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## Changes to Convenience Store Beverage Distribution

**C**onvenience store beverage distribution is in the midst of a fundamental change, one that will affect suppliers, distributors, retailers, and ultimately beverage consumers.

According to the American Wholesale Marketers Association, McLane Co. Inc., one of the leading distribution companies in the U.S., recently notified its customers that pricing would shift from a cost-based to a weight-based system. The company initially asked \$.095 per pound with a \$2.50 per case minimum. The change could amount to \$3.75/case of 24 oz. Gatorade versus the current flat fee of \$1.25/case. This represents a significant cost increase for beverage suppliers, most notably PepsiCo's Gatorade and Nestle's U.S. water businesses, who use distributors for these products.

Due to the substantial weight of beverages and increasing demand for water and sports drinks, distributor's profits have dwindled to an average pre-tax margin of 0.5% in 2005. On the other side, PepsiCo Beverages North America generated a pre-tax, pre-interest margin of 22.3% in 2005, which is

common among branded beverage companies. This profitability has not gone unnoticed by distributors, and they are pushing back.

McLane may be the front runner in this movement, but they are not alone. Other distributors such as Eby-Brown and GSC have followed suit, providing negotiating leverage to all distributors. In a bold letter to suppliers, Eby-Brown stated that the company "must recoup the expenses associated with [these] products or ask [its customers] to find another method of distribution."

Suppliers are in fact expected to start shopping around as well as explore DSD delivery, but few if any short-term solutions exist for large companies with such sizeable needs.

McLane and PepsiCo recently reached an undisclosed and "mutually beneficial" agreement, which analysts believe could impact PepsiCo's income statement by as much as \$100 million. However, more than likely, both suppliers and distributors, along with retailers and consumers, will end up giving a little, resulting in decreasing margins and increasing prices for all.

### Insight of the Month

## Private Equity News

**I**n Private Equity news this month, private equity's interest and growing success in retail grocers and foodservice distributors continues to develop at rapid speed as **Apollo Management L.P.** entered into a definite agreement to acquire **Smart & Final Inc.** **J. Sainsbury**, the third largest British retailer, received a hostile bid from **Kohlberg Kravis & Roberts, Blackstone Group, CVC and Texas Pacific**, which will result in the largest European buyout to date. As the auction process continues for **Ahold's U.S. Foodservice** subsidiary, the leading bidders include many of the largest private equity firms in the country, including **Bain Capital, Blackstone Group, Wellspring Management, Apollo Management, Texas Pacific Group, Clayton, Dubilier & Rice, Kohlberg Kravis Roberts & Co., and Thomas H. Lee.**

**I**n the most exciting news within the natural and organic retail industry and possibly the retail sector, **Whole Foods Market, Inc.** announced the purchase of **Wild Oats Markets** in a deal valued at

\$671 million with a 13x trailing twelve months EBITDA multiple. Since June, Ron Burkle and his **Yucaipa Cos.** have been purchasing Wild Oats' stock, acquiring 18% of the equity by the time of the sale. Yucaipa invested \$10.5 million of its own capital and borrowed \$43.5 million, and stands to make a profit of \$40.4 million, before interest expenses.

**J**ust one day after the announcement of the Wild Oats Markets acquisition, the **Great Atlantic & Pacific Tea Co.** acquisition of **Pathmark Stores** was made public. Similar to Wild Oats, Ron Burkle and Yucaipa Cos. had a significant ownership position in the acquiring company, Pathmark. In June 2005, Yucaipa made a \$150 million investment into Pathmark. With the A&P deal at \$12.50 a share, Yucaipa will receive \$139 million profit or a 60% gain on its investment.

**D**uring this two day period, Ron Burkle and Yucaipa generated approximately \$180 million in gains on their retail investments.

(\$ in millions)

**Food Processing**

February 22, 2007	<b>Land O'Lakes</b> intends to sell one of its Tulare cheese manufacturing operations to <b>Saputo Inc.</b>	\$216.0	The Cheese Protein International plant manufactures, sells, and wraps primarily mozzarella and provolone products. As a part of the sale, Saputo will purchase 2 billion pounds of milk annually from Land O'Lakes.
February 21, 2007	<b>Agricore United</b> and <b>James Richardson International</b> have agreed to merge to create Canada's largest grain company and a leading global Canadian agribusiness.	\$1,057.4	The combined company will have annual grain shipments in excess of 14 million tons and a presence in 50 countries with pro forma sales and EBITDA of \$5 billion and \$226 million, respectively, before synergies.
February 20, 2007	<b>Kahiki Foods, Inc.</b> received a non-binding offer for all of its outstanding capital stock from a privately held company based in Pittsburgh, PA.	\$8.6	The buyer with revenues of over \$200 million is a part of a group of affiliated companies with operations in several states and in various different industries.
February 14, 2007	<b>American Sugar Refining, Inc.</b> agreed to purchase <b>Tate &amp; Lyle plc's</b> Tate & Lyle Canada, Ltd. Division otherwise known as <b>Redpath.</b>	\$255.0	Tate & Lyle Canada provides sugar products as well as manufactures retail brands and private label products, such as iced tea and hot chocolate.
February 6, 2007	<b>Rich Products Corp.</b> has acquired <b>GLP Free Manufacturing</b> in efforts to expand its line of health and wellness products.	-	GLP Free Manufacturing is a Grand Island company that manufactures gluten-free baked produces.

**Beverage**

February 23, 2007	<b>Coca-Cola Company</b> is in process of making an offer for the Brazilian tea bottler <b>Matte Leao.</b>	-	This will be Coca-Cola's second announced transaction into the non-carbonated beverage market in Brazil in the past 18 months.
February 22, 2007	<b>Olympic Foods Inc.,</b> a subsidiary of <b>Darigold, Inc.</b> has signed a letter of intent to sell its assets to <b>Johanna Foods Inc.</b>	-	Olympic Foods packages and distributes fruit juices under its own brand names, including Citrus Sunshine and Nature's Genuine, and private label brands for Albertson's, Fred Meyer Stores, Safeway, and Western Family Foods.
February 6, 2007	<b>Constellation Brands Inc.</b> announced its acquisition of <b>Svedka Vodka</b> to bolster its premium spirits portfolio.	\$384.0	Constellation is acquiring both the Swedish vodka label and related businesses, including brand owner Spirits Marque One LLC, a New York importer.
February 1, 2007	<b>Coca-Cola Company</b> agreed to acquire <b>Fuze Beverage LLC.</b>	-	The terms of the deal were not disclosed, but the value is believed to be somewhere between \$225 and \$250 million for Fuze Beverage, a manufacturer of vitamin-enhanced juices, teas, and energy drinks that most recently generated almost \$100 million in revenue.

**Private Equity**

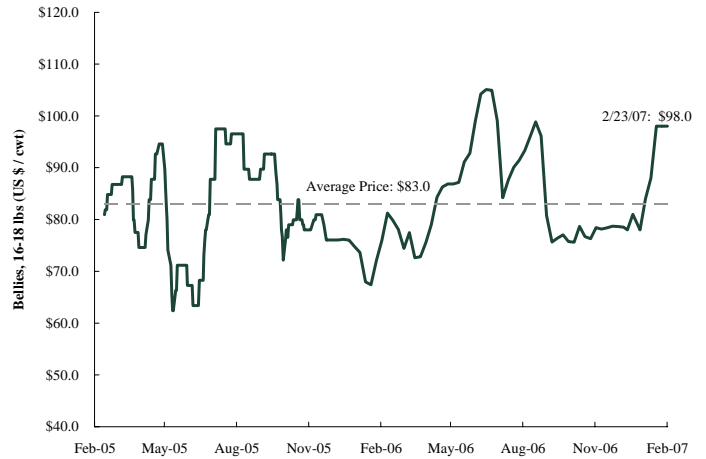
February 13, 2007	Private equity firm <b>Blackstone Group LP</b> announced its intention to purchase privately held <b>Pinnacle Foods Group, Inc.</b>	\$2,160.0	Pinnacle Food Group, whose portfolio includes Aurora Foods brands as well as Vlassic pickles and Swanson frozen dinners, generated \$1.4 billion in revenues and \$201 million in EBITDA in 2006.
February 5, 2007	<b>Arbor Private Investment Co. L.P.</b> with its operating partner Steven Zoll purchased <b>National Provisions.</b>	-	National Provisions offers a full line of beef-based, cooked, and seasoned deli meats under the National Deli brand.
February 2, 2007	<b>Herbalife Ltd.</b> Board of Directors received a proposal from <b>Whitney V L.P.</b> to acquire the remaining outstanding stock.	\$2,164.9	Whitney V currently owns 27% of Herbalife, the marketing company that sells weight-management, nutritional supplements, and personal care products.

## Commodities Impacting the Food and Beverage Industry

### Hog / Pork

- Neither the hog producer nor the pork processor are able to generate strong profits at this time.
- Despite the near two-year highs for pork prices, the dramatic increase in feed prices (corn) has offset any profits for the producers. Cost of production for hog producers has increased by up to 20 percent in the past few months and could climb as high as 40 percent in the near future.
- The rise in pork prices is one more example of how the significant rise in corn prices is impacting the other sectors of the agricultural industries and the overall economy.

#### Pork Belly Prices

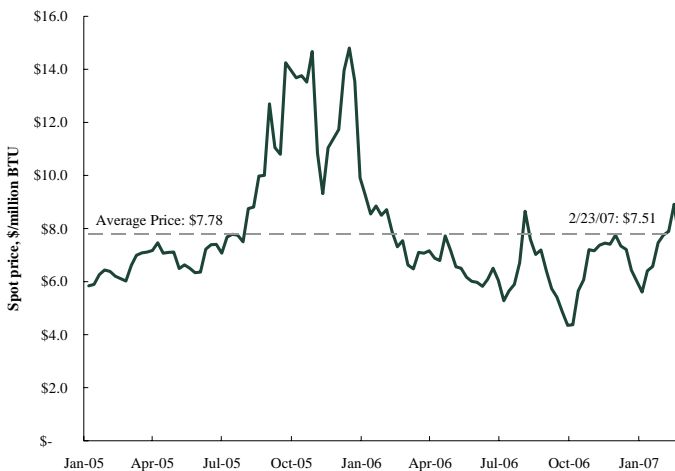


Source: USDA – Agricultural Marketing Services.

### Natural Gas

- As the stretch of cold weather in the Northeast and Midwest continued throughout most of February, prices spiked at \$8.91, the highest price since January 2006.

#### Henry Hub Natural Gas Price

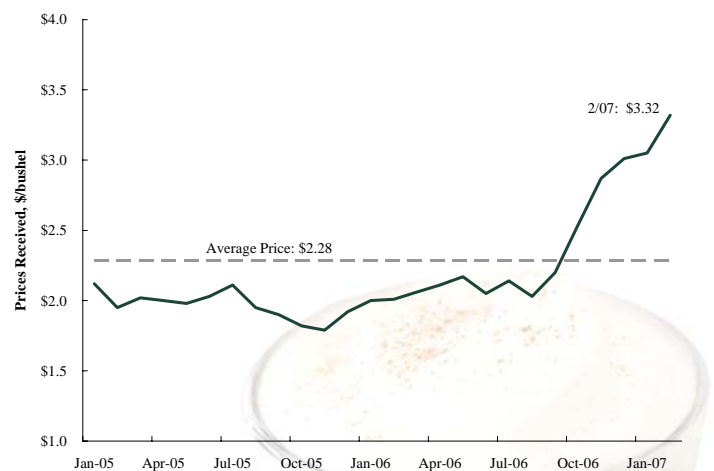


Source: Energy Information Administration.

### Corn Prices

- Average American farm prices increased by 15% last year according to government data. Compare this to the price of a SoHo loft or a pied-a-terre near London's financial district, which appreciated only 12% and 11%, respectively, according to local realtors.

#### 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)	\$ 40.86	\$ 15,891.1	\$ 18,524.1	42.0%	20.0%	16.2%	2.47x	12.3x	15.2x	1.9x
ConAgra Foods Inc. (NYSE:CAG)	25.21	12,735.2	15,489.8	25.1	13.7	10.7	1.33	9.7	12.3	2.2
Dean Foods Co. (NYSE:DF)	45.03	6,023.1	9,156.4	25.9	8.8	6.6	0.88	10.0	13.4	3.5
Del Monte Foods Co. (NYSE:DLM)	11.44	2,306.1	4,565.3	26.3	13.1	10.5	1.45	11.0	13.8	5.5
Flowers Foods Inc. (NYSE:FLO)	29.34	1,785.1	1,863.6	49.8	9.5	6.1	0.99	10.4	16.1	0.5
Fresh Del Monte Produce Inc. (NYSE:FDP)	17.76	1,030.8	1,401.6	6.5	3.1	0.5	0.43	13.9	95.3	4.0
General Mills Inc. (NYSE:GIS)	56.32	19,438.8	26,741.8	40.2	21.7	18.1	2.23	10.3	12.3	2.6
Hain Celestial Group Inc. (NasdaqNM:HAIN)	29.01	1,144.2	1,218.3	28.9	11.2	9.6	1.46	13.1	15.2	1.6
Hershey Co. (NYSE:HSY)	52.90	12,207.1	14,202.1	38.6	24.5	20.4	2.87	11.7	14.1	1.7
HJ Heinz Co. (NYSE:HNZ)	45.83	14,887.8	19,140.7	37.1	19.3	16.4	2.16	11.2	13.2	2.7
Kellogg Co. (NYSE:K)	49.84	19,834.8	24,468.5	44.8	19.4	16.2	2.24	11.6	13.9	2.4
Kraft Foods Inc. (NYSE:KFT)	31.93	52,236.6	62,211.6	36.2	18.3	15.7	1.81	9.9	11.5	1.6
Ralcorp Holdings Inc. (NYSE:RAH)	58.02	1,555.5	2,035.1	19.1	11.1	7.5	1.10	9.9	14.6	2.9
Sara Lee Corp. (NYSE:SLE)	16.46	12,072.9	13,399.9	37.4	12.5	8.2	0.83	6.7	10.2	2.2
The J. M. Smucker Company (NYSE:SJM)	49.54	2,813.5	3,157.9	31.6	14.9	11.7	1.46	9.8	12.5	1.3
Treehouse Foods Inc. (NYSE:THS)	28.85	900.2	1,170.9	21.2	10.9	8.3	1.39	12.7	16.8	2.9
<b>Median <sup>(d)</sup></b>				<b>33.9%</b>	<b>13.4%</b>	<b>10.6%</b>	<b>1.45x</b>	<b>10.7x</b>	<b>13.8x</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>10.9</b>	<b>13.7</b>	<b>2.5</b>

**Protein <sup>(c)</sup>**

Hormel Foods Corp. (NYSE:HRL)	\$ 36.49	\$ 5,025.0	\$ 5,203.0	24.1%	10.1%	8.0%	0.91x	9.0x	11.3x	0.6x
Pilgrim's Pride Corp. (NYSE:PPC)	30.59	2,035.9	2,632.0	5.7	1.7	-	0.50	28.8	-	7.9
Smithfield Foods Inc. (NYSE:SFD)	29.20	3,265.8	6,376.4	9.8	5.7	3.8	0.57	10.0	15.0	5.0
Tyson Foods Inc. (NYSE:TSN)	18.25	6,484.3	9,400.3	3.6	2.2	0.1	0.37	17.0	284.9	5.4
<b>Median <sup>(d)</sup></b>				<b>7.7%</b>	<b>3.9%</b>	<b>3.8%</b>	<b>0.54x</b>	<b>9.5x</b>	<b>13.2x</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>9.5</b>	<b>13.2</b>	<b>4.7</b>

**Beverage <sup>(c)</sup>**

Coca-Cola Co. (NYSE:KO)	\$ 46.68	\$ 108,077.7	\$ 108,894.7	65.8%	35.3%	31.5%	4.59x	13.0x	14.6x	0.5x
Constellation Brands Inc. (NYSE:STZ)	23.46	5,498.7	9,789.9	29.1	18.8	16.2	1.91	10.2	11.8	4.5
Hansen Natural Corp. (NasdaqSC:HANS)	35.00	3,149.9	3,035.4	52.4	31.1	30.8	6.33	20.4	20.6	0.0
Pepsico, Inc. (NYSE:PEP)	63.15	103,424.9	103,044.9	55.5	23.8	19.9	2.96	12.4	14.8	0.4
<b>Median <sup>(d)</sup></b>				<b>54.0%</b>	<b>27.5%</b>	<b>25.4%</b>	<b>3.78x</b>	<b>12.7x</b>	<b>14.7x</b>	<b>0.4x</b>
<b>Average <sup>(d)</sup></b>				<b>50.7</b>	<b>27.3</b>	<b>24.6</b>	<b>3.95</b>	<b>14.0</b>	<b>15.5</b>	<b>1.3</b>

Source: Capital IQ.

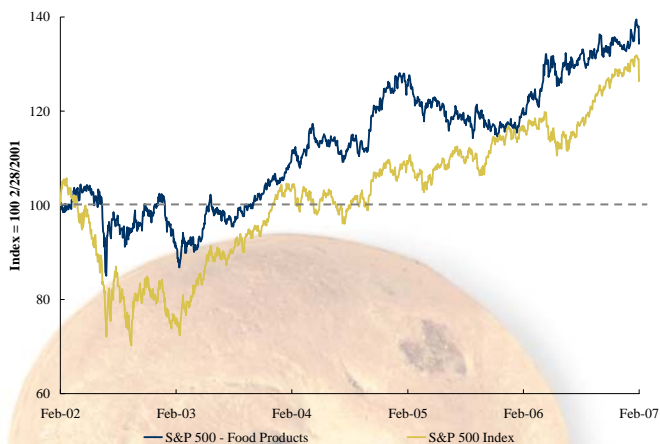
(a) As of 02/28/2007.

(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.

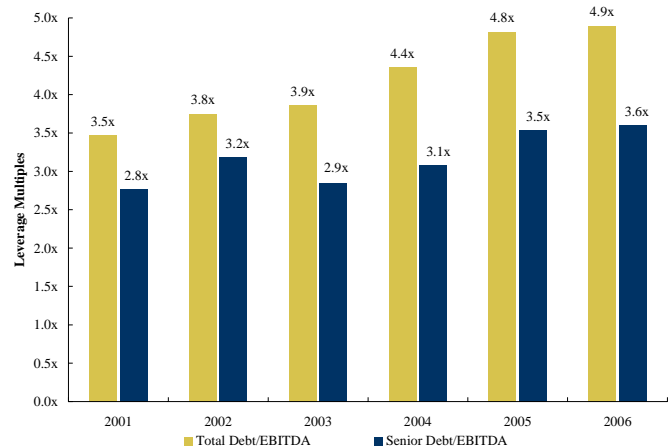
(d) Outliers (boxed above) are excluded from summary multiples and statistics.

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



Source: Capital IQ.

### Leverage Multiples



Source: Standard &amp; Poors.



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)

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

JetCafe

Veda

has been acquired by

KERRY

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