

Inside this Issue

Welcome to the fourth quarter 2010 issue of our Food and Consumer DealReader newsletter.

With this issue, we feature an article discussing U.S. consumers and their role in the economic recovery. We also provide statistics regarding trends and developments in the consumer sector and an update on Lincoln International's Food and

Consumer Group's recent closed transactions.

Key topics covered in this issue include:

- U.S. Consumers and the Economic Recovery (pages 1-3)
- Q4 2010 Key Market Statistics (page 3-5)

- Recently Closed Lincoln Food and Consumer Group Transactions (page 6)

We hope you find this issue interesting, and we welcome your comments and suggestions for future publications.

U.S. Consumers and the Economic Recovery

The economic recovery is highly dependent on U.S. consumer confidence and consumer spending returning to pre-recession levels. The following article provides key observations and thoughts on how you can take advantage of trends to improve your business.

Key Observations

1. **Value and private label brands will continue to grow faster than premium brands in the near-to-mid term.** Consumers have less income available to purchase consumer goods, spend more time researching their purchases and continue to be value conscious.
2. **Ability to raise prices may be limited in certain categories.** Consumers remain focused on price and will not hesitate to switch to alternatives to get a better deal. Also, pricing pressure from large retailers will continue as they aim to meet consumers' low price demands. However, in some consumer sectors, strength of brand and control of production and distribution capacity continue to give producers the ability to increase prices and expand profitability.
3. **Reduce commodity exposure.** Even before the recession, consumer companies in certain sectors had difficulty passing commodity cost increases on to customers. To manage commodity costs, consumer companies should reduce waste, consider product

reformulations and/or invest in more sophisticated hedging programs to reduce exposure to fluctuations in input costs.

4. **Capitalize on innovation.** Consumers will pay for category-changing products. A financially sustainable pipeline of innovative products (particularly with products focused on utility, convenience and value) is one of the few ways to create pricing power and maintain, or improve, margins in this environment.

Key Consumer Economic Trends

The deleveraging process for U.S. consumers has begun and will continue for the foreseeable future. As more income is allocated to debt service and personal savings, less is available to purchase consumer goods. As the deleveraging process occurs, consumer spending will increase, albeit at a slower pace than both policy makers and consumer companies would like.

'In addition to allocating more income to debt service and repayment, consumers are also saving more than in previous years.'

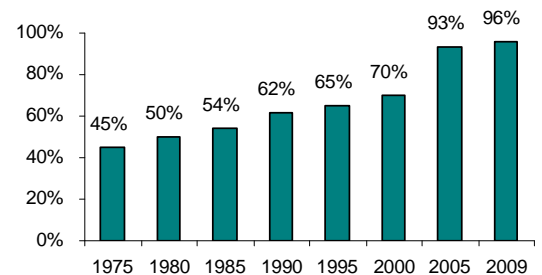
Over the last 30 years, U.S. consumers increased both household debt and the percentage of household debt relative to GDP. From 2000 to 2009, household debt

as a percentage of GDP increased an unprecedented 26%, primarily as a result of increased mortgage and credit card debt. Leading up to 2009, consumers maxed out their total leverage and are now being forced to pay it down or to seek bankruptcy or other protection from

creditors. There is no rule for a sustainable amount of household debt relative to GDP, but economists agree that it will be several years until the deleveraging process ends and a new equilibrium (i.e., a less leveraged position) is reached.

The chart below outlines historical household debt as a percentage of GDP, according to the Federal Reserve.

Household Debt as a Percentage of GDP²



In addition to allocating more income to debt service and repayment, consumers are also saving more than in previous years. Consumers saved over 5% of their disposable personal income in November 2010, according to the Bureau of Economic Analysis. Before the recession, the rate was consistently in the range of 1% to 2%.

Consumer confidence has recovered from its low point during the recession, but is still significantly below its 10-year average. The index failed to show consistent improvement during 2010 despite an increase in consumer spending, reflecting continued consumer uncertainty.

The Conference Board's Consumer
(Continued on page 2)

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Confidence Index (“CCI”) is the most widely used indicator designed to measure consumer optimism and is an important proxy for consumer spending, which accounts for 70% of total U.S. economic activity. The CCI number consists of two parts, one that reflects opinions on the current economic environment and one that reflects expectations of the future. Thus, the individual parts of the CCI act as a lagging and leading economic indicator, respectively.

The CCI is measured relative to the base number of 100 set in 1985. According to the U.S. Census Bureau, as of December 2010, the CCI measured 52.5, an improvement over the recent CCI low of 25.3 as of March 2009, but still below the 10-year average of 84.5. In 2010, the CCI started the year at 56.5 and behaved inconsistently, ranging from 46.4 to 62.7.

Despite weak CCI numbers and a net CCI decrease in 2010, core retail sales staged a recovery in 2010 to pre-recession levels, with further gains anticipated through 2011. Retail sales rose by 0.8% in November 2010, more than was forecasted, following a 1.7% rise in October 2010. Additionally, inventories held by businesses rose for a tenth consecutive month in October as corporate sales increased by the largest amount in seven months.

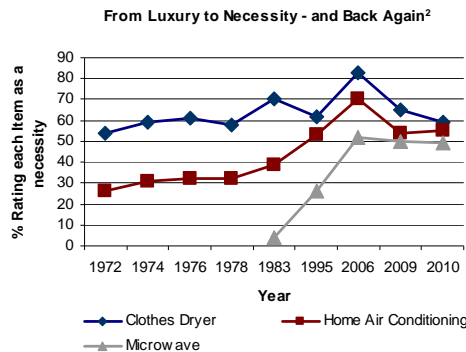
Furthermore, shoppers spent more money this holiday season than even before the recession, according to preliminary retail data released in late December 2010. After a 6% decline in 2008 and a 4% increase in 2009, retail spending rose 5.5% in the 50 days before Christmas, exceeding even the more optimistic forecasts, according to MasterCard Advisors SpendingPulse, which tracks retail spending. A drop in retail sales in May and June had raised fears that the economy could be in danger of slipping back into recession. Since that time, however, sales have posted five consecutive monthly increases and economists are raising their forecasts for growth.

The disconnect between the CCI data and recent consumer spending could reflect the conservatism of those surveyed or a temporary increase in consumer spending resulting from heavy discounting by retailers leading up to the holidays. If consumer spending continues to increase, CCI should steadily improve during Q1 and Q2 of 2011.

Consumers are allocating more of their reduced discretionary budget to necessities and less to luxury purchases. Additionally, consumers are redefining which products are deemed necessities and which are considered luxuries.

There have been documented shifts in consumer buying behavior, concurrent with changes in consumer confidence levels that began during the recession and have persisted during the recovery. According to a June 2010 Boston Consulting Group report, recession anxiety and confidence declines prompted a “back-to-basics movement,” with things like luxury and status declining in importance. As consumers continue to decide which brands they intend to be aligned with, sales of luxury goods have suffered.

For the years leading up to the recession, Americans labeled more and more appliances and other purchases as “necessities” rather than “luxuries.” The recent recession, however, reset priorities as many of these consumer goods are now reverting back to the “luxury” category. According to a Pew Research Center report, the psyche of the American consumer is in a much different place now than it had been before the recession.



In general, luxury goods companies have suffered as a result of consumers’ reshuffled priorities. High-end and low-end luxury brands, however, have not struggled as greatly as middle-of-the-road, “aspirational” type products. For example, watches with a price tag of more than \$15,000 and less than \$2,000 continue to sell. Watches priced between \$2,000 and \$6,000, however, have been hurt the most. This same trend applies to most luxury goods categories, including apparel and jewelry.

Intensive price competition may limit consumer companies’ and retailers’ ability to enact price increases.

‘For the years leading up to the recession, Americans labeled more and more appliances and other purchases as “necessities” rather than “luxuries.”’

Inflation has remained tepid over the past several months. According to the Bureau of Labor Statistics, the consumer-price index increased 0.1% in November 2010 after a 0.2% rise in October. The core consumer-price index, measuring prices for U.S. goods and services excluding food and energy, rose just 0.8% year-over-year as of November 2010.

Weak inflation and heavy price competition proved to be difficult obstacles for retailers in 2010, prompting several companies to temper earnings expectations for the year. Leading food retailers, including Safeway, Kroger and Supervalu, have recently noted the inability to pass on the little amount of inflation that occurred. Additionally, other retailers noted that competitors were relying heavily on discount programs in order to increase demand. Wal-Mart’s heavy price “rollbacks” required other retailers to stay ahead of Wal-Mart on pricing, often contributing to earnings stumbles such as BJ’s Wholesale Club’s earnings decline in the second quarter of 2010 and Best Buy’s announcement that its annual earnings forecast would be nearly half of prior expectations.

Higher commodity costs

Although inflation has been relatively weak, higher food commodity prices are exerting pressure on wholesale and food retail prices. Despite great domestic output in 2010, problems in other parts of the world are pressuring U.S. commodity prices. As a result of commodity price increases, large U.S. consumer products companies have had to cut costs and are now seeking to increase prices in order to maintain profitability.

As a byproduct of the recession, many companies were forced to implement new and innovative methods to control costs. Lean manufacturing and material sourcing took on a much higher importance in the strategic plans of most consumer oriented businesses. Companies that were successful in streamlining their internal costs and improving their sourcing continue to benefit from the operating efficiencies gained. These companies will need to continue removing every unnecessary operational cost.

Although economic conditions have not facilitated price increases in some

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sectors, companies in other sectors have improved their cost structures and are now looking at potential price increases to maintain or possibly increase margins. Among companies that have announced plans to raise prices are food giants like CSM, General Mills, Kraft and Hershey. It is unclear if consumers will accept these price increases or if these higher prices will drive even more consumers to switch to lower priced alternatives.

Conclusion

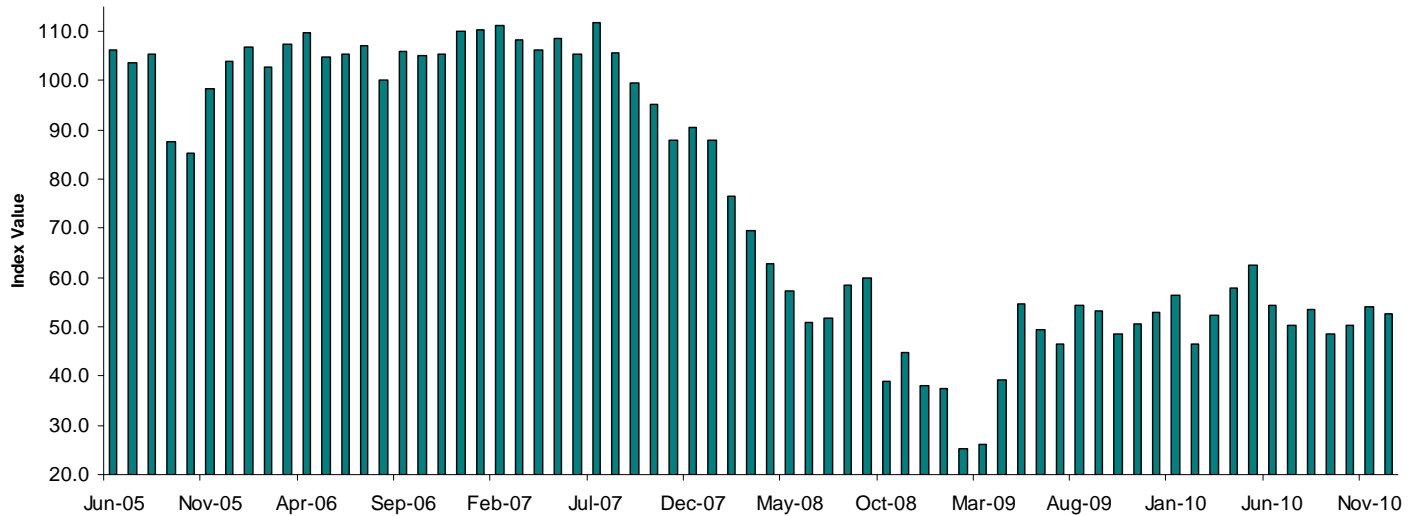
Successful consumer companies have adapted to this new economic environment and continue to thrive. Enterprises that emphasize “back-to-basics” qualities such as health, wellness, functionality, frugality, value and convenience continue to have a particularly favorable outlook. Recent transactions reflect aggressive valuations for these companies, which provides evidence of investors’ confidence in the long-term growth and profitability trends for businesses with well-positioned products, particularly those that fulfill consumer

needs for health, convenience and good value. However, to maximize the value of a company, management teams must also keep a close watch on input costs, which appear to be rising in an environment that may make it difficult to raise prices to consumers. If you would like our perspective on creating, enhancing and monetizing the value of your company, please contact any of us at Lincoln International through the information listed at the back of this DealReader.

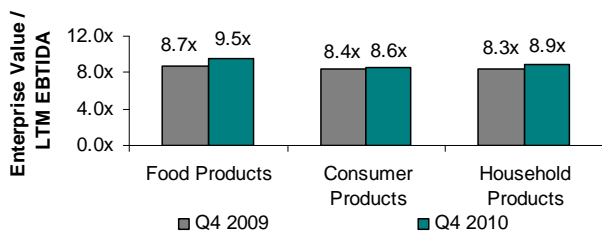
- 1. Source: The Federal Reserve
- 2. Source: Pew Research Center

Q4 Key Statistics — Consumer Products

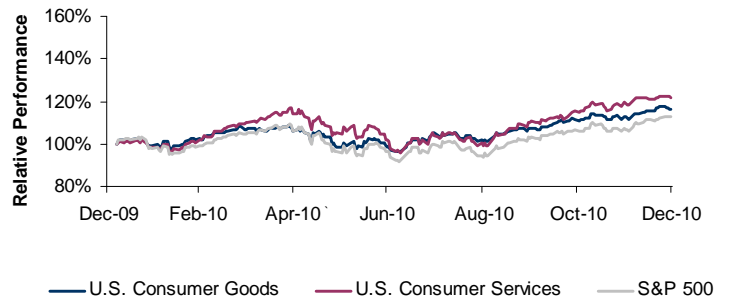
United States Consumer Confidence Levels¹



Valuations of Consumer Product Companies²



Consumer Industry Stock Performance³



Retail Sales Performance⁴

	Year-Over-Year Same Store Sales Growth																		
	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09	Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10
Club Stores	(6.8%)	(8.1%)	(4.0%)	0.3%	2.0%	3.5%	6.9%	8.2%	8.3%	8.7%	7.8%	6.3%	3.6%	3.4%	3.7%	2.8%	4.4%	5.5%	4.9%
Department Stores	(11.7%)	(16.8%)	(14.6%)	(10.3%)	0.4%	(11.2%)	7.3%	9.3%	6.2%	13.0%	7.2%	5.8%	6.2%	8.8%	3.4%	6.2%	7.7%	5.3%	8.3%
Drug Stores	(0.8%)	(1.0%)	(1.6%)	2.5%	2.1%	1.6%	(1.1%)	(1.6%)	(1.4%)	1.1%	(0.6%)	(1.0%)	(0.3%)	(0.4%)	0.6%	(0.3%)	(0.2%)	1.0%	1.7%
Mass Merchants	(2.6%)	(3.2%)	0.1%	(1.7%)	(0.1%)	(1.5%)	1.8%	0.5%	2.4%	10.3%	(5.9%)	1.3%	1.7%	2.0%	1.8%	1.3%	1.7%	5.5%	0.9%
Specialty Apparel	(18.0%)	(15.0%)	(12.0%)	(6.0%)	(5.0%)	(4.7%)	(6.3%)	6.3%	6.0%	10.3%	(2.0%)	1.0%	5.0%	6.7%	5.3%	7.7%	4.3%	12.0%	5.7%
Average	(8.0%)	(8.8%)	(6.4%)	(3.1%)	(0.1%)	(2.5%)	1.7%	4.5%	4.3%	8.7%	1.3%	2.7%	3.2%	4.1%	3.0%	3.5%	3.6%	5.9%	4.3%

- 1. Source: The Conference Board
- 2. Source: Capital IQ, Public information
- 3. U.S. Consumer Services Index comprised of the Dow Jones U.S. Consumer Services Index and U.S. Consumer Goods Index comprised of the Dow Jones U.S. Consumer Goods Index. Note: Indices are stock price weighted.
- 4. Club Stores comprised of Costco and BJ's; Department Stores comprised of Sak's, Neiman Marcus and Nordstrom; Drug Stores comprised of non-pharmaceutical sales of Rite-Aid and Walgreen Co.; Mass Merchants comprised of Target; Specialty Apparel comprised of Abercrombie & Fitch, Gap and Limited Brands. Note: Growth rates consist of an average of aforementioned components.

Q4 Key Statistics — Publicly Traded Food Company Metrics

Large Capitalization Food Company Metrics¹

(\$ in billions, except for share data)

Selected Companies	Last Price	52 Week		Cap Market	LTM	2009		2010P	Value Enterprise	Revenue	EBIT	EBITDA
		High	Low			P/E Multiples						
Nestlé S.A.	\$ -	\$ 60.90	\$ 48.18	\$ 192.6	22.6x	10.4x	NM	\$ 229.7	2.4x	17.8x	14.8x	
Pepsico, Inc.	65.33	68.11	58.75	103.5	16.5x	18.9x	17.6x	122.1	2.3x	13.5x	11.1x	
Unilever NV	30.43	32.33	20.68	88.0	16.4x	13.2x	0.0x	96.9	1.7x	12.7x	11.0x	
Kraft Foods Inc.	31.51	32.67	27.09	55.0	18.6x	22.3x	15.7x	83.1	1.7x	12.6x	10.5x	
Danone	61.41	65.04	39.35	38.8	22.3x	19.6x	NM	48.2	2.5x	16.3x	13.2x	
General Mills Inc.	35.59	38.98	33.11	22.6	14.8x	18.6x	15.4x	29.4	2.0x	11.2x	9.5x	
Kellogg Company	51.08	56.00	47.28	18.8	15.8x	17.8x	16.0x	23.7	1.9x	11.1x	9.5x	
HJ Heinz Co.	49.46	50.77	40.00	15.9	16.7x	14.7x	17.3x	19.7	1.9x	12.2x	10.3x	
George Weston Limited	85.40	86.37	66.57	10.9	28.4x	14.4x	25.4x	15.9	0.5x	11.2x	7.5x	
Campbell Soup Co.	34.75	37.59	32.18	11.6	14.7x	16.6x	14.1x	14.4	1.9x	10.8x	9.1x	
Sara Lee Corp.	17.51	17.72	11.67	11.2	23.2x	23.4x	17.3x	13.1	1.2x	14.3x	9.7x	
ConAgra Foods, Inc.	22.58	26.32	21.02	9.9	14.7x	16.2x	12.9x	12.6	1.0x	10.2x	8.0x	
Grupo Bimbo, S.A.B. de C.V.	8.74	8.98	83.00	10.0	21.4x	23.8x	19.3x	12.4	1.3x	12.5x	9.4x	
Hershey Co.	47.15	52.10	35.76	10.7	21.6x	26.3x	22.1x	12.1	2.2x	12.0x	10.1x	
Median					17.7x	18.2x	16.6x			1.9x	12.3x	9.9x
Mean					19.1x	18.3x	16.1x			1.7x	12.7x	10.3x

(\$ in billions, except for share data)

Selected Companies	Revenue	EBIT	EBITDA	NI	LTM	Avg	LTM	Avg	LTM	Avg
					EBITDA/Rev	EBIT/Rev	EBIT/Rev	NI/Rev		
Nestlé S.A.	\$ 95.9	\$ 12.9	\$ 15.5	\$ 10.0	16.2%	16.0%	13.4%	13.3%	10.5%	12.6%
Pepsico, Inc.	53.0	9.0	11.0	6.4	20.8%	21.6%	17.0%	18.2%	12.1%	13.3%
Unilever NV	58.6	7.6	8.8	5.6	15.1%	14.8%	13.0%	12.6%	9.6%	10.2%
Kraft Foods Inc.	47.7	6.6	7.9	4.3	16.6%	15.4%	13.9%	13.1%	9.0%	7.3%
Danone	19.4	3.0	3.7	1.6	18.8%	17.4%	15.2%	13.9%	8.0%	15.9%
General Mills Inc.	14.9	2.6	3.1	1.6	20.7%	19.7%	17.7%	16.6%	11.0%	9.6%
Kellogg Company	12.4	2.1	2.5	1.2	20.1%	19.6%	17.2%	16.6%	9.9%	9.3%
HJ Heinz Co.	10.5	1.6	1.9	0.9	18.2%	18.2%	15.4%	15.3%	8.7%	8.7%
George Weston Limited	31.7	1.4	2.1	0.4	6.7%	5.6%	4.5%	3.6%	1.3%	2.6%
Campbell Soup Co.	7.6	1.3	1.6	0.8	20.8%	20.3%	17.4%	16.9%	10.7%	11.8%
Sara Lee Corp.	10.8	0.9	1.4	0.4	12.5%	11.9%	8.5%	7.6%	3.8%	2.4%
ConAgra Foods, Inc.	12.1	1.2	1.6	0.7	13.1%	12.0%	10.2%	9.5%	5.5%	7.4%
Grupo Bimbo, S.A.B. de C.V.	9.3	1.0	1.3	0.5	14.1%	12.7%	10.7%	9.5%	5.0%	5.2%
Hershey Co.	5.6	1.0	1.2	0.5	21.3%	20.0%	18.0%	16.3%	9.0%	6.3%
Median					17.4%	16.7%	14.5%	13.6%	9.0%	9.0%
Mean					16.8%	16.1%	13.7%	13.1%	8.1%	8.7%

Mid Capitalization Food Company Metrics¹

(\$ in billions, except for share data)

Selected Companies	Last Price	52 Week		Cap Market	LTM	2009		2010P	Value Enterprise	Revenue	EBIT	EBITDA
		High	Low			P/E Multiples						
The J. M. Smucker Company	\$ 65.65	\$ 66.3	\$ 53.3	\$ 7.8	15.4x	19.8x	15.9x	\$ 8.6	1.9x	9.8x	7.2x	
Saputo, Inc.	40.15	40.5	27.0	8.2	18.8x	23.0x	21.8x	8.4	1.5x	13.1x	11.3x	
McCormick & Co. Inc.	46.53	47.8	35.4	6.2	17.7x	18.6x	19.9x	7.1	2.2x	14.0x	11.8x	
Hormel Foods Corp.	51.26	52.3	37.8	6.8	17.6x	15.2x	17.6x	6.7	0.9x	10.4x	8.7x	
Ralcorp Holdings Inc. ²	65.01	69.9	53.9	3.6	17.4x	11.7x	14.2x	6.1	1.3x	9.7x	7.5x	
Dean Foods Co.	8.84	18.8	7.1	1.6	10.3x	14.9x	5.4x	5.7	0.5x	10.9x	7.2x	
Flowers Foods, Inc.	26.91	27.6	23.0	2.5	18.2x	18.6x	19.3x	2.6	1.0x	12.5x	8.9x	
Fresh Del Monte Produce Inc.	24.95	25.2	19.2	1.5	15.6x	8.9x	9.7x	1.7	0.5x	12.9x	8.0x	
Median					17.5x	16.9x	16.8x			1.2x	11.7x	8.3x
Mean					16.4x	16.3x	15.5x			1.2x	11.7x	8.8x

(\$ in billions, except for share data)

Selected Companies	Revenue	EBIT	EBITDA	NI	LTM	Avg	LTM	Avg	LTM	Avg
					EBITDA/Rev	EBIT/Rev	EBIT/Rev	NI/Rev		
The J. M. Smucker Company	\$ 4.6	\$ 0.9	\$ 1.2	\$ 0.5	25.7%	18.7%	19.0%	15.3%	11.1%	8.5%
Saputo, Inc.	5.7	0.6	0.7	0.4	13.1%	10.7%	11.3%	9.0%	7.5%	5.7%
McCormick & Co. Inc.	3.3	0.5	0.6	0.4	18.4%	16.8%	15.5%	13.9%	10.7%	8.5%
Hormel Foods Corp.	7.2	0.6	0.8	0.4	10.6%	10.1%	8.9%	8.2%	5.5%	5.0%
Ralcorp Holdings Inc. ²	4.6	0.6	0.8	0.2	17.7%	14.9%	13.5%	11.1%	4.5%	6.2%
Dean Foods Co.	12.0	0.5	0.8	0.2	6.6%	7.4%	4.4%	5.4%	1.4%	1.6%
Flowers Foods, Inc.	2.6	0.2	0.3	0.1	11.3%	10.5%	8.0%	7.5%	5.3%	4.9%
Fresh Del Monte Produce Inc.	3.6	0.1	0.2	0.1	5.8%	7.4%	3.6%	5.1%	2.8%	4.6%
Median					12.2%	10.6%	10.1%	8.6%	5.4%	5.3%
Mean					13.6%	12.1%	10.5%	9.4%	6.1%	5.6%

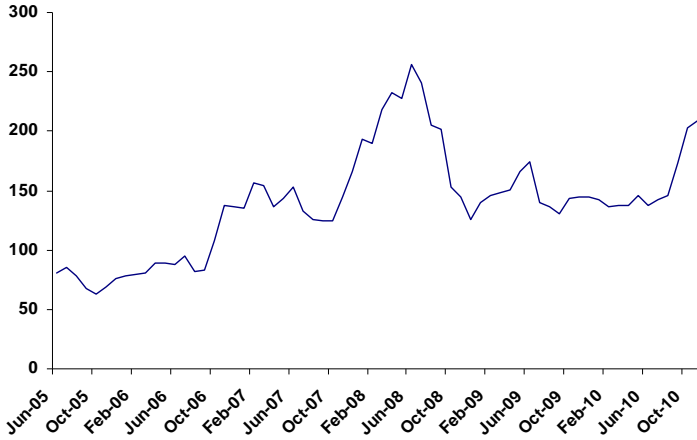
1. Source: Capital IQ, Company filings

2. Ralcorp has been adjusted for its acquisition of American Italian Pasta Company, closed June 2010

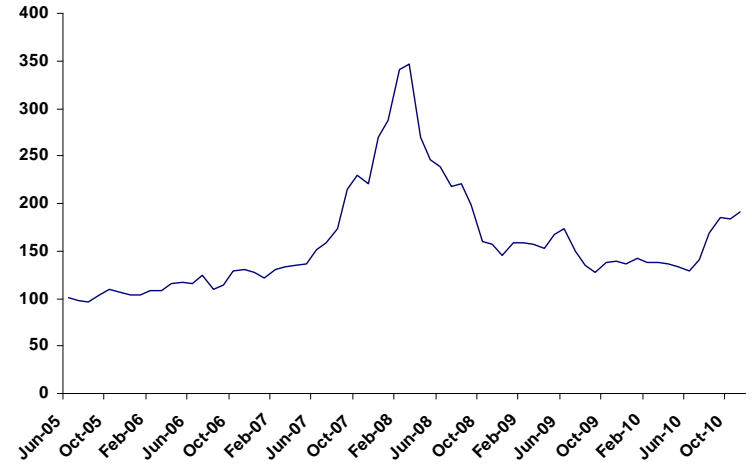
Note: All stock prices and LTM calculations are as of December 31, 2010; NM = Not Meaningful

Commodity Report ¹

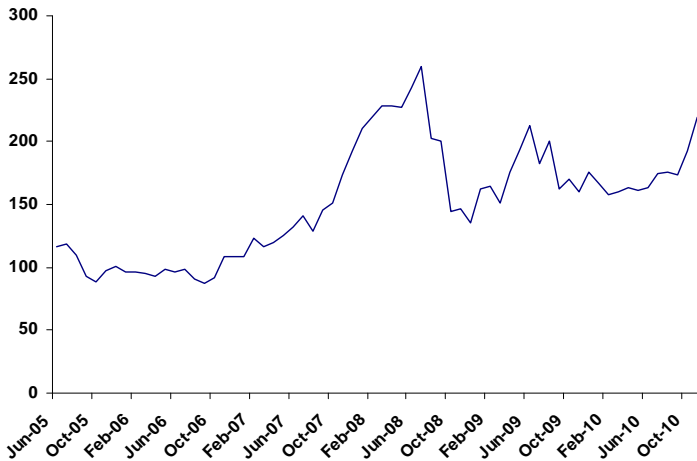
Corn



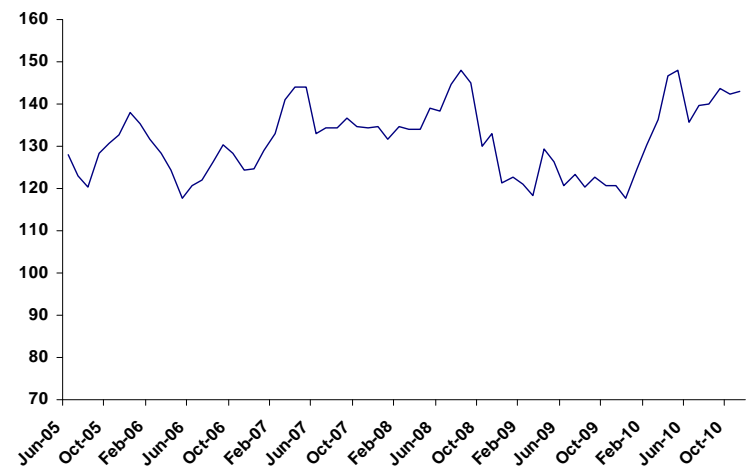
Wheat



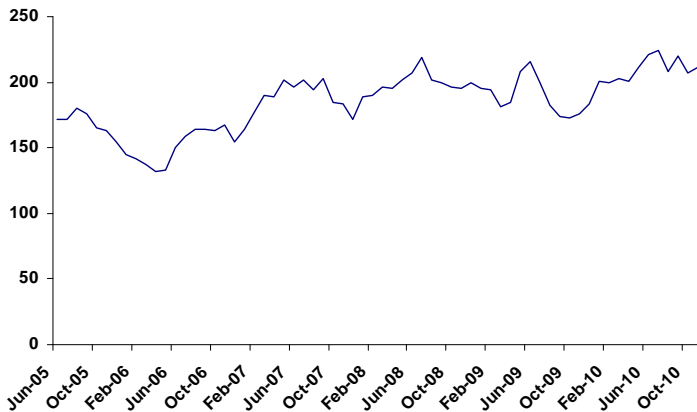
Soybeans



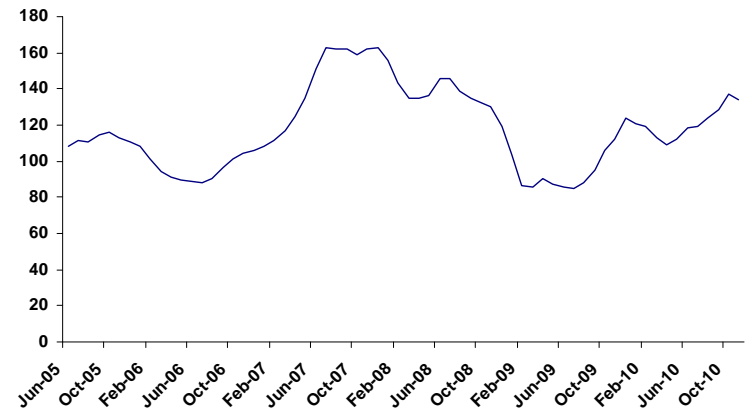
Cattle



Poultry



Fluid Milk

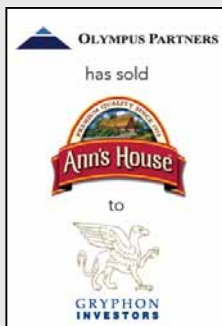


1. Source: Bureau of Labor Statistics, US Department of Labor
 Note: For all prices indices, average of 1990 - 1992 = 100. Charts are updated through December 31, 2010

Lincoln International's Food and Consumer Group: Recently Closed Transactions

While consumers return to the marketplace and the food industry prepares for the future, Lincoln International's dedicated team has established itself among the best M&A advisors in the middle market. Lincoln International's Food and Consumer Group has recently completed three transactions in the food industry: Ann's House of Nuts, Castro Cheese and Snack Alliance. In doing so, Lincoln International has cultivated strong relationships with the most active strategic partners while furthering our understanding of industry dynamics, on-trend products and a variety of distribution channels, from supercenter and specialty retail to military and bulk industrial. At Lincoln International, our in-depth industry expertise, quality execution and integrated resources deliver outstanding results for domestic and international clients.

To learn more about Lincoln International's Food and Consumer Group, please visit www.lincolningernational.com/foodandbeverage.



Snack Nuts and Trail Mix

Ann's House of Nuts, based in Columbia, Maryland, is the world's leading producer of trail mixes and a leading provider of snack nuts, dried fruits and other healthy snack products for global distribution through a broad group of outlets, including supercenter / mass merchandiser retail, grocery store, wholesale club, convenience store, specialty retail, military and bulk industrial channels.



Hispanic Dairy Products

Castro Cheese, based in Houston, Texas, manufactures and markets premium, authentic Hispanic cheeses and other dairy products that target the rapidly growing Hispanic demographic in the United States. The company's products are sold nationally under the brand "La Vaquita" to the grocery, mass and club store channels.



Salty Snacks

Snack Alliance, based in Hermiston, Oregon, is a branded and private label snack chip company. The company provides contract manufacturing services for various private label snack foods to food-service distributors and retailers in the United States. Its products include potato chips, tortilla chips, cheese snacks, corn chips and popcorn.

About Lincoln International

Lincoln International specializes in merger and acquisition advisory services, private capital raising and restructuring advice on mid-market transactions. Lincoln International also provides fairness opinions, valuations and pension advisory services on a wide range of transaction sizes. With ten offices in Asia, Europe and North America, and strategic partnerships with leading institutions in China, India and Korea, Lincoln International has strong local knowledge and contacts in the key global economies. The organization provides clients with senior-level attention, in-depth industry expertise and integrated resources. By being focused and independent, Lincoln International serves its clients without conflicts of interest. More information about Lincoln International can be obtained at www.lincolningernational.com.

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