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## New Immigration Legislation's Impact on the Food Industry

Foreign workers, both legal and illegal, have been an integral part of the U.S. agricultural sector throughout history. The recently proposed legislation greatly enhances border security and enforcement between the U.S. and Mexico, limiting the number of new illegal workers that enter the country. However, once certain border control benchmarks are achieved, the estimated 12 million undocumented workers already in the U.S. will have the chance to obtain legal citizenship. These immigrants must pass a background check, remain employed, maintain a clean criminal record, and pay a fine to gain legal status. The legislation also allows another half million temporary workers to fill jobs that Americans are not doing for up to three two-year terms.

The proportion of illegal workers in the U.S. food and agriculture industry is among the highest of any industry, with meat and poultry representing the largest component, employing approximately 500,000 workers. In addition, fragile crops for the fresh fruit market, such as raspberries and blackberries, must be harvested by hand, with immigrants typically filling these positions.

### Insight of the Month

The agricultural industry has witnessed a continuous cycle of illegal immigrant attrition, with no end in sight. Once immigrants gain legal status, they are more likely to enter into another industry which maintains a healthier and safer working environment, such as basic manufacturing or hospitality. The current legislation significantly reduces the availability of illegal workers in an industry that is increasingly dependent on these immigrants.

Illegal immigrant raids and increased border enforcement have created a desperate situation for farmers, many of which were forced to leave crops rotting during last year's harvest, as well as other food manufacturers. In December 2006, immigration agents arrested more than 1,200 workers at several U.S. Swift plants. Swift has struggled to replace the workers in a timely manner, suffering a total estimated economic loss of approximately \$30 million.

Today, the U.S. employs nearly as many border patrol agents as FBI agents, and immigration cases comprise one-third of all federal prosecutions, more than narcotics, terrorism, or any other crime. However, as long as American business demands cheap labor, workers will continue their influx to jobs that pay more than in their homeland.

## Private Equity News

In Private Equity news this month, **Bruckman, Rosser, Sherrill & Co.** received nearly three times its equity investment from **B&G Foods, Inc.** after creating the company in December 1996. On May 29, 2007, B&G Foods completed an initial public offering, receiving net proceeds of nearly \$200 million. B&G Foods was the first company to sell a hybrid debt and equity security, known as an enhanced income security, on the American Stock Exchange in 2004. Most recently, B&G Foods completed the acquisition of Cream of Wheat and Cream of Rice from **Kraft Foods**.

The auction process has begun for **Nellson Nutraceutical Inc.** Prior to filing for Chapter 11 bankruptcy protection on January 28, 2006, **Calera Capital**, formerly known as **Fremont Partners**, purchased Nellson in October 2002. Not long after Fremont levered the business in 2004 to pay out a substantial dividend, Nellson's business began to

falter. The bankruptcy proceedings have been tumultuous as disagreements over the company's valuation between Fremont and the first and second debt holders have gone on ad nauseam for several months.

Restaurant buyouts continue to be in high fashion this spring. **Littlejohn & Co. LLC** announced the go private transaction of the Canadian specialty coffee maker, **Van Houtte Inc.**, for \$546 million. Van Houtte, a coffee roaster, distributor, and marketer, has been in business since 1919. **Blackstone Capital** announced the purchase of **Strada**, a U.K. based Italian-style chain, through its current portfolio company **Tragus** for \$277 million. **Bain Capital Partners** and **Catterton Partners** raised their bid for **OSI Restaurant Partners**, valuing the company at \$3.1 billion. The new price reflects a premium of 27% of the closing share price on November 3<sup>rd</sup>.

(\$ in millions)

**Food Processing**

May 31, 2007	TreeHouse Foods Inc. acquired <b>San Antonio Farms</b> .	\$88.5	The acquisition of this manufacturer of premium quality Mexican sauces serves as a platform for TreeHouse in the growing Mexican and Southwestern food categories.
May 30, 2007	The <b>Hain Celestial Group, Inc.</b> will purchase the tofu and meat-alternative business of <b>WhiteWave Foods Company</b> , a subsidiary of <b>Dean Foods Company</b> .	-	The product line includes baked and grilled tofu, tempeh, and other traditional tofu items, generating sales of \$8.0 million last fiscal year. The transaction excludes the WhiteWave trademark.
May 17, 2007	<b>The Inventure Group, Inc.</b> , previously known as <b>Poore Brothers</b> , has acquired substantially all the assets of <b>Rader Farms, Inc.</b>	\$21.0	Rader Farms is a leading grower, processor, and marketer of premium frozen blueberries, raspberries, berry blends, and other fruit products, generating \$27.0 million in 2006 revenues.
May 9, 2007	<b>Crystal Cream &amp; Butter Co.</b> was sold to <b>HP Hood LLC</b> .	-	The acquisition allows HP Hood to better serve its West Coast customers and positions the company for future growth.
May 4, 2007	<b>Firmenich</b> will acquire the <b>Flavor Division</b> of <b>Danisco A/S</b> .	\$611.0	The acquisition will expand its product offering and market coverage, particularly in vanilla, ice cream, and beverage bases while reinforcing its citrus, natural, and dairy segment position.
May 2, 2007	<b>Sargento Foods Inc.</b> purchased <b>Portionables Inc.</b>	-	Portionables operates facilities in Washington and South Dakota, where frozen sauce and other value-added food products are manufactured for the food service channel.

**Protein**

May 29, 2007	<b>J&amp;F Participacoes SA</b> has agreed to buy <b>Swift &amp; Co.</b> from <b>HM Capital Partners LLC</b> .	\$1,400.0	The transaction enables J&F, Latin America's largest meat producer, to establish a global presence and obtain an entry into the Pacific region.
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**Beverage**

May 25, 2007	The <b>Coca-Cola Company</b> has reached an agreement to acquire <b>Energy Brands, Inc.</b> , sold under the <b>Glaceau</b> label.	\$4,100.0	After passing on the opportunity last summer when Tata Group purchased a 30% stake in the company for \$677 million, Coke has purchased the largest active lifestyle beverage business in the U.S.
May 1, 2007	<b>Vitality Foodservice, Inc.</b> purchased the primary operations of <b>Stan's Frozen Foods, Inc.</b>	-	Stan's Frozen Foods beverage dispensing sales and services entities are an important strategic move that will substantially grow Vitality's distribution operations.
May 1, 2007	<b>Farmer Bros. Co.</b> has acquired <b>Coffee Bean International</b> , a portfolio company of <b>Svoboda, Collins LLC</b> .	\$22.0	The acquisition provides Farmer Bros. immediate access to the fast-growing market for specialty coffee.

**Private Equity**

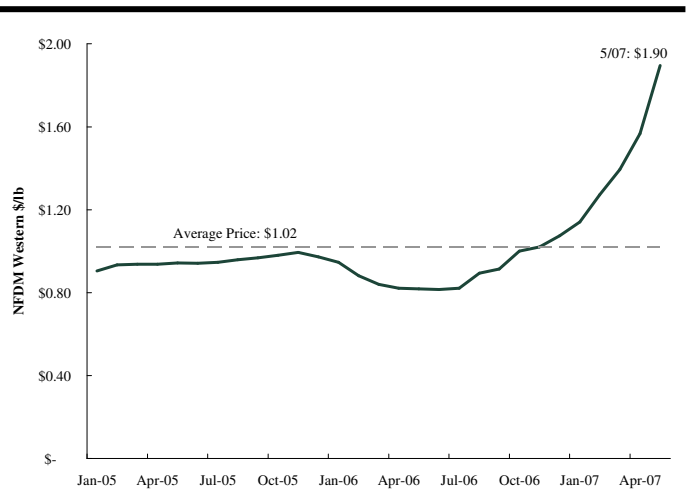
May 29, 2007	<b>Warner Candy Co.</b> , a portfolio company of <b>Mars Equities</b> , and <b>Blueberry Hill Foods</b> have merged and will be named <b>Simply Goodies LLP</b> .	-	The combined company will have the key dimensions of branded and private label manufacturing, repackaging, and distribution under one organization.
May 24, 2007	<b>Brynwood Partners L.P.</b> signed a definitive agreement to acquire <b>Turtles®</b> confectionary brand from <b>Nestle SA</b> .	-	Through a newly formed company, DeMet's Candy Company, Brynwood will also acquire a production facility in Toronto, Canada and merge the businesses into Signature Snacks, an existing operating company.
May 2, 2007	<b>Allied Capital</b> has acquired a majority interest in <b>Old Orchard Brands LLC</b> .	-	Allied Capital invested \$64.6 million with management in the form of senior debt, senior subordinated debt, and a majority of common equity to complete the transaction.

## Commodities Impacting the Food and Beverage Industry

### Non-Fat Dried Milk Prices

- Dairy market forecasters are warning consumers about a sharp increase in dairy prices this summer. The price paid to dairy farmers is expected to increase 50% this year, driven by higher costs of transporting milk to market and increased demand for corn to produce ethanol.
- Milk prices are projected near \$4.50 per gallon for some brands of milk this summer and \$5.00 per gallon by fall compared to current prices around approximately \$2.50 per gallon.
- Increased dairy prices have already affected the leading food processors such as The Hershey Co. and Kraft Foods, who have already lowered profit expectations.

Non-Fat Dried Milk Prices

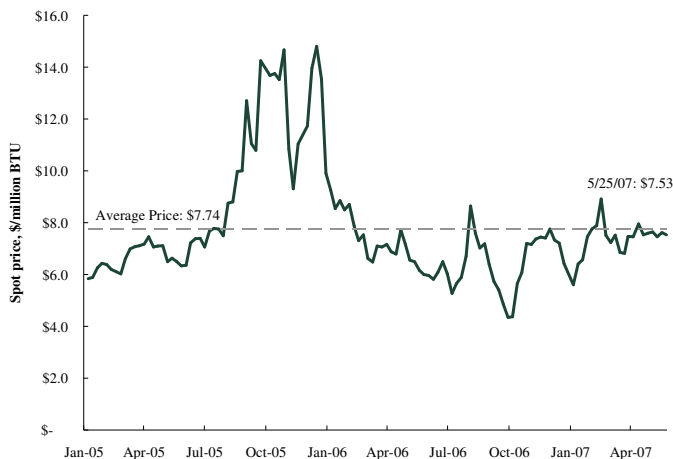


Source: USDA/AMS — Dairy Market News.

### Natural Gas

- Large cities throughout much of the Midwest and Northeast continue to experience mild temperatures, increasing the current inventory of natural gas. As a result, gas prices are currently expected to remain stable during the hot summer months even when demand increases.

Henry Hub Natural Gas Price

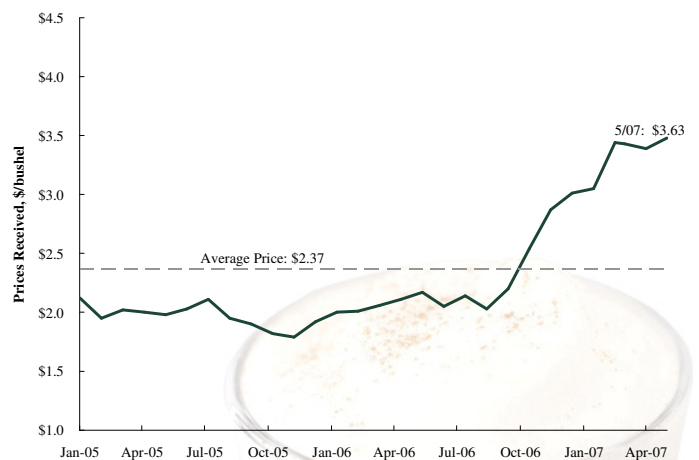


Source: Energy Information Administration.

### Corn Prices

- Corn planting is complete in Illinois at 96%, and 81% is rated good-to-excellent. Similarly, the corn planting is completed in Iowa at 98%, and 80% is rated good-to-excellent.

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)	\$ 39.70	\$ 15,483.0	\$ 17,825.0	42.0%	20.0%	16.4%	2.31x	11.5x	14.1x	1.7x
ConAgra Foods Inc. (NYSE:CAG)	25.50	12,701.3	15,683.8	25.1	14.0	11.0	1.34	9.6	12.2	2.1
Dean Foods Co. (NYSE:DF)	32.76	4,258.7	7,584.2	25.9	9.0	6.7	0.74	8.3	11.1	3.7
Del Monte Foods Co. (NYSE:DLM)	12.05	2,433.0	4,586.1	26.3	13.5	10.9	1.40	10.4	12.9	4.9
Flowers Foods Inc. (NYSE:FLO)	34.50	2,099.0	2,151.5	49.8	10.5	7.1	1.11	10.6	15.6	0.3
Fresh Del Monte Produce Inc. (NYSE:FDP)	24.33	1,404.0	1,856.2	6.5	4.1	1.6	0.58	14.0	<b>36.6</b>	3.6
General Mills Inc. (NYSE:GIS)	61.24	21,211.3	28,060.3	40.2	21.7	18.2	2.31	10.6	12.6	2.3
Hain Celestial Group Inc. (NasdaqNM:HAIN)	28.60	1,134.9	1,310.0	28.9	11.5	9.8	1.50	13.1	15.2	2.2
Hershey Co. (NYSE:HSY)	52.71	12,048.0	13,958.2	38.6	24.8	20.6	2.82	11.3	13.7	1.6
HJ Heinz Co. (NYSE:HNZ)	47.58	15,456.3	19,957.0	37.1	19.0	16.1	2.22	11.7	13.8	2.9
Kellogg Co. (NYSE:K)	53.98	21,463.2	25,969.2	44.8	20.6	17.4	2.33	11.3	13.4	2.1
Kraft Foods Inc. (NYSE:KFT)	33.84	54,283.2	64,574.2	36.2	17.5	15.0	1.85	10.6	12.4	1.7
Ralcorp Holdings Inc. (NYSE:RAH)	58.16	1,572.5	2,313.9	19.1	12.1	8.6	1.16	9.6	13.5	3.1
Sara Lee Corp. (NYSE:SLE)	17.90	13,149.0	14,878.0	37.4	12.0	8.4	0.90	7.5	10.7	2.1
The J. M. Smucker Company (NYSE:SJM)	57.70	3,266.9	3,541.1	31.6	15.2	12.0	1.64	10.8	13.7	1.3
Treehouse Foods Inc. (NYSE:THS)	28.04	874.9	1,066.0	21.2	10.9	8.2	1.04	9.5	12.7	1.7

<b>Median <sup>(d)</sup></b>	<b>33.9%</b>	<b>13.7%</b>	<b>10.9%</b>	<b>1.45x</b>	<b>10.6x</b>	<b>13.4x</b>	<b>2.1x</b>
<b>Average <sup>(d)</sup></b>	<b>31.9</b>	<b>14.8</b>	<b>11.7</b>	<b>1.58</b>	<b>10.7</b>	<b>13.2</b>	<b>2.3</b>

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

Hormel Foods Corp. (NYSE:HRL)	\$ 37.45	\$ 5,164.9	\$ 5,407.2	24.1%	10.1%	8.1%	0.91x	8.9x	11.2x	0.6x
Pilgrim's Pride Corp. (NYSE:PPC)	35.33	2,351.4	4,058.0	5.7	2.2	-	0.68	<b>30.9</b>	-	13.7
Smithfield Foods Inc. (NYSE:SFD)	32.14	3,602.7	6,544.1	9.8	5.5	3.6	0.57	10.3	15.8	4.7
Tyson Foods Inc. (NYSE:TSN)	22.29	7,936.5	10,844.5	3.6	3.3	1.3	0.42	12.7	<b>32.6</b>	3.4

<b>Median <sup>(d)</sup></b>	<b>7.7%</b>	<b>4.4%</b>	<b>3.6%</b>	<b>0.62x</b>	<b>10.3x</b>	<b>13.5x</b>	<b>4.1x</b>
<b>Average <sup>(d)</sup></b>	<b>10.8</b>	<b>5.3</b>	<b>4.3</b>	<b>0.64</b>	<b>10.6</b>	<b>13.5</b>	<b>5.6</b>

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

Coca-Cola Co. (NYSE:KO)	\$ 52.99	\$ 122,400.0	\$ 125,057.0	65.8%	32.1%	28.2%	5.01x	15.6x	17.8x	0.8x
Constellation Brands Inc. (NYSE:STZ)	24.30	5,711.9	9,863.9	29.1	19.2	16.6	1.89	9.8	11.4	4.2
Hansen Natural Corp. (NasdaqSC:HANS)	39.80	3,584.3	3,458.2	52.4	29.1	28.8	6.26	21.5	21.7	0.0
Pepsico, Inc. (NYSE:PEP)	68.33	111,304.3	112,295.3	55.5	24.1	20.2	3.14	13.0	15.6	0.3

<b>Median <sup>(d)</sup></b>	<b>54.0%</b>	<b>26.6%</b>	<b>24.2%</b>	<b>4.07x</b>	<b>14.3x</b>	<b>16.7x</b>	<b>0.6x</b>
<b>Average <sup>(d)</sup></b>	<b>50.7</b>	<b>26.1</b>	<b>23.5</b>	<b>4.07</b>	<b>15.0</b>	<b>16.6</b>	<b>1.3</b>

Source: Capital IQ.

(a) As of 05/31/2007.

(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.

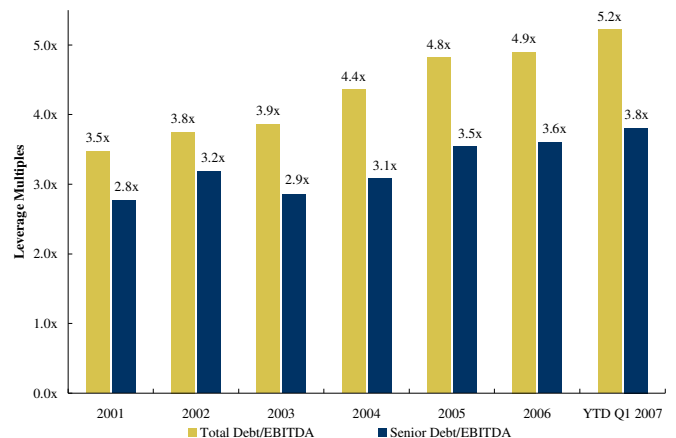
(d) Outliers (boxed above) are excluded from summary multiples and statistics.

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



Source: Capital IQ.

### Leverage Multiples



Source: Standard &amp; 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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