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## Product Recalls in the U.S. Food Industry

The recent trend of product recalls in the food industry has sent a wave of fear throughout food producers and consumers in the U.S. While recalls have revolved around the protein and dairy industries in past years, all industries have recently been deemed responsible for widespread illness and death.

ConAgra Foods recently pulled Peter Pan branded peanut butter off the shelves due to salmonella, which sickened more than 400 people in 44 states. ConAgra now faces several lawsuits, a substantial clean-up effort at the contaminated plant, and the loss of significant revenue while the product remains out of production. This marks the most expensive recall in ConAgra's history, which is expected to cost the company between \$50 and \$60 million.

The fast food industry was hit with an E. coli outbreak in late 2006, as nearly 40 victims reported illnesses at several Taco Bell locations in New Jersey and New York, directly impacting the company's operating profit by \$20 million. However, the company still faces additional costs.

Boskovich Farms, one of Taco Bell's major green onion suppliers, filed a libel lawsuit against the company, claiming it falsely placed blame on Boskovich, costing them millions of dollars.

Spinach growers across the country suffered tremendously last September when another E. coli outbreak sickened over 200 people and killed two. While the aftermath remains unclear, industry experts believe the overall impact could ultimately result in a total economic loss of \$200 million.

In one of the most far-reaching incidents to date, Menu Foods recalled 60 million cans and pouches of wet dog and cat food, including such well-known brands as Iams, Nutro, and Eukanuba. Fourteen animal deaths had been reported as of March 21<sup>st</sup>, creating a high level of panic among the 69 million American pet owners.

Lastly, the USDA announced Kraft would be voluntarily recalling approximately 1,800 pounds of bacon due to insufficient cooling during processing. Whether you're sitting down for a BLT, a PB&J, or a light salad, the threat of a food outbreak has become a part of everyday life.

### Insight of the Month

## Private Equity News

In Private Equity news this month, financial buyers' interest in the retail industry continues to swell with the announcement of two major transactions. **Madison Dearborn Partners** and Michael Eisner, former Disney CEO, announced a takeover bid of **The Topps Co.** for \$385.4 million. While this transaction has garnered immediate opposition from shareholders, another larger take-private transaction was announced. **Kohlberg Kravis Roberts & Co. L.P.** announced its purchase of **Dollar General Corp.** in a \$7.3 billion transaction.

Private equity's recent interest in leading retailers stems from various circumstances: reasonable valuations due to distressed financial conditions, retailers' ability to generate stable cash flows, and the opportunity to unlock tremendous real estate values. **Sun Capital Partners**, who purchased **Marsh Supermarkets** in October, currently has 19 stores on the market for \$10.6 million and has sold eight other locations. Proceeds from the real estate provide Sun Capital with a

"safety net" if the company's business does not turn around as expected.

In other news, after investing \$10 million in the **Associated Brands Income Fund** in November 2005, **TorQuest Partners** announced its intention to purchase the 93% outstanding units of Associated Brands' operating subsidiaries. This take-private transaction is one of many that have resulted from the announcement that income funds will be taxed similar to corporations beginning in 2011. Including firms already up for sale on this date, a total of 12 publicly-traded trusts have already been or are in the process of being purchased, representing \$15.2 billion in total value. The market value of the S&P/TSX capped income trust index has fallen 15% over the past 52 weeks.

Last month in private equity transactions, **Whitney's** intention to purchase **Herbalife** was disclosed. The \$38/share bid was formally rejected by Herbalife's board, compelling Whitney to withdraw the offer after refusing to increase its bid.

(\$ in millions)

**Food Processing**

March 23, 2007	<b>Saputo Inc.</b> is purchasing <b>Dansco Dairy Products Ltd.</b> of Wales.	\$12.0	Dansco Dairy Products is a manufacturer of mozzarella cheese for the foodservice industry, generating approximately \$80 million in revenues.
March 12, 2007	<b>New Season Foods Inc.</b> has been bought by <b>Knorr Foods Co. Ltd.</b> , a subsidiary of <b>Ajinomoto Co. Inc.</b>	-	New Season Foods has been a supplier to Ajinomoto since 1985; Ajinomoto plans to develop new fresh ingredients from the Pacific Northwest for production purposes.
March 3, 2007	<b>Alpha Baking Company</b> has acquired <b>Natural Ovens Bakery.</b>	-	The purchase of Natural Ovens, a producer of whole grain breads and other baked products, will allow Alpha to expand through the target's excess capacity in its plants.
March 1, 2007	<b>LuVel Dairy Products, Inc.</b> has been sold to <b>Prairie Farms Dairy Inc.</b>	-	LuVel, a family owned dairy that has been in business in Mississippi for 88 years, will have the ability to continue expanding to new markets with Prairie Farms.
March 1, 2007	<b>Philadelphia Macaroni Co.</b> has acquired <b>Pasta USA.</b>	-	Pasta USA markets under Italian Chef, Betty Baker, and Earth & Life brands to retailers as well as instant noodles and IQF pasta for industrial customers.

**Private Equity**

March 27, 2007	<b>Fairmont Capital Inc.</b> has acquired <b>Stampede Meat Inc.</b> with the management team.	\$127.0	Stampede supplies meat products, including fully cooked prime rib, pork carnitas, and roast beef to restaurants, casinos, airlines, and retail stores, generating approximately \$200 million in annual revenue.
March 18, 2007	<b>Burton's Foods Group Ltd.</b> was acquired by <b>Duke Street Capital</b> from <b>HM Capital Partners LLC.</b>	\$388.6	Burton's products include Jammie Dodgers and Wagon Wheels cookies and sells under Cadbury Schweppes and Unilever licenses.
March 12, 2007	<b>Palladium Equity Partners, LLC</b> announced that it has made a significant minority investment in <b>Sahale Snacks.</b>	-	Sahale Snacks is a Seattle-based producer of branded and private label all-natural gourmet snack food products.
March 9, 2007	<b>Sherbrooke Capital Partners, L.L.C.</b> announced a minority investment in <b>FoodShouldTasteGood, Inc.</b>	-	FoodShouldTasteGood markets a product line of all natural, unique tasting tortilla chips in four flavors: multigrain, jalapeno, chocolate, and olive.
March 1, 2007	<b>Hunt Private Equity Group Inc.</b> 's portfolio company, <b>Poseidon Enterprises Inc.,</b> bought <b>Lowcountry Lobsters Ltd.</b>	-	Lowcountry Lobsters, a seafood distributor in Charleston, S.C., has worked closely with Poseidon for twenty years.

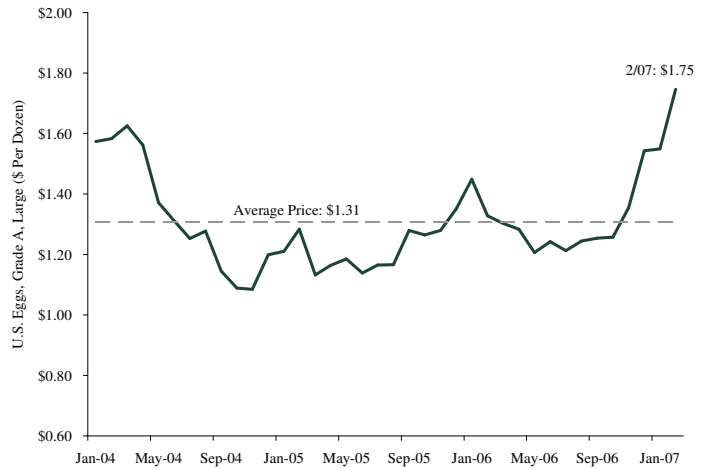


## Commodities Impacting the Food and Beverage Industry

### Egg Prices

- Since half of the U.S. corn production goes to animal feed for cattle, poultry, hogs and pigs, the effects from increased corn prices is driving up prices charged to the consumer.
- Although egg prices are expected to drop from their current high levels, they are expected to remain up over 100% above the historical average for the remainder of 2007.

U.S. Consumer Egg Prices

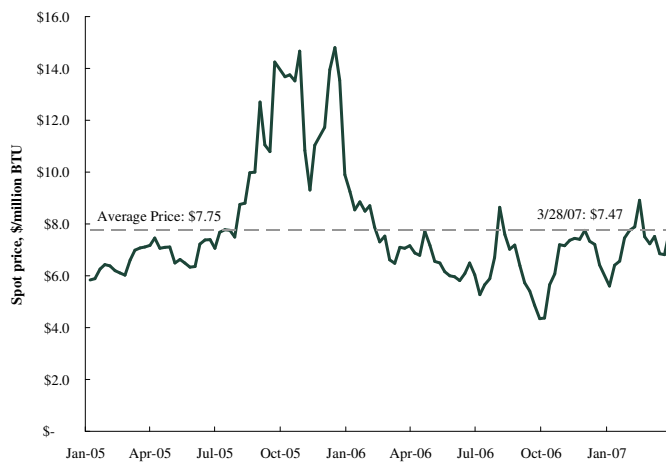


Source: U.S. Bureau of Labor

### Natural Gas

- Cold temperatures in the Northeast and Midwest, along with a significant rise in crude oil prices, placed upward pressure on natural gas prices during the last week in March.

Henry Hub Natural Gas Price

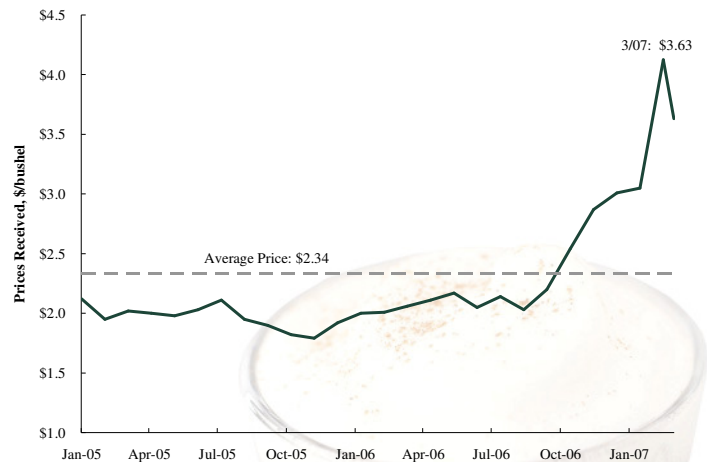


Source: Energy Information Administration.

### Corn Prices

- On March 30<sup>th</sup>, corn prices fell over 5% after the USDA estimated 2007 corn planted acreage at 90.4 million acres, well above the 88.1 million-acre average analyst estimate and sharply higher than the 78.3 million planted by U.S. farmers in 2006. This is the largest projected crop since 1944.

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)	\$ 38.95	\$ 15,190.5	\$ 17,563.5	42.0%	20.3%	16.6%	2.31x	11.4x	14.0x	1.9x
ConAgra Foods Inc. (NYSE:CAG)	24.91	12,583.7	15,566.2	25.1	13.3	10.3	1.33	10.0	12.8	2.2
Dean Foods Co. (NYSE:DF)	46.74	6,027.1	9,351.8	25.9	8.9	6.6	0.93	10.4	14.0	3.7
Del Monte Foods Co. (NYSE:DLM)	11.48	2,317.9	4,471.0	26.3	13.5	10.9	1.37	10.1	12.6	4.9
Flowers Foods Inc. (NYSE:FLO)	30.17	1,835.6	1,914.1	49.8	10.0	6.6	1.01	10.2	15.4	0.5
Fresh Del Monte Produce Inc. (NYSE:FDP)	20.05	1,156.8	1,599.1	6.5	3.1	0.5	0.50	15.9	94.1	4.7
General Mills Inc. (NYSE:GIS)	58.22	20,094.6	26,943.6	40.2	21.1	17.6	2.21	10.5	12.5	2.4
Hain Celestial Group Inc. (NasdaqNM:HAIN)	30.07	1,186.1	1,260.2	28.9	11.2	9.6	1.51	13.5	15.8	1.6
Hershey Co. (NYSE:HSY)	54.66	12,613.3	14,608.2	38.6	24.9	20.8	2.95	11.9	14.2	1.7
HJ Heinz Co. (NYSE:HNZ)	47.12	15,306.9	19,807.6	37.1	19.7	16.8	2.20	11.2	13.2	2.8
Kellogg Co. (NYSE:K)	51.43	20,450.8	25,084.5	44.8	20.8	17.5	2.30	11.1	13.1	2.2
Kraft Foods Inc. (NYSE:KFT)	31.66	51,918.1	61,893.1	36.2	17.9	15.3	1.80	10.1	11.8	1.7
Ralcorp Holdings Inc. (NYSE:RAH)	64.30	1,723.8	2,323.8	19.1	11.9	8.3	1.22	10.3	14.7	2.9
Sara Lee Corp. (NYSE:SLE)	16.92	12,410.3	14,006.3	37.4	12.2	8.2	0.86	7.0	10.5	2.1
The J. M. Smucker Company (NYSE:SJM)	53.32	3,018.9	3,293.1	31.6	15.2	12.0	1.53	10.1	12.7	1.3
Treehouse Foods Inc. (NYSE:THS)	30.47	950.7	1,190.4	21.2	11.5	8.9	1.27	11.0	14.3	2.2
<b>Median <sup>(d)</sup></b>				<b>33.9%</b>	<b>13.4%</b>	<b>10.6%</b>	<b>1.44x</b>	<b>10.5x</b>	<b>13.2x</b>	<b>2.2x</b>
<b>Average <sup>(d)</sup></b>				<b>31.9</b>	<b>14.7</b>	<b>11.7</b>	<b>1.58</b>	<b>10.9</b>	<b>13.4</b>	<b>2.4</b>

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

Hormel Foods Corp. (NYSE:HRL)	\$ 37.19	\$ 5,129.1	\$ 5,346.6	24.1%	10.1%	8.0%	0.92x	9.1x	11.4x	0.6x
Pilgrim's Pride Corp. (NYSE:PPC)	33.19	2,209.0	2,805.0	5.7	1.7	-	0.54	30.7	-	7.9
Smithfield Foods Inc. (NYSE:SFD)	29.95	3,357.2	6,298.6	9.8	5.5	3.6	0.55	9.9	15.2	4.7
Tyson Foods Inc. (NYSE:TSN)	19.41	6,896.4	9,810.4	3.6	2.2	0.1	0.38	17.7	297.3	5.4
<b>Median <sup>(d)</sup></b>				<b>7.7%</b>	<b>3.8%</b>	<b>3.6%</b>	<b>0.54x</b>	<b>9.5x</b>	<b>13.3x</b>	<b>5.0x</b>
<b>Average <sup>(d)</sup></b>				<b>10.8</b>	<b>4.9</b>	<b>3.9</b>	<b>0.60</b>	<b>9.5</b>	<b>13.3</b>	<b>4.6</b>

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

Coca-Cola Co. (NYSE:KO)	\$ 48.00	\$ 111,133.9	\$ 113,483.9	65.8%	32.6%	28.7%	4.71x	14.4x	16.4x	0.6x
Constellation Brands Inc. (NYSE:STZ)	21.18	4,964.3	9,255.5	29.1	18.8	16.2	1.81	9.6	11.2	4.5
Hansen Natural Corp. (NasdaqSC:HANS)	37.88	3,411.4	3,297.0	52.4	31.1	30.8	6.88	22.1	22.3	0.0
Pepsico, Inc. (NYSE:PEP)	63.56	103,986.9	103,909.9	55.5	24.1	20.1	2.96	12.3	14.7	0.3
<b>Median <sup>(d)</sup></b>				<b>54.0%</b>	<b>27.6%</b>	<b>24.4%</b>	<b>3.83x</b>	<b>13.4x</b>	<b>15.6x</b>	<b>0.5x</b>
<b>Average <sup>(d)</sup></b>				<b>50.7</b>	<b>26.6</b>	<b>23.9</b>	<b>4.09</b>	<b>14.6</b>	<b>16.2</b>	<b>1.4</b>

Source: Capital IQ.

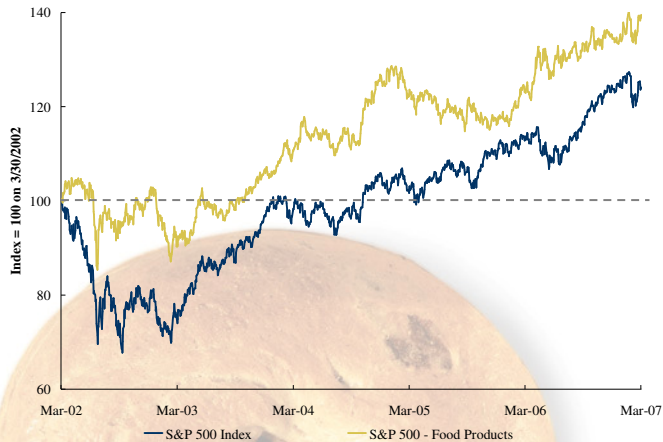
(a) As of 03/30/2007.

(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.

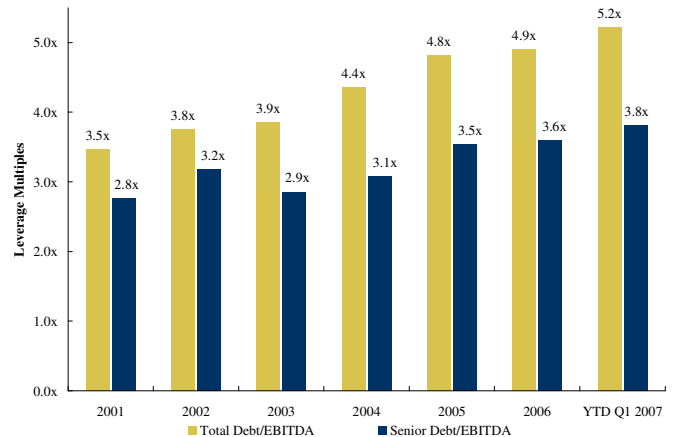
(d) Outliers (boxed above) are excluded from summary multiples and statistics.

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



Source: Capital IQ.

### Leverage Multiples



Source: Standard &amp; Poors.



Best Brands Corp.  
a portfolio company of  
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

KERRY

extreme™  
foods

JetCafe ESPRESSO FRAPPE Vella EXTRA VIRGIN OLIVE OIL

has been acquired by

KERRY

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