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## Economic Concerns Cause Americans to Eat Out Less

**F**ifty-four percent of Americans said they will eat out less over the next three months, according to a survey of 1,000 people. "Volatile stock markets, declining home values, higher energy costs, and overall concern about the economy are reducing Americans' appetite for dining out," said one equity analyst.

According to the study, 35% of Americans with higher household incomes (i.e., \$50,000 or more annually) said they would eat out less, while 62% of Americans making less than \$25,000 annually said they would also eat out less.

The effects of economic concerns have already forced Americans to tighten their belts and budgets, with 40% acknowledging that they are dining out less frequently today than six months ago. However, one group (predominantly male, age 18-29, single, and prefer fast food) acknowledged an increase in its frequency. The relative weakness in casual-dining can be explained by the economic concerns among Baby Boomers since they are the targeted consumer.

These survey findings correlate with the latest RBC Consumer Attitudes and Spending by Household ("CASH") Index, a monthly nationwide sample of 1,000 U.S. households. Consumer confidence declined significantly in September as the CASH Index declined to 71.1 from 89.3 in August.

### Insight of the Month

"The results of this month's CASH Index, a good leading indicator of restaurant sales, do not bode well for spending at restaurants," said an RBC equity analyst. "The negative responses from both the CASH Index and our restaurant-specific survey suggest that difficult times are likely to continue for restaurant companies."

Respondents said that food quality was the overwhelming factor used to choose a restaurant, followed by menu offering, price, and finally convenience. But if consumers are not frequenting restaurants, the question begs to wonder where are they going to eat? Supermarkets have seen steady increases in consumer spending because eating at home has gained popularity for many of the penny-pinched consumers.

As predicted, fast food chains continue to outperform casual-dining concepts, partly because of their perceived value offerings. Value propositions will continue to be critical for most casual-dining concepts as inflation as well as increases in energy, education, and medical and drug costs have put substantial pressure on households, particularly ones earning less than \$50,000. These value propositions are unfortunately still translating into weak sales figures at the casual-dining establishments. A Goldman Sachs analyst summed up the industry's situation by saying, "Fundamentally speaking, things still don't look good."

## Private Equity News

**A** slowdown in deal-making in the third quarter seemed likely to divert some of the appetite of investors worldwide for the LBO market. But those appetites have not been satisfied just yet. U.S. buyout and mezzanine firms raised \$74.0 billion in the third quarter, roughly in line with the \$74.3 billion raised in the second quarter, and the \$68.0 billion raised in the first quarter. \$214.8 billion of the 2007 total of \$216.3 billion raised to-date comes from buyout funds with the balance raised by mezzanine funds.

The supply of LBO funds that limited partners can choose from remains enormous, particularly in the smaller and mid-market range. Approximately 275 funds have been in the market raising capital this year. Of those with known target sizes, 123 buyout funds with a target size of less than \$500 million have raised \$12.9 billion; 76 funds with targets of between \$501 million and \$3 billion have raised \$60.9 million;

and 36 funds with targets of \$3 billion and above have raised \$129.5 billion through the third quarter.

LBO firms and their portfolio companies closed 252 control-stake deals during the third quarter, and 82 deals with disclosed values accounted for more than \$106 billion worth of activity. This far outpaced the \$61 billion in disclosed deal volume from a year ago and marked a 12% increase over the disclosed deal volume from the second quarter of 2007. The third quarter trails only the fourth quarter of 2006, in which disclosed deal volume topped a whopping \$140 billion, as the most buoyant quarter ever.

**I**n deal news, The Blackstone Group acquired a 67% stake in food distributor Vistar Corporation from Wellspring Capital Management, which retained a 22% ownership stake. Blackstone will invest \$100 million, with Wellspring rolling over \$33 million in equity, with the total deal valued at \$420 million.

(\$ in millions)

### Food Processing

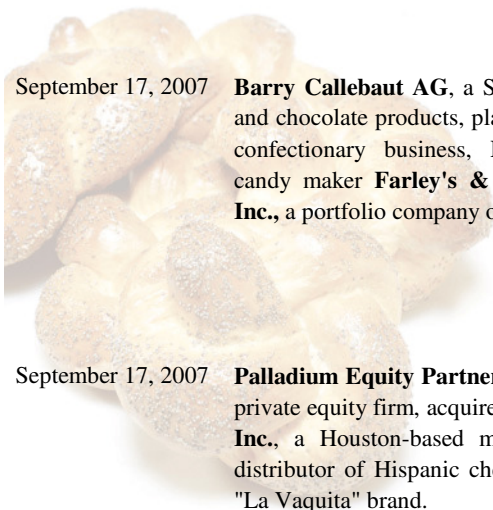
- September 10, 2007 **Glanbia P.L.C.**, a leading international dairy foods and nutritional ingredients group, has acquired Canadian-based nutritionals business **Pizzey's Milling**.
- The acquisition strengthens Glanbia's position as a global nutritional ingredients supplier, as well as supports the development of the international market for flax ingredients.
- September 7, 2007 **ConAgra Foods, Inc.** has acquired Connecticut-based **Lincoln Snacks**, a privately-held salty snacks manufacturer currently owned by Willis Stein.
- According to CEO, Gary Rodkin of ConAgra Foods, the acquisition positions ConAgra to further meet consumer demand for snacks. Through growing the Poppycock and Fiddle Faddle brands, ConAgra can expand their portfolio of existing snack brands.

### Protein

- September 10, 2007 **Dot Foods, Inc.**, a national food redistributor, will purchase certain assets of **Empire Beef and Redistribution Company** of Rochester, N.Y.
- Empire Beef is a redistributor of meat and other food products to foodservice distributors in twenty Eastern states. Empire Beef is a natural fit for Dot Foods, Inc. since the two companies have similar customer bases.
- September 7, 2007 **Branding Iron Holdings**, a Chicago, Illinois-based holding company, bought **Rochester Meat Co.** from privately-held **JNR Holding Co.**
- Rochester Meats currently produces about 200,000 pounds of ground beef patties a day along with about 30,000 pounds of steak portions.

### Private Equity

- September 18, 2007 An investment group led by **North Castle Partners LLC** has bought control of **Atkins Nutritional Holdings Inc.**, a dieting products manufacturer.
- Atkins Nutritional Holdings Inc. sharply cut its product offering while in bankruptcy in 2005, and now sells low-fat energy bars and shakes under the Atkins Advantage trademark, as well as confectionary products such as ice cream under the Atkins Indulge brand.
- September 17, 2007 **Barry Callebaut AG**, a Swiss manufacturer of cocoa and chocolate products, plans to sell its U.S. consumer confectionary business, **Brach's**, to non-chocolate candy maker **Farley's & Sathers Candy Company Inc.**, a portfolio company of **Catterton Partners**.
- Round Lake, Minnesota-based Farley's & Sathers is acquiring Brach's to increase its manufacturing capacity and broaden its current portfolio of brands.
- September 17, 2007 **Palladium Equity Partners, LLC**, a New York-based private equity firm, acquired **Castro Cheese Company Inc.**, a Houston-based manufacturer, marketer, and distributor of Hispanic cheeses and creams under the "La Vaquita" brand.
- Palladium Equity Partners, LLC focuses on companies that are well-positioned to capitalize on the fast-growing U.S. Hispanic market. Palladium's food industry investments include Taco Bueno, Wise Foods, and Sahale Snacks.

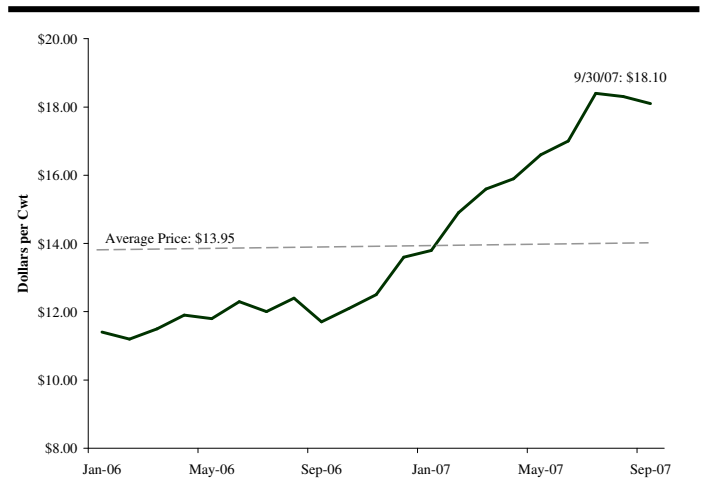


## Commodities Impacting the Food and Beverage Industry

### Sunflowers

- Sunflower prices have continued to climb this year due to tight supply and strong demand.
- Sunflower area planted in 2007 totaled 1.86 million acres, down 4% from 2006. Harvested area is expected to be down 5,000 acres from last year to 1.77 million acres this year.
- Acreage declines in Nebraska, South Dakota, and Texas were partially offset by increases in Colorado, Minnesota, and North Dakota.
- With above normal temperatures across the U.S. and dry conditions in the European Black Sea production region, world demand for sunflowers has increased sharply.
- Of the roughly 3 million acres of sunflowers grown each year in the U.S., 90% are of the oilseed type, which is mainly used for processing vegetable oil and birdseed production.

Sunflower Prices

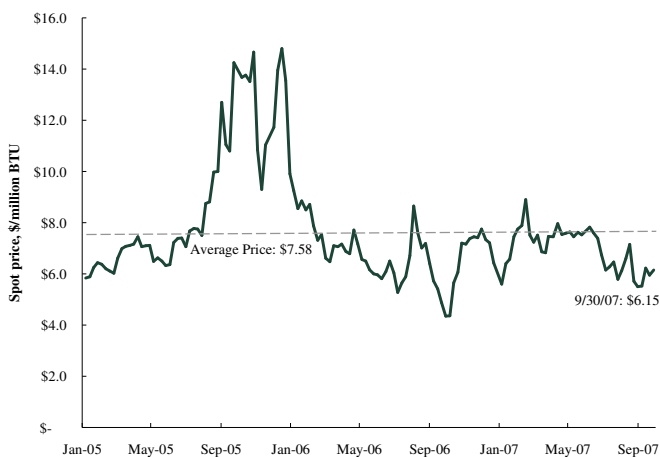


*Source: Agricultural Statistics Board, NASS, USDA*

### Natural Gas

- Natural gas prices moved higher during the last week of September due to storm activity in the Gulf of Mexico region. So far this hurricane season has produced nine named-storms in the Atlantic, but limited disruption to supplies for U.S. producers. In addition, temperatures remained warmer than normal throughout the country, likely increasing demand for natural gas as a fuel for electric power.

Henry Hub Natural Gas Price



*Source: Energy Information Administration*

### Corn Prices

- Corn prices were relatively stable over the last month, finishing at \$3.19 per bushel as the 2007 estimate for planted area of corn remained at 92.9 million acres. The national average yield forecast for September was at 155.8 bushels per acre, up 3 bushels per acre over August. Total corn production is still forecast at a record of 13.3 billion bushels. Little changes in production and usage this month led to only a slight dip in corn prices from \$3.26 per bushel in August to \$3.19 per bushel in September.

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)	\$ 37.00	\$ 14,212.0	\$ 16,810.0	41.9%	19.3%	15.7%	2.1x	11.1x	13.6x	1.8x
ConAgra Foods Inc. (NYSE:CAG)	26.13	12,798.7	16,062.9	26.3	14.9	12.1	1.3	8.5	10.4	1.9
Dean Foods Co. (NYSE:DF)	25.58	3,342.0	8,662.0	26.2	8.5	6.3	0.8	9.6	12.9	5.9
Del Monte Foods Co. (NYSE:DLM)	10.50	2,126.6	4,171.4	26.5	13.5	10.5	1.2	8.9	11.3	4.4
Flowers Foods Inc. (NYSE:FLO)	21.80	1,992.2	2,021.5	49.3	10.0	6.7	1.0	10.3	15.4	0.2
Fresh Del Monte Produce Inc. (NYSE:FDP)	28.75	1,662.0	2,018.9	9.0	5.4	3.0	0.6	11.6	<u>21.3</u>	2.2
General Mills Inc. (NYSE:GIS)	58.01	18,757.3	27,100.3	36.2	20.2	16.9	2.1	10.3	12.3	3.2
Hershey Co. (NYSE:HSY)	46.41	10,584.2	12,775.2	36.8	24.6	19.6	2.6	10.5	13.1	1.8
HJ Heinz Co. (NYSE:HNZ)	46.20	14,744.5	19,276.2	37.6	19.2	16.3	2.1	10.9	12.9	2.8
Kellogg Co. (NYSE:K)	56.00	22,161.0	26,610.0	44.7	20.4	17.2	2.3	11.5	13.6	2.2
Kraft Foods Inc. (NYSE:KFT)	34.51	54,412.3	66,510.3	35.7	17.0	14.5	1.9	11.0	13.0	2.1
Ralcorp Holdings Inc. (NYSE:RAH)	55.82	1,448.1	2,186.5	19.4	11.3	7.7	1.0	8.8	12.7	3.2
Sara Lee Corp. (NYSE:SLE)	16.69	12,092.3	13,900.3	38.8	11.3	7.0	1.1	10.0	16.3	3.1
The Hain Celestial Group Inc. (NASDAQ:HAIN)	32.13	1,275.0	1,436.2	29.0	11.0	9.4	1.6	14.5	17.0	2.2
The J. M. Smucker Company (NYSE:SJM)	53.42	3,072.4	3,546.0	33.6	15.6	12.9	1.6	10.4	12.6	2.4
Treehouse Foods Inc. (NYSE:THS)	27.05	844.0	1,128.9	20.7	9.6	6.8	1.1	11.2	15.9	2.8

<b>Median <sup>(d)</sup></b>	<b>34.7%</b>	<b>14.2%</b>	<b>11.3%</b>	<b>1.45x</b>	<b>10.4x</b>	<b>13.0x</b>	<b>2.3x</b>
<b>Average <sup>(d)</sup></b>	<b>32.0</b>	<b>14.5</b>	<b>11.4</b>	<b>1.54</b>	<b>10.6</b>	<b>13.5</b>	<b>2.6</b>

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

Hormel Foods Corp. (NYSE:HRL)	\$ 35.78	\$ 4,885.0	\$ 5,140.5	23.1%	9.8%	7.8%	0.8x	8.6x	10.8x	0.6x
Pilgrim's Pride Corp. (NYSE:PPC)	34.73	2,311.5	3,964.1	7.0	4.7	2.0	0.6	12.5	<u>28.9</u>	5.4
Smithfield Foods Inc. (NYSE:SFD)	31.50	4,228.7	7,605.1	9.4	5.2	3.4	0.6	10.6	<u>15.7</u>	4.8
Tyson Foods Inc. (NYSE:TSN)	17.85	6,376.8	9,305.8	5.1	3.9	1.9	0.4	9.0	<u>18.1</u>	2.9

<b>Median <sup>(d)</sup></b>	<b>8.2%</b>	<b>4.9%</b>	<b>2.7%</b>	<b>0.60x</b>	<b>9.8x</b>	<b>10.8x</b>	<b>3.8x</b>
<b>Average <sup>(d)</sup></b>	<b>11.2</b>	<b>5.9</b>	<b>3.8</b>	<b>0.60</b>	<b>10.2</b>	<b>10.8</b>	<b>3.4</b>

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

Coca-Cola Co. (NYSE:KO)	\$ 57.47	\$ 132,961.2	\$ 138,107.2	64.9%	30.3%	26.4%	5.3x	17.4x	20.0x	1.2x
Constellation Brands Inc. (NYSE:STZ)	24.21	5,219.2	10,172.6	30.4	17.6	14.7	2.1	10.2	11.9	5.0
Hansen Natural Corp. (NASDAQ:HANS)	56.68	5,250.4	5,052.9	52.2	23.4	23.1	6.8	29.2	29.5	0.0
Pepsico, Inc. (NYSE:PEP)	73.26	118,372.6	120,052.6	54.8	22.3	18.4	3.3	13.7	16.3	0.4

<b>Median <sup>(d)</sup></b>	<b>53.5%</b>	<b>22.8%</b>	<b>20.8%</b>	<b>4.27x</b>	<b>15.5x</b>	<b>18.1x</b>	<b>0.8x</b>
<b>Average <sup>(d)</sup></b>	<b>50.6</b>	<b>23.4</b>	<b>20.7</b>	<b>4.35</b>	<b>17.6</b>	<b>19.4</b>	<b>1.7</b>

Source: Capital IQ

(a) As of 09/30/2007

(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

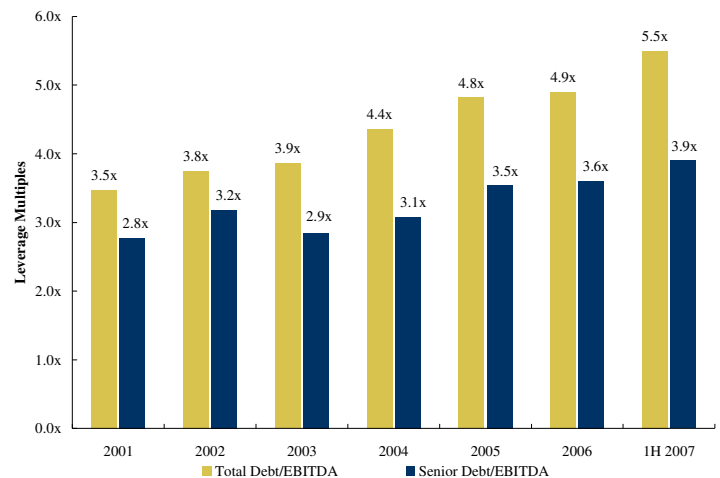
(d) Outliers (boxed above) are excluded from summary multiples and statistics

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



Source: Capital IQ

### Leverage Multiples



Source: Standard &amp; 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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