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Food Safety Concerns

“Nearly one-fifth of products made in China for domestic consumption failed quality and safety standards,” says the Chinese government. That statement begs the question “is our food really safe?” The United States imported 40% of its consumer goods from China last year as the Chinese farm sector generated \$31 billion worth of exports.

As China attempts to remediate this worsening situation, its government has taken several actions to improve quality and safety standards, including closing 180 factories after inspectors found industrial chemicals used in products from candy, seafood, and crackers. Last year, the State Administration for Industry and Commerce closed 152,000 unlicensed food manufacturers and retailers for making fake or low-quality products.

However, China has 200 million small farmers who typically have one to two acres of land divided into four to six noncontiguous plots with little ability to regulate or enforce safety standards. As government regulators as well as consumers debate whose responsibility it is to monitor and inspect every good from China, the answer is collectively among manufacturers, retailers, restaurants, and

distributors as well as governments. Some experts believe a \$100 billion investment is required for China to improve standards, warehousing, transportation, and training. Despite this staggering investment, this could be a significant opportunity for a manufacturer who is willing to assume the risk.

Food manufacturers have been importing from China for years and taken the food safety upon themselves. For example, Carrefour trains its own farmers and uses the same European tracking system for all produce sold worldwide.

China is not the only country with food safety issues, but its bureaucracy, corruption, and lack of free press are obstacles in improving the current situation. However, do not be fooled, the United States is not perfect as many of the leading food manufacturers will point out. Late last month, the FDA found a manufacturing plant in Ohio using chemical melamine to make binding agents, which ended up in feed for farmed fish, shrimp, and livestock.

To combat these safety concerns, every nation's consumers must actively voice their concerns and demand improvement. Everyone including governments, consumers, and manufacturers are accountable for our future food safety.

Insight of the Month

Private Equity News

Over the past two weeks, there have been approximately \$8.1 billion LBO deals, sending the year-to-date total up to \$177.8 billion of deals completed by U.S. based firms. That amount is nearly three times the \$62.5 billion of disclosed deals by this time last year and is only about \$20.0 billion shy of the year-end total in 2005 of \$198.0 billion.

After months of rumors and discussions, **Blackstone Group LP's** initial public offering opened on June 22nd at \$36.45, raising \$4.1 billion before commissions, fees, and expenses. As the first IPO of many speculated to come in the industry, investors have begun to inquire into the significance behind private equity's desire to go public. Is this the signal that cheap debt is coming to an end and the valuations have reached the peak?

In June, this signal was observed when both **U.S. Foodservice** and **Dollar General** had their financings changed, forced by investors, in the final

hour. **Dollar General** changed the terms related to a tranche of senior PIK toggle notes while the U.S. Foodservice transaction was funded by bridge loans after the bonds were pulled from the market.

In addition to lenders tightening the ropes, Congress challenged the private equity industry on a major new front, when 14 Democrats from the U.S. House of Representatives introduced a bill that would raise taxes on “carried interest.” The bill will more than double the tax rate for carried interest and extract billions of dollars in additional taxes from private equity firms.

However with all that mixed news across the industry, the transactions continue to be announced, particularly restaurant buyouts. **Back Yard Burgers** agreed to be acquired by **BBAC, LLC**, which is an investment partnership managed by **Cherokee Advisors, LLC**. **Brinker International** with **Pepper Dining, Inc.** has purchased 95 **Chili's Grill & Bar** restaurants.

(\$ in millions)

Food Processing

June 27, 2007	Troyer Foods has entered into a preliminary purchase agreement with Salem Food Service .	-	This is Troyer's second acquisition this year as it continues to expand its broad line food service distribution business.
June 25, 2007	TreeHouse Foods entered into a definitive agreement with E.D. Smith Income Fund to acquire all the assets of the Fund.	\$203.0	As TreeHouse's third acquisition this year, E.D. Smith will provide it with a leading Canadian private label business and expand its U.S. dry grocery private label business.
June 12, 2007	Dutch food group, CSM NV , has agreed to acquire Titterington's .	\$23.0	With annual revenues of \$30 million, Titterington's manufactures scones, muffins, cakes, and pastries for the food service channel from its Massachusetts location.
June 1, 2007	Lancaster Colony Corp. acquired the principal assets of Marshall Biscuit Company, Inc.	-	Based in Saraland, AL, Marshall Biscuit was a privately-owned manufacturer of private label frozen rolls and biscuits that complements Lancaster's Sister Schubert's branded rolls.

Private Equity

June 18, 2007	Friendly Ice Cream Corp. agreed to sell to Sun Capital Partners Inc.	\$337.8	Adding to Sun Capital's restaurant portfolio, Friendly gives the firm an iconic brand name in the casual dining sector.
June 14, 2007	Swander Pace Capital through its holding company, Pineridge Bakery, Inc. , has acquired Oakrun Farm Bakery, Inc. and Gourmet Baker, Inc.	-	Based in Canada, these two bakery manufacturers are the leading North American producers of specialty fresh and frozen baked goods and desserts distributed through in-store bakeries and food service end markets.

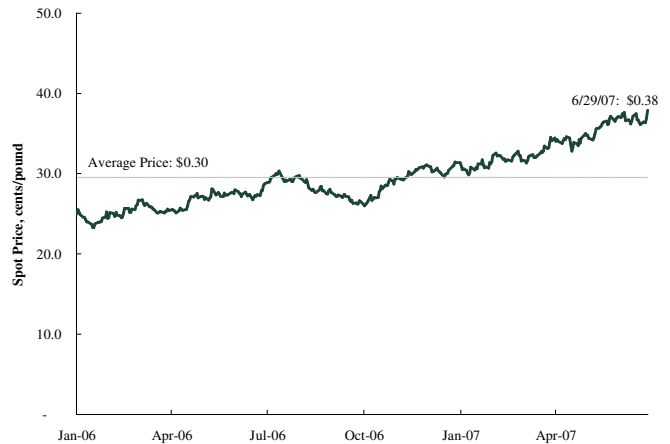


Commodities Impacting the Food and Beverage Industry

Soybean Oil Prices

- The record price for soybean oil was set in 1974, when the July contract price exceeded 45 cents a pound. As of June 29, 2007, prices reached 34 cents per pound. Rising soybean oil prices have many market effects.
- Food processors continue to experience higher input costs from soybean oil as well as dairy, wheat, and corn, among others.
- This translates into a higher food price for the consumer.
- In addition, specifically the increased soybean oil costs are dampening the rapidly expanding biodiesel industry, which relies heavily on the oil to make the renewable diesel fuel additive.

Soybean Oil Prices

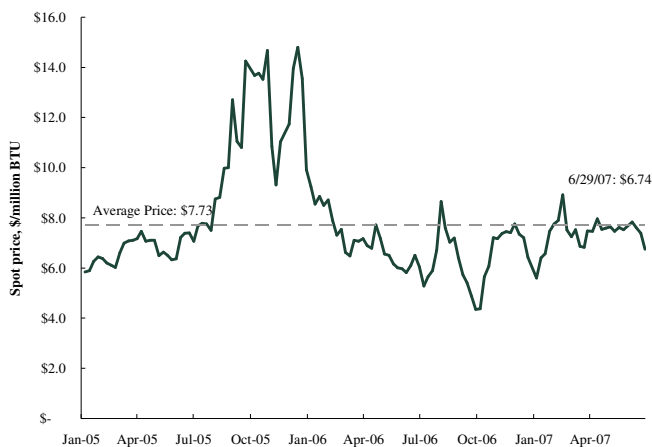


Source: Bloomberg.

Natural Gas

- Natural gas prices fell to their lowest point since April this year due to large inventories. Natural gas stockpiles in the United States are overflowing, according to data from the U.S. Energy Department, showing storage levels rose by 90 billion cubic feet last week to 2.3 trillion cubic feet, well above year-ago figures of 2.2 trillion cubic feet of gas in storage.

Henry Hub Natural Gas Price

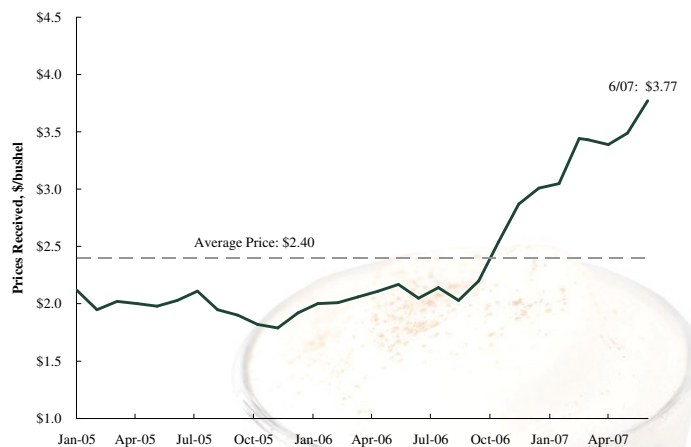


Source: Energy Information Administration.

Corn Prices

- The increasing number of ethanol plants in the U.S. has a direct effect on the price of corn. In 2000, 6% of the U.S. corn crop was used to produce ethanol while more than 25% of this year's corn crop will be processed for ethanol.

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)	\$ 38.81	\$ 15,036.7	\$ 17,378.7	42.3%	20.0%	16.4%	2.25x	11.3x	13.7x	1.7x
ConAgra Foods Inc. (NYSE:CAG)	26.86	13,378.7	16,103.0	26.1	13.6	10.6	1.34	9.9	12.6	2.1
Dean Foods Co. (NYSE:DF)	31.87	4,143.0	7,468.5	27.1	9.0	6.7	0.73	8.2	10.9	3.7
Del Monte Foods Co. (NYSE:DLM)	12.16	2,461.5	4,451.6	26.6	13.8	10.9	1.30	9.4	12.0	4.3
Flowers Foods Inc. (NYSE:FLO)	33.36	2,029.7	2,082.2	49.5	10.5	7.1	1.08	10.2	15.1	0.3
Fresh Del Monte Produce Inc. (NYSE:FDP)	25.05	1,445.6	1,897.8	7.6	4.1	1.6	0.59	14.3	37.4	3.6
General Mills Inc. (NYSE:GIS)	58.42	20,234.5	27,162.5	36.1	20.8	17.4	2.18	10.5	12.5	2.4
Hain Celestial Group Inc. (NasdaqNM:HAIN)	27.14	1,077.0	1,252.0	28.9	11.5	9.8	1.43	12.5	14.6	2.2
Hershey Co. (NYSE:HSY)	50.62	11,570.3	13,480.5	37.5	24.8	20.6	2.72	10.9	13.2	1.6
HJ Heinz Co. (NYSE:HNZ)	47.47	15,291.5	19,618.8	37.7	19.4	16.4	2.18	11.2	13.3	2.8
Kellogg Co. (NYSE:K)	51.79	20,592.4	25,098.4	44.6	20.6	17.4	2.25	10.9	12.9	2.1
Kraft Foods Inc. (NYSE:KFT)	35.25	56,545.0	66,836.0	36.1	17.5	15.0	1.92	10.9	12.8	1.7
Ralcorp Holdings Inc. (NYSE:RAH)	53.45	1,445.1	2,186.5	19.6	12.1	8.6	1.10	9.1	12.8	3.1
Sara Lee Corp. (NYSE:SLE)	17.40	12,781.7	14,510.7	37.4	12.0	8.4	0.88	7.3	10.5	2.1
The J. M. Smucker Company (NYSE:SJM)	63.66	3,623.8	3,849.3	33.1	15.8	13.1	1.79	11.3	13.7	1.3
Treehouse Foods Inc. (NYSE:THS)	26.61	830.3	1,021.4	20.7	10.9	8.2	1.00	9.1	12.1	1.7
Median ^(d)				34.6%	13.7%	10.7%	1.39x	10.7x	12.8x	2.1x
Average ^(d)				31.9	14.8	11.8	1.55	10.4	12.9	2.3

Protein ^(c)

Hormel Foods Corp. (NYSE:HRL)	\$ 37.35	\$ 5,141.9	\$ 5,384.3	23.4%	10.1%	8.0%	0.90x	9.0x	11.3x	0.6x
Pilgrim's Pride Corp. (NYSE:PPC)	38.17	2,540.4	4,247.1	4.8	2.2	-	0.71	32.4	-	13.7
Smithfield Foods Inc. (NYSE:SFD)	30.79	4,132.7	7,181.7	9.6	5.6	3.7	0.60	10.9	16.5	4.7
Tyson Foods Inc. (NYSE:TSN)	23.04	8,203.5	11,111.5	4.4	3.3	1.3	0.43	13.0	33.4	3.4
Median ^(d)				7.2%	4.4%	3.7%	0.66x	10.9x	13.9x	4.1x
Average ^(d)				10.5	5.3	4.3	0.66	11.0	13.9	5.6

Beverage ^(c)

Coca-Cola Co. (NYSE:KO)	\$ 52.31	\$ 120,829.3	\$ 123,486.3	65.6%	32.1%	28.2%	4.95x	15.4x	17.5x	0.8x
Constellation Brands Inc. (NYSE:STZ)	24.28	5,707.2	10,660.6	30.4	20.2	17.2	2.15	10.7	12.5	5.0
Hansen Natural Corp. (NasdaqSC:HANS)	42.98	3,870.7	3,687.7	52.0	25.5	25.2	5.66	22.2	22.5	0.0
Pepsico, Inc. (NYSE:PEP)	64.85	105,635.7	106,626.7	55.0	24.1	20.2	2.98	12.4	14.8	0.3
Median ^(d)				53.5%	24.8%	22.7%	3.96x	13.9x	16.2x	0.6x
Average ^(d)				50.8	25.4	22.7	3.93	15.2	16.8	1.5

Source: Capital IQ.

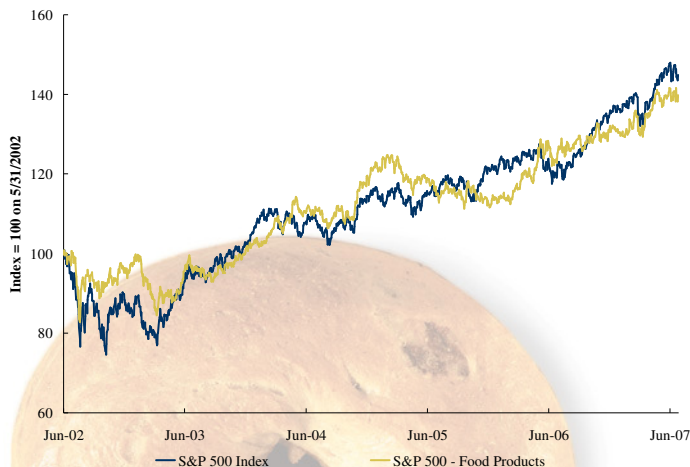
(a) As of 06/29/2007.

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

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

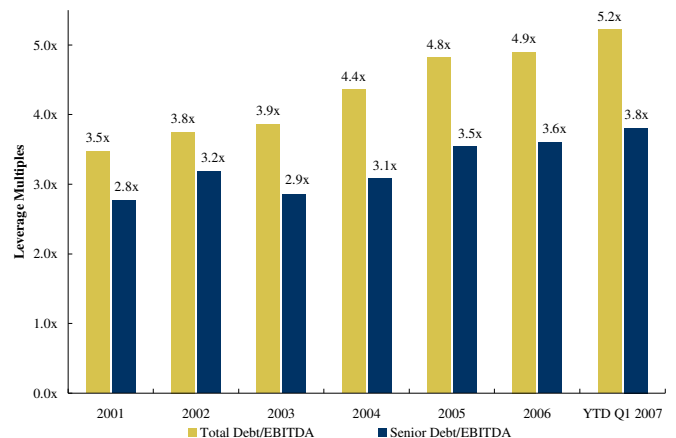
(d) Outliers (boxed above) are excluded from summary multiples and statistics.

S&P 500 vs. S&P Food



Source: Capital IQ.

Leverage Multiples



Source: Standard & Poors.



has been acquired by



TreeHouse



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

GE Commercial Finance



The assets of

**PINNACLE
FOOD GROUP**

have been acquired by

**Pine Ridge
Farms, LLC**



has been acquired by



**extreme™
foods**




has been acquired by



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