Beatrice Update '76

Based on a Presentation to Financial Analysts · Spring, Chicago, Illinois

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Introduction

In the last 24 years, Beatrice Foods Co. achieved a consistent growth record matched by only a handful of companies in American industry -- increased sales and earnings in each quarter of every year.

As a result, the company grew from $235 million-a-year sales, primarily in dairy products, to a diversified processor and manufacturer of foods, beverages, consumer and industrial products and specialty chemicals with sales of $4.7 billion in the fiscal year ended February 29, 1976.

July 1 of this year marked a milestone in the company's history -- the retirement of William G. Karnes as Beatrice chairman and Don L. Grantham as president and chief operating officer and the advancement to top management of a team with a long record of accomplishments for the company: William G. Mitchell, chairman and chief corporate officer, and Wallace N. Rasmussen, president and chief executive officer.

Thus, it is a suitable time for a "Beatrice Update," a review of the proved successful strategies of Beatrice and the areas in which continued application of these strategies is likely to produce growth in the years ahead.

The following remarks by Messrs. Mitchell and Rasmussen and key Beatrice operating and financial managers provide current reference and basic background for analysts and investors who regularly follow or are interested in knowing more about the company.

Beatrice Update is adapted from presentations and responses to questions by the speakers at a two-day securities analyst meeting sponsored by the company in the spring of 1976. All information has been reviewed in the light of results through the first half of the company's current fiscal year, ended August 31, 1976.

The company welcomes any questions that may be suggested by a review of this report. They should be directed to Norman E. Barber, senior vice president and chief financial officer, at Beatrice Foods Co., World Headquarters, 120 S. LaSalle St., Chicago, Ill. 60603, telephone (312) 782-3820.

"The Beatrice Way"

By Wallace N. Rasmussen
President and Chief Executive Officer

We think Beatrice Foods is different from any other company in the world.

Our past accomplishments and where we stand today are well known. But, where are we going tomorrow, and the day after that, and the years after that?

The four things I can predict with certainty are that:

1. The future will not be anything like most people expect it to be.
2. The future will not be like today.
3. The future will be changing constantly, and finally,
4. The future will offer more opportunities than ever before to those who have the flexibility and resources to capitalize on those opportunities.

We are determined to adapt the future to our objective of making Beatrice stronger and bigger each year -- just as we have done in the past. Any growth we achieve will depend upon people.

Building On People And Products

Many companies create their image in products. Beatrice builds its image on a foundation of **people** and products.

Some product life spans are longer than others. All products change sooner or later -- in packaging, in design and to meet the function demanded by their times. Change is inevitable. Successful product change depends upon the people who control the timing, degree and type of change.

To maintain a successful product line you must have qualified people -- with imagination, education and balance, who recognize when change is necessary to meet new demands and who know how to effect change that maintains or strengthens customer interest, retains or expands market share and protects or increases profit margins.

We at Beatrice are fortunate in having enough different businesses to provide continuously that kind of people with the challenge they must have to remain happy and productive.

To an outsider, it may appear that Beatrice got into its different businesses by accident, that we would buy any kind of company that had a good sales and earnings record. That is not true. We had -- and still have -- a plan.

Diversification Criteria

When we started our diversification program, we first looked for companies that had dedicated people who shared our basic business philosophy. After all, of what use could acquired plants, product lines and markets be to Beatrice if the people who controlled them were not in harmony with our philosophy of growth through change?

Second, to insure the proper environment for challenging good people, we looked for companies that had a sound market share in specialized products that were necessary or important to the everyday life of the people in their market area.

Third, we searched for companies located in areas and industries that did not suffer from high costs of labor, distribution or other factors that constantly whittle down earnings.

Once a company with this solid foundation was acquired, we encouraged its people to develop and introduce the new products. We encouraged them to build the new plants, enter the new markets and accomplish the other changes that were difficult, if not impossible, to undertake before they had the resources of Beatrice behind them.

We also encourage each newly acquired company to identify and develop people with management potential. The people they have and are developing are the leaders in our drive to increase Beatrice Foods' sales to over five billion dollars by the end of this fiscal year.

At annual divisional meetings, we encourage the people in charge of profit centers and product groups to interchange with each other in all possible ways that can improve profit margins. Our compensation packages provide the bonus incentives for each eligible manager to boost earnings of his unit by taking advantage of as much help from the other plants as he can get. There is little need for top management to add to this self-motivated pressure.

Turnover of people who can meet their individual and corporate objectives is virtually unheard of in our company because of the incentives to stay and grow with us.

The ability of the company's managers to promote Beatrice's growth has been proved through adverse times, such as depressions, recessions and droughts over our 78-year history, as well as good times. Through each cycle, those who have shown their resilience and remained with the company have come out stronger from the experience.

Surely Beatrice doesn't have a corner on all the good people. Many other companies also have excellent managers and training programs, but they don't produce results like Beatrice. What makes Beatrice people so successful?

From the vantage point of 42 years with the company, I think I can give you some of the answers. Beatrice **is** different. It is something special among companies.

The difference is The Beatrice Way. Many people do not understand The Beatrice Way, but we do.

Understanding The "Beatrice Way"

Let's look at this difference.

-- Our senior and corporate executives have no special privileges.

-- They work as many hours as other management people in the company.

-- An open door policy applies at all levels of management. Any employee has the opportunity for direct communication with executive officers and others on down the line.

-- In keeping with the open door policy, we listen to everybody concerned in a situation. We don't make shoot-from-the-hip decisions. After we have listened and done our research, then we try to make the right decisions and move quickly on them.

-- We stress management productivity. We ask, how do our managers spend their time? Too much time in needless meetings? Too much time on insignificant projects? Do our people -- individually -- have a built-in routine or checking system to assure that we are working on the important tasks?

-- We ask: Do we begin the day with a plan, starting with the most difficult and productive work, or do we take on the endless detail of the job and find ourselves with no time left for making any headway on the innovative work or work we subconsciously view as "extra"? Often, it's this extra work that has the true rewards in value to Beatrice and, consequently, in the individual's satisfaction in a job well done.

-- We ask our people to watch company expenditures as they do their own.

-- We never accept anything as gospel, but continually re-examine assumptions since everything changes.

-- We avoid "pie in the sky" or over-elaborate planning. We develop plans for sales, earnings and cash needs for one year, two years, three years -- yes, even five years out. We keep plans simple and on target with the real job, and avoid planning for appearance's sake.

-- The phrase "think big, think small" applies to all functional areas of work at Beatrice.

"Think big" means that all management people must have broad overall plans and objectives. But they should not set themselves up as super executives who consider detail too mundane to follow.

"Think small" means keeping a balance between detail and broader management aspects without becoming detail-oriented.

Decentralization, a word common to many corporations, is more than a word at Beatrice.

It's 14 divisions, 54 groups and 400 profit centers.

It's management productivity -- or the work ethic.

It's aggressiveness in pursuing profits.

It's giving away enough of your job to subordinates to enable them to share in the "fun" of work.

It's maintaining a climate that encourages people to work to their fullest capacity without undue interference...and it's continually guarding against inroads that threaten this keystone of Beatrice's success.

Decentralization is permitting the profit center manager to be the "president" of his "company." Of allowing him to make all operating decisions other than how the profits will be spent. He develops his own successor. He decides what products to produce, how they should be merchandised, how they should be marketed and how they should be priced. The result is that we have 400 managers who are equipped through operating experience to "run" a company rather than just carry out directives from a higher authority.

Finally, the most critical and characteristic attribute of the Beatrice Way:

Maintain an atmosphere that allows -- in fact, encourages -- individuals to commit themselves to job responsibility.

Two words we use constantly.

First, **balance.** Maintain balance in your own life, your job, your product mix and the people in your organization.

Second, **responsibility.** At Beatrice, everyone has the responsibility to do his own job. This climate is not an accident.

Top management continually evaluates how its actions and those of the corporate office affect the company. Each of us makes critical self-evaluations of how our actions or lack of actions affect the attitudes of the people on our teams.

A critical area of responsibility shared by each Beatrice manager is the bottom line -- **profit.** In being responsible for keeping the balance between people and expenditures, he watches cash flow to insure his operation justifies capital expenditures. He also takes responsibility for improved dollar sales and dollar units of productivity per employee.

Social responsibility in the communities in which we operate is a long-term Beatrice tradition. Managers and other employees are urged to help build stronger and better communities. We must, if we are to survive in business, take on more social responsibilities -- **not** to the detriment of the company, but in order to perpetuate the communities in which Beatrice markets its products.

We must face up to the responsibility for our free market system. We must increase our efforts to convince people that American business is critical to the nation's growth.

My intention has been to try to outline what I see as the "secrets" of Beatrice. Call it what you want: A Beatrice tradition or philosophy, or just good management. It's something special, something we don't want to lose and something I hope each and every one of our management people strives to pass on and fights to prevent losing.

It's the Beatrice difference.

The 5 "B's"

We have a theme for fiscal 1977 that's based on five important "B's" -- **Five Billion Dollars.** Individually, each "B" stands for a billion dollars. Together, they stand for building a bigger, better, bolder Beatrice.

When we set this theme back in November for fiscal 1977, we felt this would be quite an achievement. We are running at the five billion sales rate right now. And we should finish fiscal 1977 well over five billion dollars.

To achieve the five "B's" we must be a leader in every area in which we compete. We must be determined in our competitive spirit and in our performance. We must be flexible in our ability to change in these changing times.

Each member of our management team has been thoroughly trained in the Beatrice Way. Each believes in it. Each helps make it work. Each has proved he can improve on it. That training and commitment do not mean that our managers have been forced into a mold. On the contrary they are individuals with strong beliefs and ambitions who have decided they can better achieve their personal hopes and dreams by joining forces with similarly motivated people.

First Line Of Management

The six executive vice presidents who make up the first line of operating management personify these characteristics. Some of them built businesses of their own before joining Beatrice. All of them have the entrepreneurial spirit.

Jim Dutt has been with the company 28 years. From his early days in accounting in Topeka, Kansas, to his current position in Chicago, he has been in almost every phase of our business. He helps make the Beatrice Way function in our international food operations.

Dick Voell's 17 years have thoroughly trained him in the Beatrice Way. He presently is in charge of the three manufacturing divisions. He is a former dairyman with a sound business background, with an open mind. He is willing to listen to people -- willing to get in and work where it is necessary to get the job done.

Jim Weiss joined us along with his two successful companies in 1965. Since joining us he has continued his role as a successful businessman in directing the Consumer Arts and Chemical Divisions.

E.A. Walker is an old-time dairyman. He believes in The Beatrice Way. His ability to train people and give them responsibility is proved in the results of the Dairy and Soft Drink and Agri-Products Divisions.

Don Eckrich gave up the presidency of Peter Eckrich and Sons when he joined the company. He took on the job of directing our Grocery, Specialty Meats and Warehouse Divisions. He handles this task by delegating, by giving his people responsibility and by expecting performance.

Harry Niemiec has been a member of the Beatrice team for 27 years. He's responsible for the Grocery Specialties and the Confectionery and Snacks Divisions as well as the Bakery Groups.

Each of these six executive vice presidents has the responsibility to bring companies into Beatrice that fit his group, and the system he helps supervise. The age differences represented by these six men contribute the balance necessary for a stable team.

Backing them up is a team of vice presidents strong in the areas in which they supervise -- well trained and capable of moving to broader responsibilities. Each has been carefully selected for his ability, his desire to do a job, his attitude toward Beatrice. Each must have a sincere feeling for people and an honest feeling toward his job.

At the next management level are 54 group managers and 400 company presidents. From their ranks will come the future Beatrice senior management. Each is being trained as someone's successor.

Seventy-eight years of Beatrice experience have created the pattern and the program that produced 37 years of continuous growth in sales and earnings for the dairy division and 24 for the overall corporation.

Have those 78 years been perfect? Free from error? No. We have made mistakes and undoubtedly will make some in the future. I am confident, however, we will continue to recognize our mistakes quickly and deal with them.

We have acquired companies that we should not have. But, we also have bit the bullet and divested ourselves of them. The total over the last ten years is less than a dozen. We've closed a few plants, too. However, we've opened a lot more. As conditions change, as peoples' buying habits change, we may have to get rid of others that don't fit or cannot change their product lines.

The Latin meaning of the word Beatrice is: "She that makes happy, she that blesses." She has blessed us in the past, and I know she will bless us all in the future.

Beatrice Growth Strategy

By William G. Mitchell
Chairman and Chief Corporate Officer

I've always felt that the job of the chairman of the board is to be concerned with the broad outlook for his company and its future as it relates to the outlook for this country, and for world markets.

In that respect, I approach this job as an optimist. Certainly the outlook for this country is excellent. We have three great advantages: Our technological superiority, our immense food productivity and our energy resources.

In my travels abroad, the United States often has been referred to as the last bastion of the capitalist system, and while that hasn't always been meant as a compliment, I prefer to take it as such. Because it gives us a fourth advantage -- the capability to use our marketing know-how to capitalize on our strengths, both at home and abroad, and to exploit the many opportunities that exist in both places.

As chairman of the board of Beatrice Foods, I am well aware of the great foundation of this company that allows us to move into opportunities in all directions. Our biggest strength is that we are noncyclical. We enjoy a strong food base, which is in turn supported by other operations that stand firmly against economic adversity.

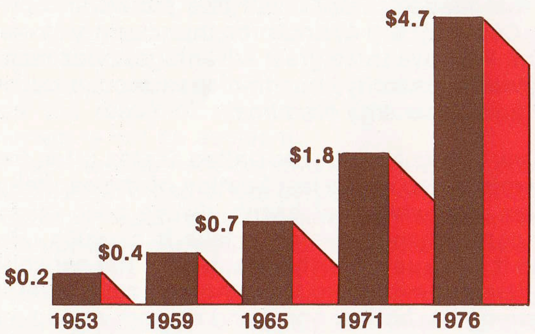
"We Will Build Another Beatrice"

A recent Fortune Magazine article quoted us as saying, "We will build another Beatrice by 1985." That statement was made because of a firm reliance on our management strategy, a tradition of Beatrice Foods. It goes back to the beginning of the company. Unlike other companies, which were formed on the basis of an invention or a discovery, we began in the butter business -- a product that we certainly didn't invent.

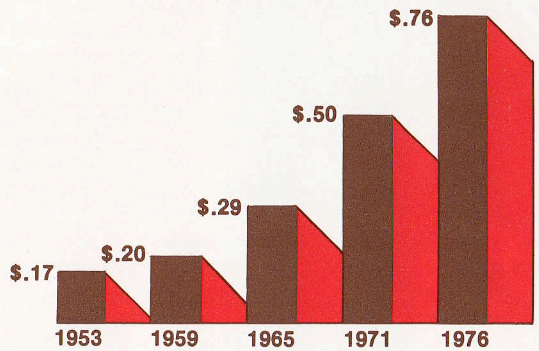
What resulted was an equal partnership, and this evolved over the years as a system of decentralized management that has built the company we know today, and will build the second Beatrice in the years to come.

Let me give you an overview of the basis on which that building will take place. Let's see how far we've come in the last 24 years.

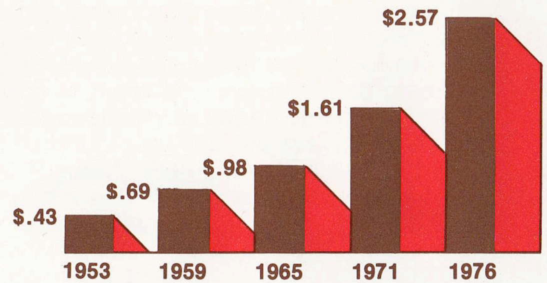
***Beatrice Sales**
(Billions of Dollars)



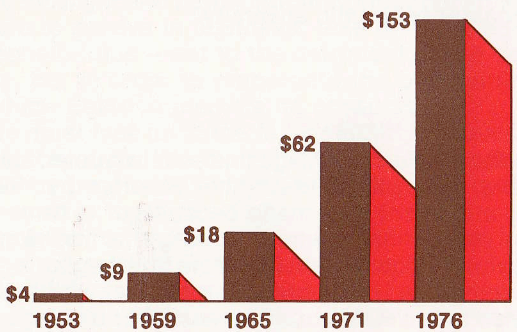
Value of Dividends
(Dollars per Share)
(Adjusted for Stock Splits)



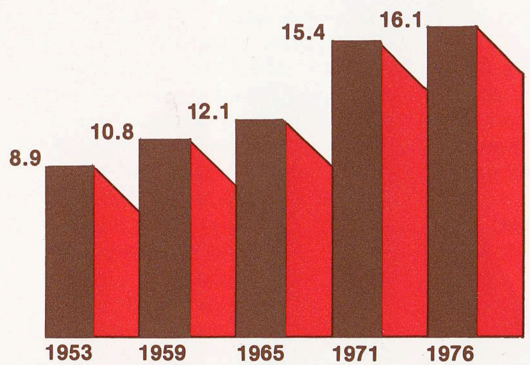
Cash Flow per Share
(Dollars)



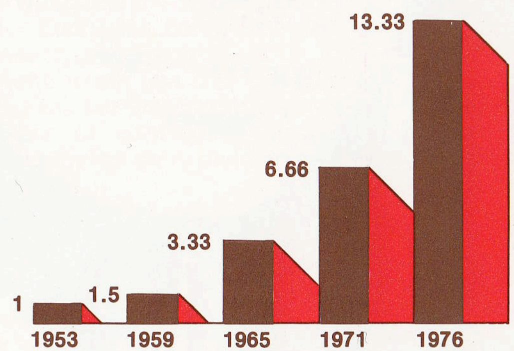
***Beatrice Net Earnings**
(Millions of Dollars)



***% Return on Stockholders' Equity**



Results of Stock Splits
(Units of Shares)



***All Charts on a Historical Basis**

Our sales have grown from $235 million to almost $4.7 billion last year, an increase of almost 20 times. Pre-tax earnings have increased 36 times to more than $300 million for last year. This, of course, is on a historical basis.

We have been able to balance this great growth with improvements in margins and return on investment. Over the 24 years, pre-tax margins as a percent of sales are up from 3.5 per cent to 6.4 per cent. Our rate of return on average equity has gone up from approximately nine per cent to more than 16 per cent. Eliminating the intangible assets on our balance sheet, it is up to 18 per cent. This is among the highest in ours or any industry.

Our cash flow per share has increased every year, from 43 cents to $2.57. Our dividends have increased from 17 cents a share to 84 cents a share after adjustment for six stock splits during this period of 24 years. As a result of these splits, one share in 1953 has multiplied into 13-1/3 shares today. And as a result of the stock splits and 17 increases in the dividend rate since 1953, one share of stock purchased in 1953 receives an annual dividend of $11.20 today.

Our board has declared 11 dividend increases since March 1, 1965. The most recent one was voted in June, 1976. Dividends have averaged about 40 per cent of earnings. While we cannot forecast future dividend increases, we see no reason for changing our guidelines for the payout ratio.

Thus, we have come a long way in the last quarter of a century to become leaders in our fields and one of the 40 largest industrial companies in America.

Planned Growth

People ask us from time to time whether we have planned our growth or whether it happened by chance. We have planned it.

Many who have looked at our company have been impressed by the fact that we were able to expand successfully into a number of diverse businesses in the building of Beatrice.

We believe building another Beatrice by 1985 will not require any significant departure from our growth and development policies and strategies of the recent past, with continued and accelerating emphasis on internal growth.

Throughout our history, our diversification has been for specific purposes, and has been a logical extension of the base of Beatrice at that time.

As part of our dairy expansion up until 1955, we acquired new dairies primarily to distribute the risks of the business geographically. One of the strengths of our dairy business had been the local orientation of all of our dairy plants. Local managers could respond quickly to prices, and to product preference trends in their specific areas. We didn't want too many eggs in one basket and we didn't want the baskets to be too big, but we wanted a lot of baskets.

Thus, while our early diversification was primarily to reduce risk, our more recent diversification has been designed to increase margins and return on investment and accelerate our growth in food as well as non-food areas.

One point is that in our entire history, except for fluid milk, no one product line has represented more than $250 million in annual sales. The implication of this is that no one product line is likely to impact the overall profitability of the company.

We look for long-term growth potential in all expansions. However, we expect to achieve this potential with relatively low risk, or put another way, high probability of success.

We have rarely entered fields where the possibility of growth may have been explosive, but the risk of failure equally high.

Our products tend to be geared to basic consumption patterns that are resilient enough to generate strong sales volume even in a recession -- such products as food and even luggage, as for example, our Samsonite line proved with record performance even in the most recent economic downturn.

In seeking new areas for growth, we looked for some of the same factors that helped build Beatrice into a major successful dairy company in the first six decades of our history before we began to branch into other areas.

Expansion has been accomplished internally as well as through some acquisitions. Both have the same results, except acquisitions often get you on your way faster.

From a pure financial standpoint, most of our domestic acquisitions have been made for common stock; always without dilution in pro forma earnings per share. Overseas, we generally pay cash for acquisitions and the principals of the merged company have a continued incentive as partners with us, retaining an equity interest in the business.

From a psychological standpoint, the people who join us are attracted by the prospects of enjoying many of the benefits of entrepreneurship without some of the headaches. Of course, they also like the security and expectation of appreciation that our stock has provided them.

Non-Food: Extension Of Logical Strengths

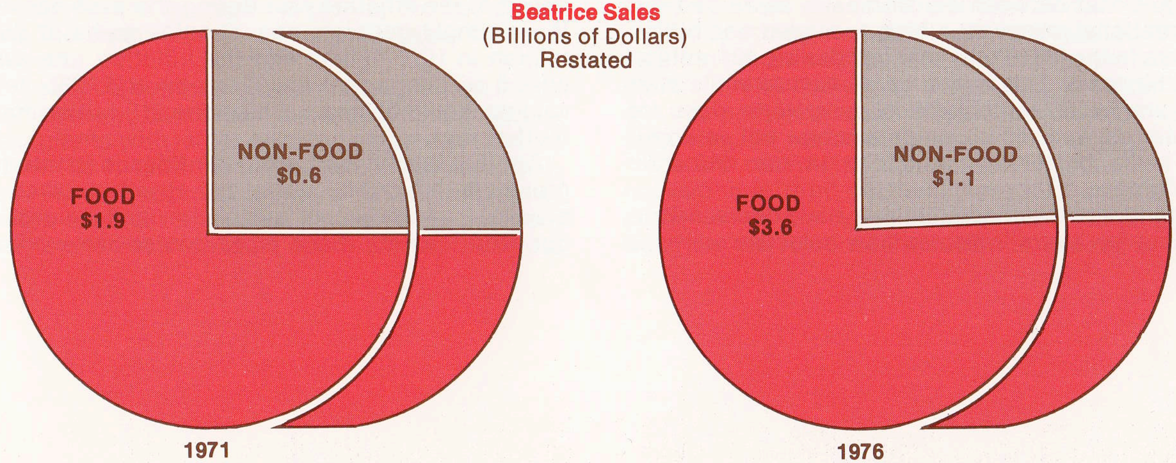
Our growth in the non-food area, too, has been a logical extension of our original strengths.

In 1964, Bloomfield Industries, a manufacturer primarily of institutional kitchenware including the institutional Silex Coffee Maker, joined Beatrice. This made sense because Bloomfield served the food industry. This and our next few non-foods, but food-related, mergers gave us a foothold in non-food.

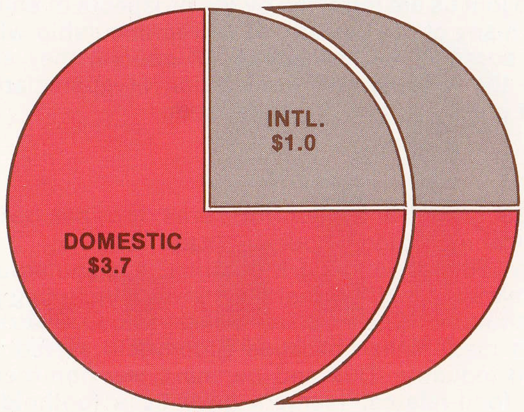
Many of our leading manufactured product lines of today continue to capitalize on growth areas in the food industry.

This formula of planned extension into non-food areas has been and should continue to be successful. We are always looking at businesses that could help us continue our successful record.

Beatrice Sales
(Billions of Dollars)
Restated



Beatrice Sales
(Billions of Dollars)



The non-food business has been relatively stable over the past seven years at about 25 per cent of our total, fluctuating no more than two percentage points below that figure. Each non-food division is determined that it will outrace the food segment in growth rate, but the food divisions are equally determined not to be outdone. With this competitive spirit we see no great change in the 75-25 proportion.

Another proportion that should stay about the same is that between our domestic sales and our international revenues, which exceeded one billion dollars in the last fiscal year, producing $31 million in net income. This is desirable because while margins are better in international operations, risks are greater as well, so earnings average out at about the same percentage as those in our domestic operations.

The fact that our acquisitions have decreased in the last few years indicates how selective we have been and intend to be with them in the future. Our attitude is that we don't need any one company enough to sacrifice our principles and standards.

As important as acquisitions were to our diversification, we in Beatrice's management recognize that future increases must depend basically on internal growth.

In other words, the "other Beatrice" that we will build by 1985 will logically extend the base for internal growth that we have built over the years.

More Internal Growth

This trend toward accelerated internal growth has been evident for the past several years. In the last five years, Beatrice has increased its sales by $1.6 billion through internal growth. In the last fiscal year, our internal growth accounted for over $300 million of our increase in sales. This during a recession period!

The way I would like to look at our growth prospects in the years ahead is that internal growth, only somewhat aided by acquisitions, is the way to go. One will feed on the other as they did in the past as we continue to pursue our successful strategies in new situations. But making probably no more than five acquisitions a year, at our historical average of $15 million per acquired company, will have little impact on the $5 billion company we have become.

Our internal sales gains always have stayed well ahead of the inflation rate during the past decade. If we simply generate annual sales gains of $500 million in 1976 dollars and the inflation rate averages 5 per cent a year between now and 1985, total volume would be approaching the $10 billion mark by that time.

Another reason for having confidence in internal growth is that our decentralized structure gives us a unique advantage of motivation and control of our profit centers. Each profit center can work as an independent business. It can make local level decisions, such as price increases or decreases, without obtaining approval from corporate management.

Decentralized Pricing

Our decentralized decision-making on pricing gives us an edge on major competitors and is a major factor in our ability to protect -- and keep on improving -- profit margins.

Most major food companies and consumer products companies price their products from their general offices or from their multi-state regional marketing headquarters. Such price changes are highly visible, are generally resisted by retailers and are disruptive to the marketplace. Our various businesses working from numerous geographical locations throughout the United States and the world make our price increases more readily obtainable.

One other point on pricing: Because we are primarily in specialty products, both in food and nonfoods, opportunities for sophisticated pricing of our products are more open to us. Many of our businesses are postured to raise prices without increasing unit volume if this became necessary in the future. Certainly Dannon, Stiffel, Airstream, our spices and dairy specialty ingredient divisions could. And so could our Chemical Division -- and there are many more.

Consistent with our decentralized decision-making is individual identity of brand names that are well-received in the marketplace.

We are not making the mistake of some food companies that have tried to force their own corporate names into markets in place of existing names that are well-established.

Our decentralized concept also encourages us to keep things basic and simple at corporate headquarters. Our corporate-level executives' day-to-day concerns are assuring operating performance, careful allocation of capital, business direction and other matters that affect the overall corporation.

Wherever they occur in the company, trouble spots shouldn't come as surprises to Wallace Rasmussen or myself. The group managers are in almost daily contact with their plants. Divisions are in almost daily contact with their groups and the executive vice presidents are in almost daily contact with their divisions. Problems are spotted long before they appear on the monthly statement.

Unsatisfactory growth in a profit center or an actual decline sometimes can be cured by a change in personnel that can do the job, or in some cases by application of the right amounts of capital in the right places.

These measures should be showing some sign of "curing" an ailing profit center within a year after application. If not, divestiture is probably the appropriate action.

Better Margins

While we expect sales gains to be substantial, our strategy calls for making them even more productive in terms of profit gains -- not only through the disciplines I have described, but by investing in businesses that will enable us to increase our average after-tax profit margin of 3.4 per cent.

Without predicting future margins, we think our goals for improving our margins are achievable. Some of our divisions are looking at 1/2 of 1 per cent pre-tax increases annually in their five-year plans, which will be accomplished by the development of new, higher margin products with greater efficiencies.

"Building another Beatrice" by 1985 will require only an 8 per cent compounded sales rate -- and in the last five years we've been running at a 14 per cent clip. Each of our divisional people is convinced he can do at least that well, and we see no reason to doubt them. We're capable of increasing earnings at an equally good rate based on anticipated margin improvements.

Improving margins to meet expectations is a combination of local action and corporate philosophy. There is no magic formula, except for the profit centers to build higher margins into their plans for the current year and five-year projections and work seriously to achieve them.

We have several favorable factors working for us in our effort to improve margins. One is our ability to expand some of our regional businesses geographically.

Geographic expansion is less expensive than starting a business from scratch because we can capitalize on existing business concepts, technology and marketing success. We're following this principle in taking successful products to Europe, Japan and elsewhere around the world and in regional expansion in the U.S. Dannon, Eckrich and Martha White are typical examples of this.

These already proved winners have a basic cost structure, and can be expanded by extending existing advertising and marketing programs, and with less capital spending than totally new operations.

Thus, they should offer improved margins with geographic expansion.

Our regional expansion is undertaken in a way that minimizes distribution costs, one area that can eat into margins in the food industry if not closely watched. Our philosophy is to transport raw materials to the regional plants, thereby shortening the distribution lines for perishable finished products.

Some food companies, particularly those in the dairy industry, have taken the opposite approach -- larger plants with larger distribution areas -- but we believe the results have vindicated our steadfastness in our approach. As a recent example, Dannon has built three new plants in the past two years to shorten lines to its new markets, the latest one going into operation in Miami in August of 1976.

Regional expansion also is conducted in an orderly fashion -- again Dannon serves as an example, with the spread of its product from New York to Chicago and most recently to the South and West. In each case, our people understand that a marketing area expansion also must produce an earnings increase and must be made with full awareness of competition -- but in a spirit of "worry your competitor, don't let him worry you."

Another favorable factor is that our specialty businesses can bear the price increases required to produce increased margins. Our future emphasis, as in the past, will be on new products in specialized areas that will produce high sales volume and attractive margins.

As one of only nine industrial companies in the U.S. with a triple A rating from both Moody's and Standard & Poor's, as well as a total of $133 million in cash and short-term investments on our balance sheet, and a debt to equity ratio of only 27 per cent, we are in an excellent financial position to make the kinds of capital investments that will enable us to achieve substantial earnings growth. We will grow on our own equity and cash flow, but if we ever do need cash, we have ample credit to go outside.

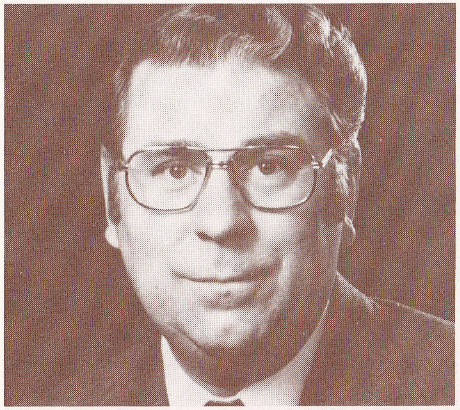
We have a consistent 24-year record, maintained even throughout the recessions, of increasing our capital spending an average of 10 per cent annually, to a current rate of 170 per cent of depreciation.

Our spending has and will continue to be in existing plants and for new plants that promise to generate return on equity as good as or better than our company average of 16 per cent or, without intangibles, 18 per cent.

We are optimistic about the future, but we are not euphoric. And yet, as I have told each of our profit center managers in divisional meetings at Beatrice, we feel that the future is fan-**tas**-tic.

Beatrice Control Systems

By Norman E. Barber
Senior Vice President and
Chief Financial Officer



I'd like to describe the control systems we use to track the performance of each of our world-wide profit centers.

We believe that in order to meet the growth objectives of the company as a whole, each operating unit must have clearly defined objectives and must be held responsible for meeting or exceeding its objectives, not only relating to sales and earnings, but also to cash flow and other key balance sheet items. Our monitoring system enables us to spot potential trouble before it starts.

Each of our profit centers has practically a complete accounting department which enables it to get its reports into headquarters on time. Further, each one receives regular visits by our internal and outside auditors to ensure accuracy. But the vital link in our control system is the close daily contact with the plants by the group managers.

He is what we call the "help type" manager. More often than not he has been promoted from within from one of the generally four to six plants he now supervises. This background, plus his close daily contact and regular visits to the profit centers, enables him to know exactly what is going on at all times.

Because there are only two levels of management between the profit center and executive management, communications are quick and frequent. Existing and developing situations are communicated up the line as they unfold, and, therefore, problems do not become a surprise later.

Earnings Key to Compensation

Naturally, if there is a problem, our managers want to "nip it in the bud" as soon as possible. There is a very definite reason for this fast response from our management group -- a large part of all management compensation is based upon the level of earnings of the profit centers. Thus, each manager wants to see consistent profit performance for the long term as proof of the effectiveness of controls in his operation. This applies from the level of plant manager to group manager, up to division president and executive vice president.

In addition to a manager's earnings-related compensation, he also is rated on his performance improvement for items such as internal growth, return on investment, cash management, and development of people. All the way up the line, each manager is responsible for selecting and training his own replacement. In other words, to be promoted, he must demonstrate his ability to control all areas of the business.

This communications network functions not only to identify and resolve potential problems, but, even more importantly, to develop opportunities. Group managers and divisional presidents frequently meet to discuss budgets, forecasts and future plans, including capital expenditures and new products.

Monthly Sales/Earnings Report

The primary tool used to measure and control the performance of our world-wide operations is the monthly sales and earnings report.

No later than the 10th day of each month, we receive from each profit center, via mail, telex and telephone, sales and earnings results covering the month just ended and including a revised projection for the next month.

During this time, as the reports are received we issue an updated sales and earnings report once or twice daily to executive management. Each plant's sales and earnings for the month and year-to-date are compared to forecasts and prior years. A summary statement shows daily running totals and any variance in earnings of $100,000 or more.

At this time, if we see that sales or earnings vary significantly from either budget or prior year, we pick up the phone and call until we can get an explanation for the variance. We start with the executive vice president, and go on to the division president, then the group manager and down to the plant level, if necessary. This happens in a matter of hours.

The first person we call usually knows the reason for the variance. The situation already has been communicated up and down the line so that by the time it appears on the sales and earnings report, appropriate action already is being taken.

By the 12th or 13th of the month, complete financial statements are received simultaneously in our office and by each group manager and division president from each profit center. This data is fed into our computer data base for retrieval as needed.

Other reports prepared at the general office also are important in asset control. We have reports that show working capital dollar components as well as day's sales in accounts receivable, inventory turnover, and comparing capital expenditures to budgets. Efficiency reports also are prepared for executive management at the computer center, broken down by plant with performance compared to the prior year and the prior month as against budget or projection.

"RONA" Report

The most important report next to the sales and earnings report is our RONA (Return On Net Assets) report. It is our measurment of return on investment for the current quarter and four preceding quarters showing key trend lines.

Twelve month average numbers are used in the RONA for the purpose of smoothing out the seasonal or cyclical variations of some of our businesses. For example, we can see if the trend in inventories is up or down as a per cent of return on net assets. Some of the other indicators measured are cash flow, profit margins and earnings.

Another report covers inter-company interest charges. In effect, the individual profit center must pay a corporate interest charge for any increase in assets that exceeds its increase in after-tax and after-dividend earnings. Since this charge is an expense to the profit center earnings, it provides a direct incentive for good asset control. If the assets of a plant get out of line relative to its earnings, the plant must finance these increased assets.

Monthly Management Letter

One of the most important management tools or controls is our monthly management letter. Each manager or president with responsibility for a profit center writes the supervising divisional executives, with copies to the group managers, setting forth personal thinking on major non-financial issues concerning present operations and future trends of the particular profit center. These operating letters help Beatrice senior management measure the progress of the plant manager and the profit center in meeting objectives.

Management Services Departments

In our overall system of controls and the monitoring of profit center performance, we value greatly the capability of our internal auditing staff in maintaining the accuracy of our reporting system and in controlling our decentralized management system. This staff of approximately 25 highly competent professionals is responsible for checking the internal control system at each profit center throughout the world on a rotating basis. It also provides assistance and systems improvements at our plants.

Finally, in keeping with the Beatrice policy of promoting from within, most of the staff -- after a training period of three years or so -- go on to fill controller positions in our plants and elsewhere in the company.

Our management systems department at the general office also helps establish financial and operational controls at the plant level. People in this department are highly experienced in every area of the manufacturing process. They assist with materials management, inventory and purchasing control systems, product cost systems, product profitability reporting and product scheduling systems. And, they are experts in overhead cost reduction and direct labor cost reduction.

Our staff of computer systems analysts is responsible for controlling data processing systems worldwide. Their responsibility includes systems, design, selection and installation of hardware and software, as well as documentation and information controls. They serve as consultants to local management and must approve all data processing expenditures.

Other in-house staff specialists provide assistance to plant management on almost any problem in engineering, research, personnel, industrial relations, employee benefits, insurance and finance to assist plant management.

Financing, especially, is the area where plant managers are most eager to be relieved of a headache. They then can devote their energies to the things they enjoy most; creating a product, producing it and selling it. Members of our corporate financial staff act as bankers, freeing plant managers to do what they do best for Beatrice -- managing a business for a profit.

Grocery, Specialty Meat and Warehouse Divisions

By Donald P. Eckrich
Executive Vice President

Beatrice's grocery specialties, specialty meat, institutional, warehouse and Shedd divisions represent a broad and varied business with a singular purpose. Each of the separate profit centers works with great independence, yet draws upon the collective expertise to develop and prosper. They have increased profitability by establishing common distribution systems and interchangeable computer hardware and programs. Each can draw on specialists in almost any field, such as marketing, distribution and labor relations.

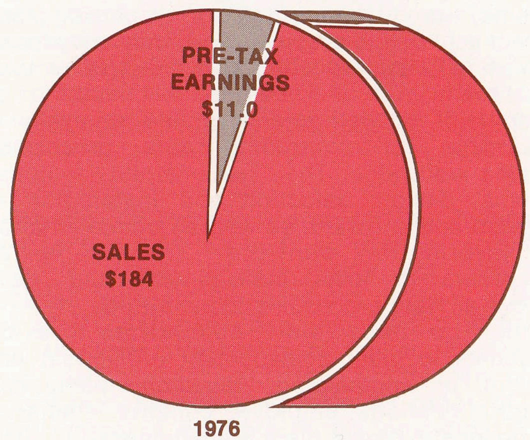
Many of our larger plants have their own research departments to develop products that are suitable for their marketing areas. In addition, the skills and facilities of our central research and development laboratories, a focal point of the company's $15 million annual R & D investment, are available to them.

The most significant characteristic of the grocery specialties division is the exceptionally broad product line. It includes such menu fare as Oriental, Mexican and other ethnic foods, candy, specialty vegetables packed in glass jars and tins, domestic snack foods such as nuts, and fresh and frozen bakery products.

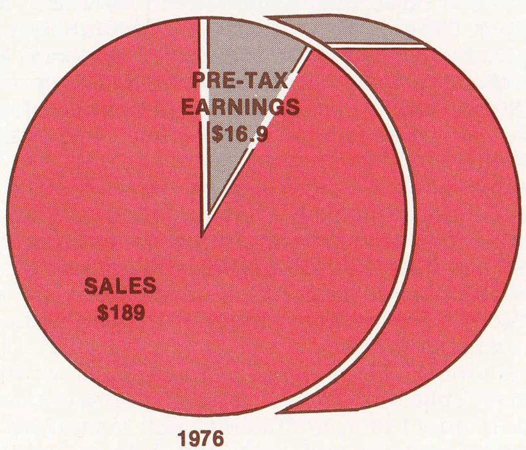
The common thread running through all the companies producing these foods is our strong emphasis on above-average growth areas and profitability potential. We have deliberately avoided companies marketing commodities, and we keep marketing costs low by avoiding products requiring intensive marketing support, such as cereal. Basically our grocery operation philosophy parallels that prevalent throughout all of Beatrice: we develop specialty products that command a higher-than-average margin.

Since about three-fourths of our total grocery sales are regional, we are not limited to growth through new product introductions and share-of-market increases. We also can grow through worldwide geographical expansion, and tend to extend a given line rather than to move into an entirely new product area. Acquisitions are becoming less and less a part of our total sales growth.

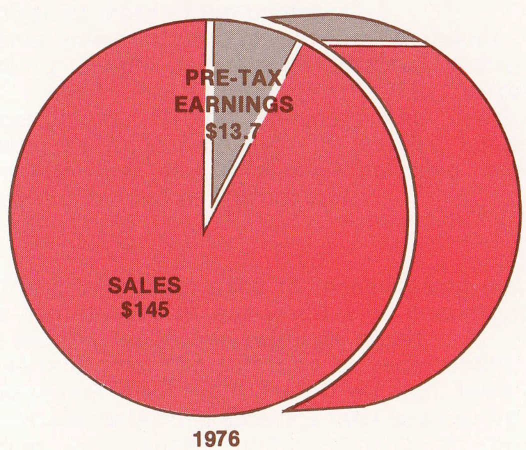
Bakery Group
(Millions of Dollars)



Specialty Grocery Group
(Millions of Dollars)



Confectionery, Nut and Snack Group
(Millions of Dollars)



Grocery Specialties Division

The grocery specialties business breaks down into three basic product groups: (A) a specialty grocery group which accounted for $189 million sales in fiscal 1976 and returned $16.9 million in pre-tax profit, (B) bakery companies which made $11 million profit on $184 million sales in 1976, and (C) the confectionery nut and snack companies which accounted for $145 million in sales and $13.7 million in profits during that period. Together, they had sales totalling $518 million, and $41.6 million in pre-tax profits.

While most U.S. food companies were hurt somewhat by the price controls of fiscal years 1973 and 1974, our companies have recovered their growth position beyond the rate recorded for past years. We project that profit growth rates will continue to rise at about five or six per cent above the rate of inflation.

We are encouraged by the Mexican food business, which features Rosarita re-fried beans, a staple among the growing ranks of Mexican food lovers, and our Gebhardt operation, known best for its leading brand of chili powder.

Growth of our Oriental food operations, featuring the La Choy line, is constant and expanding to include other Oriental items such as Japanese Ramen noodles, frozen pea pods and Japanese vegetables. The Oriental food industry plateaued briefly the past year and a half due to drop in the frozen egg roll category but is moving ahead again, with La Choy gaining in share of market. Studies show that currently a fourth of the population eats Oriental foods, and the trend is upward.

Exporting our ethnic products to Canada and Europe has generated sales and profit growth. We are capitalizing upon Europeans' taste for oriental foods, which is growing rapidly with their expanding economies.

Confectionery and Snack: Response to Challenge

Beatrice's confectionery and snack companies have been operating in a climate which created a real management challenge during the past two years, when prices of sugar, chocolate and other ingredients rose quickly, fell and then gyrated. We were able to capitalize on our experience and the strength of our brand names during those trying times, and since all our candy companies are leaders in their unique niches, we are optimistic about what we can do in our candy operations over the next five years. Return on investment in the candy business is now at the 30 per cent level, up from 24.5 per cent the year before. The industry has returned to normal, and the rate of return will remain steady and perhaps even increase.

One reason for our optimism in the face of competitive pressures is our penchant to constantly update our confectionery production facilities. Richardson After-Dinner Mints now are being produced in a plant whose productive capacity has been more than doubled in the past three years. Hard candies made by Jolly Rancher are produced by equipment constantly being kept up to date, and D. L. Clark is automating the process that turns out the highly popular Clark and Zagnut bars. Holloway is now in Phase I of a five-year plan to completely automate and improve its productive capability.

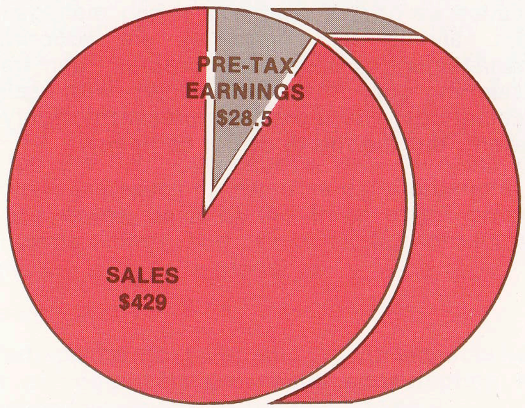
Our bakery companies make up a third product group. Our cookie companies maintain a healthy mix between route truck sales and sales through food broker operations. New items for both channels of distribution and the addition of new routes helped all companies achieve improved sales and earnings in fiscal 1976.

Since we have several major regional brands, our bakery business is basically a multi-label business that gives us the regional strength needed to let us move ahead of or against competition.

Specialty Meat: Highest Food Growth Rate

The Specialty Meat Division accounted for $429 million in total sales during fiscal 1976 and returned a pre-tax profit of $28.5 million. The companies include Peter Eckrich & Sons, which distributes approximately 150 varieties of specialty and snack meats, and E. W. Kneip, a beef killer and breaker which also specializes in making corned beef that is considered by some to be the best product in the business. E.W. Kneip has four killing plants producing perhaps three to four million pounds a week, with good margins. We also have three other companies producing meat snack products.

Specialty Meat Division
(Millions of Dollars)



The Specialty Meat Division had the highest growth rate of all food divisions over the past five years, reflecting increasing consumer popularity of such products due to greater values, less preparation, economy in a high-priced beef market, and easier service than available with other meat products. Meat snack products fit well into the mobile, informal lifestyle of today. This consumer acceptance led retailers to promote processed meats far more than in previous years. And despite negative economic factors, the entire division's performance exceeded industry averages in sales and earnings, showing increases over the preceding year.

Last year Peter Eckrich's new Quincy, Mich., frankfurter processing plant was completed, and Eckrich expanded distribution in Missouri, Kansas, Georgia, Alabama and Tennessee. We move only into areas where population will support marketing of a new brand and study share-of-market potential first so we'll be a viable supplier to supermarket buyers who later might cut the number of competing brands they handle. The prospects for specialty meats in fiscal 1977 look bright.

Incidentally, we use no edible soy protein in Peter Eckrich products. This filler made a flare in the marketplace when meat prices were high, and some meat processors erroneously considered it a viable substitute for meat. We have developed a complete line of products for the unlikely chance that basic changes occur in the consumer's desires, but our market research tells us the consumer wants to eat meat, and not substitutes. We are watching the market for any indication of change in that basic finding.

With all of our optimism there are some factors on the 1977 horizon that concern us. Table grade beef was much more competitive with processed meats throughout the first half of fiscal year 1977. Pork supplies have not increased to the extent anticipated and, overall, will average out about the same or perhaps slightly higher than last year. The supply of sausage beef has been reduced, the opposite of last year. And the new grading system for table beef could adversely affect the beef processors, although to date we have not found this true at our E.W. Kneip operation.

Overall, though, the favorable conditions should outweigh the unfavorable ones. We expect the Specialty Meat Division to meet both Beatrice's corporate growth and profitability goals.

Institutional Food: Looks Good

The institutional food business declined to slightly more than $270 million in sales during fiscal 1976, since people cut down on their eating out during a recession. Fiscal 1977 looks good for our John Sexton & Co., along with our other distribution firms in the business. Food commodity prices have steadied and supplies appear to be ample. Although many food companies are optimistic about their own future in the institutional food business, we are confident that our very high quality image will make us strong contenders for the expected new business. We have 22 Sexton locations, in line with our philosophy of going where the market is. That and our fast service let our customers use us as their warehouse instead of using their own back rooms.

Overall, one of the most encouraging factors for Sexton is that the institutional food market is growing at a faster pace than is the retail food market. We project that one out of every three 1976-77 food dollars will be spent on food away from home.

Warehouse Outlook Bright

Although the Warehouse Division's revenues (of about $40 million) and earnings were down slightly from the prior year's record highs because of customer reduction of inventories, the business is very stable. We still out-performed the industry in general in fiscal 1976.

We have been adding new warehouse space, including the just-finished 1.25 million cubic feet of refrigerated space to consolidate frozen food distribution in Denver. Another new major facility near Allentown, Pa., will be opened late in 1976 to supplement the Scranton, Pa., plant.

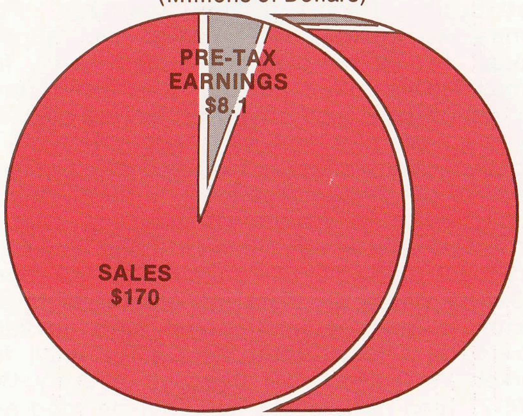
We are optimistic about the future of our Warehouse Division, anticipating inventory levels returning to normal as the economy rises.

Shedd Successful

Our Shedd group, consisting primarily of seven margarine companies strategically located throughout the U.S., mostly producing private-label brands for other food companies, was very successful in fiscal 1976. Sales were $170 million and earnings were in excess of $8.1 million pre-tax. Both sales volume and margins were good this past year in all of our margarine operations.

Last year we consolidated Mario's olives and olive products and Liberty cherry into the Shedd glass group. We are projecting further increases in the Shedd group's profits for fiscal 1977.

Shedd Group
(Millions of Dollars)



1976

To summarize, the economy is moving up and we believe our companies will grow with the upward trend. We are especially optimistic because we have a relatively young management team, all of our companies are adopting a "management by objectives" program, and we are developing goal-oriented managers with realistic expectations. These people represent not only the present, but the future of our company.

Dairy and Soft Drinks and Agri-Products Divisions

By E. A. Walker
Executive Vice President

Beatrice Foods had its beginnings in the dairy business some 78 years ago, and dairy continues to be a major factor in the company's growth. We added agri-products in 1964 and soft drinks in 1971 and they, too, have been important contributors to sales and earnings.

Our diversification and decentralized management allow us the best of two worlds. First, our plants can compete on a local basis, and they have the authority to adjust to quick market changes and to solve problems as they arise. We encourage initiative.

Second, they have the finances and specialized services of a large company to enable them to keep moving forward. They can concentrate on production and sales, not paperwork.

Decentralization also means that no single labor contract dispute can cripple the entire group performance. And no local price war or loss of a single big customer can seriously affect the overall group.

The Dairy and Soft Drink Division is organized into an eastern region, a western region, the

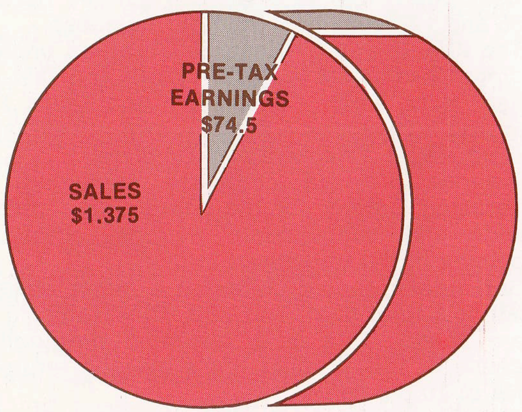
Yogurt and Specialty group and Eastern and Western Canada. There are 17 group managers throughout the division.

One thing that makes this division different from others in Beatrice is that our products are high-turnover, cash-generating items. Thus, the division is truly a "cash cow" for corporate-wide investments in other income producing assets.

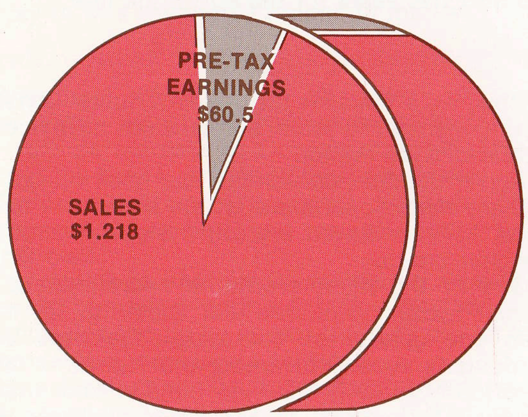
The fiscal year ended February 29 marked a milestone for the division. It was the first year in which Beatrice's U.S. and Canada dairy sales topped a billion dollars. Worldwide sales were $1.375 billion, compared with $1.218 billion a year ago. That's a 12.9 per cent increase. Earnings were up 23.1 per cent to $74.5 million. The year represented the 37th consecutive year of sales and earnings increases for Beatrice dairy products.

Let's review each of the three major product groupings -- dairy, soft drinks and agri-products -- beginning with dairy products.

Dairy and Soft Drinks Worldwide
(Millions of Dollars)



1976



1975

Dramatic Growth In Yogurt

Perhaps the most dramatic growth area has been that of yogurt. Its per capita consumption has increased seven-fold in the last 10 years.

Beatrice has maintained its strength in conventional fluid milk lines, but it has also strongly capitalized on growth trends in the specialty areas, such as weight consciousness and a renewed interest in natural foods.

This strategy is helped by Beatrice's superior national coverage. We have products processed by 91 dairy plants and distributed in all 50 states. We have the ability to increase local market shares. Better still, when a product concept proves successful in one geographical area, we have been successful in spreading it to national distribution.

How well is this system working? An independent analyst compared our sales and profits with those of our two largest competitors for the years 1969 to 1973.

Our dairy sales increased 49.4 per cent, compared with static growth or a decline for the two competitors. Beatrice's dairy product return-on-sales was steady at 5 per cent from 5.2 per cent in 1969.

Now let's focus on the product lines that have accounted for the overall success of dairy products.

As a lowfat, natural, nutritional food, the yogurt line has benefited from a variety of consumer taste trends. Dannon Yogurt management capitalized on these trends by using aggressive advertising and promotion, and by moving westward from its New York base.

Three years ago, when Dannon introduced its products into Chicago against long-established brand names, it was just one of many. It has since captivated the Chicago market, with superior quality, an exclusive, controlled delivery system that requires a fleet of trucks for fast local distribution, and hard-hitting marketing.

Dannon has increased its sales 300 per cent in five years, and that is only in a relatively few markets. It has most of the country in which to expand.

Demand continues to outpace supply. Dannon recently has expanded two of its plants and opened up two new ones. We have four brands of yogurt, Dannon, Johnston, Meadow Gold and Viva, which compete with each other on the grocery shelves. But we figure that the more combined shelf space we have, the less sales our competitors will make.

The four brands have achieved an approximate 40 per cent sales growth in the past year. We also have opened three Dannon frozen yogurt shops in New York and feel such shops could become as common as ice cream parlors.

Viva: Nutrition Plus Weight Control

Our line of Viva lowfat fluid milk, cottage cheese, ice milk, and yogurt was introduced in 1968, and we positioned it as a line for people who are concerned about nutrition and weight control. The Viva name was heavily advertised and today, Viva fluid milks alone account for 40 per cent of total Beatrice fluid milk sales.

Spray-Drying For Convenience

In another product category, two of our growing dairy groups use spray-drying technology to exploit consumer preferences for convenience foods.

Our Sanna dairies group joined Beatrice in 1967. Sanna markets dried milk, cocoa mixes and puddings, under the brand names Sanalac and Swiss Miss, to both retail outlets and food processors. It devotes special attention and heavy advertising support to each product with highly successful results.

Beatrice is a pioneer and one of the world's leaders in spray-drying technology. We design and manufacture free-flowing, spray-dried specialties, which are sold primarily under the trade name Beatreme.

We supply more than 100 different products used as ingredients for convenience foods such as cake and biscuit mixes, sauces, powdered fruit drinks, and flavorings. Some examples are powdered shortening and dehydrated sour cream and most recently, Chez-Tone.

Just about every product using a sour cream base, such as dips, salad dressings and cheese cakes, contains the base we make. We supply almost every major food manufacturer in the United States.

Cheese On the Upswing

There is a renewed preference for cheese. Per capita consumption has risen 82 per cent in the last 10 years; and our Meinerz line has taken advantage of this trend to become the fastest growing Beatrice cheese line.

Meinerz sells primarily to industrial users of Italian cheese, such as pizza suppliers, and it has an exclusive contract with the nation's largest grocery retailer -- Safeway Stores -- for its private label cream cheese.

At Beatrice, R&D frequently plays an important role in marketing success. Take for example, our development of Chez-Tone, a product made from cheese whey that can taste like any given cheese simply by using the proper bacteria. Our knowledge of whey's protein value led us into the cheese processing business.

Another example is our work with bananas a few years ago, when there was a glut of fresh bananas on the market. We found a way to dry bananas and still retain their flavor.

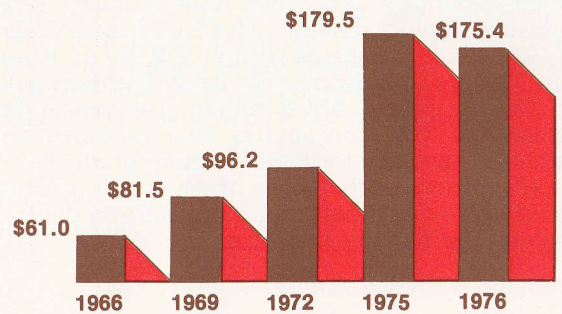
Or take the case of Meadow Gold Olde Fashioned Recipe Ice Cream, an all-natural brand developed at our research center and first marketed in New York. We now are launching a major promotion program which will spearhead distribution throughout the country.

Our marketing plans also call for introduction of six flavors this year, which, combined, doubled our unit sales of specialty ice creams last year.

Other new products scheduled for national marketing this year are Make-A-Shake chocolate and vanilla beverages, Sanna puddings, and a new, all-natural ice milk.

We also market natural and artifical fruit juices, drinks and ices, all high margin items which contributed substantially to overall division sales increases. This year, the successful Kaptain Kidd line of fruit drinks will be expanded into national distribution. Tetra-paks of Alfredo's Italian Ices will receive broader distribution, including marketing at 1,500 fast food outlets. All these products provide the kind of balance needed for successful marketing.

Agri-Products Sales
(Millions of Dollars)



Marching Bands For Marketing

Another example of our marketing program is our sponsorship of the Marching Bands of America program, which involves more than 23,000 high school bands, and about two million youngsters across the nation. Our dairy plants are truly enthusiastic about this program.

Canada offers exciting marketing prospects for Beatrice. We expanded into the Ontario and Manitoba dairy business in 1969. Last year, these operations contributed $139 million in sales.

Why is Canada so exciting? For one thing, our plants are located in the fastest growing areas of Canada. They have some of the best-known brand names in the Dominion.

We expect dairy profits to improve in fiscal 1977, because of our emphasis on a better product mix and the production of higher margin specialty products. In short, we're predicting a 38th consecutive year of growth.

Soft Drink Activities

Let's turn now to our soft drink activities. We entered the market in 1971 with the Royal Crown franchise in Louisville, following the company's tradition of acquiring successful businesses with qualified management.

Today's organization consists of plants in nine metropolitan areas. Sales in fiscal 1976 were up 10 per cent over fiscal 1975. Earnings were up 36 per cent.

The increase in per capita soft drink consumption from 22.3 to 31.4 gallons between 1966 and 1975 has benefited our business.

The line offered by Beatrice's bottlers consists of franchised labels -- Royal Crown and Diet-Rite Colas, Nehi, 7-Up, Canada Dry and Dad's Root Beer and Schweppes -- and our own private labels -- Gold Medal, Checkers and Tiger Red.

Beatrice provides corporate marketing and advertising support for the company's controlled brands and supplements national advertising programs of the franchised brands.

Soft drinks should comprise a larger share of Beatrice's total dairy and soft drink sales in the years ahead. This is a favorable development because of this product line's average return on sales of 10 per cent.

The combination of opportunities for sales expansion and close cost controls plus some acquisitions should double sales and earnings over the next five years for the soft drink line.

Agri-Products: High Margins

Now, let's discuss the Agri-Products Division. During the past 10 years, annual sales have risen to a total of $175 million.

Agri-Products traditionally has been one of the highest margin operations within Beatrice -- and in fiscal 1976, achieved a profit margin of about 10 per cent pre-tax.

One of the most profitable operations is the animal feeding group, which accounts for more than one quarter of our sales. We have been particularly successful under the Vigortone label. Vigortone primarily markets mineral and vitamin products to farmers, ranchers and dairymen who feed livestock, swine, beef cattle, dairy cattle, sheep and poultry. The farmer uses the pre-mixes to mix with his own home grown grains and roughage to manufacture the feeds consumed by his livestock right on his own farm. We, of course, market our products where the livestock is located and where grain and roughages are readily available. We now sell our products in over 30 of the major livestock producing states.

We are the largest producer of pre-mixes. Since we now have only about 10 per cent of the potential market, we have a tremendous market still available. Our job is and has been to convert users of these feed products to the saving pre-mix concept. Our outstanding success is measured by an 840 per cent sales increase in 10 years.

Another area of growth potential lies in our tanning operations. Today, leather is fashion. Shoes make up about 85 per cent of all leather consumption. But there's also a growing interest in leather for garments, handbags, belts and personal goods. Export of U.S. leather is up 382.5 per cent over 1970. Fiscal 1976 was a record year for our tanning operations.

And, one of the biggest growth areas of all lies in supplying ingredients for pet foods. This market grew from $1.6 billion to $2.3 billion between 1972 and 1974 just on dog and cat food alone.

Last year we processed 370,000 tons of poultry and red meat, to make by-products which we market to manufacturers of retail pet foods. We have a group of companies in the Agri-Products Division which, together, form a major source of supply to this seemingly unlimited market.

Common Denominator: RONA Strength

One final strength of all three of these operations -- dairy, soft drinks and agri-products -- is return on net assets. Our return in all three is among the best in our company after taxes.

For dairy, it is over 17 per cent. For soft drinks, it's almost 16 per cent, and for agri-products, it's 22 per cent.

Our goal is to improve these returns as well as improve our sales and earnings. By 1980, our annual sales should be approaching $2 billion with a comparable increase in earnings.

We believe we can do it. We have a track record of 37 consecutive years of increases, and we have a loyal, dedicated, enthusiastic group of people who are anxious to extend that record.

International Foods Division

By James L. Dutt
Executive Vice President

Beatrice Foods first ventured outside the United States 15 years ago, and since has built an international food operation that accounted for almost $700 million of the company's total sales in fiscal 1976, with pre-tax earnings of $36.7 million.

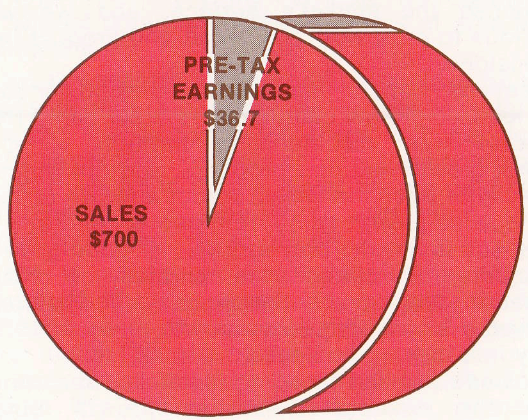
Seventy per cent of our sales were in Europe, with France being the largest contributor of any country, and 20 per cent were in Australia and the Far East. Latin America accounted for the remaining 10 per cent.

These increases occurred in a year when almost all other companies had severe problems and some even pulled out of the international markets. We were not so affected because of three basic international operational policies. We select international partners carefully, we are choosy about the type of business and the area of growth we become involved with, and we make use of a unique management style.

Just as Beatrice has achieved 24 years of increased sales and earnings per share, the international food division likewise has achieved successive increases in sales and earnings since it was started in 1961. And based on the results we've received to date, we should have another banner year in fiscal 1977.

One reason for this kind of growth is directly attributable to our management style, which stresses decentralization, diversification, balance and teamwork. This is basically the same way we operate domestically, but with three basic

International Foods Division
(Millions of Dollars)



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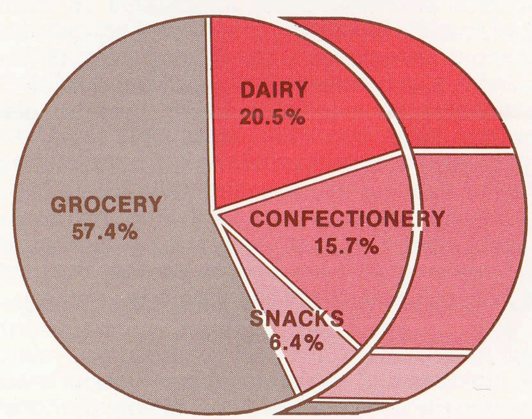
International Foods Division
(% of Total Sales)



1976

differences to accommodate the environments of our overseas operations.

First, our overseas companies are operated by nationals of the countries. We do not export American managers.

Second, the manager usually owns a share of the business. Many own a minority interest that is now worth more than their entire company was worth at the time they joined Beatrice. We now are considering spreading share ownership to key employees as well.

Third, we operate low-profile companies that are leaders in their fields in every respect. They are average-size for their industry in terms of sales, and are classified in the small to medium range. They are not readily susceptible to nationalization.

Our entry into the specialized food business throughout the world is a carefully selective process. In all cases we shy away from volatile foods commonly classified as commodity items, although we do rely on some commodities in processing our products.

We are in the fields of dairy, bakery, snack foods and confectionery in our foreign operations, and there are good reasons why. First, these are fields in which we have expertise. We select businesses that will contribute to the overall balance of the company. Second, they are basic foods, which everyone uses. Since we are in the quality end of the line we attract the more affluent customers. As the affluence increases, our market grows.

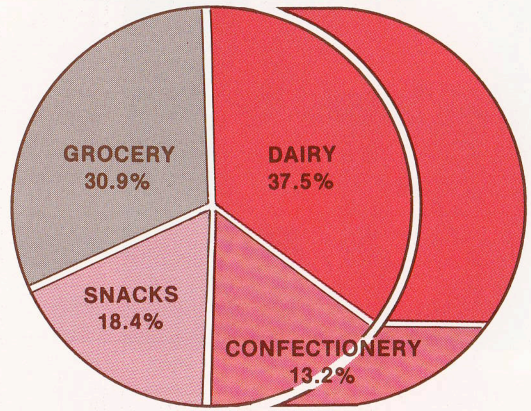
These are also businesses which are not people or capital-intensive. It is impossible to reduce employment levels in many countries abroad, but a medium-sized company employing two to three hundred people can increase production by improving technology without hiring new people. A large company, however, must still maintain a large payroll, and cannot effect the same savings.

To see how our management style works for us, let's review some of our activities by product category, beginning with our dairy operations, which make up 20.5 per cent of international sales and 37.5 per cent of pre-tax earnings.

International Dairy Operations

We produce and market dairy products in a wide arc that extends from Belgium, Spain, Denmark, Italy and Switzerland, through Malaysia, Singapore and Korea, to Puerto Rico, the Dominican Republic, Jamaica and Mexico City.

International Foods Division
(% of Total Pre-Tax Earnings)



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One of our leading ice cream companies is Gelati Sanson, located in Verona in northern Italy. The ice cream business is different in Europe from that in the U.S., with more emphasis on higher-margin frozen desserts than on ice cream.

Sanson's products are of the highest quality and command premium prices. When Sanson joined Beatrice its operations were limited to northern Italy, but they have since spread as far south as Rome and they are still going. We have only scratched the market's surface, and we will continue to grow both by market and product line extensions.

Last year, Sanson increased its sales 36 per cent and realized pre-tax margins of 11.3 per cent. This increase was accomplished through volume, market growth and new products, and not strictly because of price increases. About a fourth of last year's sales growth came from new products.

Sanson is not the only example of good growth in southern Europe. Marisa, another ice cream operation that serves Barcelona and Mallorca, enjoyed a 30 per cent sales growth in fiscal 1976. Dairy is a thriving business overseas.

Holanda, Mexico's leading ice cream operation, is another example of excellent growth. Since 1968, its sales have increased 300 per cent, mostly through new product diversification and development of a franchised chain of over 100 retail ice cream stores.

Impressive as this growth may be, it is only indicative of the potential that exists in Mexico, which has one of the highest population growth rates in the world. Its population should double in the next 20 years. Disposable income is low by U.S. standards but is rising continually, and will rise even higher when its newly-discovered oil fields are put into operation. The potential is enormous.

Snack Foods Abroad

Snack foods are every bit as popular abroad as they are here at home, and our companies are leaders in the snack business in the foreign markets we serve. Of our international food sales, 6.4 per cent are accounted for by snack, which provided us 18.4 per cent of international pre-tax profits. Our operations in this field are in Ireland, Puerto Rico, Santo Domingo, Peru, Guatemala, Colombia and Venezuela.

Tayto, our company located in Dublin, Ireland, is also representative of the kind of growth we are experiencing. Its profits rose 250 per cent in fiscal 1976, thanks to aggressive cost reductions, improved distribution, and a new line of high margin biscuits.

We project that next year will be Tayto's best ever. Actual results to date, in fact, are 21 per cent higher than earlier projections, and 49 per cent in excess of last year's actual results.

Two South American snack companies -- Anita and Marlon -- have grown substantially in the past five years. Marlon alone last year sold almost 10 million pounds of snacks.

Annually, we sponsor a sales and earnings contest in the International Food Division, in which the company showing the best improvement in several financial ratios wins a prize. Both of these companies have either been winners or runners up every single year.

Grocery Enterprises

In the grocery field, which accounts for 57.4 per cent of our foreign sales and 30.9 per cent of international pre-tax profits, we are engaged in a variety of different enterprises, in such countries as England, Holland, Italy, France, Switzerland and Spain. This includes food outlets as well as institutional markets such as restaurants, hospitals, and the military.

Our grocery distribution operations in Europe have shown good growth in the face of the worst recession Europe has seen in 30 years, price or margin controls in many countries, and inflationary costs as high as 25 per cent. Our partners have done an outstanding job as evidenced by a 58 per cent increase in sales and a 57 per cent increase in profits during the last three years.

Another extremely profitable operation is A.J. Ten Doesschate, a Dutch supplier of spices to the meat industry as well as to retail outlets. It has had substantial growth since joining us in 1969. This growth should level off at about 10 per cent per year. Ten Doesschate's local management and our management people in Brussels are exploring new ways of diversification and recently acquired another smaller Dutch company that will give Ten Doesschate a whole new market to develop.

Confectionery: Stress Quality

In the confectionery field, which makes up 15.7 per cent of our international sales dollar and 13.2 per cent of our pre-tax profit, we have operations in Colombia and Venezuela. But our largest concentration is in Australia, where we have three quality companies.

The largest of these is Red Tulip, which manufactures high quality chocolates and after-dinner mints. The chocolate packaging and merchandising is far superior to that normally found in the U.S. The company also has developed an entirely new type of candy bar which may be introduced into the American market.

Other operations in Australia and the Far East include fruit juices and drinks in Australia and Thailand, and convenience foods in Japan. Beatrice has established a new joint venture in Japan to manufacture and market candy products, and our ice cream operations in Singapore are being expanded for the third time in two years.

Market Expectations

Let's take a look at expectations for the various markets in which we operate.

In Europe, we are still very bullish. The economic recovery may lag behind that of the U.S. by six months or so, but we expect a gradual upturn during the year.

A significant change has been taking place in Europe. More and more affluence, despite the recession, is creating a desire for our type of specialty food products. We are a low-cost producer, and now there's an open door to our investments. In short, opportunities abound.

We see great opportunity in South and Central America, where we are in only six countries and Puerto Rico. There is a whole hemisphere for us to grow into.

The Andean common market of South America also is an opportunity area. So far, we're in only three of the six member countries, but have established plans for growth here.

Our overall view of the Australian market since the change in government is pretty much one of "wait and see." We experienced some softening in margins in some product lines last year because of the economic recession and liberalized wage increases granted by the labor government.

Although price controls still are in effect in Australia, our companies have learned to live with controls just as we did in 1972 and 1973, passing on cost increases through very prompt processing of price increase applications. If the optimism concerning the government's ability to stimulate an economic recovery is justified, our operations will improve. Next to the Far East, it probably is our largest potential market in terms of area and population.

Two-thirds of the world's population lives on the other side of the globe, and the Far East is really an untapped market, although there is some dairy business competition from another food company. Wherever we go in the Far East, we are delighted with the people we work with, and their enthusiastic response to our products.

That is where we are today. As with any company we have experienced some setbacks. We had, for example, a management problem last year at our Italian "Barzetti" bakery company. But with our assistance this company has reviewed its product line and production systems, and has made the necessary corrections. The company should begin making its profit objectives in fiscal 1977.

Future Plans

Where do our international food operations go from here? We have a five-year plan that sets a goal of $2 billion in sales by 1981, with before-tax profits increasing at a rate of one-half per cent a year. The goals can be achieved by continuing the policies and management style that brought us to the current three-quarter billion mark. Conservatively, we estimate that the factors affecting our goal will be an eight per cent inflation rate, a 12 per cent internal growth rate, and occasional selected acquisitions.

From our point of view, internal growth success is attributable to the basic Beatrice principles of management. Along with those already mentioned, we insist that the nationals we select as partners have a thorough understanding of their marketplace, its customers, its economics, and its politics, and a strong proved business record. After acquisition, our management information system lets us evaluate a company's performance on a current basis.

As in the U.S., one of our communications tools is the monthly management letter from each plant, which covers financial affairs and other factors that affect that company's growth, whether people problems, diversification, sales, or any other pertinent information. These letters are carefully reviewed by me and the responsible area manager. Coupled with our frequent plant visits this gives us an understanding of what is happening in the marketplace. Importantly, we frequently learn as much as we teach in our two-way transfer of information, since production and sales systems and efficiencies abroad are often superior to our own.

In addition to our management policies, we also have established a set of principles pertaining to ethics in the management of our worldwide operations. We do not make unauthorized contributions or improper payments to foreign officials, we oppose restrictive trade practices imposed upon countries friendly to the U.S., and we fulfill our social responsibilities as a corporate citizen.

We firmly believe that these principles have helped contribute to our internal growth, and will continue to do so in the future.

Much of our growth comes from our already existing businesses, but some does appear through mergers. But we do not place the same emphasis on acquisitions as we do on internal growth, and we confine our expansion to fields in which we have experience and know-how.

Another great potential for growth lies in dairy specialties technology, such as spray-dried products. We plan to manufacture and market these special products overseas in the near future, following a successful state-side pattern.

Management Services

As a further aid to future growth, last year we created the International Management Services Division to undertake supervision of technical assistance, including turn-key operations and food processing projects throughout the world. We have since received numerous inquiries from various governments and private concerns about our undertaking such projects. The potentials of this division are unlimited as the lesser developed nations attempt to become more self-sufficient. Its operation is based on our domestic management services, a part of the dairy division which has been extremely successful for the company.

These management services activities are being extended to the Middle East, Africa, South and Central America and the Far East as well as to Europe, the U.S.S.R. and other countries in Eastern Europe.

Another expected growth area is in the importing and exporting of food and food-related items. We currently are reviewing our existing Beatrice Export Sales Company to take even greater advantage of its potential for growth.

The above summarizes how our worldwide management style has achieved good internal growth which, combined with our choice of acquisitions, has produced an excellent record of growth since we first ventured outside the United States in 1961. We are confident that we have the capability of doubling that growth in the next five years.

Manufacturing Divisions

By Richard A. Voell
Executive Vice President

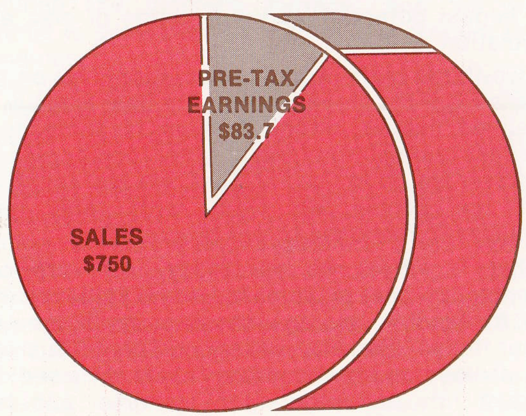
While most manufacturing companies experienced serious profit and margin deterioration during the recession of the past 18 months, the Manufacturing Divisions of Beatrice Foods produced a 11 per cent pre-tax profit on sales of $750 million in fiscal 1976. The reason for our good operating results is both our management style and our concept of producing specialty products with good margins, as we diversify in each of our various manufacturing companies.

Basically, our manufacturing operations are divided into three divisions averaging $200 to $250 million in sales each. The largest is the Consumer Products Division, whose sales were up 4 per cent over the previous year. It accounted for 38 per cent of our sales and 27 per cent of our earnings.

The Institutional and Industrial Division is the largest earnings contributor, producing 49 per cent of our earnings on 33 per cent of our sales. The Luggage and Home Environment Division had a net sales growth of four per cent in 1976, accounting for 29 per cent of our sales and 24 per cent of our earnings.

The products of all these divisions are "specialty" products. All are leaders in their fields. Some are distinguished by low capital investment, others by low labor costs. But all have the common denominator of strong growth potential.

Manufacturing Divisions
(Millions of Dollars)



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Institutional and Industrial Division

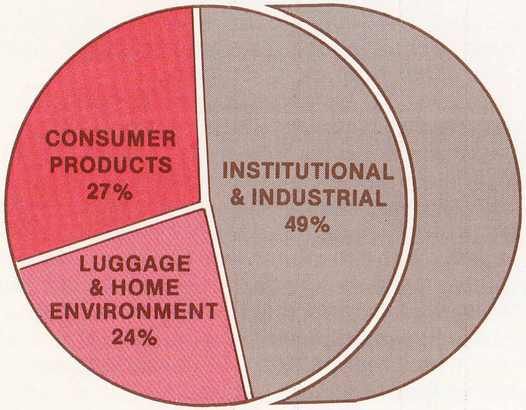
Many of our manufactured food products are food-related. Equipment supplied to the fast food and restaurant business, such as the commercial ice cream freezer equipment made by Taylor Freezer, is an example. This company's new Rockton, Ill., plant produces quality soft ice cream freezers, equipment for milk shakes and slushes, and batch freezers for hard ice creams.

Another food-related product is our new Autofry 12, the world's most powerful fully-automatic counter frying machine. It leads the trend toward increased restaurant automation by leaving the frycook free for other duties. Its quality controls greatly reduce food spoilage costs.

Conservative estimates are that by 1980, nearly half the meals eaten in this country will be consumed away from the home. We are on top of this market with gas and microwave institutional ovens, and have developed a new product, a compact convection oven, designed to capitalize on it. The device takes less than four square feet of counter space, yet bakes, roasts and reheats high volumes of food. It is ideal for coffee shops, delis, airlines, hospitals, snack bars, and locations remote from the kitchen where food must be served piping hot.

We provide an attractive self-contained "do-it-yourself" salad bar which has become a popular feature of many restaurants, and offer Sculptura chafers for both elegance and practicality in table-side cooking. Some of the finest restaurants in the country feature meals cooked on the Rechaud Stove Trolley or Chafered Trolley, including the 95th Restaurant in Chicago's Hancock Building, Fiddler's Three in California, and Top of the Park in New York.

Manufacturing Divisions
(% of Total Pre-Tax Earnings)



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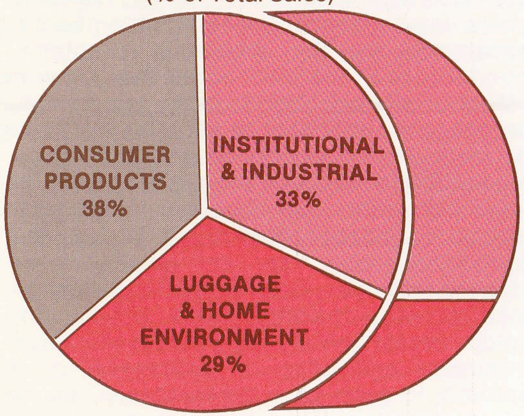
Manufacturing Divisions
(% of Total Sales)



1976

Portion control is important in any restaurant, and we provide the tools for such control. One of our best known products is the Silex coffee brewer, which is serving America's favorite brew to people in restaurants, offices, hospitals and other institutions all over the country.

Still another of our companies provides plastic injection molding equipment used to produce plastic substitutes for such items as tanks for dishwashers. Another Beatrice company is providing plastic containers for dairy cases, milk containers, and plastic beverage bottles, and is selling artesian spring water in Midwest supermarkets under the Absopure names. This is certainly an example of diversification.

Another example of our capabilities of producing specialty products is our movement into in-hospital and nursing home feeding, with nourishment stations featuring a cart and oven combination called a Convectator. As many as 42 fully-prepared meals can be transported in the cart section, and then be reheated in the oven at one time. The nourishment station also is available with two microwave ovens for speedy heating of individual plates, providing meals for a whole patient care unit in a minimum of space with only one plumbing and two electrical connections.

Other specialty products include our cocktail shakers along with a new series of gallery trays for the home market.

Luggage and Home Environment Division

The effectiveness of our Luggage and Home Environment Division is widened by Samsonite, an effective operation when we acquired it almost three years ago that has nearly doubled its business since joining Beatrice in spite of the recession. Samsonite's strengths in developing and introducing new products and concepts have established it as a leader in luggage.

The good-better-best product line is represented by the casual "Scamps" luggage, "Scandia" high-fashion luggage, and top-of-the-line "Siena," which presents old-world craftsmanship. "Montbello" is a new line designed for catalog showrooms and discount outlets.

Internationally, Samsonite has put its popular European Saturn line on wheels, and is introducing additional Flee bags, known there as Handy Bags or Go-Go Bags. Production of the popular Safari III cases is being increased in Canada, and a new plant has been opened in Mexico to produce the new Samsonite Boutique line and a new plastic container line which now is accounting for 20 per cent of Mexican sales. A plant to manufacture attache cases came on stream early in 1976 in Sao Paulo, Brazil.

Samsonite is a good example of diversification. One of the world leaders in folding tables and chairs, it began manufacturing garden furniture a few years ago, and was able to sell these specialty items to the same customers. Because of its high styling, Samsonite has developed a whole new line of patio furniture which is being accepted in many western homes as indoor furniture.

But Samsonite is only one example of Beatrice diversification. Another is Airstream, which joined Beatrice in 1967 and is in our Consumer Products Division. Its sales literally doubled each year until reaching approximately six times the original volume in 1973. Then the oil crisis and fuel shortage hit the recreational market, and many manufacturers were forced out of business.

But Airstream, in addition to taking cost-cutting measures, diversified. By 1974, it had entered the delivery van and minibus market, using lightweight aluminum frames that saved 15 to 20 per cent in fuel costs over original models. And it did this with a total cost of only $200,000 for design by capitalizing on existing engineering and manufacturing capabilities.

Airstream has diversified into other lines as well. Its non-recreational vehicle business, which accounted for 20 per cent of sales last year, should reach at least 30 per cent in the coming 12 months.

We also diversify in the face of problems, such as the potential energy shortages that faced our conventional Charmglow line of natural-gas using barbecue grills. We "hedged our bets" by adding electric grills to the line, and by acquiring an electric insect killer for yards and patios that sells through the same distribution channels. This item uses only two or three cents of electricity a day, but can clear an acre of land of any kind of insect. We feel it is a real "sleeper" product.

Another success of our Luggage and Home Environment Division is our Melnor lawn sprinkler equipment, including newly developed underground lawn sprinkler systems and new techniques of aiding plant growth through water control devices.

Our international operations are an extension of our domestic operations. For example, a few years ago we built a Melnor plant in Belgium, and have since taken a significant share of Europe's lawn sprinkler business. Those facilities also are used now to assemble our various World Dryer units, and to provide warehouse space for some of the other Beatrice export products.

Our method of expanding overseas sales is to first develop an export market before committing to an on-site plant. This natural growth overseas accounts for an increasingly optimistic picture of international manufacturing operations. Our object is for international to contribute 20 to 25 per cent of our sales and 30 per cent of our earnings within five years.

Consumer Products Division

In our Consumer Products Division, we have taken advantage of distribution channels proved successful for other Beatrice products. Long aware of the growing trend of non-food shopping in the supermarkets, we have concentrated on producing products which can be sold there. Chicago Specialty closely fits this distribution formula by carving out a position for "plumbing-do-it-yourselfers" in the supermarket and hardware field. Working with Design West, the Manufacturing Divisions' own research, development and design group, Chicago Specialty originated a pulsating shower head called the Body Shaper. Broadening its product line into space-saving bathroom accessories, Chicago Specialty had a record year in spite of a distressed housing market, and has almost tripled its business since joining Beatrice five years ago.

These examples of diversification show why Beatrice continues its great growth year after year, even during times of recession. We diversify our specialized products to meet market demands. Hekman Furniture diversified to move into the commercial-contract furniture business. It sold a one-million-dollar furniture package to Chicago's new Ritz-Carlton Hotel, and entered into a contract with Marshall Field and Company. Stiffel Lamps also diversified, and both companies achieved record sales last year, when few furniture and accessories manufacturers could break even.

Stiffel Lamps also is a good example of Beatrice's top-of-the-line philosophy. Because of its quality, it can raise prices as necessary, and still sell just as many units. The consumer buys a Stiffel Lamp because of its quality, not price.

Role of Beatrice Philosophies

Beatrice's manufacturing operations survived the recession without earnings losses because our decentralized management structure allows managers the freedom to innovate and move with the needs of the times.

The Beatrice principle of balance is carried out by coverage of a wide range of strategic business units in consumer, industrial and institutional markets. We react quickly to changing markets, and have established a sound system of financial and operating controls which gives group and division managers an early warning of problems.

We do market share analysis, plus trend and ratio analysis. We watch for unfavorable changes in the market and move quickly to offset them. Operating plans are established for every company and are reviewed constantly by group presidents. Each company's track record is plotted against this plan, and if its record is not satisfactory, steps are taken to improve it.

But all these management policies would be useless without exceptional people to implement them. Beatrice is blessed with these, not by accident but by careful design. We place emphasis on training people at all levels to develop future management from within.

Both teamwork and competition are encouraged. Teamwork, to keep everyone working for the good of Beatrice. Competition, to encourage extra effort within the family. Beatrice provides incentives, but the greatest incentive comes from winning and growing.

Growth Areas

We are forecasting a 20 per cent annual sales increase and a return on investment of over 10 per cent. About two-thirds of this growth will come internally from current businesses, using the same management philosophies and talent that have brought Beatrice to where we are today.

International marketing is another internal growth area. Only 10 per cent of total manufacturing sales volume came from overseas business in fiscal 1976, but its margins, and hence, contributions to earnings, were substantially higher than for U.S. sales.

Mergers will be another area of contribution to Beatrice's future non-food lines growth. Our acquisition policy is extremely simple: To identify industries that have well-defined growth potential, then determine which companies have performed well within these markets. We also determine which have the management depth and talent that will stay with us and work for continued growth. We stress companies with top-of-the-line products, a commitment to quality and a strong brand name recognition in the marketplace.

As elsewhere in Beatrice, the company contributes positively to a new acquisition for the manufacturing divisions by providing an association with a winning team. We relieve its management of much housekeeping detail work such as legal matters, market research and pension management, leaving its members free to concentrate on the marketing problems and opportunities in the businesses they know best.

Most of all, we offer broader perspectives and encourage our affiliates to set their sights higher. The result is that almost every company we have acquired performs better after joining Beatrice than it ever had before. Samsonite, Airstream, Stiffel, Hekman, Chicago Specialty, Taylor, are all examples.

Beatrice is well positioned for growth in its manufacturing operations. We will continue to deploy assets wisely for maximum return on investment and bring an aggressive marketing approach to each of our businesses, backed up with the leverage of the parent company.

Chemical and Consumer Arts Divisions

By James Weiss
Executive Vice President

There is a definite kinship between the people and products of the Chemical Division and the Consumer Arts Division and other fields in which Beatrice operates.

Like these other fields, we have strong product lines and deep market penetration. Also, in the Beatrice tradition, the majority of our product lines are number one in their specific markets, with specialized products for important growth in sales and earnings. Our people can describe an array of specialized products and processes from how to make a masonry wall dry to how to create the "wet look."

There are certain common denominators that make the Chemical and Consumer Arts Division truly integral parts of Beatrice as a whole.

First of all, I manage Chemical and Consumer Arts with the aid of seven field group managers. This follows the Beatrice philosophy of keeping managers attuned to the problems of the marketplace by leaving them in the trenches themselves while managing even larger groups.

One key to Beatrice's growth has been its ability to develop people with the entrepreneurial spirit, people who are turned on by "mixing it up" in the marketplace. Removing that person from the environment that makes him tick would be counterproductive in both a personal and corporate sense.

Teaching By Leading

Every group manager is a teacher who teaches by leading. The fact that our general managers are home-grown -- trained and promoted from the ranks -- reflects our policy of developing people and promoting from within.

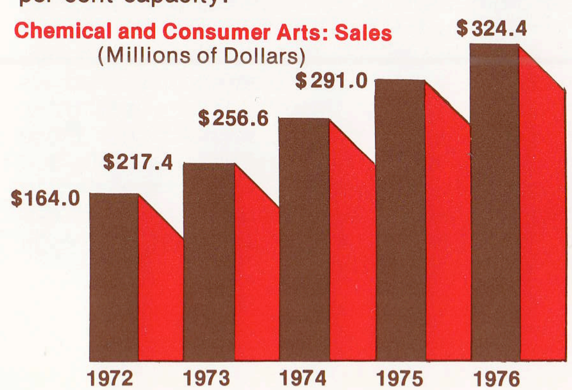
Our ability to develop these entrepreneurs internally, and their ability to successfully pursue individual, approved goals for product development, sales and profit growth, is the real key to our success. My most important job, therefore, is to develop people's entrepreneurial spirit and to promote them to greater responsibility.

These entrepreneurs make an intensive effort to track market trends in Chemical and Consumer Arts, constantly pruning slow-moving products and being ever-alert for new product opportunities.

As a result, our products are leaders in every market they serve, with the exception of our relatively new Inland Marine Paint line. But even there, sales became very strong in fiscal 1975 and picked up further in fiscal 1976.

Recent years have not been kind to the chemical industry as a whole. The McGraw-Hill economics department noted that 1975 chemical industry profits dropped from the prior year. According to Business Week, production dropped 25 per cent from the third quarter of 1974 to the first quarter of 1975. Demand was down about nine per cent during some periods and plants were running below 50 per cent capacity.

Chemical and Consumer Arts: Sales
(Millions of Dollars)

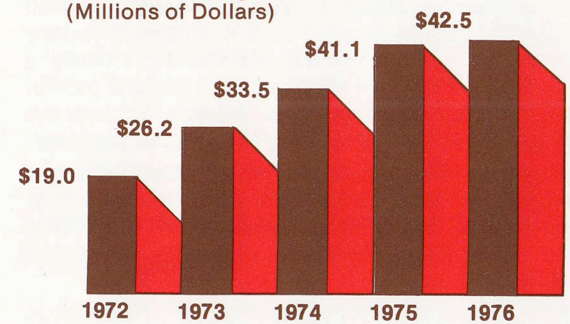


However, our Chemical and Consumer Arts Division sales increased to $324 million in fiscal 1976 -- 11.5 per cent above the $291 million registered in fiscal 1975.

Despite last year's adverse earnings climate, our fiscal 1976 earnings reached $43 million, a five per cent increase over fiscal 1975's $41 million.

Over the past five years, growth also has been impressive. Sales increased from $164 million five years ago to $324 million this past year -- a 15 per cent annual compounded increase.

Chemical and Consumer Arts: Pre-Tax Earnings
(Millions of Dollars)



Earnings have increased from $19 million five years ago to $43 million this past year -- for an 18 per cent increase, compounded annually. Looked at another way, this represents a doubling of earnings in four years. Furthermore, we expect to do as well -- or better -- in the next four years, especially in the chemical area, which we look to for substantial growth.

Now, why do we do so well?

Keys To Success

Our chemical operations are based on specialized products that help us avoid direct competition with the chemical giants. We avoid commodity chemicals and products. Instead, we deeply penetrate specialized markets, hence the almost across-the-board "number one" status.

Because of our orientation to small and medium size orders, special formulations and designs, technological exchange among operating units and the business practices that made for good market penetration in the first place, we generally can better our competitors on technology and service.

Finally, our margins have increased from 14.3 per cent in 1971 to 16.4 per cent in 1975, with a slight downturn in 1976 which we expect to eradicate.

What about the products that have yielded the results mentioned earlier?

Because a number of our product lines are tied closely to the leather market, we've made a special effort to penetrate overseas markets, which remained on an even keel even in the recent domestic chemical industry downturn.

Following Leather Worldwide

The leather industry is an early staple of all developing nations as well as a permanent fixture in developed countries. Almost the first thing a person wants after the bare necessities is a pair of shoes. We have followed this market around the world, penetrating leather markets as they appear.

Following the leather market has another advantage. It repeatedly has allowed our first companies in a market to spearhead marketing efforts for other chemical products in other industries.

To allow for fluctuations in economic conditions, and changes in the marketplace, our foreign units, like our domestic units, prepare detailed sales reports weekly. These supplement the regular monthly reports filed by the chemical group and all other Beatrice operations.

Also in our foreign operations we employ nationals -- who we feel know the market peculiarities of each country -- at all levels.

As a result, we are one of the world's leaders in the leather-coatings and finishes field. Growth in this area continued with the development of new waterborne urethane leather finishes and the recent introduction of a new finish that simulates rare goat skin at low cost.

At present, we serve Central American markets from a Nicaraguan plant, South America from Venezuelan and Brazilian plants, Africa from Spain and Europe from Germany, Britain, and the Netherlands, where our largest European plants are located. We also have plants in Canada, Mexico and Australia.

We also are supplying important emerging markets in the Soviet Union and Red China from our Netherlands plant.

Twelve foreign plants in 10 countries serve our overseas markets, while we serve U.S. customers from 10 domestic facilities. All our U.S. plants are already 100 per cent in compliance with state and federal pollution control requirements, an enviable position, especially in the chemical industry.

One particular strength in the chemical and consumer arts area is our style center, which monitors fashion trends, tracking usage of current products and guiding needs for new formulations. This style center also provides fashion direction to our customers, often as much as three to five years in advance. In short, it has helped us maintain our leadership position in this segment of the industry.

Two more chemical lines -- synthetic leather finishes for shoes and fabric-coatings to simulate leather -- also fit nicely into our healthy interest in leather.

Here we have another edge. If hide prices go up, and there is a switch to synthetics, we've got the synthetics (called permuthanes) from the dry look to the wet look.

Also, more and more fashion clothing is going to synthetic-coated fabric, which simulates leather. We're number one there and growing fast.

To take full advantage of the technological edge this product similarity affords, these phases of our chemical business employ their own sales staffs, fully trained and grounded in leather technology.

In another phase of our chemical operations we are a leader in ink for food package printing via flexographic and gravure techniques. We manufacture lead-free, food-grade and edible inks. Also, we manufacture inks for tissues, towels and other paper products sold in supermarkets. For these products, we have developed water-soluble and bio-degradable inks, which are both non-polluting and hypo-allergenic. Super research and manufacturing facilities give us a product and cost edge which we use to advantage.

With ink plants stretching from Berkeley, Calif., to Chicago, Dallas, Atlanta, Linden, N.J., Toronto and Montreal -- and with the introduction of a new line of water base inks -- we intend to keep increasing our leadership position in the flexographic and gravure ink fields.

Pioneers In Paint

We also manufacture powder paints. We were pioneers in paint application through the electrostatic spray process, which uses no solvents and is non-flammable. This process has wide application, especially on difficult-to-paint surfaces. The growth of powder paint will be important in the coming years and its growth will be paced by the scheduled replacement of current wet paint systems. Powder paint also does not pollute and results in a tough element-resistant protective coating with great eye appeal. We see exceptional sales opportunities in this area, especially in the appliance and automotive fields.

Another pioneering area is Dri-Print coatings -- a dry-coated plastic carrier sheet with the desired colorants and physical properties which our customers transfer by heat and pressure to their finished products. For example, these Dri-Print decorative systems are used on metal TV sets, automobile interiors, flake board and plastic furniture to simulate walnut wood grain finishes.

In this area, we've developed a process for transferring a film of actual metallic chrome under very high vacuum onto plastic. This allows auto bumpers, for example, to be made from lightweight, high cushion plastic, and still allows Detroit to metallic-chrome-finish those bumpers by Dri-Print transfer, which they say is absolutely necessary for their products.

Another area in which we've achieved world leadership is waterproofing cement. I would hazard that every construction man knows the famous "Thoro" brand name for waterproofing foundations, basements, tunnels, etc.

This area of our business naturally leads us into the manufacture of decorative cement products for new buildings and building improvements.

Dry-proofing cement high rise facades is a fast-growing segment of our business here in the U.S., and we're presently constructing a plant in Belgium to produce these items for the European market.

Another of our product lines, highly specialized polymers, both liquid and dry forms, is used in waxes, paints and coatings, inks, adhesives and numerous other applications. For example, we are a leading supplier to the dry copier market of a special tiny bead powder which forms the basis of dry copy toner. One notable breakthrough in this area is our new A-600 family of non-flammable, water soluble, acrylic polymers. These are rapidly replacing polymers requiring flammable, toxic and environmentally damaging hydrocarbon solvents, which are very close to being banned in the U.S. This product, which is being used initially for finishing wood furniture and paneling, air dries quickly without polluting.

This A-600 series of polymers can be used to great advantage in other areas, too. It is another development of the extensive research laboratories maintained by our division. Thus, we have emerged as a leader in another product line in which the squeeze between the consumer's demands for perfection and government environmental and safety guidelines have created a marketing gap.

Educational Market

Also, because of Beatrice's institutional foods background, and my personal background of selling to institutions, we started selling to schools and universities. Our first products were graduation caps and gowns and girls' gym suits. From there we expanded into other school and leisure wearables such as T-shirts, sweat shirts, and lightweight weatherproof outer jackets.

Today, we are among the leading producers for nationally known organizations, such as the Boy Scouts and Girl Scouts. We are the leading producers of silk-screen printed T-shirts and the official licensees of the national football league, major league baseball, Walt Disney characters, Sesame Street, "The Fonz," and many more.

And we also produce leisure shirts primarily for the youth market -- age five to 45. Manufacturing our own silk-screen, six-color printing presses gives us a substantial edge on the competition. With these special machines we are able to print over 65,000 dozen a week of six-color, decorated leisure shirts with relatively low labor cost. In an industry that is normally considered labor intensive, it is interesting to note that these products have a direct and indirect total labor cost -- or total manufacturing labor costs -- of 15.3 per cent of sales.

We are set up to manufacture custom imprinted shirts, jackets and gym suits from three dozen to 10,000 dozen quickly and efficiently. We also are recognized as experts in the field of transfer printing on cloth via sublimatic process.

Outdoors Interest

Taking advantage of the heightened interest in camping, hiking and other outdoor activities, we offer both large and small retailers in the camping industry a wide range of high-quality sleeping bags with innovative styling and features. This year we will sell over 1.1 million Sportline sleeping bags. Tying this with other activities, we also offer unique syndicated designs based on our licensing agreements with nationally known characters and names, such as Smokey The Bear. Of course, these sleeping bags are flame resistant.

We believe all markets are segmented and for that reason we sell many different ways. In the mass market, we maintain two-tier marketing -- one product line for chains, discount houses and particularly supermarkets, and another product line for quality department stores. That way, the company broadens its appeal and avoids the volatility of either trade-up or trade-down by consumer.

We also have deep market penetration through a specialized national network of salesmen selling these imprinted specialty items, sold primarily through college book stores, elementary and high schools, camps, churches, colleges and other institutions.

Arts and crafts supplies sold to schools, hospitals, and geriatric and rehabilitation centers are another growing market. We're well positioned here. It's a wonderful profit contributing area and our plans are for continued substantial growth. We sell via direct mail -- no stores, no leases -- which gives us a lot of flexibility.

Based on our special expertise in printing and leather, we also make the well-known Day-Timers pocket-sized appointment calendars. More than 500,000 businessmen use this product daily and the list continues to grow. This product line is growing in a number of directions, with strong emphasis on employee recognition awards. Here, we also are heavily involved in the "keeping the records" market required by Washington. Day-Timer is sold exclusively by mail.

While the record has been excellent, the future also looks exceptional. We have made many plant expansions in recent years. We have planned eight major expansions during the current fiscal year to meet the demand of increased sales.

Deep Penetration

In summary, the Chemical and Consumer Arts Divisions' products generally have deep penetration and a strong foothold into specialized markets. They fit into established groups where they can share technology, and can be involved in complementary industries, where one hand can wash the other.

Within their limited sphere of operation, these companies must constantly be probing for market gaps to keep at least one step ahead of the market.

Management strategies proved successful elsewhere in Beatrice are applied to these businesses as well by businessmen with winning track records.

In conclusion, I hope I've been helpful in identifying and explaining these operations that will figure significantly in Beatrice's future sales and earnings growth.

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