

Inside this Issue

Welcome to the Q2 2008 edition of the Refrigerated & Frozen Foods Deal Reader, presented by Lincoln International, a leading mid-market investment bank specializing in the food industry, in collaboration with the publishers of Refrigerated & Frozen Foods.

In this edition, Lincoln examines the impact of rising commodity prices on U.S. food manufacturers and discusses useful management strategies in an inflationary environment. In addition, a number of key statistics including con-

sumer confidence data, public company valuation and operating statistics, and commodity price information are presented.

Key topics covered in this issue include:

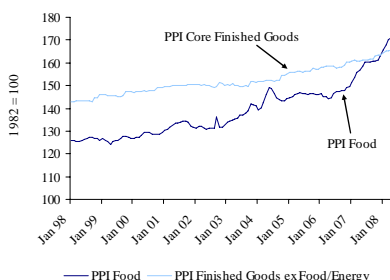
- Feature Article: The Impact of Rising Commodity Prices on U.S. Food Manufacturing (page 1 and 2);
- Q2 2008 Key Statistics: U.S. Consumer Data (page 3);

- Q2 2008 Key Statistics: Food Manufacturing Profitability Metrics (page 4); and,
- Q2 2008 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 ff@lincolninternational.com.

Feature Article: The Impact of Rising Commodity Prices on U.S. Food Manufacturing

Inflation, which has not been a serious concern in the U.S. since the early 1980's, has made a clear return to center stage recently. Strong U.S. productivity gains drove a prolonged period of very modest price increases through the 1990's and into the early 2000's. Clearly, however, something has changed as commodity prices are rising at a dramatic pace. As the chart below indicates, the influence of these commodity price increases disproportionately impacts the cost of U.S. food products.



Source: Bureau of Labor Statistics

Factors Driving Commodity Inflation

Many factors are driving this acceleration, but three of the most notable are: 1) current stimulatory Federal Reserve monetary policy; 2) long-term structural imbalances in U.S. government spending; and 3) wealth creation in emerging economies which

introduces very large numbers of people into global markets. The first two of these factors erode the value of the U.S. dollar, leading to increasing hard commodity costs in dollar terms, while the third represents significant demand-side competition for existing commodities. While some of these influences are expected to be relatively short-term in nature, specifically U.S. Federal Reserve monetary policy, the other factors are likely to persist into the future and represent significant structural challenges with which U.S. food manufacturers will have to contend.

Food and Energy

Like commodity prices generally, food and energy cost increases are both driven by increasing demand in the major developing economies like China, India, and Brazil, where bicycles are traded for automobiles and increasing personal wealth translates into demand for better food and more mobility. According to the United Nations, global population rose from 5.8 billion in 1997 to 6.7 billion in 2007. Demand for energy, which, according to a Kansas City Federal Reserve Bank report, now accounts for approximately 8% of the retail cost of food, is increasing at a rate faster than supply, driving the cost of fuel higher. The linkage between energy and food has become even more explicit since 2006 when the U.S. government offered

significant incentives to biofuel producers, leading to declines in the inventories of corn and soybeans despite record crops and acres under cultivation. As acres of these crops have increased to accommodate demand for biofuels, the acreage available for other crops has decreased, further exacerbating supply limitations and increasing prices across many food categories.

“...inflation risks have re-emerged as a global challenge ... Rising energy and commodity prices are central to these new concerns.”

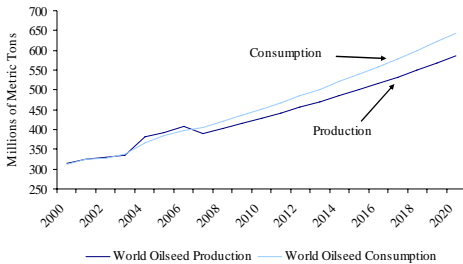
John Lipsky

First Deputy Managing Director, International Monetary Fund

In addition to supply constraints, people in developing economies choose to eat more and better foods as they become wealthier. The same Kansas City Fed report indicates that per capita daily caloric intake in developed countries is 24% higher than in developing economies and that most of the increase in calories comes in the form of protein. It requires approximately five pounds of high-quality grain to produce one pound of high quality animal protein. This

(Continued on page 2)

increased protein consumption, particularly in the 40% of the world's population that lives in the rapidly growing economies of China, India, and Brazil, translates into a significant imbalance of supply and demand that cannot be addressed with short-term solutions and that, together with rising energy costs, will continue to drive food commodity prices upward. The chart nearby illustrates this imbalance by projecting growth rates in world oilseed production and consumption by their respective growth rates from 1994 to 2007 over the next thirteen years through 2020.



Source: Federal Reserve Bank of Kansas City; BLS

Impact on Valuations

Given that structural issues are likely to drive continued commodity price increases over the next five to ten years, what are the implications for the valuations of food manufacturers? While commodity inflation impacts all businesses in the form of higher input costs, not all companies respond similarly or have the same ability to pass these costs through to their own customers. Companies with distinct competitive advantages in terms of marketing power or expertise, strong positions in niche

Reference Materials: The following materials were referenced in preparing the above article.
 1) "Commodity Prices and Global Inflation," International Monetary Fund, May 2008
 2) "What Is Driving Food Price Inflation?," Federal Reserve Bank of Kansas City, 2008

About Lincoln International

Lincoln International specializes in merger and acquisition services, private capital raising, and providing fairness opinions and valuations 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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markets, low costs of manufacturing, and strong management teams that understand how to operate in an inflationary environment should experience little adverse effect from the generally rising costs and may reap some benefits. Conversely, companies with undifferentiated commodity products, relatively high production costs, or suboptimal working capital management are likely to see profitability, earnings, and company valuations suffer.

Strategies to Manage Inflation

In this period of rising commodity costs, businesses need to consider various mechanisms by which they can maintain profit margins. The mechanisms likely will include some form of the following strategies:

- **Diligently push price increases:** Strong food companies will maintain their strength by increasing prices rapidly as their underlying costs increase. Large customers generally understand the current rising cost environment. Providing clear supporting evidence of your cost increases can help the sometimes difficult discussions. Providing creative options to your customers can also help. Some of these options might include decreasing package quantities or reformulating products as alternatives to a straight price increase.
- **Lock in commodity costs:** When possible, lock in long-term commodity prices through the purchase of exchange-traded futures contracts or

through long-term contracts with reputable and trustworthy suppliers. This forward purchasing can provide the ability to offer long-term pricing to your customers.

- **Drive manufacturing efficiencies:** Cut waste. Minimize product giveaway by ensuring packages don't include excess product. Identify electricity and other fuel saving opportunities. Optimize the use of production overtime.
- **Minimize shipping and handling expense:** Do everything possible to ship full truckloads. In some cases, the use of third-party distribution networks can provide freight savings in light of increasing fuel costs.
- **Understand your variable costs:** Carefully study your company's true variable costs by product line, customer, geography, brand, etc. Such a study will often reveal opportunities to improve overall margins.
- **Cut losing product lines:** Many food companies have product lines with contribution margins that are extremely low or even negative. Immediately raise prices or discontinue these lines.

Summary

In the end, well-managed companies with distinct competitive advantages should expect to fare well in a period of increasing commodity costs, and opportunities to acquire market share and facilities from less well-placed competitors are likely to present themselves at attractive valuations.

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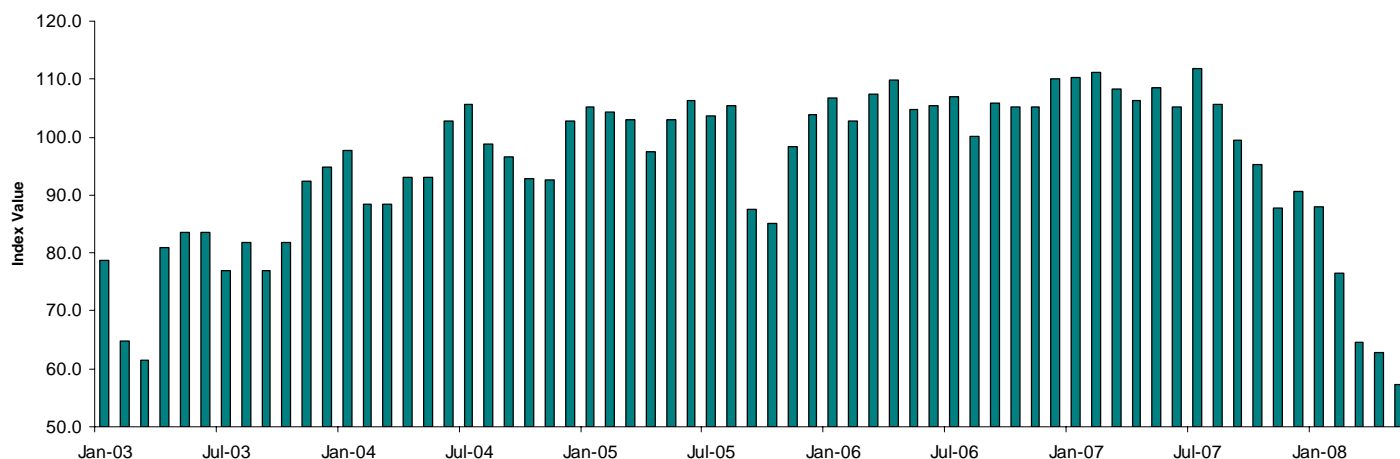
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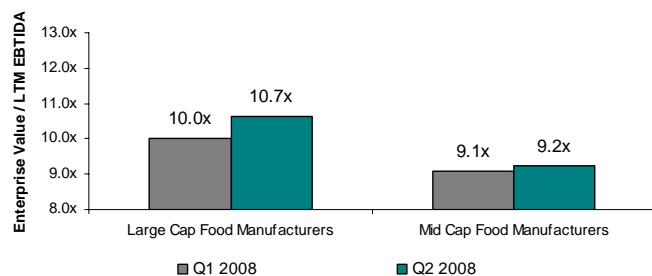
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Q2 Key Statistics — Consumer Products

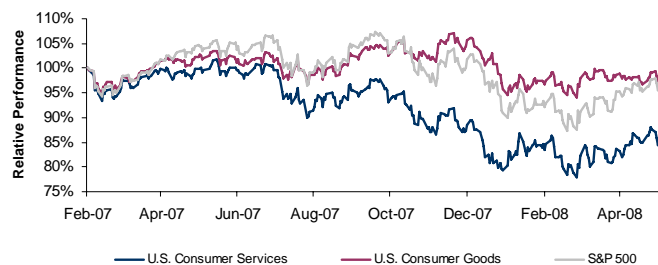
United States Consumer Confidence Levels¹



Valuations of Publicly-traded Food Manufacturers²



Consumer Industry Stock Performance³



Retail Sales Performance (LTM)⁴

Retail Sales

	Year-Over-Year Same Store Sales Growth											
	May-07	Jun-07	Jul-07	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07	Jan-08	Feb-08	Mar-08	Apr-08
Club Stores	5.8%	6.3%	4.5%	2.5%	4.7%	5.3%	7.9%	4.5%	6.6%	6.5%	5.4%	12.1%
Dollar Stores	2.5%	1.5%	0.5%	1.0%	0.5%	0.0%	(3.4%)	(0.7%)	0.0%	1.3%	(4.4%)	4.3%
Drug Stores	4.3%	4.9%	4.1%	4.5%	3.2%	2.8%	2.5%	0.4%	2.6%	3.2%	3.5%	1.1%
Mass Merchants	3.1%	2.5%	3.7%	4.5%	1.0%	2.1%	5.9%	(1.2%)	(0.5%)	3.1%	0.3%	4.8%
Average	3.9%	3.8%	3.2%	3.1%	2.3%	2.6%	3.2%	0.7%	2.2%	3.5%	1.2%	5.6%

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.

Note: All stock prices and LTM calculations are as of May 31, 2008

Q2 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.	\$ 66.05	\$ 75.2	\$ 60.8	\$ 201.6	19.5x	19.5x	18.9x	\$ 235.9	2.9x	14.2x	12.0x
Nestle SA	491.28	530.6	424.4	184.9	18.6x	18.6x	17.3x	207.2	2.0x	13.3x	11.1x
Pepsico, Inc.	68.30	79.8	64.3	108.3	19.7x	19.7x	18.3x	111.6	2.8x	14.0x	11.9x
Unilever NV	32.67	40.0	30.9	92.4	15.0x	15.0x	15.8x	106.1	1.7x	12.2x	10.5x
Kraft Foods Inc.	32.48	37.2	28.6	49.2	20.4x	20.4x	16.9x	71.3	1.8x	14.3x	12.1x
Groupe DANONE	87.53	99.6	77.9	41.6	30.4x	30.4x	20.2x	59.3	3.0x	21.6x	17.5x
General Mills Inc.	63.20	63.6	51.0	21.2	16.6x	16.6x	18.2x	28.4	2.1x	11.5x	9.7x
Kellogg Co.	51.81	56.9	46.3	19.6	18.7x	18.7x	17.3x	25.0	2.1x	12.3x	10.4x
HJ Heinz Co.	49.91	50.1	41.4	15.7	19.5x	19.5x	17.2x	20.6	2.1x	13.2x	11.1x
George Weston Limited	51.52	82.4	43.7	6.6	12.4x	12.4x	12.6x	15.5	0.5x	12.0x	7.8x
Campbell Soup Co.	33.48	40.0	30.2	12.7	19.3x	19.3x	16.4x	14.8	1.8x	11.7x	9.5x
ConAgra Foods, Inc.	23.58	27.5	20.9	11.5	12.7x	12.7x	12.7x	15.2	1.1x	8.3x	7.1x
Hershey Co.	39.19	53.2	33.5	8.9	49.1x	49.1x	21.5x	10.8	2.2x	13.3x	9.5x
Associated British Foods plc	17.04	18.8	14.9	13.5	16.2x	16.2x	n/a	15.5	1.1x	13.4x	9.0x
Median					19.0x	19.0x	17.3x		2.0x	13.2x	10.4x
Mean					20.6x	20.6x	17.2x		1.9x	13.2x	10.7x

(\$ 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.	\$ 81.5	\$ 16.6	\$ 19.7	\$ 11.3	24.1%	23.5%	20.4%	19.7%	13.9%	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.	40.5	7.4	8.9	5.7	21.9%	22.4%	18.3%	18.6%	14.1%	14.3%
Unilever NV	63.7	8.6	10.1	6.7	15.8%	16.4%	13.5%	14.0%	10.5%	10.5%
Kraft Foods Inc.	39.0	5.0	5.9	2.5	15.1%	17.0%	12.8%	14.5%	6.4%	7.8%
Groupe DANONE	18.6	2.4	3.1	6.1	16.4%	16.9%	13.1%	13.4%	32.7%	19.2%
General Mills Inc.	13.2	2.4	2.8	1.3	21.4%	20.8%	18.0%	17.2%	10.1%	9.8%
Kellogg Co.	12.1	2.0	2.4	1.1	19.9%	20.6%	16.8%	17.2%	9.1%	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	32.1	1.2	1.9	0.6	6.0%	6.8%	3.9%	4.6%	1.8%	1.5%
Campbell Soup Co.	8.3	1.3	1.6	1.1	18.7%	19.5%	15.2%	15.8%	13.7%	10.4%
ConAgra Foods, Inc.	13.3	1.7	2.0	0.9	15.2%	13.2%	12.9%	10.5%	6.9%	5.6%
Hershey Co.	5.0	0.8	1.1	0.2	22.9%	24.3%	16.4%	19.4%	3.7%	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					17.8%	18.0%	14.6%	15.2%	9.5%	9.4%
Mean					17.5%	17.8%	14.2%	14.5%	10.5%	9.5%

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.	\$ 37.79	\$ 42.8	\$ 30.0	\$ 5.1	16.7x	16.7x	16.1x	\$ 5.3	0.8x	10.3x	8.2x
Grupo Bimbo SA de CV	6.49	7.1	5.3	7.6	20.7x	20.7x	18.1x	7.9	1.1x	12.6x	9.4x
Del Monte Foods Co.	8.71	12.9	6.4	1.7	14.8x	14.8x	12.5x	3.8	1.1x	10.6x	8.2x
The J. M. Smucker Company	52.79	64.3	42.8	2.9	17.2x	17.2x	16.6x	3.4	1.4x	11.3x	9.4x
Maple Leaf Foods Inc.	11.83	16.8	11.1	1.5	NM	NM	30.2x	2.6	0.5x	14.1x	7.9x
Flowers Foods Inc.	28.13	29.9	18.3	2.6	27.5x	27.5x	23.6x	2.6	1.3x	18.2x	12.4x
Chiquita Brands International Inc.	24.34	24.6	13.3	1.1	NM	NM	12.1x	1.8	0.4x	19.1x	10.0x
Fresh Del Monte Produce Inc.	29.54	39.8	21.7	1.9	9.3x	9.3x	9.1x	2.1	0.6x	11.1x	7.7x
Ralcorp Holdings Inc.	60.00	64.8	50.5	1.5	15.1x	15.1x	17.5x	2.2	0.9x	12.8x	8.4x
Treehouse Foods Inc.	26.13	29.3	19.2	0.8	22.6x	22.6x	17.0x	1.4	1.1x	15.3x	10.7x
Median					16.9x	16.9x	16.8x		1.0x	12.7x	8.9x
Mean					18.0x	18.0x	17.3x		0.9x	13.5x	9.2x

(\$ in billions, except for share data)

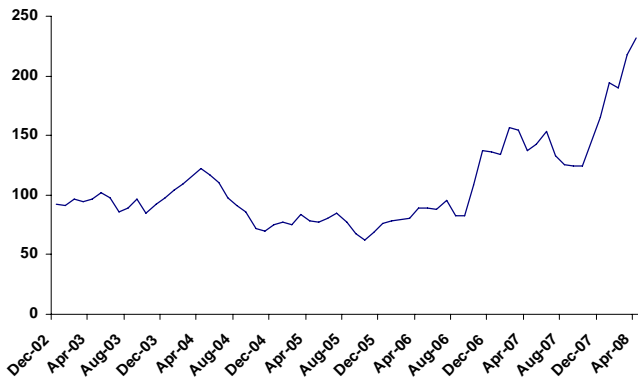
Selected Companies	LTM				EBITDA/Rev		EBIT/Rev		NI/Rev	
	Revenue	EBIT	EBITDA	NI	LTM	Avg	LTM	Avg	LTM	Avg
Hormel Foods Corp.	\$ 6.3	\$ 0.5	\$ 0.6	\$ 0.3	10.1%	9.9%	8.1%	7.8%	5.0%	4.9%
Grupo Bimbo SA de CV	6.6	0.6	0.8	0.3	12.0%	12.0%	8.9%	8.9%	5.3%	5.3%
Del Monte Foods Co.	3.6	0.4	0.5	0.1	12.8%	13.7%	9.9%	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.	5.0	0.2	0.3	0.2	6.3%	6.3%	3.6%	3.8%	3.9%	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	0.2	(0.0)	3.9%	4.0%	2.1%	2.2%	(0.3%)	-0.1%
Fresh Del Monte Produce Inc.	3.4	0.2	0.3	0.2	7.9%	5.9%	5.5%	3.3%	5.6%	1.5%
Ralcorp Holdings Inc.	2.5	0.2	0.3	0.1	10.2%	10.7%	6.6%	7.1%	4.2%	3.0%
Treehouse Foods Inc.	1.3	0.1	0.1	0.0	10.4%	9.5%	7.3%	6.7%	2.9%	3.5%
Median					10.3%	9.7%	7.2%	6.9%	4.4%	3.8%
Mean					9.9%	9.6%	7.1%	6.9%	4.2%	3.5%

1) Source: Capital IQ

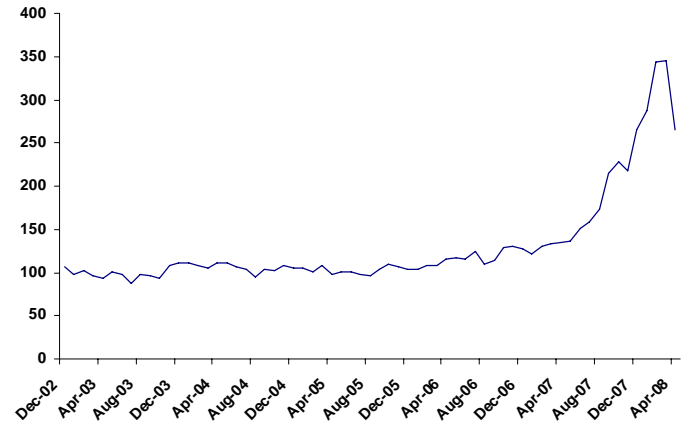
Note: All stock prices and LTM calculations are as of May 31, 2008

Commodity Report

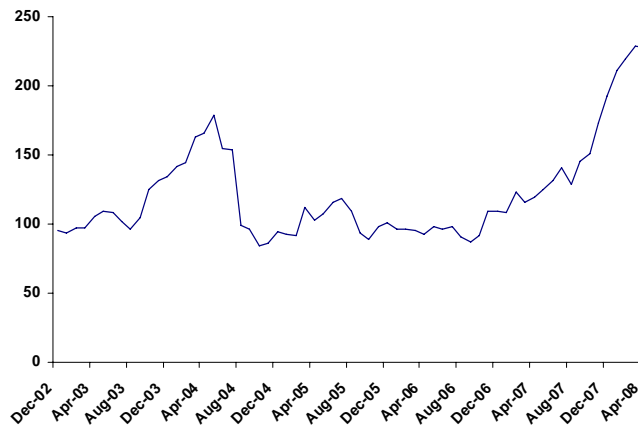
Corn



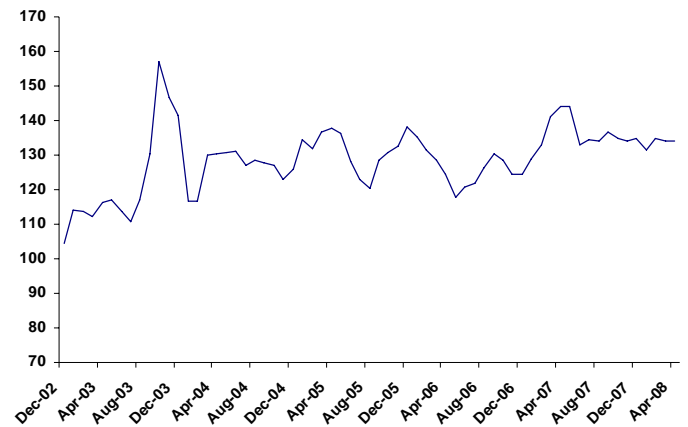
Wheat



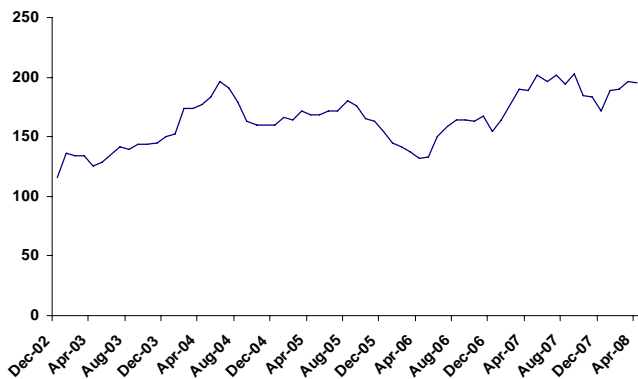
Soybeans



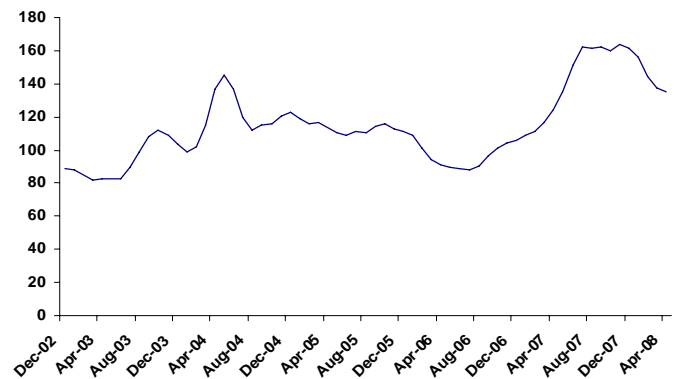
Cattle



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 May 31, 2008