

## Inside this Issue

Welcome to the third quarter 2008 issue of our Refrigerated and Frozen Foods Deal-Reader newsletter.

With this issue, we plan to offer insight into the favorable trends impacting the private label food industry, provide statistics regarding trends and developments in the global consumer sector and provide an

update on Lincoln International's Consumer Group activities to date in 2008.

Key topics covered in this issue include:

- Spotlight article: Positive Dynamics in Private Label Food (pages 1-2)
- Recent Transaction Overview (page 3)

- Announcement regarding the opening of Lincoln International's office in Tokyo, Japan (page 3)

- Q3 Key Statistics: Consumer Products (pages 4-6)

We hope that you find this issue interesting and we welcome your comments and suggestions.

## Positive Dynamics in Private Label Food

### Overview

The private label food industry is exhibiting strong growth characteristics as changing consumer preferences, compelling retailer economics and industry consolidation are driving long-term market share gains. In the United States, store brand sales grew from \$30.5 billion to \$34.9 billion for a CAGR of 3.4% over the four years ended 2006, significantly outperforming the overall food industry growth rate of 1.4% in the United States over the same period. Analysts project store branded food products to continue their strong growth with a projected CAGR of 3.4% through 2011 (Packaged Facts, *Private Label Food & Beverage in the U.S.* February 2007).

### Changing Consumer Preferences

Private label food products are capturing market share from their nationally branded counterparts as consumers are increasingly selecting quality store brand products over national brands. Historically, store branded products were viewed as a product for customers focused primarily on price and less concerned about quality. Price is certainly an important consideration for consumers of private label products, as evidenced by the resurgence of consumer interest in private labels during this current period of economic turbulence. Indeed, AC Nielsen reports private label brands have grown 10% in 2008 (year-to-date), due in part to increases in commodity costs, but also to increases in unit sales, as consumers switch to less expensive store brands in order to trim expenses.

However, other non-price factors are also responsible for the strong long-term growth in the private label category. Since the early 2000's there has been a noticeable broadening of the targeted markets for store branded items as retailers have focused on providing store branded products of a comparable or higher quality to popular national brands. A good example of this is Target's "Archer Farms" label, which often is priced at a premium to national brand equivalents.

According to Nielsen, private label products penetrated 100% of households in 2005, with the average United States household purchasing private label products on 45% of their shopping trips. And according to a Gallup pole for the Private Label Manufacturers Association, 90% of consumers reported being familiar with store brands and 83% stated that they regularly purchase these products.

### Compelling Economics for Retailers

Retailers are allocating more shelf space for private label brands due to significant direct and indirect economic benefits. In general, store brands average a gross profit margin for retailers of about 35%, while national brands provide retailers with an average gross margin of 25%. This difference can make a substantial impact on the profitability of a retail store,

with potential to more than double the profitability of a store as shown in Table A below.

Retailers seek to maximize their gross margin return on investment ("GMROI"), a measure of the gross profit generated divided by average inventory. There are essentially two ways to increase GMROI - increase gross margins and increase inventory turns. Because private label products have a higher gross margin than branded products, branded products must have higher inventory turns in order to have an equivalent GMROI. This dynamic leads retailers to keep only the top performing brands in each category in order to free up shelf space for store brand products.

The trend in retailing today is to offer the top two to four national brands for each product category, supplemented by a full

**Table A: The Effect of Private Label on Retailer Profitability**  
(Two hypothetical \$30 billion supermarket groups. Dollars in billions)

	Weak Private Label		Strong Private Label	
	%	\$	%	\$
Sales	100.0%	\$ 30.0	100.0%	\$ 30.0
% of Sales				
Private Label	5.0%	1.5	30.0%	9.0
Branded	95.0%	28.5	70.0%	21.0
Gross Margin				
Private Label	35.0%	0.5	35.0%	3.2
Branded	25.0%	7.1	25.0%	5.3
Total Gross Profit		7.7		8.4
% of Sales Operating Expenses	23.0%	6.9	23.0%	6.9
Operating Profit	2.5%	\$ 0.8	5.0%	\$ 1.5

Source: Coriolis

offering of store branded products. Many retailers provide multiple store branded products for each category at various price and quality levels. Along with the more traditional private label offerings, retailers have introduced premium store brands that compete directly with national brands. These products either have the store's name or a unique brand name such as Costco's "Kirkland." Often, retailers seek to develop premium brands that offer taste and quality characteristics that are better than their nationally branded counterparts. Retailers support these store brands with promotions, advertising and often prime shelf-space. As customers recognize the value provided by the store labeled product, they shift their brand loyalty from the nationally branded products to the retailer's store brand. Accordingly, a report from Private Label Buyer stated that retail chains see incremental increases in private label quality alone as the means to drive an additional 3% to 6% market share, which begins to bring retailer projections in line with analyst expectations that private label will account for 27% of North American grocery sales by the end of the decade. By using private label products to drive store loyalty, retailers are repositioning themselves to more effectively compete in the rapidly consolidating grocery store industry.

### Consolidating Retail Industry Will Increase Store Brand Penetration

While store brands are rapidly taking market share from national brand products, the United States private label food market has room for substantial growth. According to Information Resources, Inc. (IRI), the market share for store branded food products in the United States was 16.1% in 2006, up from 15.6% in 2002 (IRI does not account for Wal-Mart, which has been gaining market share through a strong private label strategy). In other developed nations, private label brands have a much higher penetration. As shown in Chart B below, private label products have a 31% market share in Canada, 38% market share in Switzerland, 31% market share in Great Britain and 23% share in Europe as a whole.

These developed nations are similar to the United States in their exposure to many of

**"The trend in retailing today is to offer the top two to four national brands for each product category, supplemented by a full offering of store branded products."**

the same major brands and mass media promotion. The main difference in retail between these countries is the level of consolidation of major retailers. In Canada, for example, the top five grocery retailers account for 82% of total retail food sales, compared with the United States in which the top five retailers represent only around one-third of national sales, according to Deloitte Consulting.

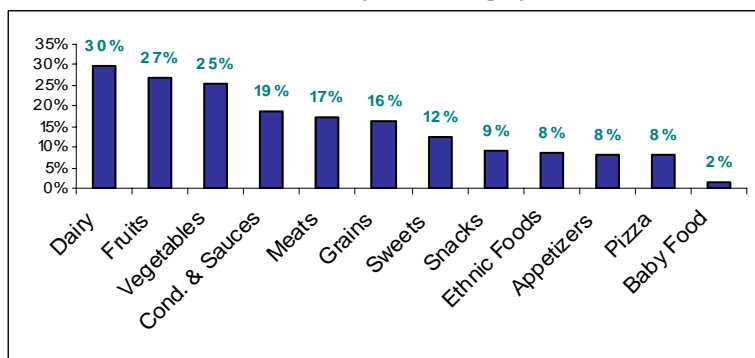
Major United States grocery stores have been consolidating significantly as an increasingly competitive industry is encouraging companies to seek greater economies of scale through acquisitions, resulting in an increasing share of the market being controlled by the largest grocery chains. According to a report issued by the USDA, the top 20

grocery retailers accounted for 39% of total US grocery sales in 1992. By 2005 the top 20 companies expanded their share of the market to 62%. This was due primarily to a major wave of consolidation that took place between 1997 and 2000, when over 4,100 supermarkets were acquired by top chains, representing \$61 billion in sales. Recent activity in retail consolidation suggests that large stores will continue to grow through mergers and acquisitions leading to even fewer retailers controlling the majority of grocery sales in the US. We expect this trend to contribute to increased penetration of private label food products.

### Underpenetrated Categories Staged for Strong Growth

The penetration rate of private label products varies significantly by product line. For example, store brand products represent 29.7% of all dairy products sold in the United States, while private label baby food accounts for only 1.6% of its respective market. As consumers continue to change buying habits to include a broader range of store brand products, many categories that currently have below average penetration are likely to grow even faster than the overall category. Chart C below shows various categories of store

Chart C: Store Brand Penetration by Food Category



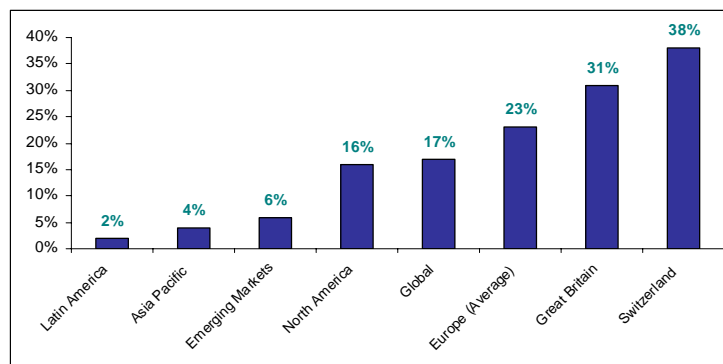
brand food products along with their relative total market penetration.

### Private Label Investing

The private label food industry is an attractive opportunity for investors. The long term growth rate of the food industry is stable and resistant to significant cyclicality. Private label foods are positioned to continue outperforming the overall food category driven by compelling economics for retailers and the general trend toward retailer consolidation. Well positioned companies in this industry, with established competitive advantages serving underpenetrated categories represent

attractive investment opportunities which drive premium valuations even in the current financial markets.

Chart B: Store Brand Penetration by Country



## Recent Private Label Food Transaction



In the third quarter of 2008, Lincoln International announced the sale of a majority interest in Ann's House of Nuts ("Ann's" or "the Company") to Olympus Partners, a private

equity firm based in Stamford, CT. Lincoln International acted as the exclusive financial advisor to Ann's. Terms of the transaction were not disclosed.

Ann's, founded in 1973, is the largest privately-held provider of trail mixes and snack nuts in the world. With a leadership position in the private label healthy snack foods market, the Company formulates, imports and processes a comprehensive array of trail mixes, snack nuts, dried fruits and other products for global distribution. Ann's is a primary private label supplier in its categories to customers in the mass merchandise, supercenter, wholesale club, grocery, military and other channels. The Company also provides products under leading brands such as *Ann's House®* and *Ann's House of Nuts®*. In addition to its

headquarters and production facility in Jessup, MD, the Company also has a production facility in Robersonville, NC.

Edward Zinke, Founder and former Chief Executive Officer of Ann's, added "We are very pleased to partner with Olympus Partners as we continue to build upon the strong entrepreneurial history of Ann's. Lincoln International's involvement and counsel ensured the best outcome for Ann's and its shareholders."

## Lincoln International Opens Office in Tokyo, Japan

On July 25, 2008, Lincoln International opened an office in Tokyo, Japan. Lincoln also has three offices in North America (Chicago, Los Angeles and New York) and five offices in Europe (Frankfurt, London, Madrid, Paris and Vienna). Tetsuya Fujii has been hired as a Managing Director to lead the new office.

Lincoln International's Tokyo team will provide merger and acquisition advisory services to Japanese corporations that are focused on cross-border business development, primarily acquisitions. The Tokyo-based team will also identify and contact potential Japanese acquirers for North American and European sell-side assignments being executed by Lincoln International's North American and European offices. On a case-by-case basis the Tokyo team will work on out-in (foreign company buying or investing in a Japanese company) as well as in-in (domestic) transactions.

Lincoln International offers a unique, differentiated service to Japanese clients. The Tokyo office of Lincoln International provides an enthusiastic and intense focus on completing mid-market transactions in combination with very active M&A practices in both North America and Europe. International investment banks lack enthusiasm and focus for mid-market transactions and virtually all mid-market firms lack the global resources and industry expertise of Lincoln International. Because close to 90% of Japanese M&A transactions are mid-market in size, Lincoln International is positioned to provide significant value added assistance to Japanese companies.

Lincoln International's founders and senior management have had significant prior association with prestigious Japanese institutions in the 1990's, and have developed an understanding of the Japanese market and culture as a result. This history will help to facilitate the smooth integration of the

Tokyo office into the Lincoln International platform.

Fujii will be also be joined by Tokyo-based senior M&A bankers from major international investment banks, as well as additional bankers seconded from Lincoln International's U.S. and European offices. Currently, Lincoln International has more than 100 M&A bankers, with almost 50 in Europe and more than 60 in North America, as well as strong strategic partners in China and India.

"Lincoln International's fully-integrated global platform is unique to the mid-market and exactly what Japanese firms need as they increase focus on cross-border M&A business development," said Fujii. "Lincoln not only has impressive global reach, but many of their investment bankers have deep expertise within specific industry sectors."

## 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, Tokyo 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](http://www.lincolninternational.com)



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MADRID | NEW YORK | PARIS | TOKYO | VIENNA

## Officer Contacts - North America

### Brad Akason

Managing Director  
bakason@lincolninternational.com  
+1-312-580-8351

### Federico G.M. Mennella CFA

Managing Director  
fmennella@lincolninternational.com  
+1-212-277-8103

### David Houser

Managing Director  
dhouser@lincolninternational.com  
+1-312-580-5805

### Chris Stradling

Vice President  
cstradling@lincolninternational.com  
+1-312-580-8325

For contact information in each of our nine global offices, please visit [www.lincolninternational.com](http://www.lincolninternational.com)

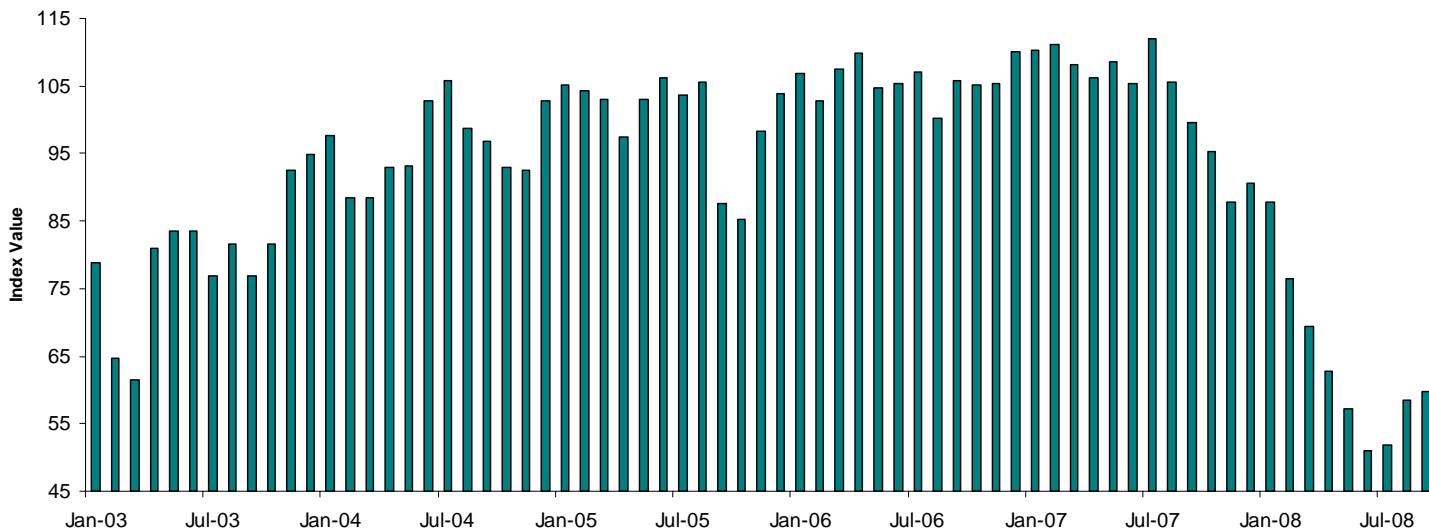
### Contributors

Jeffrey Treichel, Associate, [jtreichel@lincolninternational.com](mailto:jtreichel@lincolninternational.com)  
Hannah Montzka, Associate, [hmontzka@lincolninternational.com](mailto:hmontzka@lincolninternational.com)  
Claire Burke, Analyst, [cburke@lincolninternational.com](mailto:cburke@lincolninternational.com)

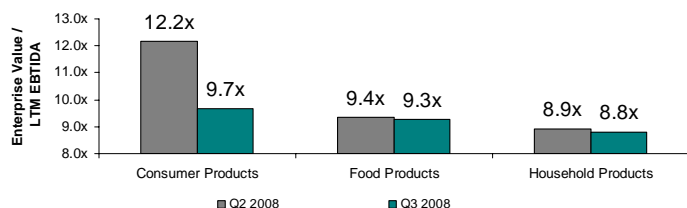
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## Q3 Key Statistics — Consumer Products

### United States Consumer Confidence Levels<sup>1</sup>



### Valuations of Consumer Product Companies<sup>2</sup>



### Consumer Industry Stock Performance<sup>3</sup>



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.

### Retail Sales Performance (LTM)<sup>4</sup>

	Year-Over-Year Same Store Sales Growth											
	Sep-07	Oct-07	Nov-07	Dec-07	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08
Club Stores	4.7%	5.3%	7.9%	4.5%	6.6%	6.0%	5.0%	11.8%	9.6%	11.3%	11.3%	10.6%
Department Stores	5.6%	5.3%	13.4%	(0.1%)	0.3%	(3.2%)	(3.9%)	6.1%	0.8%	(6.4%)	(4.4%)	(4.8%)
Dollar Stores	0.5%	0.0%	(3.4%)	(0.7%)	(0.1%)	1.3%	(4.4%)	4.3%	1.8%	8.0%	4.6%	3.6%
Drug Stores	(0.5%)	1.9%	1.5%	0.3%	2.6%	5.3%	3.5%	1.1%	2.6%	1.5%	2.7%	1.0%
Mass Merchants	1.0%	2.1%	5.9%	(1.2%)	(0.5%)	1.8%	(1.7%)	3.5%	1.9%	3.4%	0.9%	0.7%
Specialty Apparel	(6.0%)	(4.6%)	(1.7%)	(5.2%)	(1.4%)	(1.1%)	(11.3%)	0.8%	(3.6%)	(3.1%)	(5.1%)	(3.9%)
<b>Average</b>	<b>0.9%</b>	<b>1.7%</b>	<b>3.9%</b>	<b>(0.4%)</b>	<b>1.2%</b>	<b>1.7%</b>	<b>(2.1%)</b>	<b>4.6%</b>	<b>2.2%</b>	<b>2.5%</b>	<b>1.7%</b>	<b>1.2%</b>

4. Club Stores comprised of Costco, Sam's Club and BJ's; Department Stores comprised of Federated, Neiman Marcus and Nordstrom; 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; Specialty Apparel comprised of Abercrombie & Fitch, Gap, Limited Brands and Ann Taylor Loft. Note: Growth rates consist of an average of aforementioned components.

# Q3 Key Statistics — Publicly Traded Food Company Metrics

## Large Capitalization Food Company Profitability Metrics<sup>1</sup>

(\$ 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.	\$ 71.44	\$ 75.2	\$ 60.1	\$ 214.3	19.6x	19.6x	17.2x	\$ 248.8	3.0x	14.6x	12.3x
Nestle SA	42.17	50.6	38.6	158.7	16.6x	16.6x	16.0x	185.6	1.9x	12.4x	10.4x
Pepsico, Inc.	70.91	79.8	63.3	111.0	19.8x	19.8x	19.2x	116.1	2.7x	14.0x	11.9x
Unilever NV	27.37	37.1	24.6	76.8	14.7x	14.7x	14.9x	93.1	1.7x	11.9x	10.1x
Kraft Foods Inc.	33.54	35.3	28.0	50.9	20.6x	20.6x	17.4x	71.6	1.8x	13.6x	11.5x
Groupe DANONE	67.36	92.2	58.4	32.2	26.4x	26.4x	17.7x	49.0	2.7x	19.5x	15.8x
General Mills Inc.	69.50	72.0	51.0	23.2	18.8x	18.8x	18.0x	30.2	2.1x	12.9x	10.8x
Kellogg Co.	57.02	58.5	46.3	21.6	20.2x	20.2x	18.8x	26.9	2.2x	13.4x	11.3x
HJ Heinz Co.	50.42	53.0	41.4	15.7	18.5x	18.5x	17.1x	20.7	2.0x	12.8x	10.8x
George Weston Limited	50.19	69.3	40.3	6.5	13.3x	13.3x	13.1x	14.7	0.5x	12.7x	8.1x
Campbell Soup Co.	39.47	40.1	30.2	14.2	22.4x	22.4x	17.9x	16.5	2.1x	13.0x	10.7x
ConAgra Foods, Inc.	19.92	26.3	18.9	8.9	19.5x	19.5x	13.6x	12.0	1.0x	11.7x	9.1x
Hershey Co.	38.96	47.4	32.3	8.8	40.3x	40.3x	21.8x	11.3	2.2x	13.7x	10.0x
Associated British Foods plc	12.78	17.0	12.8	10.1	13.7x	13.7x	n/a	12.1	0.9x	11.6x	7.8x
Median					19.6x	19.6x	17.4x		2.0x	12.9x	10.7x
Mean					20.3x	20.3x	17.1x		1.9x	13.4x	10.8x

(\$ 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.	\$ 83.5	\$ 17.1	\$ 20.2	\$ 12.1	24.2%	24.0%	20.5%	20.1%	14.5%	13.6%
Nestle SA	107.2	15.1	18.3	10.7	17.0%	16.6%	14.1%	13.6%	10.0%	9.4%
Pepsico, Inc.	41.8	7.6	9.1	5.9	21.8%	22.4%	18.3%	18.6%	14.0%	14.3%
Unilever NV	63.1	8.6	10.1	6.3	16.0%	16.4%	13.6%	14.0%	9.9%	10.5%
Kraft Foods Inc.	41.0	5.3	6.3	2.5	15.4%	17.0%	13.0%	14.5%	6.1%	7.8%
Groupe DANONE	22.0	3.1	3.8	6.9	17.3%	16.9%	14.0%	13.4%	31.5%	19.2%
General Mills Inc.	14.1	2.2	2.7	1.3	19.0%	20.2%	15.7%	16.8%	9.1%	9.3%
Kellogg Co.	12.4	2.0	2.4	1.1	19.1%	20.6%	16.1%	17.2%	8.9%	9.4%
HJ Heinz Co.	10.4	1.6	1.9	0.9	18.2%	18.7%	15.3%	15.8%	8.3%	8.2%
George Weston Limited	32.1	1.2	1.9	0.6	5.8%	6.8%	3.7%	4.6%	1.8%	1.5%
Campbell Soup Co.	8.0	1.3	1.6	1.2	19.6%	19.5%	16.2%	15.9%	14.6%	12.0%
ConAgra Foods, Inc.	12.1	1.0	1.3	1.2	10.6%	12.0%	8.2%	9.1%	9.9%	6.9%
Hershey Co.	5.0	0.8	1.1	0.2	21.6%	24.3%	15.8%	19.4%	4.4%	8.6%
Associated British Foods plc	14.5	1.1	1.7	0.8	11.7%	12.3%	7.8%	8.5%	5.8%	5.7%
Median					17.7%	17.9%	14.7%	15.1%	9.5%	9.4%
Mean					17.0%	17.7%	13.7%	14.4%	10.6%	9.7%

## Mid Capitalization Food Company Profitability Metrics<sup>1</sup>

(\$ 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.	\$ 36.84	\$ 42.8	\$ 33.4	\$ 5.0	15.9x	15.9x	16.5x	\$ 5.3	0.8x	10.1x	8.1x
Grupo Bimbo SA de CV	6.15	6.6	5.0	7.2	21.1x	21.1x	18.2x	7.6	1.1x	12.9x	9.5x
Del Monte Foods Co.	7.74	10.8	6.4	1.5	12.6x	12.6x	13.2x	3.5	0.9x	10.0x	7.6x
The J. M. Smucker Company	51.10	56.7	40.2	2.8	16.7x	16.7x	15.0x	3.5	1.3x	11.6x	9.5x
Maple Leaf Foods Inc.	8.04	14.9	7.3	1.0	NM	NM	118.7x	2.3	0.4x	15.5x	7.8x
Flowers Foods, Inc.	29.19	32.7	20.1	2.7	26.0x	26.0x	24.1x	2.7	1.3x	18.0x	12.5x
Chiquita Brands International Inc.	14.83	25.8	12.5	0.7	17.2x	17.2x	10.0x	1.4	0.3x	9.6x	5.9x
Fresh Del Monte Produce Inc.	21.22	39.8	19.3	1.3	7.7x	7.7x	8.7x	2.0	0.5x	10.5x	7.0x
Ralcorp Holdings Inc.	68.85	74.1	48.1	1.8	13.0x	13.0x	19.2x	2.3	0.9x	13.6x	9.0x
Treehouse Foods Inc.	31.23	30.3	19.2	1.0	27.8x	27.8x	19.4x	1.5	1.1x	16.9x	11.5x
Median					16.7x	16.7x	17.4x		0.9x	12.2x	8.5x
Mean					17.6x	17.6x	26.3x		0.9x	12.9x	8.8x

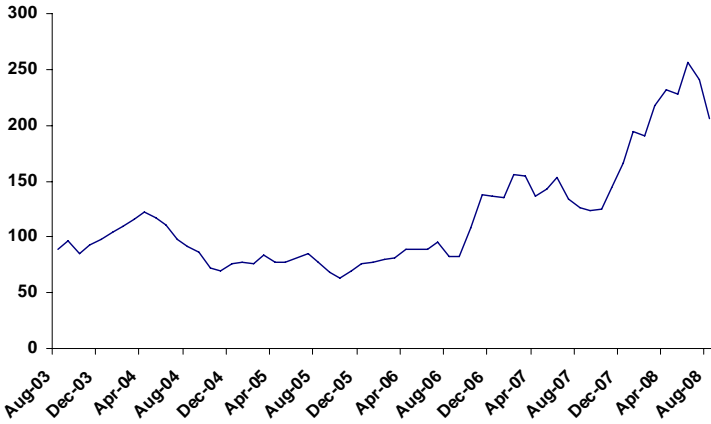
(\$ in billions, except for share data)

Selected Companies	LTM				EBITDA/Rev		EBIT/Rev		NI/Rev	
	Revenue	EBIT	EBITDA	NI	LTM	Avg	LTM	Avg	LTM	Avg
Hormel Foods Corp.	\$ 6.6	\$ 0.5	\$ 0.6	\$ 0.3	9.9%	9.9%	7.9%	7.8%	4.9%	4.9%
Grupo Bimbo SA de CV	7.4	0.6	0.9	0.4	11.6%	11.8%	8.6%	8.7%	5.0%	5.3%
Del Monte Foods Co.	3.8	0.3	0.5	0.1	11.9%	13.3%	9.0%	10.4%	3.1%	4.1%
The J. M. Smucker Company	2.6	0.3	0.4	0.2	13.8%	14.7%	11.3%	12.0%	6.5%	6.9%
Maple Leaf Foods Inc.	5.0	0.1	0.3	0.2	5.7%	6.3%	2.9%	3.8%	3.7%	1.9%
Flowers Foods, Inc.	2.2	0.2	0.2	0.1	10.3%	9.6%	7.1%	6.2%	4.8%	4.2%
Chiquita Brands International Inc.	4.8	0.1	0.2	0.0	4.7%	4.0%	2.9%	2.2%	0.8%	-0.1%
Fresh Del Monte Produce Inc.	3.5	0.2	0.3	0.2	7.4%	5.9%	5.0%	3.3%	4.9%	1.5%
Ralcorp Holdings Inc.	2.6	0.2	0.3	0.1	9.9%	10.7%	6.4%	7.1%	5.4%	3.0%
Treehouse Foods Inc.	1.4	0.1	0.1	0.0	9.9%	9.5%	6.8%	6.7%	2.6%	3.5%
Median					9.9%	9.7%	6.9%	6.9%	4.8%	3.8%
Mean					9.5%	9.6%	6.8%	6.8%	4.2%	3.5%

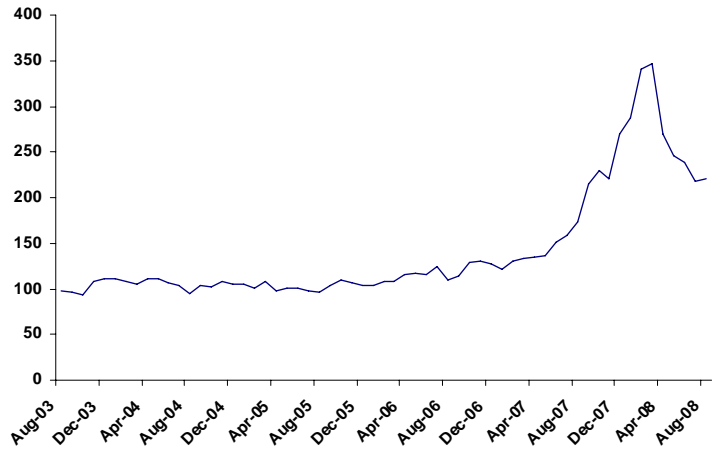
1) Source: Capital IQ  
Note: All stock prices and LTM calculations are as of October 3, 2008; NM = Not Meaningful

# Commodity Report

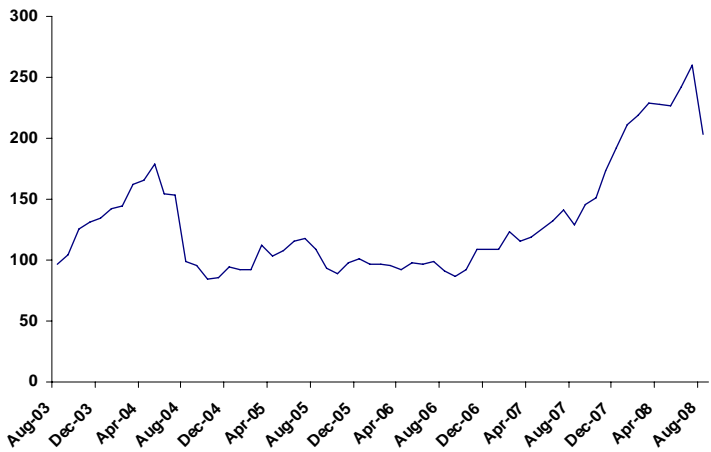
Corn



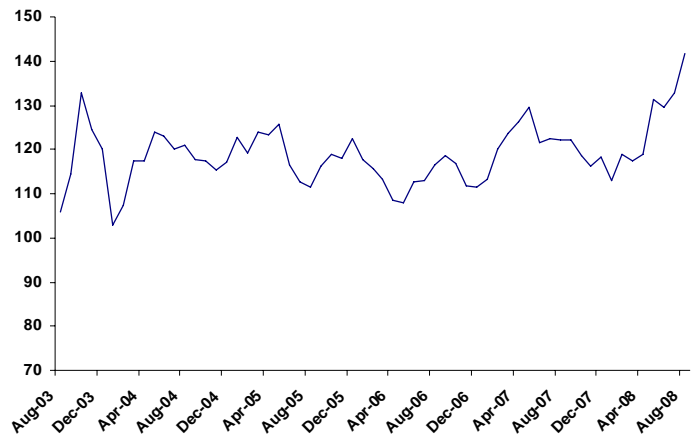
Wheat



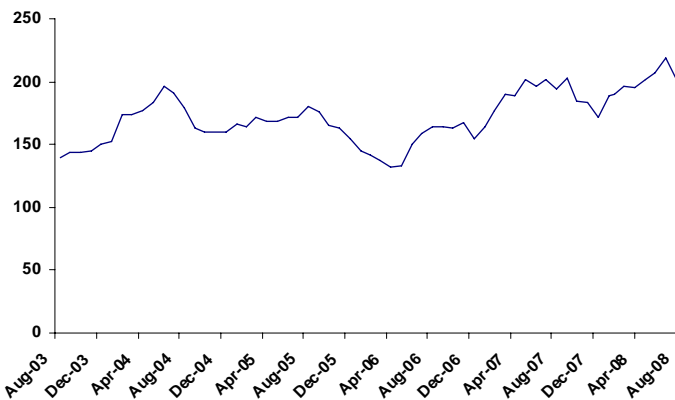
Soybeans



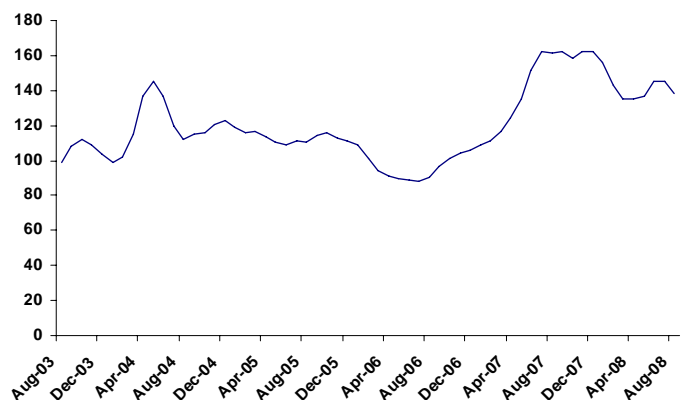
Cattle



Poultry



Fluid Milk



Source: Bureau of Labor Statistics, US Department of Labor

Note: For all prices indices, average of 1990 - 1992 = 100. Charts are updated through August 15, 2008