

PILGRIMS PRIDE CORP
Form 10-K
February 12, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 28, 2014

OR
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____
Commission File number 1-9273

PILGRIM'S PRIDE CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

75-1285071

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer Identification No.)

1770 Promontory Circle, Greeley, Colorado

80634-9038

(Address of principal executive offices)

(Zip code)

Registrant's telephone number, including area code: (970) 506-8000

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Name of each exchange on which registered

Common Stock, Par Value \$0.01

The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer

Accelerated Filer

Non-accelerated Filer

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The aggregate market value of the Registrant's Common Stock, \$0.01 par value, held by non-affiliates of the Registrant as of June 29, 2014, was \$1,691,841,901. For purposes of the foregoing calculation only, all directors, executive officers and greater than 10% beneficial owners have been deemed affiliates. Number of shares of the Registrant's Common Stock outstanding as of February 11, 2015 was 259,700,145.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's Proxy Statement for the 2015 Annual Meeting of Stockholders are incorporated by reference into Part III of this annual report.

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PART I

Item 1. Business

Company Overview

Pilgrim's Pride Corporation (referred to herein as "Pilgrim's," "PPC," "the Company," "we," "us," "our," or similar terms), was incorporated in Texas in 1968 and reincorporated in Delaware in 1986, is the successor to a partnership founded in 1946 as a retail feed store. We are one of the largest chicken producers in the world with operations in the United States ("U.S."), Mexico and Puerto Rico. We are primarily engaged in the production, processing, marketing and distribution of fresh, frozen and value-added chicken products to retailers, distributors and foodservice operators. We offer a wide range of products to our customers through strong national and international distribution channels. Pilgrim's fresh chicken products consist of refrigerated (non-frozen) whole chickens, whole cut-up chickens and selected chicken parts that are either marinated or non-marinated. The Company's prepared chicken products include fully cooked, ready-to-cook and individually frozen chicken parts, strips, nuggets and patties, some of which are either breaded or non-breaded and either marinated or non-marinated.

We market our balanced portfolio of fresh, prepared and value-added chicken products to a diverse set of over 5,000 customers across the U.S., Mexico and in approximately 95 other countries, with no single one accounting for more than 10% of total sales. We have become a valuable partner to our customers and a recognized industry leader by consistently providing high-quality products and services designed to meet their needs and enhance their business. Our sales efforts are largely targeted towards the foodservice industry, principally chain restaurants and food processors such as Chick-fil-A® and Yum! Brands®, distributors such as US Foods and Sysco® and retail customers, including grocery store chains and wholesale clubs such as Kroger®, Wal-Mart®, Costco®, Publix® and Sam's Club®.

As a vertically integrated company, we control every phase of the production process, which helps us better manage food safety and quality, as well as more effectively control margins and improve customer service. We operate feed mills, hatcheries, processing plants and distribution centers in 12 U.S. states, Puerto Rico and Mexico. Our plants are strategically located to ensure that customers timely receive fresh products. With our global network of approximately 3,750 growers, 28 feed mills, 36 hatcheries, 27 processing plants, five prepared foods cook plants, 14 distribution centers, eight rendering facilities and three pet food plants, we believe we are well positioned to supply the growing demand for our products.

We are one of the largest, and we believe one of the most efficient, producers and sellers of chicken in Mexico. Our presence in Mexico provides access to a market with growing demand and has enabled us to leverage our operational strengths within the region. The market for chicken products in Mexico is still developing with most sales attributed to fresh, commodity-oriented, market price-based business. We believe our Mexico business is well positioned to continue benefiting from these trends in the Mexican consumer market. Additionally, we are an important player in the live market, which accounted for approximately 33% of the industry's chicken sales in Mexico in 2014.

We have approximately 35,000 employees and have the capacity to process more than 34.7 million birds per week for a total of more than 10.2 billion pounds of live chicken annually. In 2014, we produced 7.5 billion pounds of chicken products, generating approximately \$8.6 billion in net sales and approximately \$711.6 million in net income attributable to Pilgrim's.

The Company operates on the basis of a 52/53-week fiscal year that ends on the Sunday falling on or before December 31. The reader should assume any reference we make to a particular year (for example, 2014) applies to our fiscal year and not the calendar year. Fiscal 2014 was a 52-week fiscal year.

Our Industry

Industry Overview

The U.S. consumes more chicken than any other protein (approximately 32.0 billion pounds projected in calendar year 2015 according to the U.S. Department of Agriculture ("USDA")), and chicken is the second most consumed protein globally after pork. The U.S. is the world's largest producer of chicken and is projected to produce approximately 39.2 billion pounds of ready-to-cook broiler meat in calendar year 2015, representing 20.3% of the total world production. Brazil and China produce the second and third most broiler meat, with 15.0% and 14.9% of the world market, respectively, according to the USDA.

According to the USDA, the export of U.S. chicken products increased at an average annual growth rate of 3.7% from 2003 through 2013. The U.S. is the second-largest exporter of broiler meat behind Brazil. The U.S. is projected to export 7.4 billion pounds in calendar year 2015, which would account for 30.6% of the total world exports and 18.8% of the total U.S. production, according to the USDA. The top five exporters are projected to control over 85.1% of the market in 2015.

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According to the USDA, chicken production in the U.S. increased from 2003 through 2013 at a compounded annual growth rate of 1.3%. The growth in chicken demand is attributable to (i) relative affordability compared to other proteins such as beef and pork, (ii) the increasingly health conscious nature of U.S. consumers, (iii) chicken's consistent quality and versatility and (iv) its introduction on many foodservice menus. In addition, global protein demand continues to be strong, consistent with rising standards of living and a growing middle class in developing countries around the world. USDA estimates from 2010 through 2020 show an anticipated increase of global chicken demand of 29%, 81% of which is expected to come from emerging markets. We believe our relationship with our largest stockholder, JBS USA Holdings, Inc. ("JBS USA") positions us to capture a portion of those emerging markets.

Key Industry Dynamics

Pricing. Items that influence chicken pricing in the U.S. include international demand, changes in production by other broiler producing countries, input costs and the demand associated with substitute products such as beef and pork. We believe our focus on sales mix enables us to adapt to changing supply demand dynamics by adjusting our production to maximize value. We also benefit from a shorter production lifecycle of broilers compared to other proteins. While production for cattle takes approximately 28 to 39 months from breeding to slaughter and the production for pork takes 11 to 12 months, the production lifecycle for the broiler is only ten weeks.

Feed. Broilers are fed corn and soybean meal as well as certain vitamins and minerals. Corn and soybean meal accounted for approximately 38.9% and 37.5% of our feed costs, respectively, in 2014. Broiler production is significantly more efficient from a feed perspective than cattle or hog production. Approximately two pounds of feed are required for each pound of chicken, as compared to approximately seven and 3.5 pounds for cattle and hogs, respectively. We have sought to mitigate the impact of feed price volatility on our profitability by decreasing the amount of our products that are sold under longer term fixed price contracts, broadening our product portfolio and expanding the variety of contracts within our book of business.

Competitive Strengths

We believe that our competitive strengths will enable us to maintain and grow our position as a leading chicken company and to capitalize on future favorable growth opportunities:

Leading market position in the growing chicken industry. We are one of the largest chicken producers globally and a leading chicken producer in the U.S. with a 17.5% market share, based on ready-to-cook production in 2014, according to WATT PoultryUSA . We are also one of the largest chicken producers on a global basis. We believe we can maintain this prominent market position as we are one of the few producers in the chicken industry that can fully satisfy the requirements of large retailers and foodservice companies due to our broad product range, national distribution vertically integrated operations and technical capabilities. Further, our scale of operations, balanced product portfolio and a wide range of production capabilities enable us to meet both the capacity and quality requirements of our customer base. Finally, we believe we are well positioned with our global footprint to benefit from the growth in the U.S. chicken export market.

Broad product portfolio. We have a diversified product portfolio ranging from large to small birds and from fresh to cooked to processed chicken. In addition, our prepared foods segment is focused on our most profitable product lines. We believe we are well positioned to be the primary chicken supplier for large customers due to our ability to provide consistent supply, innovate and develop new products to address consumer desires and provide competitive pricing across a diverse product portfolio. Our balanced portfolio of fresh, prepared and value-added chicken products yields a diversified sales mix, mitigating supply and market volatility and creating more consistent gross margins.

Blue chip and diverse customer base across all industry segments. We benefit from strong relationships with leading companies in every customer segment, including Chick-fil-A®, Sysco®, US Foods, Yum! Brands®, Kroger®, Wal-Mart®, Costco®, Publix®, Sam's Club® and ConAgra Foods®, all of whom have been doing business with us for more than five years. We sell our products to a large and diverse customer base, with over 5,000 customers, with no single one accounting for more than 10% of total sales.

Lean and focused enterprise. We are an efficient and lean organization supported by our market-driven business strategy. We also have a shared service center as a majority owned subsidiary of JBS USA. Since 2008, we have closed, idled or sold 13 plants and 14 distribution centers, reduced or consolidated production at other facilities, streamlined our workforce and reduced administrative and corporate expenses. In addition, we continue to make

significant production improvements driven by improved yields, labor, cost savings and product mix. We utilize zero-based budgeting and plant-level profit and loss analysis, driving engagement and ownership over the results at each plant. These strategic initiatives have reduced our cost base, resulting in higher and more sustainable profits.

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Robust cash flow generation with disciplined capital allocation. Our leading market position, strong customer relationships and highly efficient operations help drive attractive and we believe sustainable margins. We also have a proven track record of disciplined capital allocation. We have spent approximately \$378 million since 2011 in capital spending towards identified projects with rapid payback, further driving our profitability. Since the end of 2011, we have also reduced our net debt from over \$1.4 billion to a net cash position of \$572 million at the end of 2014.

Experienced management team and results-oriented corporate culture. We have a proven senior management team whose tenure in the chicken industry has spanned numerous market cycles and is among the most experienced in the industry. Our senior management team is led by William W. Lovette, our Chief Executive Officer, who has over 30 years of experience in the chicken industry. Our management team has successfully improved and realigned our business and instilled a corporate culture focused on performance and accountability. We also benefit from management ideas, best practices, and talent shared with the seasoned management team of our controlling stockholder, JBS USA, and its parent company, JBS S.A., which have over 50 years of combined experience operating protein processing facilities in South America, North America and Australia.

Relationship with JBS USA. PPC is a majority-owned subsidiary of JBS USA, an indirect subsidiary of Brazil-based JBS S.A., which beneficially owns approximately 75.5% of PPC's outstanding common stock. As such, we work closely with JBS USA's management to identify areas where both companies can achieve synergies. As part of our integration plan, we moved our headquarters to Greeley, Colorado, the headquarters of JBS USA. In addition to cost savings through the integration of certain corporate functions and the rationalization of facilities, our relationship with JBS USA allows us to enjoy several advantages given its diversified international operations and strong record in commodity risk management. We seek to leverage JBS USA's international network by expanding into untapped international markets and strengthening our presence in geographies in which we already operate. In addition, JBS USA's expertise in managing the risk associated with volatile commodity inputs will help us to further improve our operations and manage our margins.

Business Strategy

We intend to continue growing our business and enhancing profitability by pursuing the following strategies:

Be a valued partner with our key customers. We have developed and acquired complementary markets, distributor relationships and geographic locations that have enabled us to expand our customer base and provide nationwide distribution capabilities for all of our product lines. As a result, we believe we are one of only two U.S. chicken producers that can supply the growing demand for a broad range of price competitive standard and specialized products with well-known brand names on a nationwide basis from a single-source supplier. Additionally, we intend to leverage our innovation capabilities to develop new products along with our customers to accelerate sales and enhance the profitability of chicken products at their businesses. We plan to further enhance our industry position by optimizing our sales mix and accelerating innovation.

Relentless pursuit of operational excellence. As production and sales grow, we continue to focus on improving operating efficiencies by focusing on cost reductions, more effective processes, training and our total quality management program. Specific initiatives include:

- Benchmarking live and plant costs against the industry;
- Striving to be in the top 25% of the industry for yields and costs;
- Fostering a culture of accountability and ownership deeper in the organization;
- Conducting monthly performance reviews with senior management; and
- Improving sales mix and price.

Between 2011 and 2014, these initiatives have resulted in approximately \$841.0 million of cumulative operational improvements, including from reduction of plant-related costs and improved sales mix and product yield. Between 2007 and 2014, our SG&A has also decreased by approximately 250 basis points as a percentage of net sales, as we have reduced these costs while significantly increasing revenue.

Strategically grow value added exports. We will continue our focus on expanding international sales by seeking opportunities to increase penetration in our existing markets and entering attractive new markets. Expansion of our export sales complements our U.S. chicken operations and positions us to capitalize on expected global demand

growth, particularly in emerging markets. Utilizing the extensive sales network of JBS USA, we believe that we can accelerate the sales of value-added chicken

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products into our international distribution channels. Our relationship with JBS USA has improved our access to markets such as Africa, the Middle East, Latin America and Asia. We believe substantial opportunities exist to expand our sales to these markets by capitalizing on direct international distribution channels supplemented by our existing export broker relationships. Our export sales accounted for approximately 8.3% of our U.S. chicken sales in 2014. Accountability and ownership culture. We have a results-oriented culture with our business strategy centered on reducing fixed costs and increasing profitability, consistent with JBS values. Our employee accountability has further increased as we have de-layered the organization through our recent restructuring and cost improvement initiatives. In addition, we continue to invest in developing our talent internally. As a result, we have a strong accountability and ownership culture. We strive to be the best managed and most respected company in our industry.

Reportable Business Segment

We operate in one reportable business segment, as a producer and seller of chicken products we either produce or purchase for resale in the U.S., Puerto Rico and Mexico. We conduct separate operations in the U.S., Puerto Rico and Mexico; however, for geographic reporting purposes, we include Puerto Rico with our U.S. operations. See “Note 18. Business Segment and Geographic Reporting” of our Consolidated Financial Statements included in this annual report for additional information.

Products and Markets

Our primary product types are fresh chicken products, prepared chicken products and value-added export chicken products. We sell our fresh chicken products to the foodservice and retail markets. Our fresh chicken products consist of refrigerated (nonfrozen) whole or cut-up chicken, either pre-marinated or non-marinated and prepackaged case-ready chicken. Our case-ready chicken includes various combinations of freshly refrigerated, whole chickens and chicken parts in trays, bags or other consumer packs labeled and priced ready for the retail grocer’s fresh meat counter. Our fresh chicken sales accounted for 66.2% of our total U.S. chicken sales in 2014.

We also sell prepared chicken products, including portion-controlled breast fillets, tenderloins and strips, delicatessen products, salads, formed nuggets and patties and bone-in chicken parts. These products are sold either refrigerated or frozen and may be fully cooked, partially cooked or raw. In addition, these products are breaded or non-breaded and either pre-marinated or non-marinated. Our prepared chicken products sales accounted for 25.1% of our total U.S. chicken sales in 2014.

Value-added export and other chicken products primarily consist of whole chickens and chicken parts sold either refrigerated for distributors in the U.S. or frozen for distribution to export markets. We sell U.S.-produced chicken products for export to Mexico, the Middle East, Asia, countries within the Commonwealth of Independent States (the “CIS”) and other world markets. In the U.S., prices of these products are negotiated daily or weekly and are generally related to market prices quoted by the USDA or other public price reporting services. Prices for export sales are determined by supply and demand and local market conditions. In certain newly accessed international markets, we have established premium brands, which allow us to market our products at a premium to commodity price levels within those regions. Our value-added export and other chicken products sales accounted for 8.7% of our total U.S. chicken sales in 2014.

Our primary customer markets consist of the foodservice and retail channels, as well as selected export and other markets.

Our foodservice market principally consists of chain restaurants, food processors, broad-line distributors and certain other institutions located throughout the continental U.S. Within this market, we service frozen, fresh and corporate accounts. Fresh and frozen chicken products are usually pre-cut to customer specifications and are often marinated to enhance value and product differentiation. Corporate accounts include further-processed and value-added products supplied to select foodservice customers, improving their ability to manage product consistency and quality in a cost efficient manner. We believe we are positioned to be the primary or secondary supplier to national and international chain restaurants who require multiple suppliers of chicken products. Additionally, we believe we are well suited to be the sole supplier for many regional chain restaurants. Regional chain restaurants often offer better margin opportunities and a growing base of business. We believe that our full-line product capabilities, high-volume production capacities, research and development expertise and extensive distribution and marketing experience are competitive strengths compared to smaller and non-vertically integrated producers. Foodservice growth is anticipated

to continue, despite the effects resulting from continued weak economic conditions in the U.S. Our retail market consists primarily of grocery store chains, wholesale clubs and other retail distributors. Our retail market products consist primarily of branded, prepackaged cut-up and whole chicken and chicken parts. We concentrate our efforts in this market on creating value for our customers through category management and supporting key customers in expanding their private label sales programs. Additionally, for many years, we have invested in both trade and retail marketing designed to establish high levels of brand name awareness and consumer preference. We utilize numerous advertising and marketing techniques to

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develop and strengthen trade and consumer awareness and increase brand loyalty for consumer products marketed under the Gold Kist®, County Post®, Pierce Chicken®, Pilgrim's Pride® and Pilgrim's® brands. We believe our efforts to achieve and maintain brand awareness and loyalty help to achieve greater price premiums than would otherwise be the case in certain markets and support and expand our product distribution. We actively seek to identify and address consumer preferences by using sophisticated qualitative and quantitative consumer research techniques in key geographic markets to discover and validate new product ideas, packaging designs and methods.

Our export and other chicken market consists primarily of customers who purchase for distribution in the U.S. or for export to Mexico, the Middle East, Asia, countries within the CIS and other world markets. Our value-added export and other chicken products, with the exception of our exported prepared chicken products, consist of whole chickens and chicken parts sold in bulk, or value-added form, either refrigerated or frozen. We believe that U.S. chicken exports will continue to grow as worldwide demand increases for high-quality, low-cost meat protein sources. We expect that worldwide demand for higher-margin prepared food products will increase over the next several years and believe our strategy of value-added export growth positions us to take advantage of this expected demand.

Historically, we have targeted international markets to generate additional demand for our dark chicken meat, for which there has been less demand in the U.S. than for white chicken meat. We have expanded our portfolio to provide prepared chicken products tailored for export to the international divisions of our U.S. chain restaurant customers, as well as newly identified customers in regions not previously accessed. Through our relationship with JBS USA, we have developed an international distribution channel focused on growing our tailored export program and expanding value-added products such as all-vegetable-fed whole griller birds, chicken franks and further processed thigh meat. Utilizing the extensive sales network of JBS USA, we believe that we can accelerate the sales of value-added chicken products into these international channels.

The following table sets forth, for the periods beginning with 2010, net sales attributable to each of our primary product lines and markets served with those products. We based the table on our internal sales reports and their classification of product types.

	2014	2013	2012	2011	2010
	(In thousands)				
U.S. chicken:					
Prepared chicken	\$1,787,389	\$2,046,746	\$2,239,289	\$2,135,337	\$2,262,107
Fresh chicken	4,703,993	4,123,089	3,583,854	3,160,429	2,834,972
Export and other chicken by-products	620,082	715,969	817,723	808,038	581,303
Total U.S. chicken	7,111,464	6,885,804	6,640,866	6,103,804	5,678,382
Mexico chicken	900,360	864,454	758,023	720,333	615,433
Total chicken	8,011,824	7,750,258	7,398,889	6,824,137	6,293,815
Other products:					
U.S.	535,572	614,409	608,619	674,923	558,675
Mexico	35,969	46,481	113,874	36,638	29,139
Total other products	571,541	660,890	722,493	711,561	587,814
Total net sales	\$8,583,365	\$8,411,148	\$8,121,382	\$7,535,698	\$6,881,629

The following table sets forth, beginning with 2010, the percentage of net U.S. chicken sales attributable to each of our primary product lines and the markets serviced with those products. We based the table and related discussion on our internal sales reports and their classification of product types and customers.

	2014	2013	2012	2011	2010
Prepared chicken	25.1	29.7	33.7	35.0	39.9
Fresh chicken	66.2	59.9	54.0	51.7	49.9
Export and other chicken by-products	8.7	10.4	12.3	13.3	10.2
Total U.S. chicken	100.0	100.0	100.0	100.0	100.0

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United States Operations

Product Types

Fresh Chicken Overview. Fresh chicken is an important component of our sales and accounted for \$4,704.0 million, or 66.2%, of our total U.S. chicken sales in 2014 and \$2,835.0 million, or 49.9%, in 2010. Most fresh chicken products are sold to established customers, based upon certain weekly or monthly market prices reported by the USDA and other public price reporting services, plus a markup, which is dependent upon the customer's location, volume, product specifications and other factors. We believe our practices with respect to sales of fresh chicken are generally consistent with those of our competitors. The majority of these products are sold pursuant to agreements with varying terms that set a price according to formulas based on underlying chicken price markets, subject in many cases to minimum and maximum prices.

Prepared Chicken Overview. In 2014, \$1,787.4 million, or 25.1%, of our U.S. chicken sales were in prepared chicken products to foodservice customers and retail distributors, as compared to \$2,262.1 million, or 39.9%, in 2010. The production and sale in the U.S. of prepared chicken products reduce the impact of the costs of feed ingredients on our profitability. Feed ingredient costs are the single largest component of our U.S. cost of sales, representing approximately 40.8% of our U.S. cost of sales in 2014. The production of feed ingredients is positively or negatively affected primarily by the global level of supply inventories, demand for feed ingredients, the agricultural policies of the U.S. and foreign governments and weather patterns throughout the world. As further processing is performed, feed ingredient costs become a decreasing percentage of a product's total production cost, thereby reducing their impact on our profitability. Products sold in this form enable us to charge a premium, reduce the impact of feed ingredient costs on our profitability and improve and stabilize our profit margins.

We establish prices for our prepared chicken products based primarily upon perceived value to the customer, production costs and prices of competing products. The majority of these products are sold pursuant to agreements with varying terms that either set a fixed price for short-term periods or set a price according to formulas based on an underlying commodity market such as corn and chicken price forecasts, subject in many cases to minimum and maximum prices. Many times, these prices are dependent upon the customer's location, volume, product specifications and other factors.

Value-Added Export and Other Chicken Products Overview. Our value-added export and other products consist of whole chickens and chicken parts sold primarily in bulk, nonbranded form, either refrigerated to distributors in the U.S. or frozen for distribution to export markets, and branded and nonbranded prepared chicken products for distribution to export markets. In 2014, approximately \$620.0 million, or 8.7%, of our total U.S. chicken sales were attributable to U.S. chicken export and other products, as compared to \$581.3 million, or 10.2%, in 2010.

Markets for Other Products

Presently, this category includes chicken by-products, which we convert into protein products and sell primarily to manufacturers of pet foods. In addition, many of our U.S. feed mills produce and sell some livestock feeds to local dairy farmers and livestock producers. Until November 2011, this category also included products sold through our distribution centers. In 2011, we had regional distribution centers located in Arizona, Texas and Utah that were primarily focused on distributing our own chicken products. In November 2011, we sold the distribution centers to JBS Trading International, Inc., a wholly owned subsidiary of JBS USA. See "Note 15. Related Party Transactions" of our Consolidated Financial Statements included in this annual report for additional information on the sale of the distribution centers. In addition, we marketed fresh eggs under private labels, in various sizes of cartons and flats to U.S. retail grocery and institutional foodservice customers located primarily in Texas through August 2012. In August 2012, we sold our commercial egg operation to Cal-Maine Foods, Inc.

Mexico Operations

Background

Our Mexico operations generated approximately 10.9% of our net sales in 2014. We are one of the largest producers and sellers of chicken in Mexico. We believe that we operate one of the more efficient business models for chicken production in Mexico.

During 2014, we invested approximately \$8.0 million in the first phase of a new poultry processing complex in Veracruz, Mexico, and we plan to initiate live production operations in June 2015.

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During 2014, we also executed our first grower contract for breeding flocks in Mexico. The contract grower farms, which initiated operations in November 2014, are located in San Luis Potosí, Mexico and will allow us to replace some of our current company-owned breeder farms in Querétaro, Mexico.

Product Types

While the market for chicken products in Mexico is less developed than in the U.S., with sales attributed to fewer, simpler products, we believe we have been successful in differentiating our products through high-quality client service and product improvements. Additionally, we are an important player in the live market, which accounts for approximately 33% of the chicken sales in Mexico.

Markets

We sell our chicken products primarily to wholesalers, large restaurant chains, fast food accounts and supermarket chains, and also engage in direct retail distribution in selected markets. Our largest presence is by far in the central states of the country where we have been able to gain market share. Our presence in Mexico reaches 74.5% of the population.

Foreign Operations Risks

Our foreign operations pose special risks to our business and operations. A discussion of foreign operations risks is included in “Item 1A. Risk Factors.”

On July 25, 2014, the Company entered into a definitive agreement to purchase Provemex Holdings LLC and its subsidiaries (together, “Tyson Mexico”) from Tyson Foods, Inc. and certain of its subsidiaries for approximately \$400.0 million, which is subject to adjustment for closing date working capital. The transaction is expected to be completed during the first quarter of 2015, subject to customary closing conditions, including regulatory approvals. We expect to fund the purchase price from available cash balances and bank credit. Tyson Mexico is a vertically integrated poultry business based in Gomez Palacio, Durango, Mexico. It has a production capacity of 3 million birds per week in its three plants and employs more than 5,400 in its plants, offices and seven distribution centers. The acquisition further strengthens our strategic position in the Mexico chicken market. Once the acquisition is completed, we currently expect to maintain the operations working to capacity with the existing workforce, maintaining labor contracts in place. For additional information regarding the Tyson Mexico acquisition, see “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations - Executive Summary - Tyson Mexico Acquisition” in this annual report.

During 2014, we invested approximately \$8.0 million in the first phase of a new poultry processing complex in Veracruz, Mexico, and we plan to initiate live production operations in June 2015.

During 2014, we also executed our first grower contract for breeding flocks in Mexico. The contract grower farms, which initiated operations in November 2014, are located in San Luis Potosí, Mexico and will allow us to replace our current company-owned breeder farms in Querétaro, Mexico.

Key Customers

Our two largest customers accounted for approximately 14.6% of our net sales in 2014. No customer accounted for ten percent or more of our net sales in 2014.

Competition

The chicken industry is highly competitive. We are one of the largest chicken producers in the world and we believe our relationship with JBS USA enhances our competitive position. In the U.S. and Mexico, we compete principally with other vertically integrated poultry companies. However, there is some competition with non-vertically integrated further processors in the U.S. prepared chicken business. We believe vertical integration generally provides significant, long-term cost and quality advantages over non-vertically integrated further processors.

In general, the competitive factors in the U.S. chicken industry include price, product quality, product development, brand identification, breadth of product line and customer service. Competitive factors vary by major market. In the U.S. retail market, we believe that product quality, brand awareness, customer service and price are the primary bases of competition. In the foodservice market, competition is based on consistent quality, product development, service and price. The export market is competitive on a global level based on price, product quality, product tailoring, brand

identification and customer service. Competitive factors vary by market and may be impacted further by trade restrictions, sanitary and phyto-sanitary issues, brand awareness and the

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relative strength or weakness of the U.S. Dollar against local currencies. We believe that product customization, service and price are the most critical competitive factors for export sales.

In Mexico, where product differentiation has traditionally been limited, we believe product quality and price have been the most critical competitive factors.

Regulation and Environmental Matters

The chicken industry is subject to government regulation, particularly in the health, workplace safety and environmental areas, including provisions relating to the discharge of materials into the environment, by the Centers for Disease Control, the USDA, the Food and Drug Administration (“FDA”), the Environmental Protection Agency (“EPA”) and state and local regulatory authorities in the U.S. and by similar governmental agencies in Mexico. Our chicken processing facilities in the U.S. are subject to on-site examination, inspection and regulation by the USDA. The FDA inspects the production of our feed mills in the U.S. Our Mexican food processing facilities and feed mills are subject to on-site examination, inspection and regulation by a Mexican governmental agency that performs functions similar to those performed by the USDA and FDA.

Our operations are subject to extensive regulation by the EPA and other state and local authorities relating to handling and discharge of waste water, storm water, air emissions, treatment, storage and disposal of wastes, handling of hazardous substances and remediation of contaminated soil, surface water and groundwater. Our Mexican operations also are subject to extensive regulation by Mexican environmental authorities. The EPA and/or other U.S. or Mexican state and local authorities may, from time to time, adopt revisions to environmental rules and regulations, and/or changes in the terms and conditions of our environmental permits, with which we must comply. Compliance with existing or new environmental requirements, including more stringent limitations imposed or expected in recently-renewed or soon-to be renewed environmental permits, may require capital expenditures and operating expenses which may be significant. Our operations are also subject to regulation by the EPA, Occupational Safety and Health Administration (“OSHA”) and other state and local regulatory authorities regarding the treatment and disposal of agricultural and food processing wastes, the use and maintenance of refrigeration systems, including ammonia-based chillers, noise, odor and dust management, the operation of mechanized processing equipment, and other operations. Some of our facilities have been operating for many years, and were built before current environmental, health and safety standards were imposed and/or in areas that recently have become subject to residential and commercial development pressures. We are upgrading wastewater treatment facilities at a number of our facilities, either pursuant to consent agreements with regulatory authorities or on a voluntary basis in anticipation of future permit requirements. We do not anticipate that the capital expenditures associated with these upgrades, which will be spread over a number of years, will be material.

We have from time to time had incidents at our plants involving worker health and safety. These have included ammonia releases due to mechanical failures in chiller systems and worker injuries and fatalities involving processing equipment and vehicle accidents. We have taken preventive measures in response.

Some of our properties have been impacted by contamination from spills or other releases, and we have incurred costs to remediate such contamination. In addition, in the past we acquired businesses with operations such as pesticide and fertilizer production that involved greater use of hazardous materials and generation of more hazardous wastes than our current operations. While many of those operations have been sold or closed, some environmental laws impose strict and, in certain circumstances, joint and several liability for costs of investigation and remediation of contaminated sites on current and former owners and operators of the sites, and on persons who arranged for disposal of wastes at such sites. In addition, current owners or operators of such contaminated sites may seek to recover cleanup costs from us based on past operations or contractual indemnifications. See “Item 1A. Risk Factors” for risks associated with compliance with existing or changing environmental requirement.

We anticipate increased regulation by the USDA concerning food safety, by the FDA concerning the use of medications in feed and by the EPA and various other state agencies concerning discharges to the environment. Although we do not currently anticipate that such increased regulation will have a material adverse effect upon us, new environmental, health and safety requirements that are more stringent than we anticipate, stricter interpretations of existing environmental requirements, or obligations related to the investigation or clean-up of contaminated sites may materially affect our business or operations in the future.

Restructuring Efforts

Since January 2010, we have implemented significant operational changes to reduce costs and operate more efficiently, as well as realized substantial benefits through synergies following the JBS USA acquisition. We reduced our production footprint to mitigate capacity utilization and efficiency issues created by previously enacted across-the-board production cuts. In addition, we continue to evaluate our noncore businesses, which resulted in the sale of certain noncore businesses. Exit and disposal activities

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from January 2010 to present have eliminated approximately 1,500 positions and recognized net pre-tax charges totaling \$115.6 million.

We continue to review and evaluate various restructuring and other alternatives to streamline our operations, improve efficiencies and reduce costs. Such initiatives may include selling assets, consolidating operations and functions and voluntary and involuntary employee separation programs. Any such actions may require us to obtain the pre-approval of our lenders under our credit facilities. In addition, such actions will subject us to additional short-term costs, which may include asset impairment charges, lease commitment costs, employee retention and severance costs and other costs. Certain of these activities may have a disproportionate impact on our income relative to the cost savings in a particular period.

Employees

As of December 28, 2014, we employed approximately 29,900 persons in the U.S. and approximately 5,100 persons in Mexico. Approximately 38.1% of the Company's employees were covered under collective bargaining agreements. Substantially all employees covered under collective bargaining agreements are covered under agreements that expire in 2015 or 2016 with the exception of two live operations location where the collective bargaining agreements expired in 2014 and negotiations are ongoing. We have not experienced any labor-related work stoppage at any location in over nine years. We believe our relationship with our employees and union leadership is satisfactory. At any given time, we will likely be in some stage of contract negotiations with various collective bargaining units. The Company is currently in negotiations at one location, and there is no assurance that agreement will be reached. In the absence of an agreement, we may become subject to labor disruption at this location, which could have an adverse effect on our financial results.

Financial Information about Foreign Operations

Our foreign operations are in Mexico. Geographic financial information is set forth in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations."

Available Information

The Company's Internet website is www.pilgrims.com. The Company makes available, free of charge, through its Internet website, the Company's annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, Directors and Officers Forms 3, 4 and 5, and amendments to those reports, as soon as reasonably practicable after electronically filing such materials with, or furnishing them to, the Securities and Exchange Commission. The public may read and copy any materials that the Company files with the Securities and Exchange Commission at its Public Reference Room at 100 F Street, NE, Washington, DC 20549 and may obtain information about the operation of the Public Information Room by calling the Securities and Exchange Commission at 1-800-SEC-0330.

In addition, the Company makes available, through its Internet website, the Company's Business Code of Conduct and Ethics, Corporate Governance Guidelines and the written charter of the Audit Committee, each of which is available in print to any stockholder who requests it by contacting the Secretary of the Company at 1770 Promontory Circle, Greeley, Colorado 80634-9038. Information contained on the Company's website is not included as part of, or incorporated by reference into, this annual report.

Executive Officers

Set forth below is certain information relating to our current executive officers:

Name	Age	Positions
William W. Lovette	55	President and Chief Executive Officer
Fabio Sandri	43	Chief Financial Officer

William W. Lovette joined Pilgrim's as President and Chief Executive Officer on January 3, 2011. He brings more than 30 years of industry leadership experience to Pilgrim's. He previously served two years as President and Chief Operating Officer of Case Foods, Inc. Before joining Case Foods, Inc., Mr. Lovette spent 25 years with Tyson Foods in various roles in senior management, including President of its International Business Unit, President of its Foodservice Business Unit and Senior Group Vice President of Poultry and Prepared Foods. Mr. Lovette earned a B.S. degree from Texas A&M University. In addition, he is a graduate of Harvard Business School's Advanced Management Program.

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Fabio Sandri has served as the Chief Financial Officer for Pilgrim's since June 2011. He previously served as the Chief Financial Officer of Estacio Participações, the private post-secondary educational institution in Brazil since April 2010. From November 2008 until April 2010, he was the Chief Financial Officer of Imbra SA, a provider of dental services based in Sao Paulo, Brazil. Commencing in 2005 through October 2008, he was employed by Braskem S.A., a New York Stock Exchange-listed petrochemical company headquartered in Camaçari, Brazil, first from 2005 to 2007 as its strategy director and from 2007 until his departure as its corporate controller. He earned his Masters in Business Administration in 2001 from the Wharton School at the University of Pennsylvania and a degree in electrical engineering in 1993 from Escola Politécnica da Universidade de São Paulo.

Item 1A. Risk Factors

Forward Looking Statements

Certain written and oral statements made by our Company and subsidiaries of our Company may constitute "forward-looking statements" as defined under the Private Securities Litigation Reform Act of 1995. This includes statements made herein, in our other filings with the SEC, in press releases, and in certain other oral and written presentations.

Statements of our intentions, beliefs, expectations or predictions for the future, denoted by the words "anticipate," "believe," "estimate," "expect," "plan," "project," "imply," "intend," "should," "foresee" and similar expressions, are forward-looking statements that reflect our current views about future events and are subject to risks, uncertainties and assumptions. Such risks, uncertainties and assumptions include those described under "Risk Factors" below and elsewhere in this annual report.

Actual results could differ materially from those projected in these forward-looking statements as a result of these factors, among others, many of which are beyond our control.

In making these statements, we are not undertaking, and specifically decline to undertake, any obligation to address or update each or any factor in future filings or communications regarding our business or results, and we are not undertaking to address how any of these factors may have caused changes in information contained in previous filings or communications. The risks described below are not the only risks we face, and additional risks and uncertainties may also impair our business operations. The occurrence of any one or more of the following or other currently unknown factors could materially adversely affect our business and operating results.

Risk Factors

The following risk factors should be read carefully in connection with evaluating our business and the forward-looking information contained in this annual report on Form 10-K. Any of the following risks could materially adversely affect our business, operations, industry or financial position or our future financial performance. While we believe we have identified and discussed below all risk factors affecting our business that we believe are material, there may be additional risks and uncertainties that are not presently known or that are not currently believed to be significant that may adversely affect our business, operations, industry, financial position and financial performance in the future.

Industry cyclicalities can affect our earnings, especially due to fluctuations in commodity prices of feed ingredients and chicken.

Profitability in the chicken industry is materially affected by the commodity prices of feed ingredients and market prices of chicken, which are determined by supply and demand factors. As a result, the chicken industry is subject to cyclical earnings fluctuations.

The price of feed ingredients is positively or negatively affected primarily by the global level of supply inventories and demand for feed ingredients, the agricultural policies of the U.S. and foreign governments and weather patterns throughout the world. In particular, weather patterns often change agricultural conditions in an unpredictable manner. A significant change in weather patterns could affect supplies of feed ingredients, as well as both the industry's and our ability to obtain feed ingredients, grow chickens or deliver products. More recently, feed prices have been impacted by increased demand both domestically for ethanol and globally for protein production, as well as grain production levels outside the U.S.

We have recently benefited from low market prices for feed ingredients, but market prices for feed ingredients remain volatile. Consequently, there can be no assurance that the price of corn or soybean meal will not continue to rise as a

result of, among other things, increasing demand for these products around the world and alternative uses of these products, such as ethanol and biodiesel production.

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Volatility in feed ingredient prices has had, and may continue to have, a materially adverse effect on our operating results, which has resulted in, and may continue to result in, additional noncash expenses due to impairment of the carrying amounts of certain of our assets. We periodically seek, to the extent available, to enter into advance purchase commitments or financial derivative contracts for the purchase of feed ingredients in an effort to manage our feed ingredient costs. The use of these instruments may not be successful. In addition, we have not designated the derivative financial instruments that we have purchased to mitigate commodity purchase exposures as cash flow hedges. Therefore, we recognize changes in the fair value of these derivative financial instruments immediately in earnings. Unexpected changes in the fair value of these instruments could adversely affect the results of our operations. Although we have sought to mitigate the impact of feed price volatility on our profitability by decreasing the amount of our products that are sold under longer term fixed price contracts, these changes will not eliminate the impact of changes in feed ingredient prices on our profitability and would prevent us from profiting on such contracts during times of declining market prices of chicken.

Outbreaks of livestock diseases in general and poultry diseases in particular, including avian influenza, can significantly affect our ability to conduct our operations and demand for our products.

We take precautions designed to ensure that our flocks are healthy and that our processing plants and other facilities operate in a sanitary and environmentally-sound manner. However, events beyond our control, such as the outbreaks of disease, either in our own flocks or elsewhere, could significantly affect demand for our products or our ability to conduct our operations. Furthermore, an outbreak of disease could result in governmental restrictions on the import and export of our fresh chicken or other products to or from our suppliers, facilities or customers, or require us to destroy one or more of our flocks. This could also result in the cancellation of orders by our customers and create adverse publicity that may have a material adverse effect on our ability to market our products successfully and on our business, reputation and prospects.

During 2012 and 2013, there was substantial publicity regarding a highly pathogenic strain of avian influenza, known as H7N3, which affected several states in central Mexico. There are several hypotheses about the cause of the outbreak in Mexico, including transmission from wild birds or the possibility of introduction through poultry trade. Approximately 85% of the birds affected were table egg laying hens, a component of the industry in which Pilgrim's does not participate. The Mexican government and poultry industry culled approximately 28.3 million birds. The disease was found in approximately 90 commercial facilities, including one Pilgrim's breeder farm. The Mexican government and poultry industry undertook an extensive vaccination program with the goal of administering approximately 210 million doses per month. To prevent further spread, the Mexican government also authorized the administration of 205 million doses of vaccine to "long-life" birds in nine Mexican states with priority given to progenitor birds (producing breeder hens), breeders (producing broiler chicks and layer chicks for table eggs) and layers.

During the first half of 2013, there was also substantial publicity regarding a low pathogenic strain of avian influenza, known as H7N9, which affected eastern and northern China in and around the cities of Shanghai and Beijing. It is widely believed that H7N9 circulates in wild birds and may be transmitted to domestic poultry. H7N9 is also believed to have passed from birds to humans as humans came into contact with live birds that were infected with the disease. There were 133 confirmed cases, including 43 deaths, of H7N9 infection in humans related to this outbreak.

Although neither H7N3 nor H7N9 have been identified in the U.S., there have been outbreaks of other low pathogenic strains of avian influenza in the U.S., and in Mexico outbreaks of both high and low-pathogenic strains of avian influenza are a fairly common occurrence. Historically, the outbreaks of low pathogenic strains of avian influenza have not generated the same level of concern, or received the same level of publicity or been accompanied by the same reduction in demand for poultry products in certain countries as that associated with highly pathogenic strains such as H7N3 or highly infectious strains such as H7N9. Even if H7N3 and H7N9 do not spread to the U.S., there can be no assurance that outbreaks of these strains in other countries will not materially adversely affect demand for U.S.-produced poultry internationally and/or domestically, and, if any of these strains were to spread to the U.S., there can be no assurance that it would not significantly affect our ability to conduct our operations and/or demand for our products, in each case in a manner having a material adverse effect on our business, reputation and/or prospects. If our poultry products become contaminated, we may be subject to product liability claims and product recalls.

Poultry products may be subject to contamination by disease-producing organisms, or pathogens, such as *Listeria monocytogenes*, *Salmonella* and generic *E.coli*. These pathogens are generally found in the environment, and, as a result, there is a risk that, as a result of food processing, they could be present in our processed poultry products. These pathogens can also be introduced as a result of improper handling at the further processing, foodservice or consumer level. These risks may be controlled, although not eliminated, by adherence to good manufacturing practices and finished product testing. We have little, if any, control over proper handling once the product has been shipped. Illness and death may result if the pathogens are not eliminated at the further processing, foodservice or consumer level. Even an inadvertent shipment of contaminated products is a violation of law

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and may lead to increased risk of exposure to product liability claims, product recalls and increased scrutiny by federal and state regulatory agencies and may have a material adverse effect on our business, reputation and prospects. Product liability claims or product recalls can adversely affect our business reputation, expose us to increased scrutiny by federal and state regulators and may not be fully covered by insurance.

The packaging, marketing and distribution of food products entail an inherent risk of product liability and product recall and the resultant adverse publicity. We may be subject to significant liability if the consumption of any of our products causes injury, illness or death. We could be required to recall certain products in the event of contamination or damage to the products. In addition to the risks of product liability or product recall due to deficiencies caused by our production or processing operations, we may encounter the same risks if any third party tampers with our products. We cannot assure you that we will not be required to perform product recalls, or that product liability claims will not be asserted against us, in the future. Any claims that may be made may create adverse publicity that would have a material adverse effect on our ability to market our products successfully or on our business, reputation, prospects, financial condition and results of operations.

If our poultry products become contaminated, we may be subject to product liability claims and product recalls. There can be no assurance that any litigation or reputational injury associated with product recalls will not have a material adverse effect on our ability to market our products successfully or on our business, reputation, prospects, financial condition and results of operations.

We currently maintain insurance with respect to certain of these risks, including product liability insurance, business interruption insurance and general liability insurance, but in many cases such insurance is expensive, difficult to obtain and no assurance can be given that such insurance can be maintained in the future on acceptable terms, or in sufficient amounts to protect us against losses due to any such events, or at all. Moreover, even though our insurance coverage may be designed to protect us from losses attributable to certain events, it may not adequately protect us from liability and expenses we incur in connection with such events.

Competition in the chicken industry with other vertically integrated poultry companies may make us unable to compete successfully in these industries, which could adversely affect our business.

The chicken industry is highly competitive. In both the U.S. and Mexico, we primarily compete with other vertically integrated chicken companies.

In general, the competitive factors in the U.S. chicken industry include price, product quality, product development, brand identification, breadth of product line and customer service. Competitive factors vary by major market. In the foodservice market, competition is based on consistent quality, product development, service and price. In the U.S. retail market, we believe that competition is based on product quality, brand awareness, customer service and price. Further, there is some competition with non-vertically integrated further processors in the prepared chicken business. In Mexico, where product differentiation has traditionally been limited, we believe product quality and price have been the most critical competitive factors.

The loss of one or more of our largest customers could adversely affect our business.

Our two largest customers accounted for approximately 14.6% of our net sales in 2014. Our business could suffer significant setbacks in revenues and operating income if we lost one or more of our largest customers, or if our customers' plans and/or markets should change significantly.

Our foreign operations pose special risks to our business and operations.

We have significant operations and assets located in Mexico and may participate in or acquire operations and assets in other foreign countries in the future. Foreign operations are subject to a number of special risks such as currency exchange rate fluctuations, trade barriers, exchange controls, expropriation and changes in laws and policies, including tax laws and laws governing foreign-owned operations.

Currency exchange rate fluctuations have adversely affected us in the past. Exchange rate fluctuations or one or more other risks may have a material adverse effect on our business or operations in the future.

Our operations in Mexico are conducted through subsidiaries organized under the laws of Mexico. Claims of creditors of our subsidiaries, including trade creditors, will generally have priority as to the assets of our subsidiaries over our claims. Additionally, the ability of our Mexican subsidiaries to make payments and distributions to us may be limited by the terms of our Mexico credit facility and will be subject to, among other things, Mexican law. In the past, these

laws have not had a material

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adverse effect on the ability of our Mexican subsidiaries to make these payments and distributions. However, laws such as these may have a material adverse effect on the ability of our Mexican subsidiaries to make these payments and distributions in the future.

Disruptions in international markets and distribution channels could adversely affect our business.

Historically, we have targeted international markets to generate additional demand for our products. In particular, given U.S. customers' general preference for white meat, we have targeted international markets for the sale of dark chicken meat, specifically leg quarters, which are a natural by-product of our U.S. operations' concentration on prepared chicken products. As part of this initiative, we have created a significant international distribution network into several markets in Mexico, the Middle East, Asia and countries within the CIS. Our success in these markets may be, and our success in recent periods has been, adversely affected by disruptions in chicken export markets. For example, China imposed anti-dumping and countervailing duties on the U.S. chicken producers in 2010, which have deterred Chinese importers from purchases of U.S.-origin chicken products and Russia banned the importation of chicken and other agricultural products from the U.S. and certain other western countries in August 2014.

Additionally, from time to time Russia has restricted the importation of U.S. poultry products for the protection of their domestic poultry producers and in cases of allegations of consumer health issues.

A significant risk is disruption due to import restrictions and tariffs, other trade protection measures, and import or export licensing requirements. In addition, disruptions may be caused by outbreaks of disease such as avian influenza, either in our flocks or elsewhere in the world, and resulting changes in consumer preferences.

One or more of these or other disruptions in the international markets and distribution channels could adversely affect our business.

Regulation, present and future, is a constant factor affecting our business.

Our operations will continue to be subject to federal, state and local governmental regulation, including in the health, safety and environmental areas. We anticipate increased regulation by various agencies concerning food safety, the use of medication in feed formulations and the disposal of chicken by-products and wastewater discharges. Also, changes in laws or regulations or the application thereof may lead to government enforcement actions and the resulting litigation by private litigants, such as various wage and hour and environmental issues.

In addition, unknown matters, new laws and regulations, or stricter interpretations of existing laws or regulations may also materially affect our business or operations in the future.

New immigration legislation or increased enforcement efforts in connection with existing immigration legislation could cause the costs of doing business to increase, cause us to change the way we conduct our business or otherwise disrupt our operations.

Immigration reform continues to attract significant attention in the public arena and the U.S. Congress. If new federal immigration legislation is enacted or if states in which we do business enact immigration laws, such laws may contain provisions that could make it more difficult or costly for us to hire U.S. citizens and/or legal immigrant workers. In such case, we may incur additional costs to run our business or may have to change the way we conduct our operations, either of which could have a material adverse effect on our business, operating results and financial condition. Also, despite our past and continuing efforts to hire only U.S. citizens and/or persons legally authorized to work in the U.S., we may be unable to ensure that all of our employees are U.S. citizens and/or persons legally authorized to work in the U.S. For example, U.S. Immigration and Customs Enforcement has investigated identity theft within our workforce. With our cooperation, during 2008 U.S. Immigration and Customs Enforcement arrested approximately 300 employees believed to have engaged in identity theft at five of our facilities. No assurances can be given that enforcement efforts by governmental authorities will not disrupt a portion of our workforce or operations at one or more facilities, thereby negatively impacting our business. Also, no assurance can be given that further enforcement efforts by governmental authorities will not result in the assessment of fines that could adversely affect our financial position, operating results or cash flows.

Loss of essential employees could have a significant negative impact on our business.

Our success is largely dependent on the skills, experience, and efforts of our management and other employees. The loss of the services of one or more members of our senior management or of numerous employees with essential skills could have a negative effect on our business, financial condition and results of operations. If we are not able to retain

or attract talented, committed individuals to fill vacant positions when needs arise, it may adversely affect our ability to achieve our business objectives.

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Our performance depends on favorable labor relations with our employees and our compliance with labor laws. Any deterioration of those relations or increase in labor costs due to our compliance with labor laws could adversely affect our business.

As of December 28, 2014, we employed approximately 29,900 persons in the U.S. and approximately 5,100 persons in Mexico. Approximately 35.0% of the Company's employees were covered under collective bargaining agreements. Substantially all employees covered under collective bargaining agreements are covered under agreements that expire in 2015 or 2016 with the exception of one live operations location where the collective bargaining agreement expired in 2014 and negotiations are ongoing. We have not experienced any labor-related work stoppage at any location in over nine years. We believe our relationship with our employees and union leadership is satisfactory. At any given time, we will likely be in some stage of contract negotiations with various collective bargaining units. The Company is currently in negotiations at one location, and there is no assurance that an agreement will be reached. In the absence of an agreement, we may become subject to labor disruption at this location, which could have an adverse effect on our financial results.

Extreme weather, natural disasters or other events beyond our control could negatively impact our business. Bioterrorism, fire, pandemic, extreme weather or natural disasters, including droughts, floods, excessive cold or heat, hurricanes or other storms, could impair the health or growth of our flocks, production or availability of feed ingredients, or interfere with our operations due to power outages, fuel shortages, damage to our production and processing facilities or disruption of transportation channels, among other things. Any of these factors could have an adverse effect on our financial results.

We may face significant costs for compliance with existing or changing environmental, health and safety requirements and for potential environmental obligations relating to current or discontinued operations.

Our operations are subject to extensive and increasingly stringent federal, state, local and foreign laws and regulations pertaining to the protection of the environment, including those relating to the discharge of materials into the environment, the handling, treatment and disposal of wastes and remediation of soil and groundwater contamination. Failure to comply with these requirements could have serious consequences for us, including criminal as well as civil and administrative penalties, claims for property damage, personal injury and damage to natural resources and negative publicity. Compliance with existing or changing environmental requirements, including more stringent limitations imposed or expected to be imposed in recently-renewed or soon-to be renewed environmental permits, will require capital expenditures for installation of new or upgraded pollution control equipment at some of our facilities. Operations at many of our facilities require the treatment and disposal of wastewater, stormwater and agricultural and food processing wastes, the use and maintenance of refrigeration systems, including ammonia-based chillers, noise, odor and dust management, the operation of mechanized processing equipment, and other operations that potentially could affect the environment, health and safety. Some of our facilities have been operating for many years, and were built before current environmental standards were imposed, and/or in areas that recently have become subject to residential and commercial development pressures. Failure to comply with current and future environmental, health and safety standards could result in the imposition of fines and penalties, and we have been subject to such sanctions from time to time. We are upgrading wastewater treatment facilities at a number of these locations, either pursuant to consent agreements with regulatory authorities or on a voluntary basis in anticipation of future permit requirements. In the past, we have acquired businesses with operations such as pesticide and fertilizer production that involved greater use of hazardous materials and generation of more hazardous wastes than our current operations. While many of those operations have been sold or closed, some environmental laws impose strict and, in certain circumstances, joint and several liability for costs of investigation and remediation of contaminated sites on current and former owners and operators of the sites, and on persons who arranged for disposal of wastes at such sites. In addition, current owners or operators of such contaminated sites may seek to recover cleanup costs from us based on past operations or contractual indemnifications.

New environmental, health and safety requirements, stricter interpretations of existing requirements, or obligations related to the investigation or clean-up of contaminated sites, may materially affect our business or operations in the future.

JBS USA holds a majority of our common stock and has the ability to control the vote on most matters brought before the holders of our common stock.

JBS USA holds a majority of the shares and voting power of our common stock and is entitled to appoint a majority of the members of our board of directors. As a result, JBS USA will, subject to restrictions on its voting power and actions in a stockholders agreement between us and JBS USA and our organization documents, have the ability to control our management,

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policies and financing decisions, elect a majority of the members of our board of directors at the annual meeting and control the vote on most matters coming before the holders of our common stock.

Under the stockholders agreement between us and JBS USA, JBS USA has the ability to elect up to six members of our board of directors and the other holders of our common stock have the ability to elect up to three members of our board of directors. If the percentage of our outstanding common stock owned by JBS USA exceeds 80%, then JBS USA would have the ability to elect one additional member of our board of directors while the other holders of our common stock would have the ability to elect one less member of our board of directors.

Our operations are subject to general risks of litigation.

We are involved on an on-going basis in litigation with our independent contract growers or arising in the ordinary course of business or otherwise. See "Item 3. Legal Proceedings." Trends in litigation may include class actions involving consumers, shareholders, employees or injured persons, and claims relating to commercial, labor, employment, antitrust, securities or environmental matters. Litigation trends and the outcome of litigation cannot be predicted with certainty, and adverse litigation trends and outcomes could adversely affect our financial results.

We depend on contract growers and independent producers to supply us with livestock.

We contract primarily with independent contract growers to raise the live chickens processed in our poultry operations. If we do not attract and maintain contracts with growers or maintain marketing and purchasing relationships with independent producers, our production operations could be negatively affected.

Changes in consumer preference could negatively impact our business.

The food industry in general is subject to changing consumer trends, demands and preferences. Trends within the food industry change often, and failure to identify and react to changes in these trends could lead to, among other things, reduced demand and price reductions for our products, and could have an adverse effect on our financial results.

The consolidation of customers could negatively impact our business.

Our customers, such as supermarkets, warehouse clubs and food distributors, have consolidated in recent years, and consolidation is expected to continue throughout the U.S. and in other major markets. These consolidations have produced large, sophisticated customers with increased buying power who are more capable of operating with reduced inventories, opposing price increases, and demanding lower pricing, increased promotional programs and specifically tailored products. These customers also may use shelf space currently used for our products for their own private label products. Because of these trends, our volume growth could slow or we may need to lower prices or increase promotional spending for our products, any of which would adversely affect our financial results.

Our future financial and operating flexibility may be adversely affected by significant leverage.

We anticipate that we will incur substantial indebtedness during the first quarter of fiscal year 2015, which could adversely affect our financial condition. On a consolidated basis, as of December 28, 2014, we had approximately \$0.6 million in secured indebtedness, \$3.6 million of unsecured indebtedness and had the ability to borrow approximately \$718.0 million under our credit agreements. During the first quarter of fiscal year 2015, we anticipate we will incur additional secured indebtedness of approximately \$1.12 billion under amended credit facilities in order to partially finance a special cash dividend to our stockholders and our pending acquisition of Tyson Mexico.

Following the completion of those transactions, we anticipate we will have the ability to borrow approximately \$595.0 million under our credit agreements. Significant amounts of cash flow will be necessary to make payments of interest and repay the principal amount of such indebtedness.

The degree to which we are leveraged could have important consequences because:

• It could affect our ability to satisfy our obligations under our credit agreements;

• A substantial portion of our cash flow from operations is required to be dedicated to interest and principal payments and may not be available for operations, working capital, capital expenditures, expansion, acquisitions or general corporate or other purposes;

• Our ability to obtain additional financing and to fund working capital, capital expenditures and other general corporate requirements in the future may be impaired;

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• We may be more highly leveraged than some of our competitors, which may place us at a competitive disadvantage;
• Our flexibility in planning for, or reacting to, changes in our business may be limited;
• It may limit our ability to pursue acquisitions and sell assets; and
• It may make us more vulnerable in the event of a continued or new downturn in our business or the economy in general.

Our ability to make payments on and to refinance our debt, including our credit facilities, will depend on our ability to generate cash in the future. This, to a certain extent, is subject to various business factors (including, among others, the commodity prices of feed ingredients and chicken) and general economic, financial, competitive, legislative, regulatory, and other factors that are beyond our control.

There can be no assurance that we will be able to generate sufficient cash flow from operations or that future borrowings will be available under our credit facilities in an amount sufficient to enable us to pay our debt obligations, including obligations under our credit facilities, or to fund our other liquidity needs. We may need to refinance all or a portion of their debt on or before maturity. There can be no assurance that we will be able to refinance any of their debt on commercially reasonable terms or at all.

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Media campaigns related to food production present risks.

Individuals or organizations can use social media platforms to publicize inappropriate or inaccurate stories or perceptions about the food production industry or our company. Such practices could cause damage to the reputations of our company and/or the food production industry in general. This damage could adversely affect our financial results.

There can be no assurance that we will consummate the acquisition of Tyson Mexico or that Tyson Mexico can be combined successfully with our business.

In evaluating the terms of our acquisition of Tyson Mexico, we analyzed the respective businesses of Pilgrim's Pride and Tyson Mexico and made certain assumptions concerning their respective future operations. A principal assumption was that the acquisition will produce operating results better than those historically experienced or presently expected to be experienced in the future by us in the absence of the acquisition. There can be no assurance, however, that this assumption is correct or that the businesses of Pilgrim's Pride and Tyson Mexico will be successfully integrated in a timely manner.

Assumption of unknown liabilities in acquisitions may harm our financial condition and operating results.

Acquisitions may be structured in such a manner that would result in the assumption of unknown liabilities not disclosed by the seller or uncovered during pre-acquisition due diligence. For example, our proposed acquisition of Tyson Mexico is structured as a stock purchase in which we effectively assume all of the liabilities of Tyson Mexico, including liabilities that may be unknown. Such unknown obligations and liabilities could harm our financial condition and operating results.

We may pursue additional opportunities to acquire complementary businesses, which could further increase leverage and debt service requirements and could adversely affect our financial situation if we fail to successfully integrate the acquired business.

We intend to continue to pursue selective acquisitions of complementary businesses in the future. Inherent in any future acquisitions are certain risks such as increasing leverage and debt service requirements and combining company cultures and facilities, which could have a material adverse effect on our operating results, particularly during the period immediately following such acquisitions. Additional debt or equity capital may be required to complete future acquisitions, and there can be no assurance that we will be able to raise the required capital. Furthermore, acquisitions involve a number of risks and challenges, including:

- Diversion of management's attention;
- The need to integrate acquired operations;

- Potential loss of key employees and customers of the acquired companies;

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- Lack of experience in operating in the geographical market of the acquired business; and
- An increase in our expenses and working capital requirements.

Any of these and other factors could adversely affect our ability to achieve anticipated cash flows at acquired operations or realize other anticipated benefits of acquisitions.

Item 1B. Unresolved Staff Comments

None.

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Item 2. Properties

Operating Facilities

Our main operating facilities are as follows:

	Operating	Idled	Capacity ^{(a)(b)}	Average Capacity Utilization ^(b)	
U.S. Facilities					
Fresh processing plants	23	6	32.5 million head	91.6	%
Prepared foods cook plants	5	3	11.4 million pounds	95.4	%
Feed mills	23	3	11.5 million tons	78.0	%
Hatcheries	29	3	2,131.8 million eggs	87.7	%
Rendering	5	2	8,186 tons	60.7	%
Pet food processing	3	—			