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Coke and Pepsi's Fight to be #1 in the M&A World

Over the past few decades, Pepsi and Coke have established one of the fiercest rivalries in the world and have done so with distinct core strategies.

As late as the 1980's, Pepsi was a mere speck on Coke's radar. However, through a more diversified product line and expansion into international markets, Coke's market dominance has waned. In fact, December 2005 marked the first time Pepsi surpassed Coke's market capitalization.

Pepsi has differentiated itself in several key areas, primarily by offering snack food products, Frito Lay, in addition to non-carbonated beverages and specialty beverages. For example, only 23% of the company's sales are generated by carbonated beverages, compared to Coke's 85%. As consumption of water and energy drinks has significantly increased, Coke's core business weakened as carbonated beverage consumption declined.

Insight of the Month

Additionally, Pepsi's aggressive acquisition strategy since the late 1990's, combined with Coke's acquisitive slowdown toward the beginning of this decade catapulted Pepsi forward in the race for top beverage maker.

Coke has now begun to fight back. Over the past couple of years, Coke acquired a Russian fruit juice company and a bottling company in Hong Kong, as well as implemented a major European marketing campaign with Apple. In December, the company purchased Jugos del Valle, a leader of packaged juices, nectars, and fruit-flavored beverages in Latin America for approximately \$470 million.

Meanwhile, Pepsi continues on its growth path with the acquisitions of Naked Juice Co., IZZE Beverage Co., Stacy's Pita, and a New Zealand snack foods company in 2006. Whether Coke or Pepsi makes the next move, both companies will undoubtedly strive to outgrow the other, primarily through acquisitions, well into the future.

Private Equity News

In Private Equity news this month, **Catterton Partners** and its portfolio company **Healthy Food Holdings** have stepped up their acquisition activity as of late. After purchasing **Yofarm Company** in September 2005, Healthy Food Holdings has since acquired **CoolBrands Dairy**, the yogurt subsidiary of **CoolBrands International** including the Breyer's yogurt brand, and **Van's International Foods**, a manufacturer of organic and natural waffles. Healthy Food Holdings, a management holding company for branded, "better-for-you" foods, is currently managed by former executives of Horizon Organic including its former president Chuck Marcy.

Consolidation continues within the in-store bakery channel as **Best Brands Corporation**, a privately held company owned by **Value Creation Partners** and **Brantley Partners**, announced its second acquisition in less than 24 months. The purchase of **Telco Food Products** expands Best

Brands' frozen baked cakes, brownies, and muffin capabilities in addition to adding a second California manufacturing facility to its nine other North American locations.

After a long and difficult shareholder battle over **Lone Star Steakhouse**, **Lone Star Funds** has prevailed with its increased bid of \$27.35 a share after first offering \$27.10 in August 2006. The Lone Star Steakhouse operates a chain of 219 mid-priced steak houses, 24 Texas Land & Cattle Co. restaurants, and 21 upscale restaurants under the Del Frisco's Double Eagle Steak House and Sullivan's Steakhouse labels.

In other restaurant news, **Blackstone Group LP** purchased **Tragus Ltd.** for \$525 million prior to filing for a public offering. Tragus is one of the largest mid-market restaurant chain operators in the U.K.

(\$ in millions)

Food Processing

December 21, 2006	Strauss-Elite , the Israel-based food company, has signed an agreement to buy Carousel Foods of America .	\$9.0	Strauss-Elite is active in the U.S. market through its subsidiary Blue and White Foods. The acquisition allows for the expansion of the Sabra brand, which is primarily recognized in the U.S. for its hummus. Sabra was purchased by Strauss-Elite in August 2005.
December 14, 2006	Nestle SA has agreed to acquire the medical nutrition business of Novartis AG .	\$2,525.0	Novartis Medical Nutrition, which supplies enteral nutrition, oral nutrition and medical devices, is expected to generate an operating income of \$90 million on sales of approximately \$950 million in 2006. Novartis' nutrition business complements Nestle's existing healthcare nutrition business both geographically as well as with regard to its product lines.
December 11, 2006	The Hain Celestial Group Inc. has acquired Haldane Foods Limited from Archer Daniels Midland Company .	-	Haldane Foods Limited has generated revenues exceeding £10 million. The transaction is expected to be accretive to Hain Celestial's earnings during its fiscal year 2008.

Protein

December 11, 2006	Maruha Group , the largest Japanese seafood company, and third-ranked Nichiro have agreed to merge under a holding company.	-	Maruha will combine with Nichiro in an effort to reduce costs through streamlining operations and to increase procurement capacity. Japan's seafood companies are facing rising costs caused by diminishing global fish supply and reduced quotas amid less domestic demand as the country's population shrinks.
December 11, 2006	Maruha Group has acquired Seattle-based seafood processing company Premier Pacific Seafoods .	-	Maruha Group carried out the purchase through its 100% owned subsidiary, Washington-based Westward Seafoods. Premier Pacific Seafoods had annual revenues during fiscal 2005 of \$54 million.
December 4, 2006	Pilgrim's Pride Corporation and Gold Kist Inc. have entered into a definitive merger agreement under which Pilgrim's Pride will acquire all of the outstanding shares of Gold Kist common stock for \$21.00 per share in cash.	\$1,069.6	Together, Pilgrim's Pride and Gold Kist will be the world's leading chicken company in terms of production and the third-largest revenue producing U.S. meat protein company.

Beverage

December 19, 2006	Coca-Cola Femsa and The Coca-Cola Company have announced the acquisition of Jugos del Valle .	\$470.0	Jugos del Valle is Mexico's second largest packaged juice producer, and the largest in Brazil, with 12-month revenues around \$440 million as of September 30, 2006.
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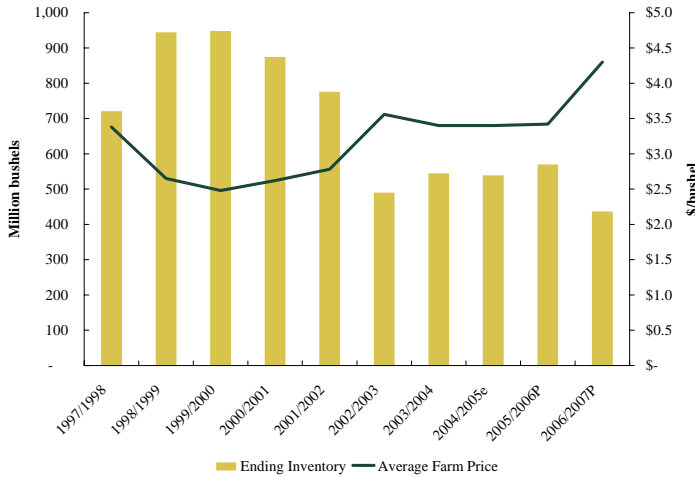
Private Equity

December 21, 2006	Van's International Foods is being sold to Healthy Foods Holdings , which was created in 2005 by Catterton Partners to invest in the natural foods industry.	-	Van's, which will have sales this year of approximately \$25 million, accounts for close to half of the market for all-natural frozen waffles.
December 14, 2006	Best Brands Corp. , a privately-held company owned by Value Creation Partners and Brantley Partners , has acquired Telco Food Products .	-	The acquisition of Telco Food Products provides product synergies and top line growth to Best Brands' core in-store frozen bakery strengths.

Commodities Impacting Food and Beverage Industry

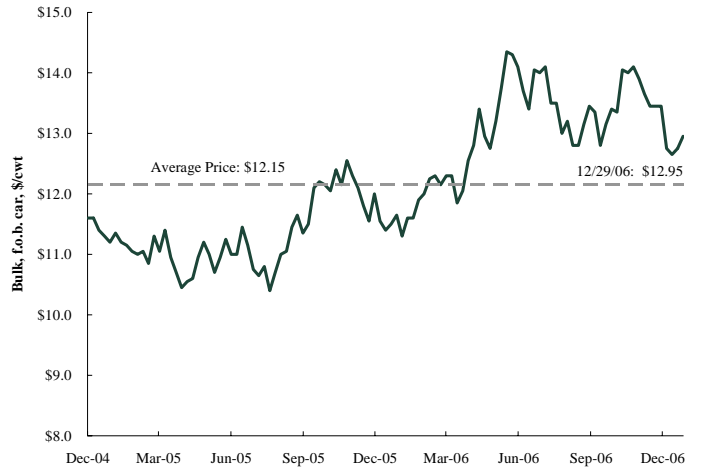
- The shortage in wheat inventories has resulted in substantial higher wheat costs directly impacting bakers, cereal manufacturers, brewers, and other wheat users. The increased price for wheat is projected to remain high throughout most of 2007.

Wheat Inventories and Average Wheat Farm Price



Sources: World Agricultural Supply and Demand Estimates, World Agricultural Outlook Board USDA.

Weekly Kansas City Bakers Short Patent

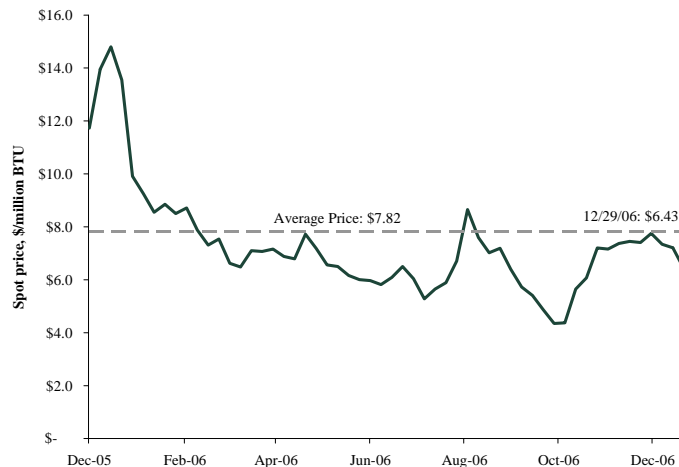


Source: FoodBusinessNews.

Natural Gas

- The decline in natural gas prices over the past two years has provided food and beverage manufacturers with much needed relief.

Henry Hub Natural Gas Price

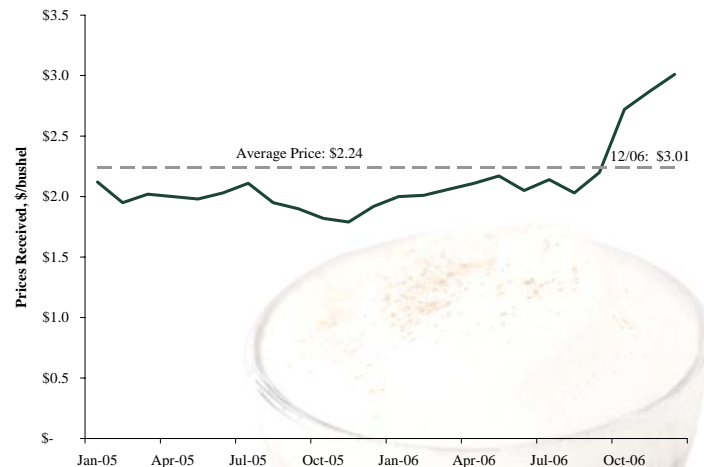


Source: Energy Information Administration.

Corn Prices

- As of late, protein companies have been negatively impacted by higher feed costs (a result of increasing corn prices). Soft drink companies have been experiencing the same effects with higher fructose syrup prices.

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										
Campbell Soup Co. (NYSE:CPB)	\$ 38.89	\$ 15,124.9	\$ 17,757.9	42.0%	20.0%	16.2%	2.37x	11.8x	14.6x	1.9x
ConAgra Foods Inc. (NYSE:CAG)	27.00	13,757.6	16,512.2	25.1	13.3	10.5	1.41	10.6	13.4	2.3
Dean Foods Co. (NYSE:DF)	42.28	5,655.3	8,788.6	25.9	8.8	6.6	0.84	9.6	12.8	3.5
Del Monte Foods Co. (NYSE:DLM)	11.03	2,223.4	4,482.6	26.3	13.1	10.5	1.42	10.8	13.6	5.5
Flowers Foods Inc. (NYSE:FLO)	26.99	1,640.6	1,730.7	49.8	9.7	6.2	0.94	9.7	15.1	0.6
Fresh Del Monte Produce Inc. (NYSE:FDP)	14.91	865.4	1,236.2	6.5	3.1	0.5	0.38	12.3	84.1	4.0
General Mills Inc. (NYSE:GIS)	57.60	19,761.0	27,064.0	40.2	21.2	17.7	2.26	10.7	12.8	2.6
Hain Celestial Group Inc. (NasdaqNM:HAIN)	31.21	1,216.9	1,295.9	28.9	11.2	9.6	1.65	14.6	17.1	1.7
Hershey Co. (NYSE:HSY)	49.80	11,545.6	13,782.1	38.6	24.9	20.8	2.78	11.2	13.4	1.9
HJ Heinz Co. (NYSE:HNZ)	45.01	14,830.1	19,083.0	37.1	19.3	16.4	2.15	11.1	13.1	2.7
Kellogg Co. (NYSE:K)	50.06	19,940.7	24,513.1	44.8	20.8	17.4	2.29	11.0	13.1	2.3
Kraft Foods Inc. (NYSE:KFT)	35.70	58,683.0	68,821.0	36.2	18.2	15.7	1.99	10.9	12.7	1.7
Ralcorp Holdings Inc. (NYSE:RAH)	50.89	1,366.3	1,845.9	19.1	11.1	7.5	1.00	9.0	13.3	2.9
Sara Lee Corp. (NYSE:SLE)	17.03	12,718.5	14,045.5	37.4	12.5	8.2	0.87	7.0	10.6	2.2
The J. M. Smucker Company (NYSE:SJM)	48.47	2,752.7	3,097.1	31.6	14.9	11.7	1.43	9.6	12.2	1.3
Treehouse Foods Inc. (NYSE:THS)	31.20	973.5	1,244.2	21.2	9.8	7.1	1.48	15.1	20.7	3.3
Median				33.9%	13.2%	10.5%	1.45x	10.9x	13.3x	2.3x
Average ^(c)				31.9	14.5	11.4	1.58	10.9	18.3	2.5

Protein										
Hormel Foods Corp. (NYSE:HRL)	\$ 37.34	\$ 5,129.6	\$ 5,307.2	24.1%	10.0%	7.8%	0.92x	9.3x	11.8x	0.6x
Pilgrim's Pride Corp. (NYSE:PPC)	29.43	1,958.7	2,348.2	5.7	2.6	0.1	0.45	17.0	-	4.1
Smithfield Foods Inc. (NYSE:SFD)	25.66	2,869.9	5,980.5	9.8	5.7	3.8	0.53	9.4	14.0	5.0
Tyson Foods Inc. (NYSE:TSN)	16.45	5,836.4	9,017.4	3.6	2.0	-	0.35	17.5	-	7.7
Median				7.7%	4.2%	3.8%	0.49x	13.2x	12.9x	4.5x
Average ^(c)				10.8	5.1	3.9	0.56	13.3	12.9	4.4

Beverage										
Coca-Cola Co. (NYSE:KO)	\$ 48.25	\$ 113,088.2	\$ 113,905.2	65.8%	35.3%	31.5%	4.80x	13.6x	15.3x	0.5x
Constellation Brands Inc. (NYSE:STZ)	29.02	6,773.9	11,048.1	29.1	18.5	15.8	2.26	12.2	14.3	4.8
Hansen Natural Corp. (NasdaqSC:HANS)	33.68	3,031.1	2,916.7	52.4	31.1	30.8	6.09	19.6	19.8	0.0
Pepsico, Inc. (NYSE:PEP)	62.55	102,712.2	102,332.2	55.5	23.8	19.9	2.94	12.3	14.7	0.4
Median				54.0%	27.5%	25.4%	3.87x	13.0x	15.0x	0.4x
Average ^(c)				50.7	27.2	24.5	4.02	14.4	16.0	1.4

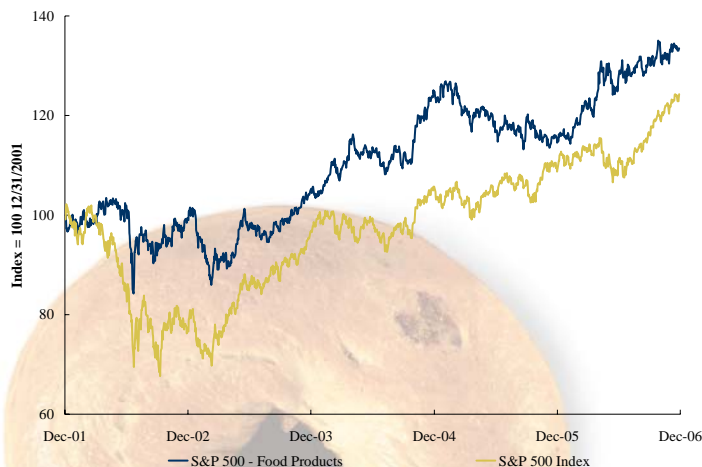
Source: Capital IQ.

(a) As of 12/29/2006.

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

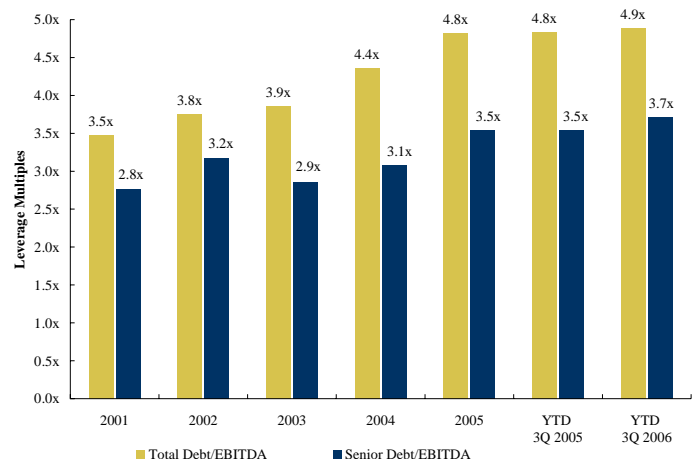
(c) Figures have been adjusted for non-recurring and extraordinary gains or losses.

S&P 500 vs. S&P Food



Source: Capital IQ.

Leverage Multiples



Source: Standard & Poors.

Note: Q4 2006 data not yet available.

Best Brands Corp.
a portfolio company of
Brunley 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

extreme™
foods

has been acquired by

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