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The Year of Skyrocketing Commodity Prices

The year 2007 was marked by a unique phenomenon known as agriflation, a term commonly attributed to eras of skyrocketing commodity prices. Wheat prices soared to over \$10/bushel, the highest price ever recorded and almost double its average price over the past 25 years. Corn prices mimicked this trend, approaching \$175/ton. U.S. soybean prices surpassed \$9/bushel, its highest price in 34 years. The cost of a gallon of milk increased by a staggering 30% in 2007.

These unprecedented prices can be attributed to several factors including income growth, climate change, high energy prices, globalization, and changing trends in food consumption, production, and markets. One of the most influential factors was the increasing wealth in Latin America and Asia. These nations significantly intensified the overall demand for commodities, specifically grains used for bread and livestock feed. In addition, droughts reduced worldwide output. Argentina, the world's fourth largest wheat exporter, was marred by excessively dry weather, which diminished its wheat supply; Australia's poor weather conditions reduced the worldwide supply of nonfat dried milk; while freezing temperatures in the U.S.'s southeastern region drastically impacted citrus production. The increased demand for ethanol also represented the common explanation for the year's increase in corn prices among other commodities. The year's quantity of corn crop (to be refined into ethanol) was 85 million tons, a 466% increase from 2000 levels of

Insight of the Month

only 15 million tons. The increased demand for ethanol also resulted in the reallocation of land and labor resources.

Higher commodity prices have proven to be extremely advantageous for one group other than the farmers: ethanol producers. However, farmer's wealth has negatively been affected by fertilizer, seed, and other input costs.

The recent rises in commodity pricing negatively impacted producers, distributors, and consumers alike. Small producers as well as food conglomerates are being forced to absorb a larger portion of the increased input costs. The Boston Beer Co. expects production prices (due largely to hops and barley) to increase by 10% to 14%, yet will only pass on 5% of the increased costs to the consumer. Major food companies across all industries reacted to raising commodity costs by increasing prices as well. Regional and national retailers are also revising their pricing schemes to remain competitive. Retailers are attempting to keep prices down for "high visibility" items like milk, while making up for it by increasing the prices of other items. Popular fast food chains also followed suit, increasing their average menu price to adjust for higher dairy, beef, and chicken costs. Burger King Corp. raised its prices 1.0% in July and McDonald's by 3.5% in October. Overall, everybody has been affected by the rise in commodity costs throughout the year, as the price of food and non-alcoholic beverages rose by 4.7% in 2007. Although prices are expected to continue to rise in 2008, there is still hope that an end is in site!

2007 Private Equity Year in Review

After a full year of transactions, 2007 ended as another successful year for private equity firms investing in the food industry. Deal flow reached unprecedented heights as large and small private equity sponsors completed over 150 LBO transactions in the food and beverage space. Their interest highlights that a healthy appetite continues to exist in the industry in spite of the recent turmoil in the lending markets. Sponsors that completed transactions in 2007 include **Allied Capital, American Capital Strategies, Apollo Management, Blackstone Group, CCMP Capital Advisors, Catterton Partners, Fairmont Capital, G.S. Capital Partners, Huff Alternative Fund, Kohlberg Kravis & Roberts, Levine Leichtman Capital Partners, Lindsay Goldberg, Swander Pace Capital, and Wind Point Partners.**

Two firms in particular have invested heavily in the food and beverage space.

Sun Capital Partners completed several notable acquisitions including **Boston Market, Smokey Bones Barbeque & Grill, Friendly Ice Cream, Pacific Coast Restaurants, Inc., Grandy's, Inc., and Restaurants Unlimited.**

Arbor Private Investments, primarily focused in the food, beverage, and related segments, also made several investments including **Rice Garden, Inc., National Provisions, Inc., Trudeau Distributing Co., and Sam's Wines & Spirits.**

As many firms continued to invest in the food industry, **TSG Consumer Partners** stood out as it sold the majority of its portfolio including **Alexia Foods, GFA Brands, Harris Soup Company, and PureOlogy.** The Company did however acquire **Yard House USA** at the end of the year.

(\$ in millions)

Food Processing

December 20, 2007	Campbell Soup Company has entered into an agreement to sell its Godiva Chocolatier business to Yildiz Holding .	\$850.0	Yildiz, owner of the Ulker Group, a diversified food company based in Istanbul, Turkey, will expand and diversify its portfolio with the addition of an elite, global luxury brand.
December 18, 2007	Kerry Group , an international manufacturer of food ingredients and flavors, has acquired QA Products of Elk Grove Village, Illinois from CSM , the Euronext Amsterdam-listed bakery products supplier.	-	QA Products is a leading manufacturer of decorations for the bakery and food industry. Within Kerry Group, QA Products will realize new opportunities to develop in specific markets.
December 7, 2007	Lance, Inc. has purchased a non-controlling minority equity interest in Late July Snacks L.L.C. , a producer of organic snacks, including varieties of crackers, sandwich crackers, and sandwich cookies.	-	The acquisition increases Lance Inc.'s presence in the better-for-you products category and will allow it to capitalize on growing consumer trends in the organic food space.
December 5, 2007	Garden Fresh Gourmet , a producer of preservative-free salsas, chips, and dips, has acquired Grand Rapids, Michigan-based El Matador Tortilla Chip Co.	-	The acquisition of El Matador Tortilla Chip Co. will expand the Garden Fresh brand and provide it with needed capacity in the form of a 60,000 square foot manufacturing facility located in Grand Rapids, Michigan.
December 2, 2007	Agrium will acquire UAP Holding , a marketer of chemicals, fertilizer, and seed to farmers, commercial growers, and regional dealers.	2,848.6	The addition of UAP's business is an excellent strategic fit for Agrium and will significantly expand Agrium's geographic base and product diversity.

Beverages

December 20, 2007	Dean Foods Co. , the largest U.S. processor and distributor of milk and other dairy products, has acquired the Iowa-based Wells' Dairy milk business.	-	The acquisition gives Dean Foods a plant in Le Mars, Iowa, which will be its first in the state. Wells' Dairy has exited the milk business in order to focus on growing its national Blue Bunny ice cream brand business, which currently ranks in the top ten nationally.
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Private Equity

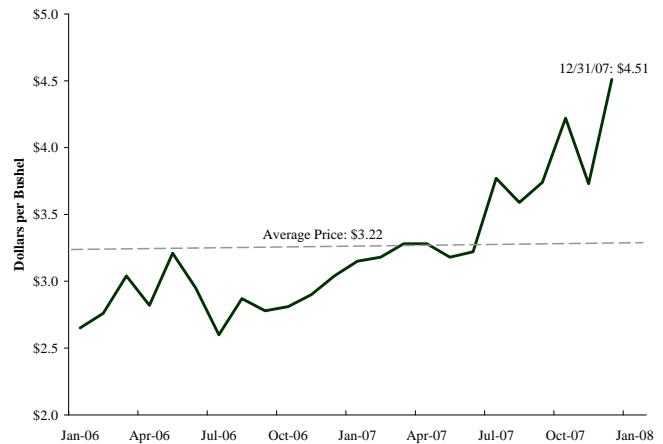
December 13, 2007	L&M Produce , a Maryland-based grocery wholesaler, has merged with Maryland-based Coastal Sunbelt Produce , a portfolio company of MCG Capital purchased earlier in 2007.	-	The merger will make the company the preeminent foodservice distributor of fresh produce in the Mid-Atlantic and allow the company to offer unparalleled variety, quality, and service to leading fine-dining restaurants, hotels, chains, independents, and institutional dining and foodservice establishments.
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Commodities Impacting the Food and Beverage Industry

Barley

- Rising prices for barley and a worldwide shortage of hops are putting pressure on the brewing industry
- Barley prices have skyrocketed lately as more farmers plant corn to meet the rising demand for ethanol, while others plant feed crops to replace lost acres of corn
- Hops acreage in the U.S. fell 30% between 1995 and 2006 as farmers shifted to more profitable crops
- The rising input costs affecting the brewing industry will be passed on to consumers who will see a near 10% jump in the price of beer

Barley Prices

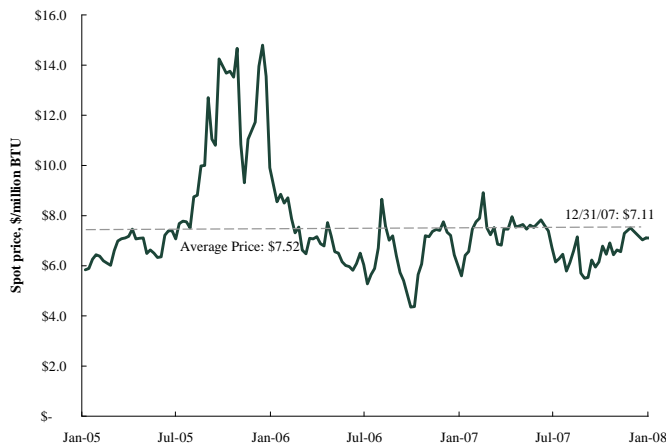


Source: USDA

Natural Gas

- Natural gas prices remained fairly stable this month, moving slightly higher at the end of December. A large arctic air mass swept across the eastern half of the country, bringing colder temperatures to the region and boosting space-heating demand. To date this year, prices have remained relatively stable with little disruption to supplies from tropical storm activity. Natural gas has seen less volatility this year than in past years as prices have remained relatively flat.

Henry Hub Natural Gas Prices

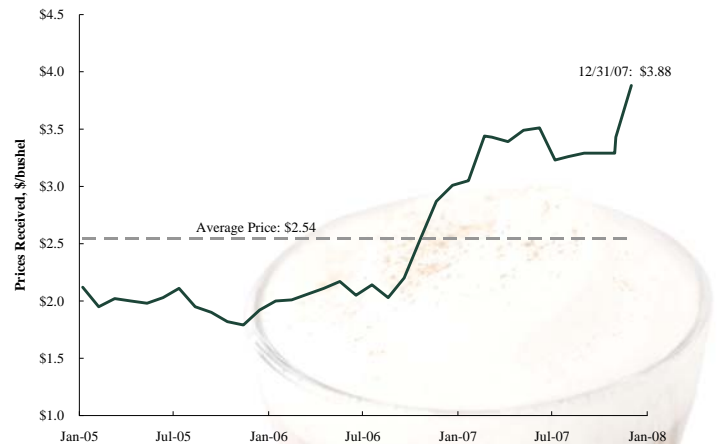


Source: Energy Information Administration

Corn

- Corn prices continued to climb in the final month of 2007, reaching \$3.88 per bushel for the month of December. With no slowdown in demand, prices are expected to remain high well into 2008. The demand for ethanol continues to be the main driver for the increase in demand for corn. In addition, U.S. corn exports continue to be strong especially with the recent dry weather in Argentina and parts of Brazil.

Corn Prices



Source: Agricultural Statistics Board, NASS, USDA

Public Company Analysis

(\$ in millions, except per share data)

Company Name	Stock Price ^(a)	Market Cap ^(a)	Enterprise Value ^(b)	Margins			Enterprise Value			Total Debt / EBITDA
				Gross	EBITDA	EBIT	TTM Revenue	TTM EBITDA	TTM EBIT	
Processed Foods ^(c)										
Campbell Soup Co. (NYSE:CPB)	\$ 35.73	\$ 13,706.1	\$ 16,443.1	41.6%	18.9%	15.3%	2.1x	10.9x	13.4x	1.9x
ConAgra Foods Inc. (NYSE:CAG)	23.79	11,591.8	15,176.2	26.4	14.4	11.8	1.2	8.0	9.7	2.0
Dean Foods Co. (NYSE:DF)	25.86	3,403.3	8,724.4	24.5	7.6	5.5	0.8	10.2	14.1	6.3
Del Monte Foods Co. (NYSE:DLM)	9.46	1,898.1	4,097.7	25.9	12.9	10.0	1.2	9.0	11.6	4.8
Flowers Foods Inc. (NYSE:FLO)	23.41	2,155.1	2,168.3	49.1	10.2	6.9	1.1	10.6	15.7	0.1
Fresh Del Monte Produce Inc. (NYSE:FDP)	33.58	2,093.2	2,419.3	10.0	6.9	4.5	0.7	10.8	16.7	1.6
General Mills Inc. (NYSE:GIS)	57.00	19,195.5	26,602.0	36.1	20.2	16.8	2.1	9.9	11.8	2.9
Hershey Co. (NYSE:HSY)	39.40	8,945.8	11,293.2	36.1	24.5	18.8	2.3	9.3	12.1	2.0
HJ Heinz Co. (NYSE:HNZ)	46.68	14,793.7	19,530.0	37.4	19.1	16.2	2.1	10.8	12.8	2.9
Kellogg Co. (NYSE:K)	52.43	20,652.6	24,966.6	44.6	20.3	17.1	2.2	10.6	12.6	2.1
Kraft Foods Inc. (NYSE:KFT)	32.63	50,485.0	63,443.0	35.1	16.4	14.0	1.8	10.7	12.6	2.3
Ralcorp Holdings Inc. (NYSE:RAH)	60.79	1,560.7	2,291.3	18.5	10.9	7.2	1.0	9.1	13.5	3.1
Sara Lee Corp. (NYSE:SLE)	16.06	11,630.5	13,551.5	38.7	10.9	6.9	1.1	9.9	15.7	2.6
The Hain Celestial Group Inc. (NASDAQ:HAIN)	32.00	1,269.9	1,452.2	29.3	11.0	9.2	1.6	14.7	16.9	2.2
The J. M. Smucker Company (NYSE:SJM)	51.44	2,959.5	3,463.5	33.2	15.4	12.8	1.5	9.8	11.9	2.2
Treehouse Foods Inc. (NYSE:THS)	22.99	717.4	1,034.3	20.7	10.2	7.3	1.0	9.5	13.3	2.9

Median ^(d)	34.2%	13.6%	10.9%	1.35x	10.1x	13.0x	2.3x
Average ^(d)	31.7	14.4	11.3	1.47	10.2	13.4	2.6

Protein ^(c)

Hormel Foods Corp. (NYSE:HRL)	\$ 40.48	\$ 5,485.6	\$ 5,755.9	22.8%	9.8%	7.8%	0.9x	9.4x	11.9x	0.7x
Pilgrim's Pride Corp. (NYSE:PPC)	28.95	1,926.8	3,173.9	7.8	5.7	3.1	0.4	7.4	13.6	3.1
Smithfield Foods Inc. (NYSE:SFD)	28.92	3,883.9	7,493.1	9.1	4.9	3.0	0.6	10.4	16.2	5.1
Tyson Foods Inc. (NYSE:TSN)	15.33	5,451.7	8,188.7	5.4	4.2	2.3	0.3	7.2	13.2	2.4

Median ^(d)	8.5%	5.3%	3.0%	0.49x	8.4x	13.2x	2.8x
Average ^(d)	11.3	6.1	4.0	0.56	8.6	12.9	2.8

Beverage ^(c)

Coca-Cola Co. (NYSE:KO)	\$ 61.37	\$ 141,824.7	\$ 146,659.7	64.2%	29.9%	26.0%	5.3x	17.8x	20.5x	1.2x
Constellation Brands Inc. (NYSE:STZ)	23.64	5,092.6	9,808.4	31.6	17.8	14.4	2.2	9.9	11.6	4.8
Hansen Natural Corp. (NASDAQ:HANS)	44.29	4,086.5	3,831.7	52.2	25.2	24.9	4.7	18.8	19.0	0.0
Pepsico, Inc. (NYSE:PEP)	75.90	122,176.4	122,832.4	54.7	22.2	18.5	3.3	13.6	16.1	0.3

Median ^(d)	53.5%	23.7%	21.7%	4.00x	15.7x	17.6x	0.8x
Average ^(d)	50.7	23.8	21.0	3.89	15.0	16.8	1.6

Source: Capital IQ

(a) As of 12/31/2007

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

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

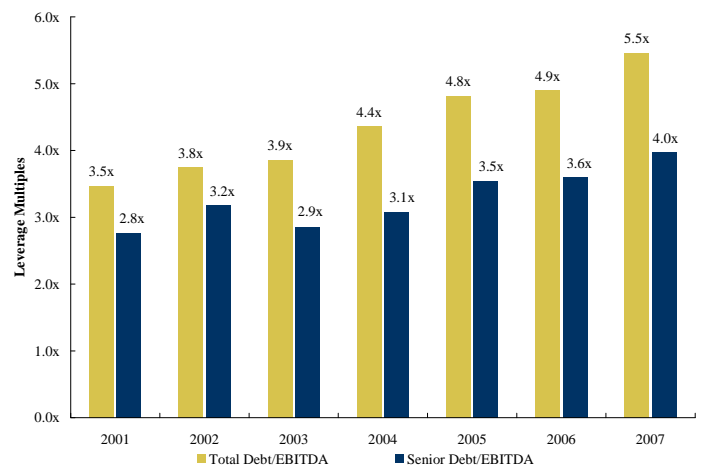
(d) Outliers (boxed above) are excluded from summary multiples and statistics

S&P 500 vs. S&P Food



Source: Capital IQ

Leverage Multiples



Source: Standard & Poors

has been acquired by

Best Brands Corp.
a portfolio company of
Brantley Partners
has acquired

a division of

The J. M. Smucker Company
(NYSE: SJM)

Best Brands Corp.

has been recapitalized by

The assets of

have been acquired by

has been acquired by

has been acquired by

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