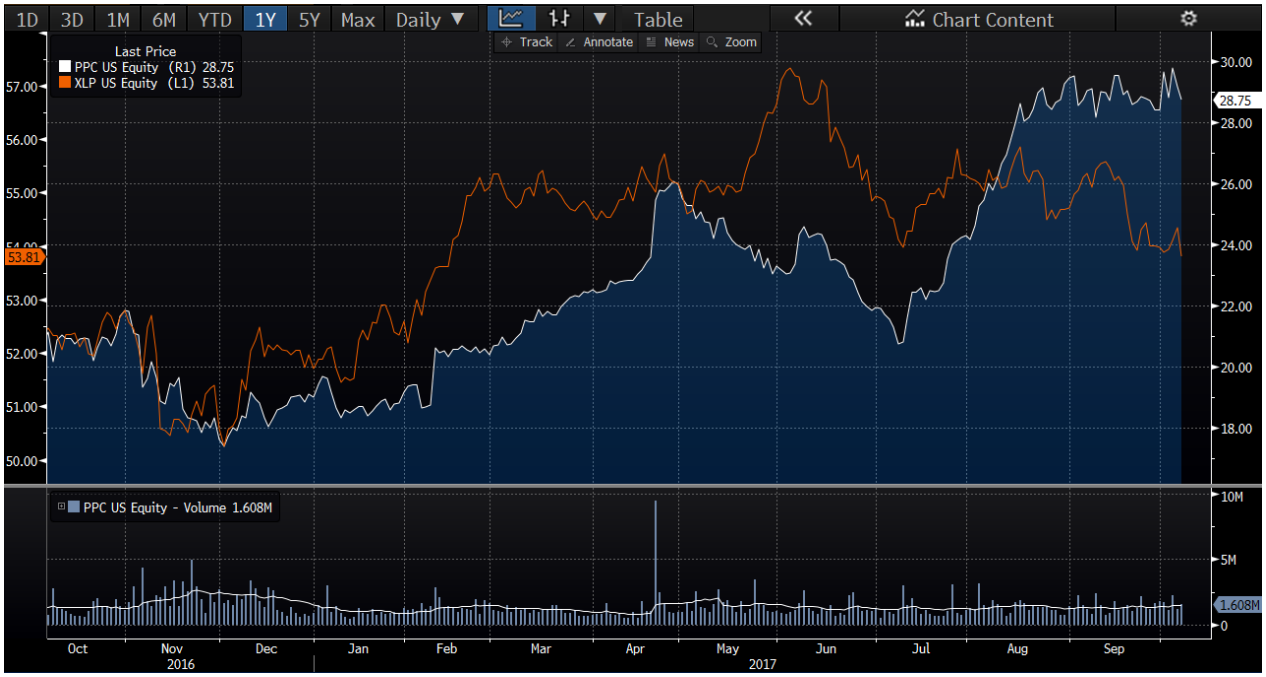
Catalysts:

Short Term(within the year):

- Low input prices due to a record excess supply of corn and soybean crops
- Shifting customer demand to healthier alternatives aligns with growing product segments that came along with GNP acquisition (2017) (producer of "Just Bare" line of natural products with no antibiotics)

Mid Term(1-2 years):

- Growing export platform
- Growing Mexican component with efficient processing facility aligns with growing Mexican demand for chicken
- Moy Park Acquisition will lead to stronger cash flow generation in Europe



	Long Term(3+): - Frugal innovation & lean/focused enterprise leads to better sustainability and profitability (Zero-Based Budgeting) - Relationship with Amazon to continue to grow, allowing company to capitalize on the future distribution channels where more and more shoppers are expected to get groceries online - Focus solely on chicken allows for company to excel past competition who focus on less profitable, desirable and shrinking meat distribution segments - Shift from Business-to-Business model to Business-to-Consumer & Shopping strategy

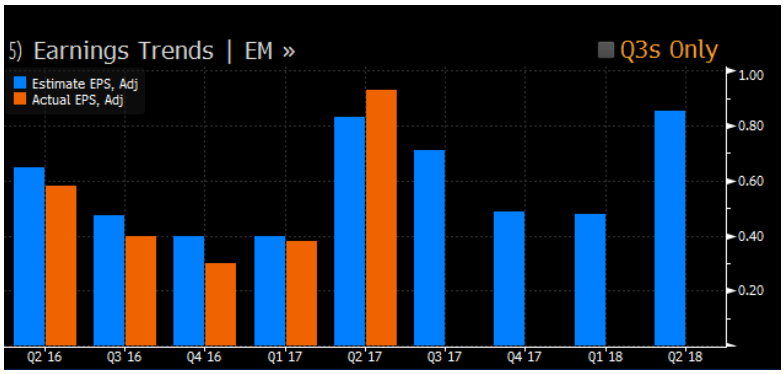
Thesis:

Pilgrim's Pride Corporation, an industry leader with regard to quality, safety and minimizing SG&A costs, filed Chapter 11 bankruptcy in 2011 after 4 quarters of consecutive losses attributed to: rising grain costs, a poultry surplus, high SG&A costs and operating inefficiencies and a large debt burden ($1.9 Billion) as a result of an acquisition. In the years since the bankruptcy, the company has been purchased by JBS holdings, a meat producer and distributer who holds 78.5% of the company currently, which has helped the company to learn from its past mistakes, pay off a majority of the debt and propel itself on a path to becoming the industry leader for chicken products.

The current economic situation of the company is almost the exact opposite of what it was when it filed bankruptcy; input costs are low as the result of record surplus, SG&A costs now set the standard for the industry and the debt burden that caused the company to file for bankruptcy had been reduced from $1.4 billion in 2011 down to $.31 billion in 2013. With these metrics under control and lessons learned from the past, PPC is in a great strategic position to continue growing as it has over the past years. No customer represents more than 10% of PPC's business; an important statement that competitors cannot make whilst the bargaining power of buyers is a strong factor in this industry. The new relationship with parent company JBS has given a strong competitive advantage to PPC with regard to distribution and cutting down on administrative costs. Rather than again making the mistake of acquiring large, complicated purchases, the company has focused on smaller and more frequent acquisitions that are vertically integrated to help it achieve a geographically strategic stronghold with regard to production and distribution.

Based off of my research and analysis, I believe that PPC is currently undervalued by the market due to poor performance in 2016 as a result of labor contracts, derivative losses (compared to usual gains) and increased wages and benefits. The company has strong growth prospects for the coming years; this is a result of a complete overhaul of process, strategic positioning relative to competition, strategic partnerships & successful acquisitions over the past as well as recent acquisitions that are expected to generate an increase in cash flow moving forward.

Earnings Performance:



PPC has missed more earnings as of recent quarters than it has accurately forecasted, however growth verses competitors has been stronger each quarter of the recent year in the categories of earnings per share, revenue, net income, operating profit and EBITDA. The second quarter underestimate of earnings caused for an appreciation of the price of PPC's shares however other recent factors, such as the arrest of parent company JBS's CEO for alleged insider-trading has helped to temporarily devalue

	Measure	Q3/17 Est	4Wk Chg	YoY Gr	Growth vs Comps	Past Surprise
11)	EPS, Adj+	0.710	-1.39%	77.5%	Stronger	Missed 6 of 8
12)	EPS, GAAP	0.710	-1.39%	82.1%	Stronger	Missed 6 of 8
13)	Revenue	2.313B	1.26%	13.8%	Stronger	Missed 7 of 8
14)	Net Income, Adj+	186.667M	-1.75%	81.6%	Stronger	Missed 6 of 8
15)	Operating Profit	322.000M	0.00%	--	--	--
16)	EBITDA	352.333M	0.67%	67.2%	Stronger	Missed 5 of 8

the company. Recent earnings and settlement of debt have caused for the S&P credit rating of the company to improve from the triple B category into the A- category.

Business Strategy:

Since JBS purchased PPC, the company has increasingly been able to predict and adjust for expected market changes. Employing over 41,000 employees internationally in more than 80 countries, PPC aims to "become the best and most respected company in (the) industry by creating the opportunity of a better future for team members". This is being achieved through a 4 part strategy. The first focus is on safe people, products and healthy attitudes. This will be implemented through various training programs, a university that has been established for the Mexican component and through the daily performance monitoring of various production and distribution segments to determine how efficiencies may be increased or maintained. The second area of focus is having a unique portfolio of diverse, complimentary business models. This portfolio includes a range from live chicken, to fresh chicken, to cooked chicken and even processed chicken availability. These products range from economical options that are easy to prepare to higher-priced products that boast organic labeling and antibiotic-free growth environments. These products will be distributed through multiple international channels including popular companies such as Chick Fil A, Sysco, US Foods, Kroger, Costco, Public, HEBB and even online distributer Amazon in order to adjust to changing market trends. The third area of focus includes becoming a more valued partner with key customers in order to help the company and their partners grow their businesses. The USDA Organic Certification is one of these aspects and is a key customer due to the fact that they had the #1 CAGR for the past 5 years out of any certified product. The No-Antibiotic line that the company works to distribute had the #2 CAGR for the past 5 years, displaying important health trends to be aware of and comply with. Thirdly, products are offered to health-minded customers as having been fed

only vegetables and grains that are not genetically modified products (contain no GMOs). Lastly, the company focuses on ensuring that environmental impact reduction is an important part of their strategic initiatives. The final part of the company's strategy is the relentless pursuit of operational excellence. This includes running vertically integrated and state of the art production and distribution facilities through the use of "Zero-Based Budgeting". The ZBB technique specifies that all company budgets start at 0 dollars and every dollar that is added to the budget must be justified on a "need" basis. The three-year results of implementing this technique are $400 million in cost efficiencies and 1800 fewer positions as a result of what the company refers to as "perfect staffing".

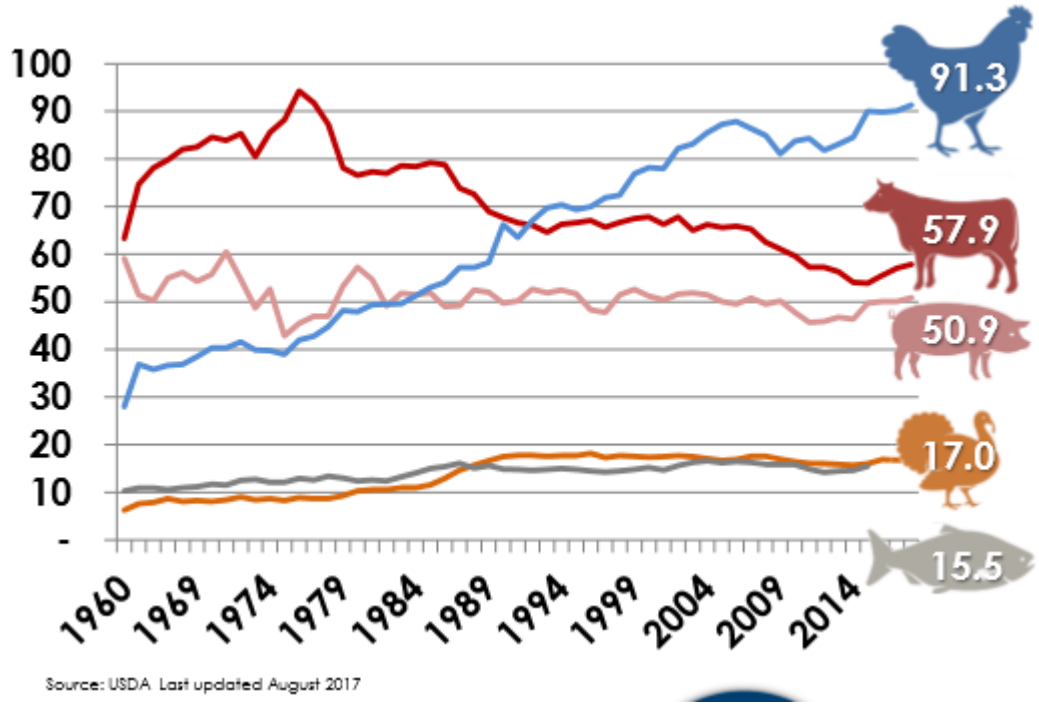
The above strategy is a multifaceted approach to achieving success that was based upon the lessons learned from the failures before 2011 that resulted in the need to file for bankruptcy. Currently, the company takes a strong preventative approach to managing risk through hedging volatile prices of input costs in financial markets through futures contracts, obtaining insurance relative to potential lawsuits with regard to products and facilities, and through the proper management of resources to keep costs and profits in control. A share repurchase program that was initiated in 2015 amounting to $150 million in share repurchases is a testament to the faith that this company has in its future. This is further exacerbated by the February 2016 increase of another $150 million in share repurchases, totaling $300 million. The average price of the acquired stock was $20.42, whilst the current price is $28.75.

US:

On Jan 6, 2017, PPC acquired 100% membership interests of GNP from Maschhoff Family Foods LLC. This business is a vertically integrated poultry business based out of Minnesota and was acquired with the desire of enhancing the efficiencies of PPC and strengthening the strategic geographic position within the U.S. chicken market. It offers a production capability of 2.1 million birds per 5 day work-week with its 3 total plants. As a part of this acquisition, PPC also acquired the rights to the "Just Bare" line, which joins the no-antibiotics-ever segment and increases organic production capabilities. The cost of this purchase was $350 million, which is favorable considering the fact that 2 years ago, a comparable Mexican acquisition with less production capacity was purchased for $400 million and has since generated additional profits for the company and strengthened their strategic geographic position in Mexico. This shows the company's ability to integrate the purchase and use it efficiently.

Chicken is the most consumed protein in the U.S. and the second most consumed protein in the world falling just behind pork. Chicken production has an expected CAGR of 1.2% through 2025 and profits are higher for chicken as costs tend to be higher for other meats due to their production life cycles:

Product	Life Cycle
Cattle	28 - 39 months
Pork	11 - 12 months
Broiled Chicken	< 3 months



U.S. Per Capita Chicken Consumption is graphed above, showing its superiority to other meats with regard to consumer perceptions about health

---

Mexico:

Chicken is the largest per capita consumption over pork, beef and others because it is considered to be the healthiest and it is the most affordable. PPC holds 26% of the Mexican market share and aims to increase this through educating employees and retaining them for years on end. This is perpetuated by the Universidad Pilgrims with metrics shown below.

On June 29, 2015 PPC acquired a vertically integrated production facility from Tyson Mexico for $400 million. 100% of Provemex Holdings LLC equity was obtained, including subsidiaries, with the goal of strengthening PPC's position in the Mexican chicken market. This facility produces 2.9 million birds per 5 day work week.

Europe:

In the UK, chicken is regarded as the healthiest type of meat and strong growth prospects in the coming years present a diversified international opportunity for PPC to expand its operations and achieve a competitive advantage.

In 2015, PPC Acquired a top 10 UK Food company with 48% prepared foods and 52% fresh and value added poultry. Moy Park is fully vertically integrated, is regarded as a highly innovative manufacturer and employs more than 12,000 workers. They have been a trusted long-term partner and are slightly more diverse than PPC in regard to products, however their vision and approach aligns with that of PPC.

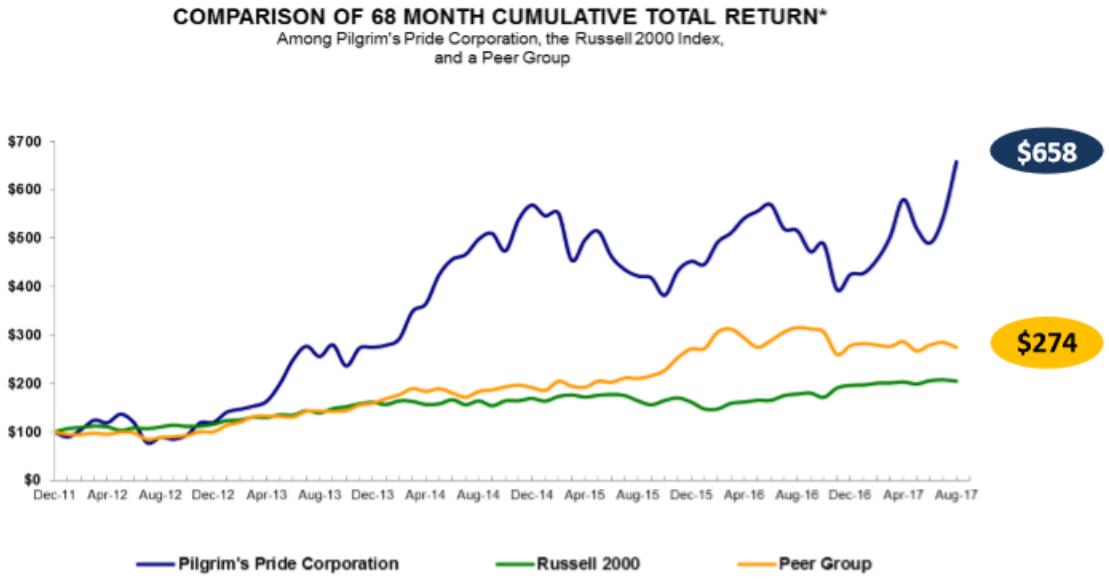
Adapting to New Market Preferences:

PPC is taking action to change its previous model of supplying in a "business-to-business" format to supplying through a "business-to-consumer & shopping strategy". The company also recognizes the shift from economical, easy to prepare meals to more health conscious options that are free of antibiotics and considered organic and natural. Product and geographic diversity as well as daily reviews of performance metrics and market data allow PPC to analyze information at a superior level and employ takeaways to achieve a strong competitive advantage through a forward-looking approach. A newly established relationship with Amazon will help the company to distribute online as many as 70% of consumers are expected to buy groceries online by 2025.

Comparison to Competitors:

PPC has a leading market position in the growing chicken industry. It has a broad product portfolio with regard to chicken in that its size range is from small to large birds whilst it is sold live, fresh, cooked and processed to satisfy different market needs with an even distribution of these products. In a highly competitive, slow growth industry, low costs are crucial to a company's success. The enterprise is lean and focused compared to competition with benchmark-setting SG&A costs.

Our Vision - Total Shareholder Return



	Measure	Q3/17 Est	4Wk Chg	YoY Gr	Growth vs Comps
11)	EPS, Adj+	0.710	-1.39%	77.5%	Stronger
12)	EPS, GAAP	0.710	-1.39%	82.1%	Stronger
13)	Revenue	2.313B	1.26%	13.8%	Stronger
14)	Net Income, Adj+	186.667M	-1.75%	81.6%	Stronger
15)	Operating Profit	322.000M	0.00%	--	--
16)	EBITDA	352.333M	0.67%	67.2%	Stronger

Conclusion:

In conclusion, low input prices and SG&A costs will help PPC excel above competition in the coming years. Their recent successes and investments in positive NPV projects and the massive turnaround that the company has made since filing for bankruptcy in 2011 are testaments to the future success that the company will have. With a low risk industry and an industry leading company as well as a conservative target price of more than double the current value, an investment in this company for the next year period is a no brainer.

SIENAcollege

BJORKLUND FUND

Pilgrim's Pride Corporation (PPC)

CENTER FOR GLOBAL FINANCIAL STUDIES

BULLISH

Analysis by TJ Curtin

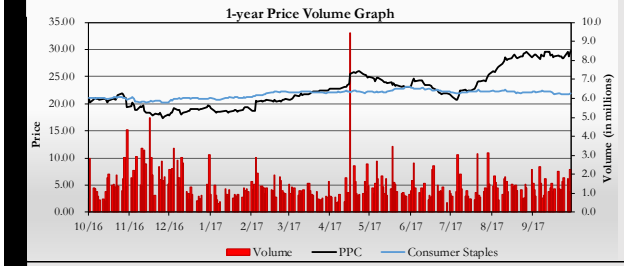
10/6/2017

Current Price:	$28.74	Intrinsic Value	$53.14
Divident Yield:	0.4%	Target Price	$57.87

Target 1 year Return: 101.7%

Probability of Price Increase: 100%

1-year Price Volume Graph



Description

Pilgrim's Pride Corporation engages in the production, processing, marketing, and distribution of fresh, frozen, and value-added chicken products to retailers, distributors, and foodservice operators in the United States, Mexico, and Puerto Rico. It offers fresh chicken products comprising pre-marinated or non-marinated refrigerated (non-frozen) whole chickens, prepackaged case-ready chicken, whole cut-up chickens, and selected chicken parts.

General Information

Sector	Consumer Staples
Industry	Food Products
Last Guidance	November 3, 2015
Next earnings date	October 27, 2017
Estimated Country Risk Premium	5.76%
Effective Tax rate	25%
Effective Operating Tax rate	22%

Market Data

Market Capitalization	$7,251.14
Daily volume (mil)	0.93
Shares outstanding (mil)	248.75
Diluted shares outstanding (mil)	251.08
% shares held by institutions	84%
% shares held by investments Managers	20%
% shares held by hedge funds	4%
% shares held by insiders	0.24%
Short interest	6.32%
Days to cover short interest	11.42
52 week high	$30.00
52-week low	$17.15
Volatility	38.87%

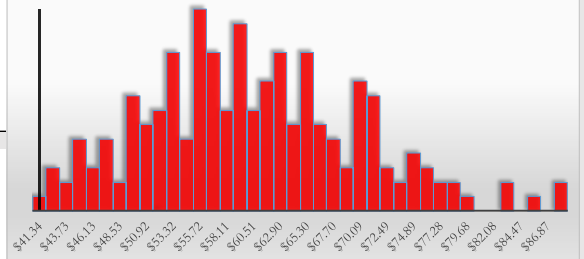
Past Earning Surprises

Quarter ending	Revenue	EBITDA
6/26/2016	-2.84%	-8.15%
9/25/2016	-8.97%	-7.14%
12/25/2016	-4.64%	-26.29%
3/26/2017	-3.63%	-6.14%
6/25/2017	-2.50%	13.79%
Mean	-4.52%	-6.78%
Standard error	1.2%	6.3%

Peers

Sanderson Farms, Inc.
Hormel Foods Corporation
The J. M. Smucker Company
Tyson Foods, Inc.
The Hain Celestial Group, Inc.
McCormick & Company, Incorporated
Pinnacle Foods Inc.

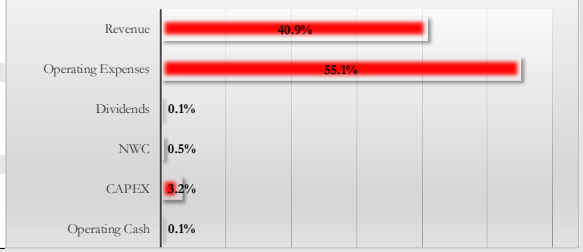
Intrinsic Value Distribution--Probability (Upside)=100%



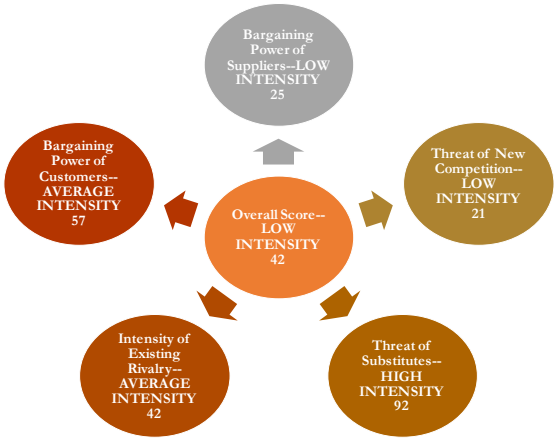
Management	Position	Total compensations growth	Total return to shareholders
Lovette, William	President, CEO & Director	-1.29% per annum over 5y	9.02% per annum over 5y
Sandri, Fabio	Chief Financial Officer	30.21% per annum over 5y	9.02% per annum over 5y
Penn, Jayson	Executive Vice President of	N/M	N/M
Miner, James	Senior Vice President of Tec	N/M	N/M
de Noronha, Eduardo	Head of Human Resources & Pe	N/M	N/M
Waldbusser, Kendra	Head of Food Safety & Qualit	N/M	N/M

Profitability	PPC (LTM)	PPC (5 years historical average)	Peers' Median (LTM)
Return on Capital (GAAP)	34.1%	29.55%	20.15%
Operating Margin	7%	6.41%	9.37%
Revenue/Capital (GAAP)	4.59	4.61	2.15
ROE (GAAP)	55.4%	34.9%	15.9%
Net margin	6.1%	6.5%	7.1%
Revenue/Book Value (GAAP)	9.16	5.34	2.24
Invested Funds	**PPC (LTM)**	**PPC (5 years historical average)**	**Peers' Median (LTM)**
Cash/Capital	11.5%	12.8%	10.4%
NWC/Capital	20.4%	26.3%	11.9%
Operating Assets/Capital	61.5%	56.2%	47.3%
Goodwill/Capital	6.6%	0.0%	30.4%
Capital Structure	**PPC (LTM)**	**PPC (5 years historical average)**	**Peers' Median (LTM)**
Total Debt/Market Capitalization	0.54	0.49	0.39
Cost of Existing Debt	4.0%	8.2%	4.6%
CGFS Rating (F-score, Z-score, and default Probability)	BB	BB	BBB
WACC	6.5%	11.8%	8.7%

Sensitivity Attribution Analysis



Porter's 5 forces (scores are out of 100)



Valuation

Period	Revenue Growth Forecast	NOPAT Margin Forecast	Revenue to Capital Forecast
Base Year	2%	8.5%	3.70
6/25/2018	6%	7.6%	2.85
6/25/2019	14%	7.2%	2.49
6/25/2020	12%	7.1%	2.27
6/25/2021	11%	7.1%	2.11
6/25/2022	10%	7.1%	1.99
6/25/2023	8%	7.1%	1.89
6/25/2024	7%	7.1%	1.81
6/25/2025	6%	7.1%	1.74
6/25/2026	5%	7.1%	1.67
6/25/2027	3%	7.2%	1.62
Continuing Period	2%	7.2%	1.56

Period	Return on Capital Forecast	WACC Forecast	Price per share Forecast
Base Year	31.3%	6.5%	$53.57
6/25/2018	21.6%	6.1%	$58.23
6/25/2019	17.9%	6.0%	$62.63
6/25/2020	16.2%	6.1%	$67.02
6/25/2021	15.1%	6.2%	$71.36
6/25/2022	14.2%	6.4%	$75.61
6/25/2023	13.5%	6.5%	$79.72
6/25/2024	12.9%	6.7%	$83.63
6/25/2025	12.3%	6.9%	$87.31
6/25/2026	11.8%	7.1%	$90.72
6/25/2027	11.6%	7.3%	$93.84
Continuing Period	11.2%	7.5%	