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JBS to buy Pilgrim's Pride out of bankruptcy for $2.8 million

By James C. Webster

Brazil's meat giant JBS has agreed to buy a majority share of Pilgrim's Pride, the largest U.S. chicken processor to get Pilgrim's and six subsidiaries out of bankruptcy, creating a U.S. and world-wide rival to Tyson Foods. The deal is expected to win approval from U.S. Bankruptcy Court but the acquiescence of antitrust regulators, who have pledged to give greater scrutiny to mergers and acquisitions in the already-concentrated meat industry, will be more controversial.

The companies said Wednesday that the transaction was at about $2.8 billion, with Pilgrim's to sell 64 percent in a reorganized Pilgrim's Pride to the JBS USA Holdings subsidiary for $800 million cash and distribute the other 36 percent to its existing shareholders. Proceeds from the new shares will fund full payment, with cash or new notes, to creditors with approved claims. The plan calls for $1.75 billion financing by a lending group led by CoBank and Rabobank.

Pilgrim's statement anticipated that the plan would be confirmed by the court in time to emerge from bankruptcy before the end of December, one year after it entered bankruptcy. The new company would have combined poultry and red meat revenue of some $23.9 billion, compared with Tyson's $26.9 billion. Each would have nearly one-fifth of the U.S. poultry market.

JBS entered the US market by acquiring Swift & Co. in 2007 and the beef business of Smithfield Foods and Five Rivers, the largest U.S. cattle feeding operation, last year. The announcement comes less than a year after the Department of Justice blocked JBS from buying National Beef, the fourth largest beef packer (after Tyson, Cargill and JBS), on the grounds of concentration.. DOJ said the deal would have put 80 percent of cattle slaughter in the hands of the three firms.

Even as Obama Administration antitrust officials have promised to step up antitrust enforcement, many legal and industry analysts expect that the transaction would pass muster. Although “the acquisition of one meat industry behemoth by another will certainly generate competition concerns,” said Mississippi State University economist John D. Anderson, “it may be difficult for DOJ to find sufficient objective grounds to oppose the acquisition.”

The key question is whether DOJ defines the affected market to include the entire poultry and red meat industry rather than the poultry sector alone. A broader definition potentially would provide grounds for a challenge while the narrow poultry definition likely would not because JBS has not been in the chicken business in the U.S. “Having Pilgrim’s taken over by a firm with no current stake in the poultry industry is likely to be more palatable to DOJ than having it taken over by one of its current competitors,” Anderson wrote.

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