

Inside this Issue

Welcome to the first quarterly publication of the Refrigerated & Frozen Foods Deal Reader (the "RFF Deal Reader"). The purpose of the RFF Deal Reader is to educate food industry executives on financial topics affecting the valuation of refrigerated and frozen food companies. To accomplish this task, the publishers of Refrigerated & Frozen Foods are collaborating with Lincoln International, a leading mid-market investment bank specializing in the food industry. In the first edition of the RFF Deal Reader, Lincoln examines the role of

private equity funds and their investment in the food industry. In addition to this lead article, the RFF Deal Reader presents a number of key statistics such as consumer confidence data, public company valuation and operating statistics, and commodity price information.

Key topics covered in this issue include:

- Feature Article: The Role of Private Equity in the U.S. Food Manufacturing Industry (page 1 and 2);

- Q1 Key Statistics: U.S. Consumer Data (page 3);
- Q1 Key Statistics: Food Manufacturing Profitability Metrics (page 4); and,
- Q1 Key Statistics: Food Related Commodity Markets Update (page 5).

We hope you find this issue interesting and useful. If you have questions, comments, or topics you would like for us to address in future issues, please email Lincoln at rff@lincolninternational.com.

Feature Article: The Role of Private Equity in the U.S. Food Manufacturing Industry

"[H]ere's what private equity firms have figured out how to do: Attract and keep the world's best managers, focus them extraordinarily well, provide strong incentives, free them from distractions, give them all the help they can use and let them do what they can do. No wonder these companies tend to be outstanding performers."

Fortune, November 27, 2006

Overview of Private Equity

Private equity firms have provided attractive paydays, increased access to capital, and driven food company valuations for many food company entrepreneurs and operators. While private equity has exploded in recent years, their operations often seem a mystery. Despite this mystery, the influence of private equity continues to grow. In this inaugural article of the RFF Deal Reader, we examine private equity and its appetite for food companies.

Over the course of the past 25 years, private equity has developed into a major force in the U.S. and international economy. Private equity serves an important function in the economy, providing valuable access to capital and,

when appropriate, expertise and efficiencies that companies need to operate and grow. At their most basic level, private equity firms raise pools of money (or "funds") from large investors, such as insurance companies, pension funds, and wealthy individuals, which they invest in companies throughout the economy. Generally, these funds expect that their investments will last for five to seven years, at which point they will exit their positions and return the invested

capital plus the returns it generates to the fund's investors.

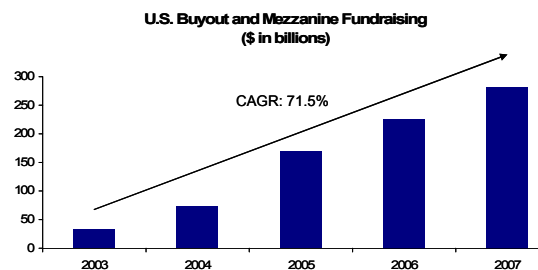
clearly plays an important role in the economy. Understood properly, private equity is a valuable resource for business owners seeking access to capital for growth or an opportunity to liberate equity built up over a lifetime of work.

Food companies often have the financial and operational characteristics that private equity firms find appealing. Key value drivers include stable, predictable earnings and strong cash flow, as measured by earnings before interest, taxes, depreciation and amortization ("EBITDA"), growth potential, and defensible competitive advantages. In the current economy, food companies are potentially attractive investments because they generally offer many of these characteristics and also have a more recession-resistant outlook than companies in other industries.

Private Equity Food Investing

As in many industry verticals, private equity investors have driven recent valuation gains in the food industry. As private equity funding has exploded in the last decade, these investment professionals are looking to invest in growth companies. These professionals have researched the food universe and know the favorable trends driving growth and profitability in attractive

(Continued on page 2)



capital plus the returns it generates to the fund's investors.

In spite of this straightforward structure, a union spokesman in the UK recently stated that "more was known about the Cosa Nostra than private equity firms." Nevertheless, given that LBO-related fund commitments are approaching \$300 billion annually in the U.S., private equity

categories. In a world of increasing specialization, many private equity firms focus solely on food and consumer product companies. Other private equity firms invest in many industries, but have specialists that focus on food and work with proven executives to find a truly differentiated food company.

Private equity firms typically fund their investments (a.k.a. "leveraged buyouts") with a combination of debt and equity. Because of their reliance on the debt markets, private equity firms often prefer lower risk investments. In the current economy, the food industry potentially offers private equity investors with a "safe haven" that will likely be less impacted by a possible recession. For this reason, private equity currently has an insatiable appetite for food investing. Despite the overall economy, good food companies still attract premium valuations from investors.

Valuations of food companies can range from five times EBITDA for manufacturers of commodity products with stable earnings but narrow profit margins to valuations significantly exceeding ten times EBITDA for manufacturers with strong profit margins, excellent earnings growth, and a defensible market niche. Similarly, companies with higher EBITDA, all other things being equal, will tend to receive more attractive debt proposals and command larger selling multiples than smaller companies. However, every company is different, and, depending on

the situation, attractive private equity valuations are often available for companies with sales greater than \$20 million and EBITDA greater than \$3 million.

Private Equity Value Drivers

Private equity firms place a premium on companies with significant competitive advantages. In the food industry, strong brand equity is an attractive quality. However, differentiated private label and co-pack manufacturers can also receive strong investor demand. Lincoln has seen tremendous private equity interest in companies with advantages related to economies of scale, market share leadership, low-cost manufacturing, distinctive products, and unique supply chains.

Investors also like to invest in companies with strong management teams. However, for companies that lack resources, private equity firms often have deep industry relationships and can provide additional resources to support their investments.

From a financial perspective, private equity firms value growth and strong margins. Because of the importance of growth, investors often focus on category trends. In the current market, private label, health and wellness, foodservice, gourmet cuisine, aging demographic trends, and other growth themes have very strong appeal. Strong margins demonstrate the strength and validity of a company's competitive

advantages. In general, companies with EBITDA margins exceeding 10% (of net sales) elicit the strongest investor demand.

Summary

Private equity investors continue to seek attractive investments in the food industry. In the past few years, the growth of private equity has driven premium valuations for food companies. Because food spending is less impacted by an economic slowdown than more discretionary spending and is less susceptible to competition from overseas suppliers, investors have a greater appetite for food industry investments in the current economy. Among investment themes, private equity investors typically target companies with strong competitive advantages and growth. However, investors are interested in companies across the entire food spectrum and demand for food companies significantly exceeds the supply of quality opportunities.

About Lincoln International

Lincoln International specializes in merger and acquisition services and private capital raising for leading organizations involved in mid-market transactions. With offices in Chicago, Frankfurt, London, Los Angeles, Madrid, New York, Paris and Vienna, and strategic partnerships with China Everbright and other partner firms in Asia, 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.lincolninternational.com

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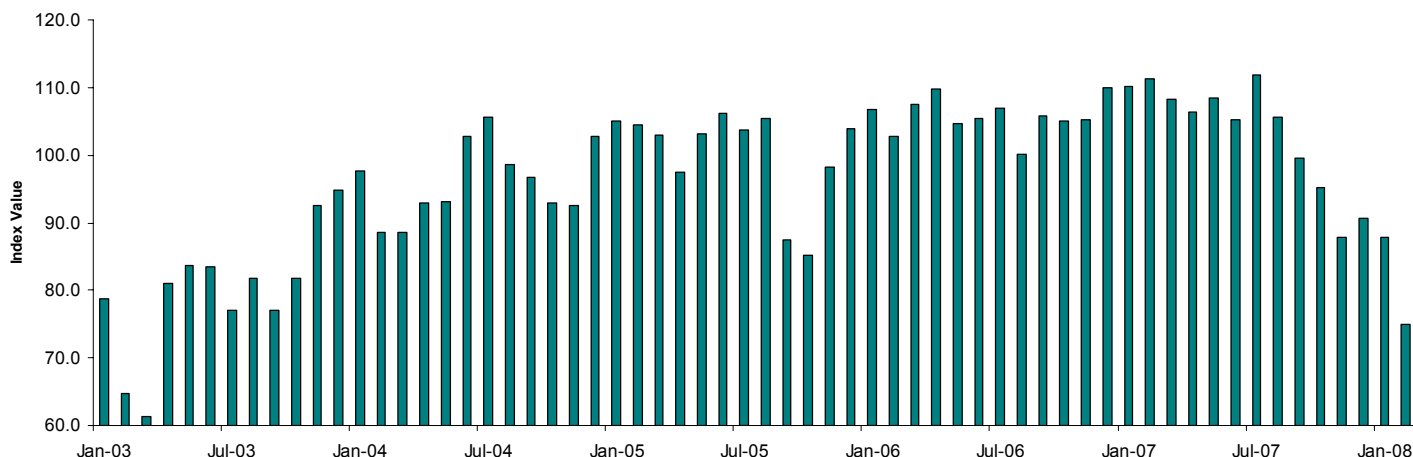
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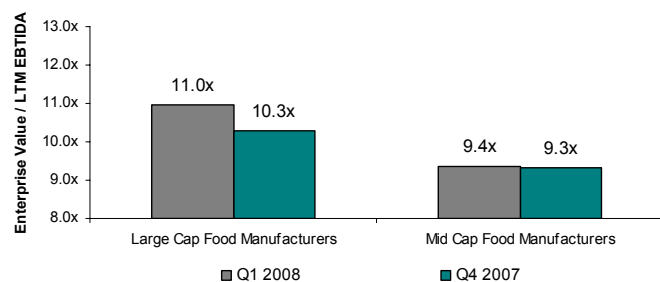
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Q2 Key Statistics — Consumer Products

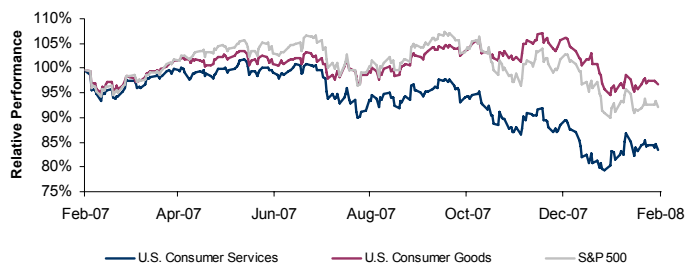
United States Consumer Confidence Levels¹



Valuations of Publicly-traded Food Manufacturers²



Consumer Industry Stock Performance³



Retail Sales Performance (LTM)⁴

Retail Sales

	Year-Over-Year Same Store Sales Growth											
	Feb-07	Mar-07	Apr-07	May-07	Jun-07	Jul-07	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07	Jan-08
Club Stores	3.6%	6.3%	2.4%	5.8%	6.3%	4.5%	2.5%	4.7%	5.3%	7.9%	4.5%	6.6%
Dollar Stores	0.5%	5.8%	(4.9%)	2.5%	1.5%	0.5%	1.0%	0.5%	0.0%	(3.4%)	(0.7%)	0.0%
Drug Stores	4.2%	5.2%	3.4%	4.3%	4.9%	4.1%	4.5%	3.2%	2.8%	2.5%	0.4%	2.6%
Mass Merchants	3.1%	7.7%	(5.4%)	3.1%	2.5%	3.7%	4.5%	1.0%	2.1%	5.9%	(1.2%)	(0.5%)
Average	2.9%	6.2%	(1.1%)	3.9%	3.8%	3.2%	3.1%	2.3%	2.6%	3.2%	0.7%	2.2%

1. Source: Capital IQ

2. Source: Lincoln International indices

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, Sam's Club and BJ's; Dollar Stores comprised of Family Dollar; Drug Stores comprised of non-pharmaceutical sales of Rite-Aid, Walgreen Co. and CVS; Mass Merchants comprised of Wal-Mart and Target. Note: Growth rates consist of an average of aforementioned components.

Q1 Key Statistics — Publicly Traded Food Company Metrics

Large Capitalization Food Company Profitability Metrics¹

(\$ in billions, except for share data)

Selected Companies	Last Price	52 Week		Market Cap	P/E Multiples			Enterprise Value	EV/LTM		
		High	Low		LTM	2007	2008		Revenue	EBIT	EBITDA
Procter & Gamble Co.	\$ 66.18	\$ 75.2	\$ 60.4	\$ 203.7	20.0x	20.0x	19.0x	\$ 236.1	3.0x	14.6x	12.2x
Nestle SA	478.49	553.5	420.9	180.0	18.1x	18.1x	16.7x	201.9	2.0x	13.0x	10.8x
Pepsico, Inc.	69.56	79.8	61.9	111.4	20.4x	20.4x	18.6x	115.5	2.9x	14.6x	12.3x
Unilever NV	31.18	39.0	28.7	89.0	16.0x	16.0x	15.2x	103.2	1.7x	11.0x	9.5x
Kraft Foods Inc.	31.17	37.2	28.6	47.8	19.2x	19.2x	16.3x	69.4	1.8x	13.9x	11.8x
Groupe DANONE	78.94	97.2	76.1	40.5	18.9x	18.9x	18.4x	46.6	2.1x	14.6x	11.8x
General Mills Inc.	55.99	61.5	51.0	18.9	16.9x	16.9x	16.2x	26.6	2.0x	11.7x	9.8x
Kellogg Co.	50.72	56.9	46.3	19.7	18.4x	18.4x	17.0x	24.7	2.1x	12.4x	10.4x
HJ Heinz Co.	44.11	48.8	41.4	13.9	17.2x	17.2x	16.8x	18.9	1.9x	12.0x	10.1x
George Weston Limited	47.17	86.2	47.2	6.1	NM	NM	11.5x	14.8	0.4x	10.9x	7.1x
Campbell Soup Co.	32.29	40.9	30.2	12.4	15.2x	15.2x	15.6x	15.3	1.8x	12.0x	9.8x
ConAgra Foods, Inc.	22.10	27.5	20.9	10.8	13.8x	13.8x	13.9x	14.5	1.1x	9.4x	7.8x
Hershey Co.	37.08	56.8	33.5	8.4	40.1x	40.1x	20.0x	10.5	2.1x	12.0x	8.9x
Associated British Foods plc	16.86	19.0	15.0	13.3	18.2x	18.2x	n/a	14.4	1.1x	13.2x	8.6x
Median					18.2x	18.2x	16.7x		1.9x	12.2x	10.0x
Mean					19.4x	19.4x	16.5x		1.9x	12.5x	10.1x

(\$ in billions, except for share data)

Selected Companies	LTM				EBITDA/Rev		EBIT/Rev		NI/Rev	
	Revenue	EBIT	EBITDA	NI	LTM	Avg	LTM	Avg	LTM	Avg
Procter & Gamble Co.	\$ 79.7	\$ 16.2	\$ 19.3	\$ 11.1	24.2%	23.5%	20.3%	19.7%	14.0%	12.9%
Nestle SA	94.9	13.3	16.1	9.4	17.0%	16.6%	14.0%	13.6%	9.9%	9.4%
Pepsico, Inc.	39.5	7.2	8.6	5.7	21.8%	22.2%	18.2%	18.3%	14.3%	14.3%
Unilever NV	58.7	8.7	10.1	5.7	17.2%	17.2%	14.9%	14.8%	9.7%	10.5%
Kraft Foods Inc.	37.2	4.9	5.8	2.6	15.5%	17.0%	13.1%	14.5%	7.0%	7.8%
Groupe DANONE	19.4	2.7	3.4	1.8	17.5%	17.4%	14.0%	13.7%	9.1%	8.2%
General Mills Inc.	12.9	2.2	2.6	1.2	20.2%	20.8%	16.8%	17.2%	9.1%	9.8%
Kellogg Co.	11.8	2.0	2.3	1.1	19.9%	20.6%	16.7%	17.2%	9.4%	9.4%
HJ Heinz Co.	9.8	1.6	1.8	0.8	18.9%	18.9%	15.9%	15.8%	8.5%	8.5%
George Weston Limited	33.4	1.3	2.1	(0.0)	6.2%	7.6%	4.0%	5.4%	(0.0%)	1.3%
Campbell Soup Co.	8.2	1.3	1.5	0.8	18.9%	19.5%	15.4%	15.8%	10.1%	10.4%
ConAgra Foods, Inc.	12.7	1.5	1.8	0.8	14.0%	13.2%	11.5%	10.5%	6.3%	5.6%
Hershey Co.	4.9	0.9	1.2	0.2	23.9%	24.3%	17.6%	19.4%	4.3%	8.6%
Associated British Foods plc	13.7	1.1	1.7	0.7	12.2%	12.3%	7.9%	8.5%	5.4%	5.7%
Median					18.2%	18.2%	15.1%	15.3%	9.1%	9.0%
Mean					17.7%	17.9%	14.3%	14.6%	8.4%	8.7%

Mid Capitalization Food Company Profitability Metrics¹

(\$ in billions, except for share data)

Selected Companies	Last Price	52 Week		Market Cap	P/E Multiples			Enterprise Value	EV/LTM		
		High	Low		LTM	2007	2008		Revenue	EBIT	EBITDA
Hormel Foods Corp.	\$ 40.44	\$ 42.5	\$ 30.0	\$ 5.5	17.8x	17.8x	17.0x	\$ 5.6	0.9x	11.0x	8.8x
Grupo Bimbo SA de CV	5.61	7.5	4.6	6.6	0.0x	0.0x	15.4x	6.8	1.1x	10.7x	8.3x
Del Monte Foods Co.	9.00	12.9	6.4	1.8	15.3x	15.3x	12.9x	3.9	1.1x	10.8x	8.4x
The J. M. Smucker Company	49.44	64.3	42.8	2.8	16.1x	16.1x	15.5x	3.2	1.3x	10.8x	8.9x
Maple Leaf Foods Inc.	12.97	17.1	12.7	1.7	NM	NM	17.7x	2.6	0.5x	13.0x	7.6x
Flowers Foods Inc.	22.95	25.8	18.3	2.1	22.4x	22.4x	20.2x	2.1	1.0x	14.8x	10.1x
Chiquita Brands International Inc.	19.93	21.2	12.5	0.9	NM	NM	14.2x	1.6	0.3x	27.9x	10.9x
Fresh Del Monte Produce Inc.	34.23	38.6	18.2	2.1	11.2x	11.2x	10.9x	2.4	0.7x	12.9x	8.9x
Ralcorp Holdings Inc.	53.58	69.6	50.5	1.4	21.5x	21.5x	15.5x	2.1	0.9x	12.2x	8.0x
Treehouse Foods Inc.	22.14	32.6	19.2	0.7	16.7x	16.7x	14.6x	1.3	1.1x	15.4x	10.9x
Median					16.4x	16.4x	15.4x		1.0x	12.5x	8.8x
Mean					15.1x	15.1x	15.4x		0.9x	13.9x	9.1x

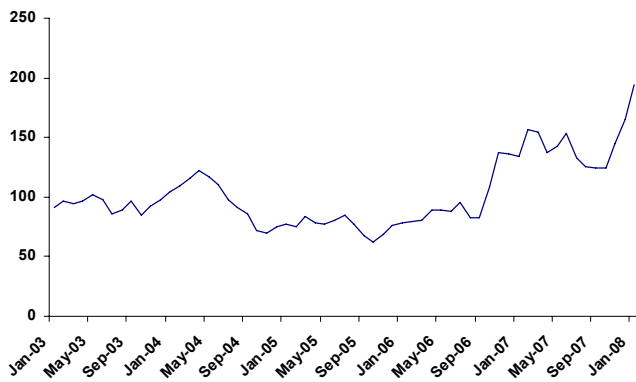
(\$ in billions, except for share data)

Selected Companies	LTM				EBITDA/Rev		EBIT/Rev		NI/Rev	
	Revenue	EBIT	EBITDA	NI	LTM	Avg	LTM	Avg	LTM	Avg
Hormel Foods Corp.	\$ 6.3	\$ 0.5	\$ 0.6	\$ 0.3	10.1%	9.9%	8.1%	7.8%	5.0%	4.9%
Grupo Bimbo SA de CV	6.4	0.6	0.8	0.3	12.6%	11.6%	9.8%	8.2%	5.4%	5.2%
Del Monte Foods Co.	3.6	0.4	0.5	0.1	12.8%	13.7%	9.9%	10.7%	3.3%	4.3%
The J. M. Smucker Company	2.4	0.3	0.4	0.2	14.9%	15.0%	12.3%	12.3%	7.2%	6.8%
Maple Leaf Foods Inc.	5.3	0.2	0.3	0.2	6.5%	6.3%	3.8%	3.8%	4.0%	1.9%
Flowers Foods Inc.	2.0	0.1	0.2	0.1	10.3%	9.6%	7.1%	6.2%	4.6%	4.2%
Chiquita Brands International Inc.	4.7	0.1	0.1	(0.0)	3.1%	4.0%	1.2%	2.2%	(1.1%)	-0.1%
Fresh Del Monte Produce Inc.	3.4	0.2	0.3	0.2	8.0%	5.9%	5.6%	3.3%	5.3%	1.5%
Ralcorp Holdings Inc.	2.4	0.2	0.2	0.1	10.5%	10.7%	6.8%	7.1%	2.8%	3.0%
Treehouse Foods Inc.	1.2	0.1	0.1	0.0	10.3%	9.5%	7.3%	6.7%	3.6%	3.5%
Median					10.3%	9.7%	7.2%	6.9%	4.3%	3.8%
Mean					9.9%	9.6%	7.2%	6.8%	4.0%	3.5%

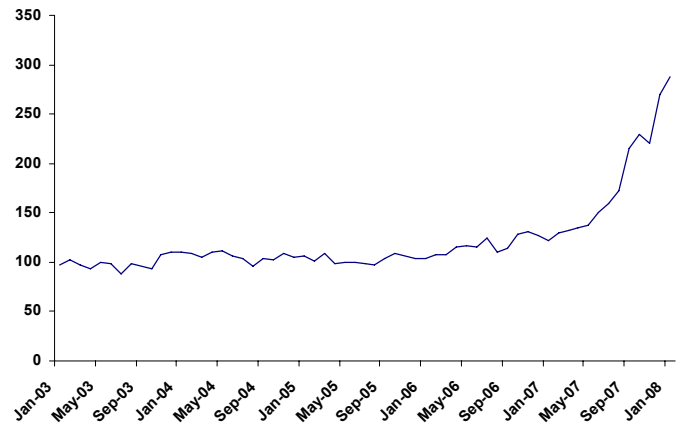
1) Source: Capital IQ

Commodity Report

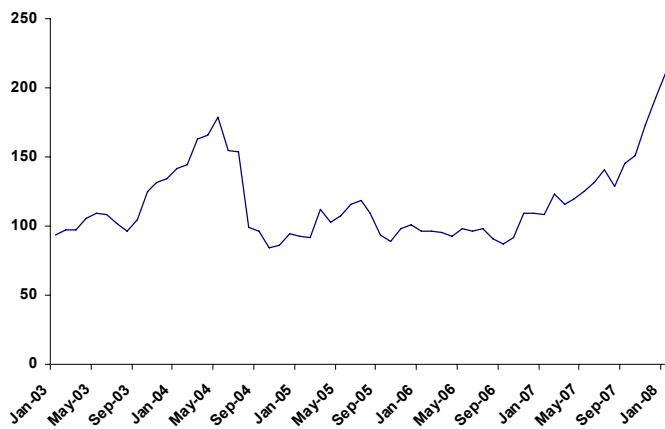
Corn



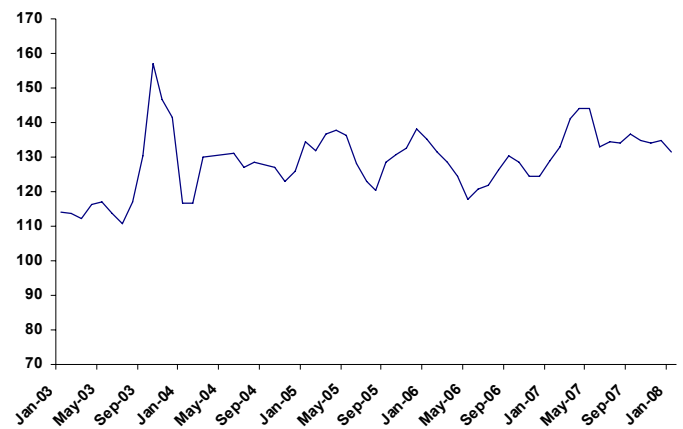
Wheat



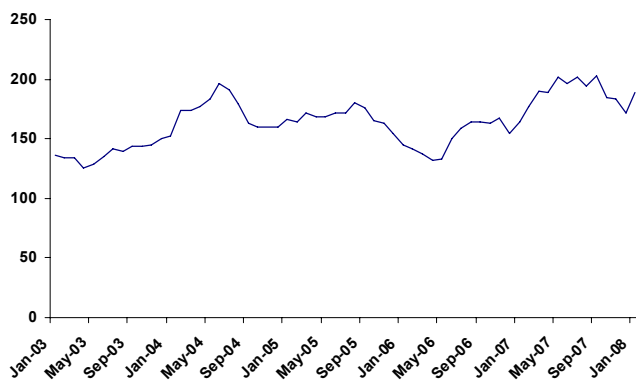
Soybeans



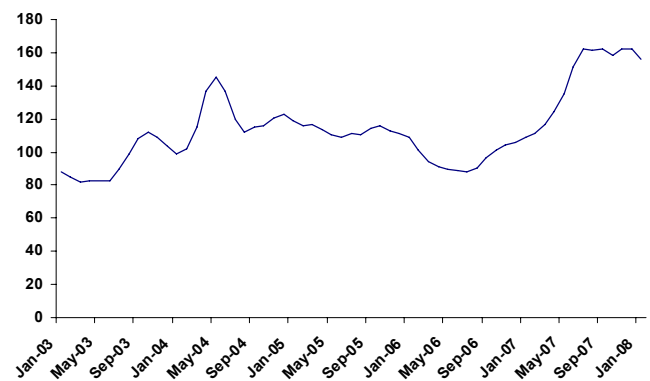
Cattle



Poultry



Fluid Milk



Source: Bureau of Labor Statistics, US Department of Labor
 Note: For all prices indices, average of 1990 - 1992 = 100