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Brazilian giant JBS buying 64% stake in Pilgrim's Pride

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When Pilgrim's Pride Corp. emerges from bankruptcy as part of a Brazilian-based conglomerate, there are likely to be clear winners and some question marks.

Under a proposed deal announced Wednesday, Sao Paulo-based beef giant JBS SA would acquire 64 percent of Pilgrim's Pride for $800 million. Existing shareholders would own the remaining 36 percent. The value of the company, once the nation's largest chicken producer, would be $2.8 billion, including $1.5 billion of debt.

The sale is expected to anchor a proposed bankruptcy exit plan, which still must pass muster in court.

JBS said the purchase, along with its merger with the Brazilian beef and diary producer Bertin SA, also announced Wednesday, would push it past Tyson Foods Inc. to become the world's top meat processor.

JBS said 2008 sales for the three companies totaled about $29 billion, compared with $27 billion for Tyson.

Pilgrim's Pride headquarters in
Pittsburg, Texas

Neither Pilgrim's Pride nor JBS' American arm – JBS USA Holdings Inc. – could say what would become of Pilgrim's longtime headquarters in Pittsburg, Texas, or its corporate staff.

Pilgrim's Pride spokesman Ray Atkinson said it was too early to say whether any jobs would move to Greeley, Colo., home base of JBS USA.

"There will be some integration of our corporate functions into the JBS organization," Atkinson said. "Over the next several months, Pilgrim's Pride and JBS will ... [work out] how that will take place."

Chandler Keys, a spokesman for JBS USA, said Pilgrim's Pride would become a division of JBS USA and would retain a "strong presence" in Pittsburg, but he would not commit to keeping the divisional headquarters there. He said Pilgrim's Pride president and chief executive Don Jackson would become a division head.

Among the biggest winners in the proposed deal are Pilgrim's Pride's creditors and shareholders – two groups often left holding the bag in a bankruptcy.

Stockholders would receive new shares representing 36 percent of the reorganized Pilgrim's Pride. The company would continue to be publicly traded, with JBS as the largest shareholder.

Meanwhile, "all creditors ... holding allowed claims will be paid in full," in cash, Pilgrim's Pride said.

Jason Brookner, lead attorney for the unsecured creditors, called that "a home run."

"One hundred percent plus interest? You can't do any better than that in a bankruptcy deal," he said. Brookner estimated bondholder principal and debt to vendors at about $738 million. The debt figure does not include interest or any potential settlement amount for lawsuits facing the company before it filed for bankruptcy.

Approval of the sale by a bankruptcy judge would give JBS a major stake in the U.S. poultry business, which would operate alongside its U.S. beef and pork business. (JBS acquired Swift & Co. in 2007.)

"We're a global meat company," said Keys. "We don't have a poultry platform. Pilgrim's is ... a good platform."

One nonprofit consumer group worries that increased consolidation in the food industry will lead to higher prices.

"I understand the financial plight Pilgrim's Pride found itself in," said Tony Corbo, a lobbyist with Food & Water Watch in Washington, D.C. But "in the long run, we think this could work against consumers. In the end, they will pay more."

He said the combination might attract antitrust scrutiny from the Obama administration.

Pilgrim's Pride, launched in 1946 as a feed and seed store, filed for bankruptcy protection in December as it labored under debt brought on by a large acquisition, rising feed costs and falling chicken prices. The company said it expects its exit plan to be confirmed in time for it to emerge from bankruptcy before the end of December. It had 2008 sales of $8.5 billion.