

MAKING FINANCIAL SENSE OF THE GROWTH STRATEGY OF JBS: THE WORLD'S MOST ACQUISITIVE MEAT PRODUCER

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ABSTRACT

This paper presents a longitudinal study of the resource-based horizontal acquisition strategy of JBS, the most acquisitive company in the meat producing sector. Its acquisition strategy transformed a relatively small business that was founded in 1953 (comprising a butcher shop and a slaughterhouse located in a small town in the interior of Brazil) into the world's biggest meat producer by 2010. However, the acquisition strategy of the company is not one dimensional, it changes with times and the maturity of the company. A big catalyst of the company's expansion in the late 2000s is the financial assistance from the government, which is very common in Latin America. We further discuss the financial consequence resulting from such a growth strategy.

INTRODUCTION

Mergers and acquisitions (M&A) have been an important means for companies to grow. Notwithstanding their popularity, the path to success through M&A is fraught with dangers. Many companies encountered common post-merger difficulties in areas such as financial structure, company culture and human resources. And the financial performance of the combined company can suffer as a consequence.

On top of that, researchers have noted that while the target's shareholders generally benefited from the premium paid for their shares, shareholders of the acquirer do not usually benefit and often suffered negative returns in the transaction. During the period between 1973 and 1983 with a sample of 343 companies, Asquith, Bruner, and Mullins (1987) found the average return to the acquirer to be -0.85%. More recently, Kuipers, Miller, and Patel (2009), analyzing a sample of foreign acquirers of U.S. targets, concluded that the returns of the acquirers were also negative at -0.92%. The consulting firm Booz-Allen & Hamilton concluded in its study (Adolph et al, 2001) that 53% of all deals failed to achieve the expected outcomes.

In the finance literature, there are basically four types of research methodologies in M&A performance, namely, event studies, accounting studies, executive surveys, and clinical studies (Bruner, 2004). Compared with event and accounting studies, there is a relative paucity of clinical research in the field. This paper contributes to the clinical area of M&A research. We examine the strategies of JBS since its inception to identify the key drivers for M&A. More interestingly, as it became a giant in Brazil, JBS has been pursuing cross-border acquisitions very aggressively. We seek to illustrate whether the company's growth strategy has been beneficial and whether its international acquisition path is sustainable.

The Brazilian company JBS was by far the world's most prolific acquirer in the meat producing sector over the last decade. Since 2007, it has made a breath-taking series of rapid acquisitions that fundamentally shook the global meat industry. This paper demonstrates the success of the company's resource-based horizontal acquisition strategy. Its serial acquisitions transformed a business that was founded in 1953 by José Batista Sobrinho in a small town in the interior of Brazil (comprised of a butcher shop and a small slaughterhouse) into the world's biggest meat producer by 2010.

Based on JBS's growth trajectory, this study discusses the developments of the company in three separate periods. In the first period (1953–2006), JBS engineered its growth mainly through horizontal acquisitions in Brazil and completed the first international horizontal acquisition in Argentina. In the second period (2007–2008), JBS became a public company and pursued aggressive international horizontal acquisitions that started with the acquisition of Swift in the U.S. In the most recent third period (2009–2013), it merged with Bertin (the second largest meat producer in Brazil to JBS at that time) and diversified into the unrelated businesses of Bertin as well. In addition, with the acquisition of Pilgrim's Pride in the U.S., it also diversified into the poultry business. Finally, the paper evaluates the resource-based horizontal acquisition strategy of JBS and the role of the Brazilian Development Bank in financing the growth of JBS.

THE GROWTH TRAJECTORY OF JBS

Generic and Domestic Growth (1953-2006)

In the early 1950s, José Batista Sobrinho started a small business purchasing cattle to resell to slaughterhouses in the city of Anápolis (with a population, at the time, of approximately 50,000). The business grew, and in 1953 Sobrinho opened—with his two brothers—a small butcher shop and a slaughterhouse which slaughtered 5 heads of cattle a day (see Appendix 1 for a timeline of the company's developments). The construction of Brasilia in 1956 (only 162 kilometers from Anápolis) promoted strong economic growth in the region during the 1960s. Sobrinho took advantage of this growth and the tax exemption offered to companies that were willing to invest

in the new capital of Brazil. His company, Friboi, made its first acquisition of a slaughterhouse in a satellite town of Brasilia in 1968 (Polonial, 2007; Bell & Ross, 2008; Salomão, 2009).

Brazil's strong economic growth in the 1960s and 1970s increased the country's beef consumption, and the business prospered. In 1970, Friboi acquired a new slaughterhouse and increased its slaughtering capacity to 500 heads of cattle a day (JBS, 2007a; JBS 2012b). During the 1980s, Friboi invested to expand its processed beef production capacity, and in the 1990s and early 2000s the company began expanding aggressively, acquiring slaughterhouses and increasing its capacity for producing fresh, chilled, and processed beef in Brazil. Between 1993 and 2005, Friboi acquired twelve slaughterhouses and beef processing plants, and became one of the largest beef producers in the country, with a slaughtering capacity of 5,800 heads of cattle a day (Bell & Ross, 2008).

In 2005, with financing provided by the Brazilian Development Bank, Friboi made its first international acquisition by purchasing Swift Armour, Argentina's largest beef producer and exporter (Moreira, 2012). In the same year, Friboi was restructured from a closed family business to a public company and was renamed JBS.

In 2006, the newly renamed JBS increased its slaughter capacity to 22,600 head cattle a day (from the previous 5,800), by acquiring two additional slaughterhouses and beef processing plants in Argentina. With these two additional plants, JBS had twenty-one beef processing plants in operation in Brazil and five in Argentina (JBS, 2007a). The acquisitions in Argentina were apparently motivated by the substantial strength that the Brazilian currency (the real) had against the U.S. dollar in 2006, making foreign acquisitions relatively inexpensive. This strength of the real, on the other hand, put Brazilian exporters at a disadvantage: it presented a revenue challenge for JBS, which exported more than a third of its beef and generated sixty-one percent of its sales through exports to customers in 110 countries even though major international markets, including the U.S., Canada, Mexico, and Korea, were closed to Brazilian beef at the time (Bell & Ross, 2008).

IPO and the Acquisition of Swift in the U.S. (2007-2008)

In March 2007, JBS became the first beef processing company to make an initial public offering (IPO) on the main Brazilian stock exchange (BOVESPA). The company raised almost \$800 mil. in the process (Bell & Ross, 2008). In addition to acquisitions of both slaughterhouses and beef processing plants in Argentina and Brazil in the first half of 2007, in July 2007 JBS surprised the market by acquiring Swift, with operations in the U.S. and Australia, for \$1.46 bil. (JBS, 2008; Bell & Ross, 2008).

A substantial portion of the financing for the acquisition of Swift was obtained by JBS from a capital increase that was finalized in June 2007, in which the Brazilian Development Bank subscribed a portion of the new common shares. Prior to the deal, JBS had a market capitalization of \$4.2 bil. and sales of \$2.1 bil., which were almost five times less than Swift's sales of \$9.5 bil. (JBS, 2008; Salomão, 2009).

Throughout the remainder of 2007, JBS made other major national and international acquisitions of slaughterhouses, beef packing plants, and industrial plants in the areas of beef byproducts and for JBS products packaging. With these acquisitions, the slaughtering capacity of JBS rose from 22,600 heads of cattle a day in 2006 to 51,400. The number of plants increased from 26 in 2006 to 50 at the end of 2007 (21 in Brazil, 7 in Argentina, 12 in the U.S., and 8 in Australia)(JBS, 2008).

Prior to the acquisition of Swift, JBS had a significant growth record, which helped promote the IPO in 2007. From 2004 to 2006, sales rose by 21%, while net income increasing from \$50.2 mil. to \$84.3 mil. The ebitda of JBS, as a percentage of revenue, was: 9.1% in 2004, 9.6% in 2005, and 14.2% in 2006 (the year that the appreciation of the real against the dollar reduced exports of Brazilian beef). These percentages were considered by financial analysts to be far greater than those of other major players in the U.S. beef processing industry (JBS, 2007b). On the other hand, JBS held a high debt load (\$956 mil.) at the end of 2006 (Bell & Ross, 2008).

With the acquisition of Swift in the U.S., JBS became the third largest beef processor in the U.S. (behind Tyson Foods and Cargill Meat Solutions, respectively), and the largest processor worldwide, with holdings in the U.S., Australia, and Europe, as well as Brazil and Argentina. The main purpose for the acquisition of Swift by JBS was to establish operations in other regions besides Latin America, as this allowed JBS to deal more effectively with the currency fluctuations, and to better manage sanitary restrictions and other trade barriers (Bell & Ross, 2008).

In December 2007, JBS announced the purchase of 50% of Inalca, the absolute leader in the Italian beef industry and one of the largest producers of beef products in Europe, with operations in Africa, Russia and various other countries in Europe. The acquisition, at a cost of Euros 225 million, represented a strategic alliance: it created important synergies between products and sales channels, introduced JBS products to key markets throughout Western Europe, and brought Inalca (now Inalca-JBS) into closer contact with the world's main beef suppliers. For JBS, the acquisition represented an important initial step for the company's future growth in European markets (JBS, 2008).

In March 2008, JBS signed an agreement to acquire the fifth-largest U.S. beef processors (Smithfield Beef Group). The proposed JBS acquisition of Five Rivers Ranch Cattle Feeding,

which was part of the Smithfield deal, also took place: making JBS the largest cattle feeder as well in the United States (Johnson, 2009). In addition, JBS also acquired the Australian company Tasman Group, thereby consolidating its leadership in the world meat industry. These acquisitions, according to JBS (JBS, 2009; JBS, 2012b), represented the conclusion of the investment plan for the construction of a sustainable platform for slaughter, production, and commercialization of meat in the U.S. and Australia, which had begun in July of 2007 with the acquisition of Swift's operations in the U.S. and Australia. The total slaughtering capacity of JBS increased from 51,400 heads of cattle per day in 2007 to 65,700 in 2008 (JBS, 2009).

Restructuring and Diversification (2009-Present)

In July 2009, JBS strengthened its production base in Brazil, with the incorporation and reopening of five new slaughterhouse and beef packing centers that had been closed due to financial problems. These slaughterhouses and beef packing centers were equipped to export to major international markets. In the following August, JBS entered a new area with the creation of JBS Couros [Leather] (JBS, 2009). The entry into leather was a logical step, since JBS was the largest producer of beef, and leather is a byproduct of this industry.

In December of 2009, JBS merged with Bertin, the second largest beef packer in Brazil and one of the largest beef exporters in Latin America. The merger agreement reorganized JBS and Bertin and created a new holding company. The Batista Family put all the shares they held in JBS into this company, and the Bertin Family also put the 73.1% of shares they held in Bertin into the new holding company (Figure 1). The holding company then became the controlling shareholder of both JBS and Bertin (JBS, 2009).

The merger with Bertin, besides increasing the market share of JBS in beef packing and leather, diversified the company into areas of prepared foods, pet foods, milk and dairy products, recycling, biodiesel fuels, petrochemical products, personal hygiene and beauty products, collagen, and canning, among others. With the merger, the slaughtering capacity of JBS increased to 90,290 heads of cattle per day. In addition, because Bertin was the largest Brazilian producer and exporter of leather, the merger made JBS the largest leather producer and exporter in the world (JBS, 2010).

During the same month as the merger with Bertin took place, JBS also made another diversifying merger. It acquired 64% of Pilgrim's Pride Corporation in the U.S. and thereby entering into the chicken-processing market. JBS instantly became the second largest poultry producer in the world, with operations in the United States, Mexico and Puerto Rico, and a daily slaughtering capacity of 7.6 million chickens. To finance the acquisition, JBS issued convertible debentures that were subscribed by the Brazilian Development Bank. These debentures were made

mandatorily exchangeable for common shares of JBS USA (in the form of Brazilian Depository Receipts) if a liquidity event were to occur (JBS, 2010).

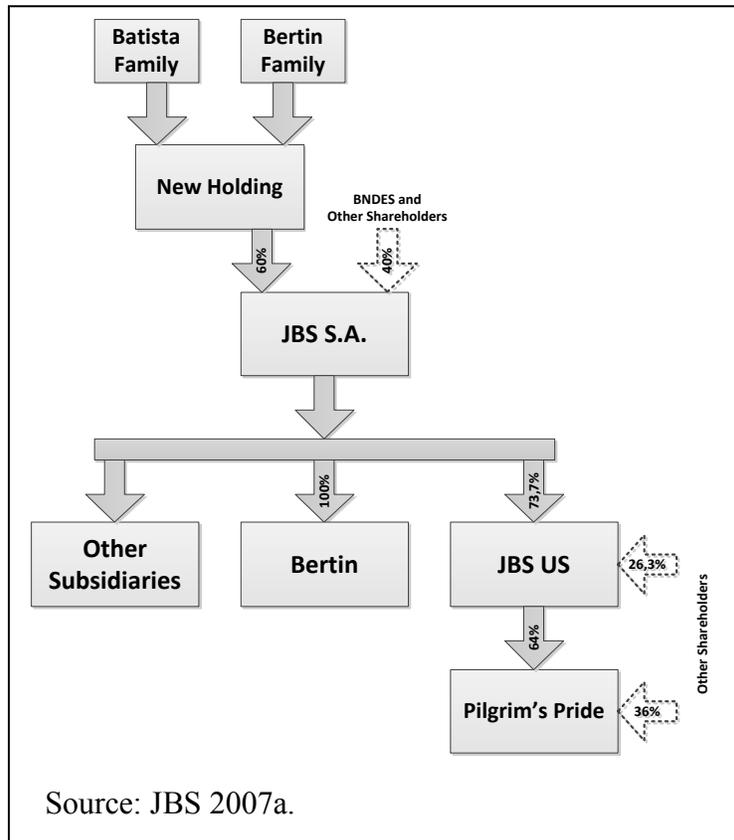


FIGURE 1: MERGER OF JBS WITH BERTIN IN DECEMBER 2009 AND ACQUISITION OF PILGRIM'S PRIDE

On December 1, 2009, JBS also announced of the acquisition of Tatiara Meat Company (TMC), located in South Australia. The completion of the acquisition occurred in February 2010.

CONSOLIDATION PAINS OF JBS

During 2010, JBS made numerous efforts to resolve pending issues in the merger of Inalca, in which JBS had acquired a 50% interest in December 2007 for Euros 225 mil. Finally, a termination agreement to dissolve the partnership was signed. Through that agreement, the Cremonini group paid Euros 218.9 mil. to purchase JBS's 50% interest. At the same time, JBS also acquired outright control of Rigamonti in Italy, in which it had already held a 70% interest since December 2009 (JBS, 2010).

These many acquisitions landed JBS with \$6.9 bil. in debt, and some market analysts during 2010 expressed concern that the company was overreaching. The firm lost \$160 mil. in 2010 on about \$33 bil. in sales, mainly because of the cost of integrating Pilgrim's Pride and Bertin. As investors became worried, JBS's share price dropped by almost 30% during 2010. Other meat producers, including the main rival of JBS, Tyson Foods, also had income difficulties during 2010, mainly because of spikes in corn prices that increased the costs of raising cattle (Blankfeld, 2011).

In response to the significant drop in the value of JBS shares during 2010, JBS management decided to postpone the initial public offering of its America subsidiary, JBS U.S., which was scheduled for December 2010 and already registered with the SEC. The IPO was required, because the indenture of the debentures issued in December 2009 and subscribed by the Brazilian Development Bank (BNDES) had obliged JBS to convert the debentures into Brazilian Depository Receipts that were backed by the US shares held by JBS. The deadline for this conversion was December 2010, and in the event of postponement, JBS would need to pay a premium of \$300 mil. to the debenture holders as compensation.

Later in December 2010, management decided that JBS would instead pay the premium and postpone the IPO to December 2011 (JBS, 2010; Economia, 2010). In April 2011, the management of JBS announced that they had cancelled the plans for the IPO of its American subsidiary JBS U.S., ignoring the obligation to its main debenture holder BNDES (Olivon, 2011). This decision was undoubtedly motivated by the poor performance of the company shares, which continued the downward trend that had commenced in late 2010. In May 2011, the debenture holders, including BNDES, converted their debentures into JBS shares (Gradilone, 2011).

FINANCIAL PERFORMANCE OF JBS

Similar to many IPOs, the stock performance of JBS after the 2007 IPO never met shareholders' expectations. This is reflected in the poor performance of the company share price. In 2006, the company's ebitda was about 14% of sales. In the same year, Tyson Foods (at the time the world's biggest meat producer) posted a loss (Tyson, 2011). To the disappointment of the investors, with the acquisition of Swift in the U.S. in 2007, JBS had incurred a significant loss in the first year after the IPO, and its ebitda as a percentage of revenue were much lower than that in 2006 before the IPO (Figure 2). As a result, JBS shares have underperformed ever since. Between the IPO in 2007 and April 2012, the growth of JBS share price was only 4.75%; compared with the Brazilian stock exchange index's growth of 37.37% during the same period. On the other hand, in the first half of 2013 JBS's share has declined less than the Brazilian stock index by virtue of it being an internationally diversified company.

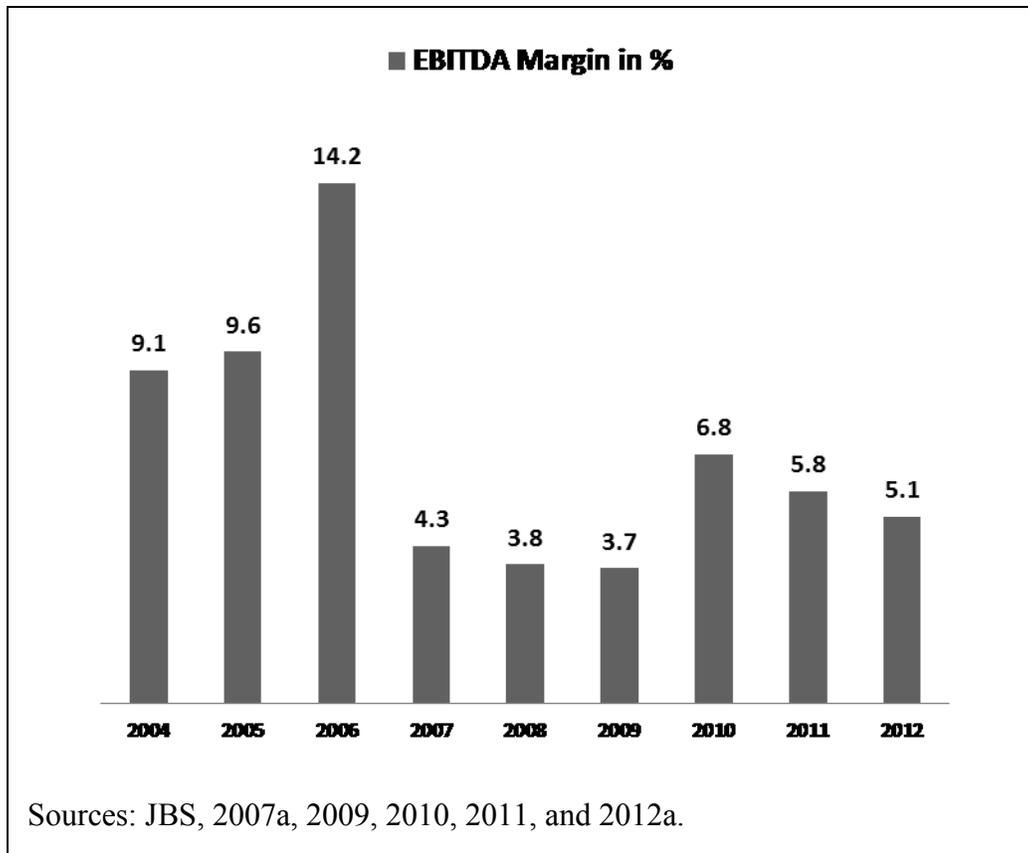


FIGURE 2: JBS PERFORMANCE BEFORE AND AFTER THE 2007 IPO AND ACQUISITION OF SWIFT IN THE U.S.

In addition, the Du Pont analysis shows that in 2006 (the year before the IPO), JBS's ROE was 87%, with a profit margin of 3%, an asset turn of 1.37 and an equity multiplier of 18.9. The high leverage no doubt reflected the fact that the company was loading up on debt with help from the Brazilian Development Bank since 2005 to pay for its acquisitions and to prepare for its IPO. The total equity of JBS was 183 mil real in 2006. Immediately after the 2007 IPO, its equity increased to slightly more than 3 bil. real which dramatically decreased JBS's leverage ratio in 2007. By 2012, the ROE of JBS stood at 4%. Its profit margin had declined to 1% (up from -1% in 2011). On the other hand, the company's asset turn was 1.5 (up from 1.3 in 2011) and its leverage ratio was 2.32 (which was 2.2 in 2011).

Notwithstanding JBS's relatively poor stock performance and profit margins, the status of JBS as a diversified global protein producer did allow the company to navigate the real market in ways few others could. In 2008, for instance, when the European Union restricted sales of Brazilian meat alleging that breeders weren't complying with the EU traceability measures, JBS took advantage of its Australian subsidiary to export to Europe until Brazilian beef exports to the EU resumed in 2009. Similarly, although no Brazilian meat producer could export to the U.S.

because of restrictive U.S. safety rules, JBS was able to enter the market through its own U.S. subsidiary. Also, the production of three different proteins (beef, pork and chicken) allowed JBS to hedge against changes in market tastes (Blankfeld, 2011).

During the previous few years, with its resource-based horizontal acquisition strategy, JBS has reached an impressive market position in the world. Specifically, in 2010 (JBS, 2010) JBS became:

- the world's leading beef producer and exporter, with operations in the U.S., Brazil, Australia, Argentina, Uruguay, and Paraguay, and a daily slaughtering capacity of over 86,000 heads of cattle.
- the world's second largest poultry producer (behind Tyson), with operations in the United States, Mexico, and Puerto Rico and a daily slaughtering capacity of approximately 7.9 million birds (Tyson, 2011).
- the third largest pork producer in the United States, with a daily slaughtering capacity of 50,000 hogs.
- the world's leading lamb producer and exporter, with operations in the U.S. and Australia and a daily slaughtering capacity of 24,000 sheep.
- the global leader in leather tanning, with operations in Brazil, the U.S., Australia, Argentina, Uruguay, Paraguay, and China and a daily production capacity of 82,300 pieces of hide.
- the third largest dairy producer in Brazil, with a daily production capacity of 5,400 tons.

GOVERNMENT FINANCING OF JBS GROWTH

In 2004, the Brazilian government promulgated the Policy of Productive Development, with the purpose of developing specific sectors of the Brazilian economy. One of the chosen sectors was the meat sector, which was targeted to become the world leader in meat exports. With the support of the Brazilian government and financing from the Brazilian Development Bank (BNDES), there were major consolidations in the meat sector engineered by some key players. As a result of the successful policy, Brazil has become the world's leading exporter of animal protein (specifically, the number one exporter in the world of beef and poultry, and the fourth largest exporter of pork). Meat is currently the second largest agribusiness export sector in Brazil (second only to soybeans)(MDICE, 2012; Marques, 2010; Carvalho and Duysters, 2010).

The management of JBS took full advantage of the support from the government and used the resources offered by the Brazilian Development Bank to finance its key acquisitions. In 2005, the first international acquisition of JBS of Swift Armour in Argentina was financed by BNDES. The acquisition in 2007 of Swift in the U.S. was financed by a capital increase in which BNDES subscribed a portion of the new common shares. And the acquisition in 2009 of Pilgrim's Pride was again financed by issuing convertible debentures that were primarily subscribed by BNDES.

The original agreement to convert the debentures into sponsored Brazilian Depository Receipts backed by the proposed U.S. shares in JBS listed in the NYSE or NASDAQ was renegotiated with the debenture holders, and the debentures were converted in May 2011 into regular JBS shares listed in the Brazilian Stock Exchange. With the conversion, BNDES increased its participation in JBS, from 25% to 31.41% shares (Figure 3) (Landim and Inhesta, 2011; Gradilone, 2011; JBS, 2011d).

JBS Shareholders	Before Conversion	After Conversion <small>April 2012</small>
[REDACTED]		
BNDES	25,00%	31,41%
[REDACTED]		

* Holding controlled by the Batista Family

Sources: Landim, and Inhesta, 2011; Gradilone, 2011; JBS, 2012d

FIGURE 3: JBS SHAREHOLDERS BEFORE AND AFTER THE CONVERSION OF THE DEBENTURES IN MAY 2011

In fact, the heavy financing of JBS growth by BNDES generated some discontent from other meat packers in Brazil, who considered it unfair competition, and among cattle breeders, who were concerned that the concentration into a small number of meat packers would lead to price fixing of cattle. There were also critics of the interference of the state into businesses like JBS, which they termed *state capitalism* (Moreira, 2012). In response to these criticisms, an investigation was undertaken by Federal Public Persecutors in Brazil into the relationship between JBS and BNDES (Rodrigues, 2011). This investigation was closed, however, because BNDES was found to be acting according to the Policy of Productive Development, promulgated by the Brazilian government (Agência Estado, 2011).

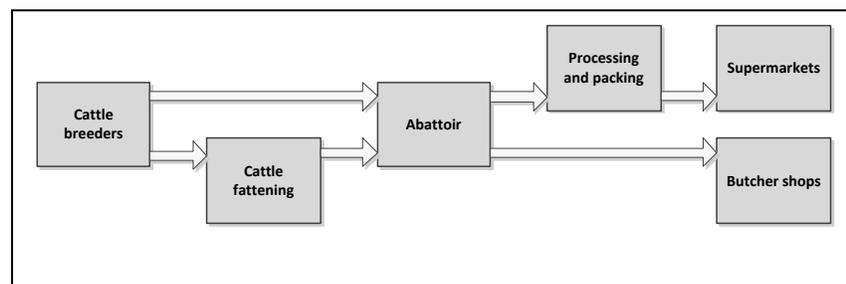
THE DYNAMIC FORCES OF CHANGE

The meat packing industry is a mature industry in Brazil. Similar to much of the rest of the world, meat packers usually handle the entire process, from slaughtering the animals (mainly cattle, pork, sheep, and poultry) in specialized slaughterhouses, to the subsequent cutting, packaging, and distribution of the meat. The animals are generally bought by the meat packers

from independent breeders, although sometimes cattle intermediaries purchase the animal from the ranchers who are distant from the slaughterhouses, and transport them to the vicinity of the slaughterhouses. Because the cattle lose weight during transportation, these intermediaries sometimes fatten them up with special rations before reselling them to the slaughterhouses. The cut meat is then sold by the meatpacker to butcher shops and the packaged meat sold to supermarkets (Figure 4).

Traditionally, cattle slaughterhouses in Brazil were small local operations which bought animals from independent ranchers, slaughtered the animals, cut the meat, and sold the cut meat to the local butcher shops: this is how José Batista Sobrinho started in 1953 in a small town in Brazil. However, three dynamic forces have changed the Brazilian beef business.

The first force that changed the beef business was the squeezing out of small ranchers by larger rancher operations. The larger ranchers could move deeper into the interior of Brazil where land was abundant and breeding of thousands of heads of cattle was possible. This change created the need to transport cattle from the open ranges to the slaughterhouses and to fatten them again to gain weight before being slaughtered. These large-scale cattle breeders and the intermediaries that were in the cattle fattening business started to impose their prices on the local slaughterhouses.



**FIGURE 4: BRAZILIAN MEATPACKERS (BEEF)
SIMPLIFIED SUPPLY CHAIN**

The second force was the expansion of supermarket chains which needed quality packaged beef to sell to their customers. These supermarket chains squeezed the traditional local butchers who had been the main clients of the local slaughterhouses out of business. In addition, the volume that these supermarket chains purchased and their quality requirements imposed changes to the traditional slaughterhouses: who had to aggregate meatpacking and implement a substantial number of sanitary and quality procedures. This increased cost to the slaughterhouses was not compensated by the lower prices per unit that the supermarket chains were willing to pay based on their high volume (and hence bargaining power).

Squeezed between the large-scale ranchers and intermediaries on one side and the supermarket chains on the other side, and with the higher cost of operations, local slaughterhouses began to find themselves in financial difficulties. Taking advantage of the situation, JBS, along with some other more effectively managed meatpackers, began to consolidate the industry by buying out those in trouble. The basis for these horizontal acquisitions was a strategy to increase the capacity to slaughter cattle, in order to be able to build up a better bargaining position against the big ranchers and the cattle fattening intermediaries (on the supply side), as well as the supermarket chains (on the demand side). This is the reason that JBS (up until 2009) measured growth by the growth of its cattle slaughtering capacity.

The third force that changed the beef business was the growing international demand for beef. Brazil, with one of the largest untapped agricultural land reserves in the world, was ideally suited to fill this demand. Given this, the Brazilian government targeted meat export as one of the priorities in their Policy of Productive Development in 2004. To access to the international beef market, Brazil had to improve the entire beef supply chain: including genetics, feeding, sanitation, processing, packaging, and transportation. This necessitated major investment by the Brazilian Development Bank in some key players (those that had the necessary scale and capacity already to make changes to the supply chain to open the international markets for Brazilian beef). Apparently, the most successful of these players was JBS.

THE ACQUISITION STRATEGY OF JBS

As noted above, José Batista Sobrinho learned the business from the supply side in the 1950s by purchasing cattle to resell to slaughterhouses. In 1953, he learned to operate a small butcher shop and a slaughterhouse, which he ran with his two brothers. The success of this venture motivated him to purchase two other slaughterhouses in 1968 and 1970, respectively.

Sobrinho soon realized that he needed to increase his cattle slaughtering capacity to gain bargaining strength against the cattle breeders and the intermediaries who were fattening cattle to sell to slaughterhouses. He also realized that he needed to create a branded packaged beef to differentiate the beef he sold to supermarkets and to avoid commoditization. To achieve this he renamed the company Friboi, and encouraged consumers to look for Friboi packaged beef in the supermarkets.

Sobrinho and his sons instinctively followed a resource-based competitive strategy to grow JBS (Figure 5). The key resource they used to build JBS was their slaughterhouses and the daily slaughtering capacity of cattle which enabled them to gain bargaining power against suppliers. The capabilities they built up were the efficient operation of slaughterhouses, cost efficient processing and packaging beef, and the capability to market branded packaged beef to supermarkets to gain bargaining power against consumers.

The acquisition strategy of JBS was essentially a resource-based horizontal acquisition strategy up until the acquisition of Swift in the U.S. in 2007, the subsequent merger with Bertin in Brazil in 2009, and the acquisition of Pilgrim's Pride (also in the U.S.) in 2009. The focus of the resource-based horizontal acquisition strategy was on acquiring beef slaughterhouses and packing plants to grow the cattle slaughtering capacity.

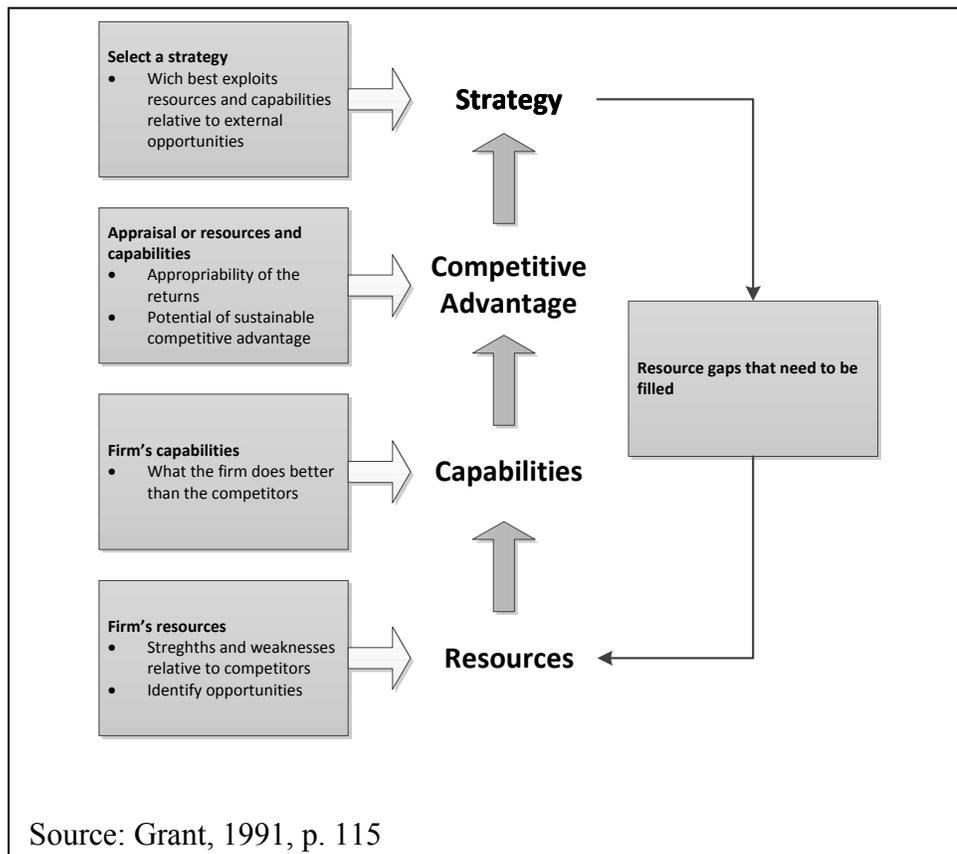


FIGURE 5: RESOURCE-BASED COMPETITIVE STRATEGY

The acquisition of Swift in the U.S. in 2007 (with its slaughterhouses in the U.S. and Australia) was also motivated by the need to establish operations in regions outside Latin America in order to deal more efficiently with currency fluctuations, sanitary restrictions, and other trade barriers. The issues were resource gaps that had to be filled for JBS to be a relevant actor in the world beef trade.

On the other hand, the acquisition also included a concentric diversification into pork and lamb (Figure 6). This acquisition made JBS the third largest pork producer in the U.S. and with additional smaller acquisitions in Australia, it became the world's leading lamb producer. When JBS acquired Smithfield Beef in the U.S. in 2008, the company consolidated its leadership as a

beef producer. Together with the beef operations, JBS also acquired the largest cattle feeder in the U.S., which was a major backward vertical diversification of JBS in the U.S.

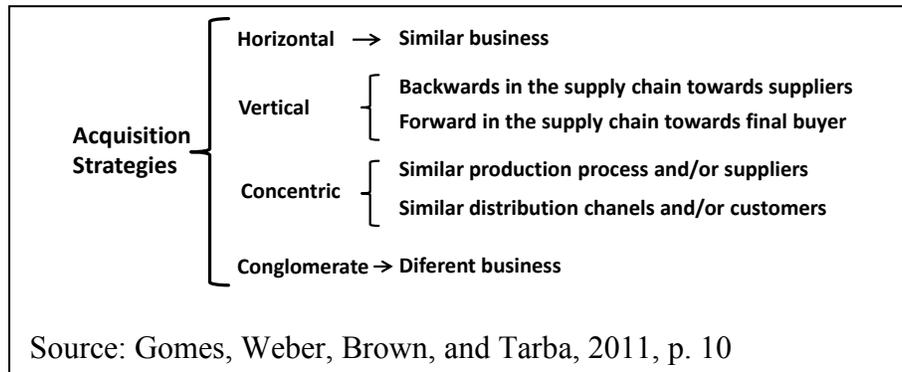


FIGURE 6: FOUR BASIC ACQUISITION STRATEGIES

The merger with Bertin in Brazil in 2009 also included an element of concentric diversification into leather. The merger consolidated the diversification that was started by JBS with the creation of JBS Couro [leather]. With the merger, JBS became a global leader in leather tanning. In addition, the merger included some conglomerate type of diversification into dairy products as well as canned vegetables, such that JBS is currently the third largest dairy producer in Brazil.

The acquisition of Pilgrim’s Pride in the US in 2009 was another example of concentric diversification into poultry. With this acquisition JBS became the world’s second largest poultry producer behind another U.S. firm, Tyson (Tyson, 2011).

In June 2013, JBS announced the \$2.7 bil. purchase of its Brazilian rival Marfrig’s pork and poultry operations in Brazil, and Marfrig’s leather operations in Uruguay. This acquisition is projected to increase the company’s global revenue to \$46 bil. and JBS will become the largest poultry company in the world, in addition to beef.

Similar to most large companies, JBS also made some smaller vertical and concentric diversifications through the years, which potentially occupy management time and efforts that could be better deployed by concentrating on the core business. JBS today manufactures cans, produces collagen, casings, beef jerky’s, energy, biodiesel, oleo-chemicals, has a trading company, a shipping company, a cattle confinement operation, and an agricultural supply and service company (JBS, 2012c).

CONCLUSION

JBS was very successful in the beef packing business, with its resource-based horizontal acquisition strategy that used the financial backing of the Brazilian Development Bank (BNDES) to acquire slaughterhouses and beef packing plants in Brazil, Argentina, Uruguay, and Paraguay. When JBS realized that its Latin America export platform was vulnerable to currency fluctuations, sanitary restrictions, and other trade barriers, it used the financial backing of BNDES to acquire Swift in the U.S. during 2007. In 2008, it acquired Smithfield Beef in the U.S. and the Tasman Group in Australia in 2008. In 2009, it kept up the pace with the merger of Bertin in Brazil and the acquisition of Pilgrim's Pride. These acquisitions diversified JBS into pork, lamb, and poultry, among other less synergic businesses.

The simple resource-based horizontal acquisition strategy in the beef industry that promoted JBS success was fuzzed by the need to learn to operate with pork, lamb, and poultry in foreign countries without home-grown experience such as those JBS had acquired in beef. In some acquisitions, JBS also diversified into new non-meat businesses (such as dairy products, which came with the Bertin merger). All this was complicated by the many locations all over the world. Beginning in 2007, this enormous task of consolidation had apparently strained the management resources of the company. It is no wonder that JBS had consolidation pains and that the firm's financial performance has deteriorated.

Probably the only way for JBS to return to its past strong performance achieved prior to the international acquisitions is to concentrate on its core business and shed most of the unrelated businesses that are distracting the management team. The concentration on JBS core business would also realign the firm with the objectives of the Brazilian Government's Policy of Productive Development. Recently, it seems that JBS management is starting to do this by spinning off its dairy product division (JBS, 2012c).

APPENDIX 1: DEVELOPMENTS TIMELINE OF JBS (1953 to 2010)

1953: *The beginning*

- José Batista Sobrinho commenced operations with a small butcher shop and slaughterhouse in the city of Anápolis (GO), with the capacity to slaughter five head of cattle per day.

1968: *The first acquisition*

- Acquisition of the first slaughterhouse in Planaltina (DF)

1970: *Growth was just beginning*

- With the acquisition of the second slaughterhouse in Luziânia (GO), slaughter capacity jumped to 500 head of cattle per day.

1981–2004: *Ongoing expansion through acquisitions and increase in productivity*

- Significant expansion of operations in Brazil through acquisitions of beef packing plants and units for raw and processed beef production, as well as investments in increased productive capacity.
- During this period, slaughter capacity reached 5,800 head of cattle per day.

2004: *This year featured additional acquisitions*

- Acquired 50% of BF Alimentos.

2005: *Creation of JBS SA and start of the process of internationalization*

- Restructuring of the Friboi Group into JBS S.A. as a public company.
- Initiated a period of internationalization with the acquisition of Swift Armour, the largest producer and exporter of beef in Argentina financed by the Brazilian Development Bank (BNDES).

2006: *Expansion in Argentina and increase of capacity for slaughter*

- Acquisition of two more units in Argentina (Venado Tuerto and Pontevedra).
- Continuing increase of capacity, reaching capacity to slaughter 20,600 head of cattle per day in a total of twenty-one plants in Brazil and five in Argentina.

2007: *IPO of JBS S.A. and entry into the U.S. market*

- JBS was the first meat processing company to make an IPO on the Brazilian securities exchange.
- Acquisition of two units in Argentina (Berazategui and Colonia Caroya).
- Acquisition of the food distributor SB Holdings.
- Acquisition of another unit in Brazil, in Maringá (PR).
- Capital increase: the Brazilian Development Bank (BNDES) subscribed a portion of the new common shares.
- Acquisition of Swift in the U.S., and changed its name to JBS USA.

- Major national and international acquisitions of beef packing and industrial plants in the beef by-product segment and packaging for JBS products.
- Acquisition of 50% of Inalca in December, one of the largest beef producers in Europe.
- JBS increased its slaughter capacity to 51,400 heads of cattle a day.

2008: *JBS expands its business abroad and consolidates its leadership in the beef industry*

- Announcement of the purchase of the American company Smithfield Beef and the Australian company Tasman Group, thus consolidating JBS leadership in the world beef industry.
- These acquisitions represented the conclusion of the investment plan for the construction of a sustainable platform for slaughter, production, and commercialization of beef in the U.S. and Australia, which began in July of 2007 with the acquisition of Swift in the U.S.
- JBS increased its slaughter capacity to 65,700 heads of cattle a day.

2009: *The incorporation of a Brazilian giant marks a year of success and growth*

- Merger with Bertin S.A., the second largest beef company in Brazil.
- JBS S.A. announced the expansion of the company in Brazil, incorporating five beef packing plants and an increase in the number of cattle slaughtered per day.
- Founding of JBS Couros (leather), which represents the company's entry into the field of industrialization, sale, importing and exporting of leather.
- Acquisition of 64% of the shares of Pilgrim's Pride Corporation, engaged in the breeding, slaughter, processing and sale of chicken.
- Announcement of the acquisition of Tatiara Meat Company (TMC), through its wholly owned subsidiary, Swift Australia. TMC is a processor of high quality beef located in Bordertown South Australia. The completion of the acquisition occurred in February of 2010.
- JBS increased its slaughter capacity to 92,290 heads of cattle a day.

2010: *Consolidation and integration of Pilgrim' Pride and Bertin*

- Consolidation of JBS USA, with the integration of Pilgrim's Pride, and of JBS Mercosul, with the incorporation of Bertin.
- Sale of its 50% participation in Inalca and the acquisition of the control of Rigamonti.
- Postponed the deadline for JBS USA IPO until December 31, 2011 by paying a premium on the debentures expecting that the U.S. stock market will improve in the future.
- JBS closed some inefficient slaughterhouses and the slaughter capacity was reduced from 92,290 heads of cattle a day in 2009 to 86,000.

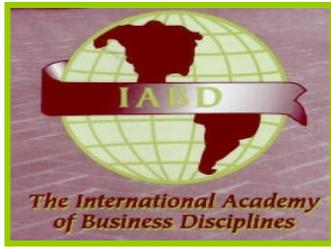
Sources: JBS website and annual reports (Moreira, 2012; JBS, 2007a, 2008, 2009, 2010)

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