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## Demand for Corn to Produce Ethanol, Dramatic Effect on the U.S. Economy

**C**orn is the new gold of the grain world. At a time when grain prices typically hit lower levels, the price of corn has skyrocketed 55% since mid-September. From fattening farm animals to making cereal to producing ethanol, corn plays a critical role in everyday life.

Domestic initiatives to decrease the percentage of oil imports have led to a push in alternative energy sources, specifically ethanol. Ethanol is expected to require about 25% of this year's corn crop, opposed to just 6% in 2000.

According to the Renewable Fuels Association, 111 plants are operating and another 75 are under construction, with firms such as the Carlyle Group to Cargill investing in the industry.

Helping to meet this demand, the U.S. imported more than 418 million gallons of ethanol in 2006 from Brazil, often referred to as the "Saudi Arabia" of ethanol. Despite significant incentives to domestic ethanol producers, Brazilian ethanol is generally less expensive by approximately \$.15, after transportation costs. However, current ethanol imports are capped at 7% of total U.S. consumption. Further, the import

### Insight of the Month

tariff expires in 2009 when the U.S. ethanol industry should be capable of supplying the country's needs.

The demand for corn has a domino effect on many aspects of the economy. Farmers will convert land to corn production to cash in on the trend, reducing the supply of other grains such as wheat and soybeans. As a result, processors of these grains will be forced to pay higher prices to the farmers in efforts to maintain a consistent supply.

Increased demand translates to above average profits for farmers and equipment manufacturers, while major food conglomerates continue to suffer financially. Most importantly, the consumer bears the higher prices at the supermarket.

The irony in the push for ethanol is the declining price of fuel, which recently dipped below \$2.00/gallon, versus \$2.16/gallon for ethanol blended fuel. This comparison does not take into account the dollars in government subsidies spent each year to promote ethanol production.

As corn prices recently hit a 10-year high and continue to rise, the impact will likely have a dramatic effect on the economy in the foreseeable future.

## Private Equity News

**I**n Private Equity news this month, Aramark's status as a publicly traded company ended with the completion of the buyout by management, **GS Capital Partners**, **CCMP Capital Advisors** and **J.P. Morgan Partners**, **Thomas H. Lee Partners**, and **Warburg Pincus** in late January. Aramark is an \$11 billion company, employing 240,000 people across the globe. The common shareholders accepted the buyout group's offer in August 2006. The total cash consideration for the transaction was \$6.1 billion with an implied enterprise value of \$8.0 billion, resulting in revenue and EBITDA multiples of 0.7x and 8.5x, respectively. Prior to this takeover, the CEO, Joseph Neubauer, led an \$890 million leveraged buyout of the company in 1984 and completed a \$690 million initial public offering in 2001.

**A**fter selling its 30% ownership interest in **Energy Brands, Inc.** to the **Tata Group** for \$677 million in August as well as its ownership interest in **GFA Brands** to **Boulder Specialty Brands, Inc.** for

\$465 million in September, it was recently announced that **TSG Consumer Partners** is "exploring strategic alternatives" in two other portfolio companies, **Harris Soup Co.** and **PureOlogy Research LLC.**

**E**xpanding its presence in the Hispanic food industry, the **Huff Alternative Fund** made its second investment in the sector after providing the equity capital for the combination of **Reynaldo's Mexican Food Manufacturer** and **Don Gilberto Foods.** Huff's first investment was made in 2004, after the firm purchased **Wisconsin Cheese Group** from **Main Street Food Partners.**

**A**dding to its portfolio of franchisors, **Levine Leichtman Capital Partners** announced the acquisition of **Wetzel's Pretzels, LLC.** Wetzel's will complement LLCP's two other restaurant investments, **Quizno's Corporation** and **CiCi's Pizza, Inc.** Wetzel's is one of the largest soft pretzel retailers in the United States with approximately 190 locations across 27 states and five countries.

(\$ in millions)

**Food Processing**

January 31, 2007	<b>J&amp;J Snack Foods Corp.</b> acquired the assets of <b>Radar, Inc.</b>	-	Radar, Inc. is a manufacturer and distributor of fig and fruit bars under the <i>Daddy Ray's</i> brand. This is J&J Snack Foods second acquisition of the month.
January 30, 2007	<b>CSM</b> has acquired <b>Archer Daniels Midland Company's</b> Specialty Ingredients Business.	\$55.0	Archer Daniels Midland Company's Specialty Ingredient business includes bakery enhancers, mixes, enrichments, and Monoglycerides, which had approximately \$50 million of revenues in 2006.
January 26, 2007	The Lactalis American Group Inc. of <b>Group Lactalis</b> reached an agreement to purchase <b>Mozzarella Fresca Inc.</b> of Concord.	-	Mozzarella Fresca, a manufacturer of mozzarella and other soft Italian-style cheeses, is Lactalis American Group's third subsidiary, along with Sorrento Lactalis and Lactalis USA.
January 25, 2007	<b>CoolBrands International Inc.</b> announced its intention to sell its Eskimo Pie brand to Dreyer's Grand Ice Cream, Inc., a division of <b>Nestle SA.</b>	\$18.9	The transaction includes the Real Fruit trademark as well as Chipwich and Eskimo Pie soft-serve and foodservice products, which accounted for \$35 million in sales last year.
January 23, 2007	<b>Wm. Wrigley Jr. Company</b> signed a purchase agreement to acquire an 80% initial interest in <b>A. Korkunov.</b>	\$300.0	A. Korkunov, a Russian privately-held premium chocolate company, will provide Wrigley with entry into the premium chocolate category and expands its presence in Eastern Europe.
January 23, 2007	<b>B&amp;G Foods, Inc.</b> entered into an agreement to acquire the <i>Cream of Wheat</i> and <i>Cream of Rice</i> hot cereal brands from <b>Kraft Foods, Inc.</b>	\$200.0	<i>Cream of Wheat</i> and <i>Cream of Rice</i> brands are two high-end niche brands that fit well into B&G's branded product portfolio.
January 9, 2007	<b>J&amp;J Snack Foods Corp.</b> acquired the assets of <b>Hom/Ade Foods, Inc.</b>	-	Hom/Ade Foods, a manufacturer of biscuits and dumplings sold under the <i>Mary B's</i> and private label brands, generated approximately \$30 million in revenues.
January 9, 2007	Synergy Flavors, a division within <b>Carbery Group</b> , has acquired <b>Vanlab Corp.</b>	-	Synergy Flavors is a developer of flavors for the food and beverage industry, which strengthens the company's business in the United States.

**Protein**

January 24, 2007	<b>Cal-Maine Foods, Inc.</b> signed an agreement to buy the 50% interest in <b>Green Forest Foods, LLC</b> owned by <b>Pier 44 Properties, LLC.</b>	-	Green Forest Foods, a producer and processor of eggs from approximately 1 million laying hens, was jointly owned and operated by Cal-Maine and Pier 44 since January 2006.
January 8, 2007	<b>Jerky Snack Brands Inc.</b> announced the acquisition of <b>Pioneer Snacks Inc.</b>	-	Jay Link, the CEO and President of Jerky Snack Brands, acquired Michigan-based Pioneer Snacks, a full-line manufacturer of premium meat snacks, as his latest venture in the meat snack industry.

**Private Equity**

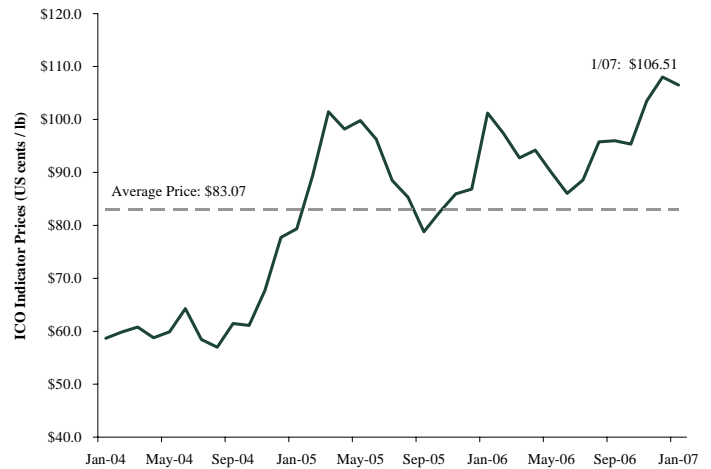
January 25, 2007	<b>Sterling Investment Partners</b> completed its acquisition of a majority stake in <b>Fairway Market.</b>	-	Fairway Market is a New York area retail store renowned for its high quality offerings and selection of meat, cheese, fish, produce, and specialty items.
January 9, 2007	<b>Huff Alternative Fund</b> provided the equity capital to facilitate the merger of <b>Reynaldo's Mexican Food</b> and <b>Don Gilberto Foods.</b>	-	Son of the founder of Cacique, Gilbert de Cardenas Jr. will be responsible for overseeing the combined operations of the two companies.

## Commodities Impacting the Food and Beverage Industry

### Coffee

- The monthly average of the ICO (International Coffee Organization) composite indicator price reached a level of \$108.01 cents per pound in December, the highest since June 1998.
- The coffee crop deficit, particularly in Brazil, and continued increased consumption, are leading to increased price of coffee beans.
- Early in January, the three major United States roasters (Proctor & Gamble, Massimo Zanetti Beverage USA, and Kraft Foods) increased prices on all well-known roast and ground coffee brands.
- Starbucks initiated price increases on espresso drinks and bagged coffee back in October as prices were beginning to rise.

ICO Indicator Prices

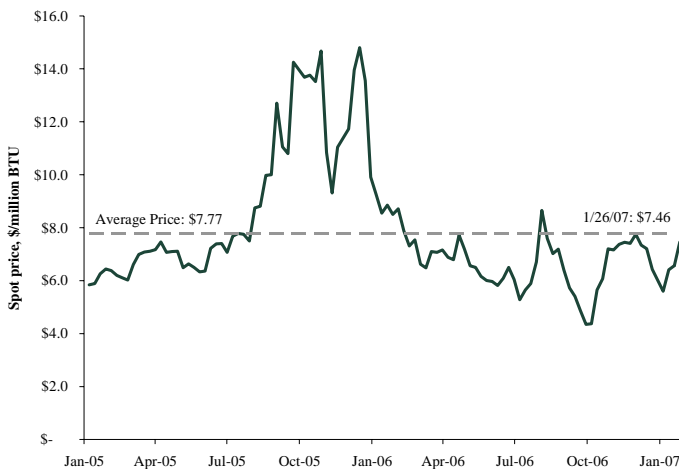


Source: International Coffee Organization.

### Natural Gas

- The stretch of cold weather in Northeast and Midwest has created a greater demand of natural gas, resulting in a 16% increase from prices at the end of December.

Henry Hub Natural Gas Price

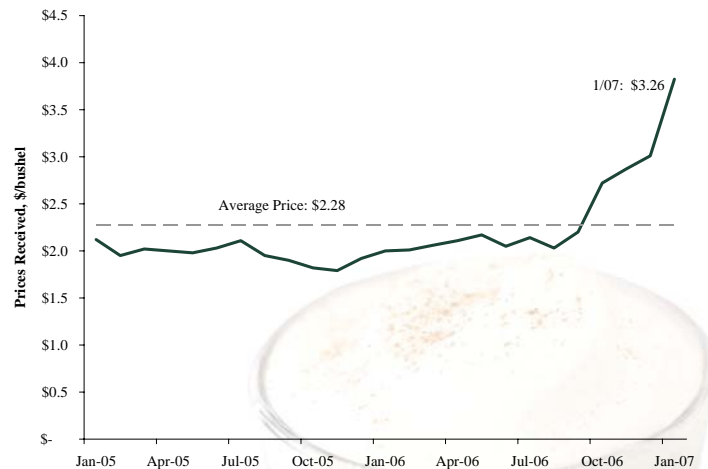


Source: Energy Information Administration.

### Corn Prices

- The Mexican government has enacted a cap on tortilla prices, which climbed 14% over the prior year. The higher tortilla prices are attributed to a crop shortage in the northern region, resulting in the country's need to import U.S. white corn at a significant premium.

Corn Prices



Source: Agricultural Statistics Board, NASS, USDA.

## Public Company Analysis

(\$ in millions, except per share data)

Company Name	Stock Price <sup>(a)</sup>	Market Cap <sup>(a)</sup>	Enterprise Value <sup>(b)</sup>	Margins			Enterprise Value			Total Debt / EBITDA
				Gross	EBITDA	EBIT	TTM Revenue	TTM EBITDA	TTM EBIT	
<b>Processed Foods <sup>(c)</sup></b>										
Campbell Soup Co. (NYSE:CPB)	\$ 38.48	\$ 14,965.5	\$ 17,598.5	42.0%	20.0%	16.2%	2.35x	11.7x	14.5x	1.9x
ConAgra Foods Inc. (NYSE:CAG)	25.71	12,987.8	15,742.4	25.1	13.7	10.7	1.35	9.9	12.5	2.2
Dean Foods Co. (NYSE:DF)	44.25	5,918.8	9,052.1	25.9	8.8	6.6	0.87	9.9	13.2	3.5
Del Monte Foods Co. (NYSE:DLM)	11.46	2,310.1	4,569.3	26.3	13.1	10.5	1.45	11.0	13.8	5.5
Flowers Foods Inc. (NYSE:FLO)	28.12	1,709.2	1,787.7	49.8	9.5	6.1	0.95	10.0	15.5	0.5
Fresh Del Monte Produce Inc. (NYSE:FDP)	15.40	893.8	1,264.6	6.5	3.1	0.5	0.39	12.5	86.0	4.0
General Mills Inc. (NYSE:GIS)	57.24	19,756.4	27,059.4	40.2	21.7	18.1	2.26	10.4	12.4	2.6
Hain Celestial Group Inc. (NasdaqNM:HAIN)	29.40	1,146.3	1,220.4	28.9	11.2	9.6	1.47	13.1	15.3	1.6
Hershey Co. (NYSE:HSY)	51.04	11,833.1	13,828.1	38.6	24.5	20.4	2.80	11.4	13.7	1.7
HJ Heinz Co. (NYSE:HNZ)	47.12	15,525.3	19,778.2	37.1	19.3	16.4	2.23	11.5	13.6	2.7
Kellogg Co. (NYSE:K)	49.27	19,594.7	24,228.4	44.8	19.4	16.2	2.22	11.4	13.7	2.4
Kraft Foods Inc. (NYSE:KFT)	34.92	57,400.8	67,375.8	36.2	18.3	15.7	1.96	10.7	12.5	1.6
Ralcorp Holdings Inc. (NYSE:RAH)	55.34	1,485.8	1,965.4	19.1	11.1	7.5	1.06	9.5	14.1	2.9
Sara Lee Corp. (NYSE:SLE)	17.15	12,808.1	14,135.1	37.4	12.5	8.2	0.88	7.1	10.7	2.2
The J. M. Smucker Company (NYSE:SJM)	47.49	2,697.0	3,041.5	31.6	14.9	11.7	1.40	9.4	12.0	1.3
Treehouse Foods Inc. (NYSE:THS)	29.81	930.1	1,200.8	21.2	10.9	8.3	1.43	13.1	17.3	2.9
<b>Median <sup>(d)</sup></b>				<b>33.9%</b>	<b>13.4%</b>	<b>10.6%</b>	<b>1.44x</b>	<b>10.9x</b>	<b>13.7x</b>	<b>2.3x</b>
<b>Average <sup>(d)</sup></b>				<b>31.9</b>	<b>14.5</b>	<b>11.4</b>	<b>1.57</b>	<b>10.8</b>	<b>13.7</b>	<b>2.5</b>
<b>Protein <sup>(c)</sup></b>										
Hormel Foods Corp. (NYSE:HRL)	\$ 37.90	\$ 5,219.2	\$ 5,397.1	24.1%	10.1%	8.0%	0.94x	9.3x	11.7x	0.6x
Pilgrim's Pride Corp. (NYSE:PPC)	31.67	2,107.8	2,703.8	5.7	1.7	-	0.52	29.6	-	7.9
Smithfield Foods Inc. (NYSE:SFD)	26.26	2,937.0	6,047.6	9.8	5.7	3.8	0.54	9.5	14.2	5.0
Tyson Foods Inc. (NYSE:TSN)	17.75	6,297.6	9,213.6	3.6	2.2	0.1	0.36	16.7	279.2	5.4
<b>Median <sup>(d)</sup></b>				<b>7.7%</b>	<b>3.9%</b>	<b>3.8%</b>	<b>0.53x</b>	<b>9.4x</b>	<b>13.0x</b>	<b>5.2x</b>
<b>Average <sup>(d)</sup></b>				<b>10.8</b>	<b>4.9</b>	<b>4.0</b>	<b>0.59</b>	<b>9.4</b>	<b>13.0</b>	<b>4.7</b>
<b>Beverage <sup>(c)</sup></b>										
Coca-Cola Co. (NYSE:KO)	\$ 47.88	\$ 112,221.0	\$ 113,038.0	65.8%	35.3%	31.5%	4.77x	13.5x	15.2x	0.5x
Constellation Brands Inc. (NYSE:STZ)	24.74	5,798.7	10,089.9	29.1	18.8	16.2	1.97	10.5	12.2	4.5
Hansen Natural Corp. (NasdaqSC:HANS)	38.09	3,427.9	3,313.5	52.4	31.1	30.8	6.91	22.3	22.5	0.0
Pepsico, Inc. (NYSE:PEP)	65.24	107,129.4	106,749.4	55.5	23.8	19.9	3.06	12.9	15.4	0.4
<b>Median <sup>(d)</sup></b>				<b>54.0%</b>	<b>27.5%</b>	<b>25.4%</b>	<b>3.92x</b>	<b>13.2x</b>	<b>15.3x</b>	<b>0.4x</b>
<b>Average <sup>(d)</sup></b>				<b>50.7</b>	<b>27.3</b>	<b>24.6</b>	<b>4.18</b>	<b>14.8</b>	<b>16.3</b>	<b>1.3</b>

Source: Capital IQ.

(a) As of 01/31/2007.

(b) Enterprise value is market value of equity plus preferred equity and minority interest less net debt (debt less cash).

(c) Figures have been adjusted for non-recurring and extraordinary gains or losses.

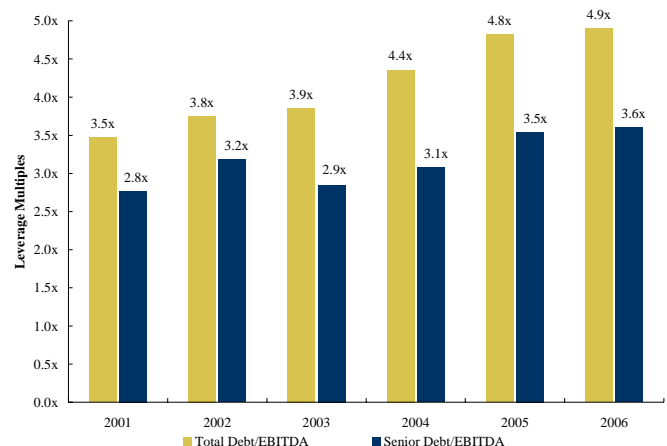
(d) Outliers (boxed above) are excluded from summary multiples and statistics.

### S&P 500 vs. S&P Food



Source: Capital IQ.

### Leverage Multiples



Source: Standard &amp; Poors.

**BB**  
**Best Brands Corp.**  
*a portfolio company of*  
**Brantley Partners**  
*has acquired*  
**Multifoods** FOODSERVICE & BAKERY PRODUCTS  
*a division of*  
**SMUCKERS**  
 The J. M. Smucker Company  
 (NYSE: SJM)

**BB**  
**Best Brands Corp.**  
*has been recapitalized by*  
**GE Commercial Finance**

*The assets of*  
**PINNACLE**  
**FOOD GROUP**  
*have been acquired by*  
**Pine Ridge**  
**Farms, LLC**

**STEARNS & LEHMAN**  
*has been acquired by*  
**KERRY**

**extreme™**  
**foods**  
**Jetcat**  
**Veda**  
*has been acquired by*  
**KERRY**

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