

U.S. Food Industry Update

Changing Trends Force Companies to Adapt

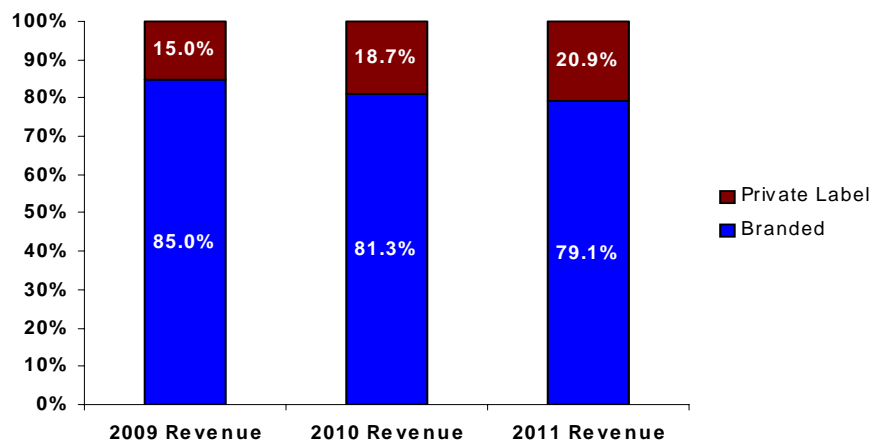
EXECUTIVE SUMMARY

The United States food industry is facing many challenges during this economic downturn with numerous factors, such as the decline in consumer spending and rising commodity prices, contributing to a tough environment for many companies to sustain profits. Although the industry as a whole is considered relatively recession proof, certain sectors such as the restaurant industry saw their growth rates shrink while others such as private label brands were in high demand during the recession and subsequent weak recovery period. Changing consumer demographics and preferences have forced many companies to revamp their strategies. M&A activity has been very strong in the past year and we expect that trend to continue as many highly leveraged food companies have struggled to stay competitive with several being acquired by stronger companies.

INDUSTRY TRENDS

- The weak economy has forced some consumers to switch to relatively cheaper private label brands of food products. This segment of the economy has fared well during the downturn, growing to 20.9% of total food product sales by revenue this year compared to 18.7% last year and 15.0% in 2009. In terms of unit sales private label has accounted for 25.7% of the total in 2011. However, these private label sales percentages are still substantially lower than most European countries, signaling there is still plenty of room for growth in this sector. Dollar sales of private label products grew by 2.9% in 2010 while the branded food industry was virtually flat, growing at only 0.1% ⁽¹⁾.

US Food Sales by Type



Source: Private Label Manufacturers Association

CONTENTS

Executive Summary

Industry Trends

M&A Transactions

Public Comparables

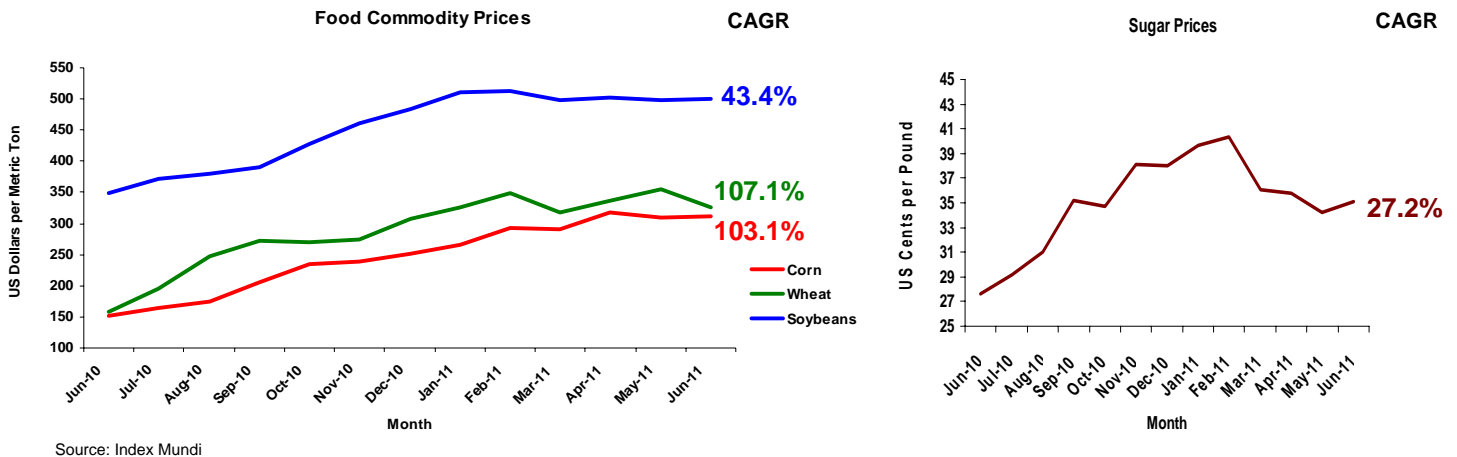
Valuation Analysis

T&H Conclusions

Tim Tully
Principal
781.239.2900 x14
ttully@tullyandholland.com

20 William Street, Suite 135
Wellesley, MA 02481
www.tullyandholland.com

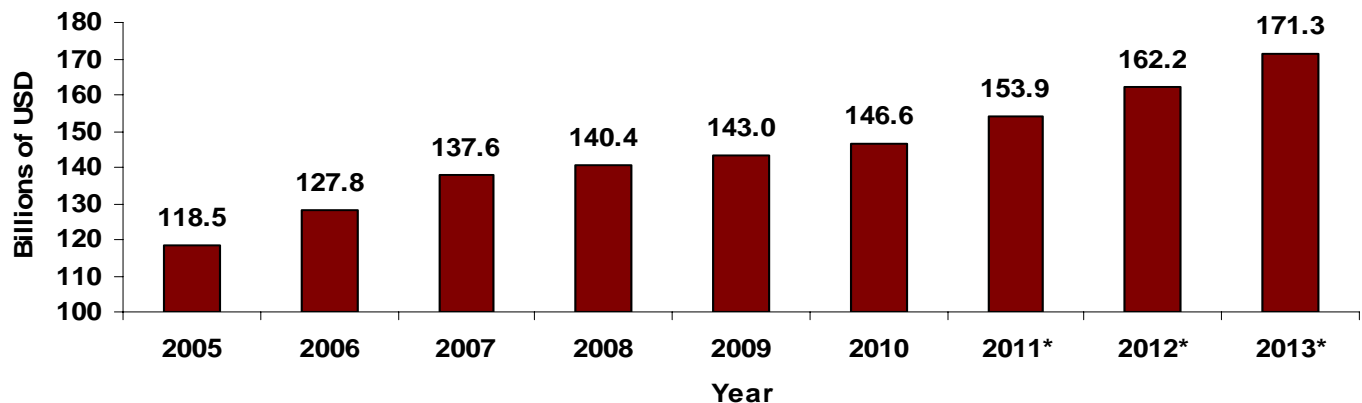
- The U.S. food industry has faced many challenges from skyrocketing commodity prices. These price increases in essential raw materials such as corn, soybeans, wheat, and sugar have mostly been attributed to increased demand from the developing BRIC countries. Corn prices have soared to \$310.54 per metric ton, a 103% increase in the past year alone ⁽²⁾. Other food commodities have seen similar price spikes as shown in the graphs below. Although retail food inflation has been relatively low, around 1% in 2010, rising commodity costs are expected to drastically increase the rate of food inflation in the second half of 2011 and diminish profit margins for many food producers. The shrinking margins have put pressures on the industry to consolidate in order to reduce costs and stay competitive. This should lead to even higher M&A activity within the food sector in the near future.



- The number of Americans dining out decreased dramatically during the recession as consumers tried to conserve money. The restaurant industry is just starting to recover to pre-recession levels and in March 2011 expanded for the first time since November 2007 ⁽³⁾. In contrast, the condiments and sauces sector fared strongly during the recession because of the increased emphasis on eating at home where these products can conveniently help deliver a better tasting home cooked meal. Due to the slow economic recovery, the condiments industry is expected to maintain strong growth at a 4.9% CAGR through 2013 ⁽⁴⁾.
- The changing demographics of the United States will also play a significant role in the food industry moving forward. The population growth of foreign ethnicities in the United States during the past decade, largely attributed to Hispanics, has led to the steady growth of ethnic food products and restaurants ⁽⁵⁾. This trend is expected to continue for the foreseeable future with growth increasing faster as these demographics increase their income and purchasing power.
- The fastest growing segment of the U.S. food industry is healthy foods which has grown at a 7% CAGR over the past decade compared to just a 3% CAGR for the food industry as a whole over the same time period. There has been strong demand by increasingly self conscious consumers for products that are labeled as organic, all natural, gluten free, whole grain, or low fat. This has been aided by massive government programs to encourage healthy eating in response to the fact that currently 68% of the United States

population is categorized as overweight or obese ⁽⁶⁾. The decrease in consumer discretionary spending during the recession did manage to slow down this previously booming market for healthy foods because healthy eating options are by consensus more expensive than their unhealthy counterparts. However, we expect the future for the healthy foods industry to be very strong, growing at a 5% CAGR thru 2017.

U.S. Healthy Food Revenue

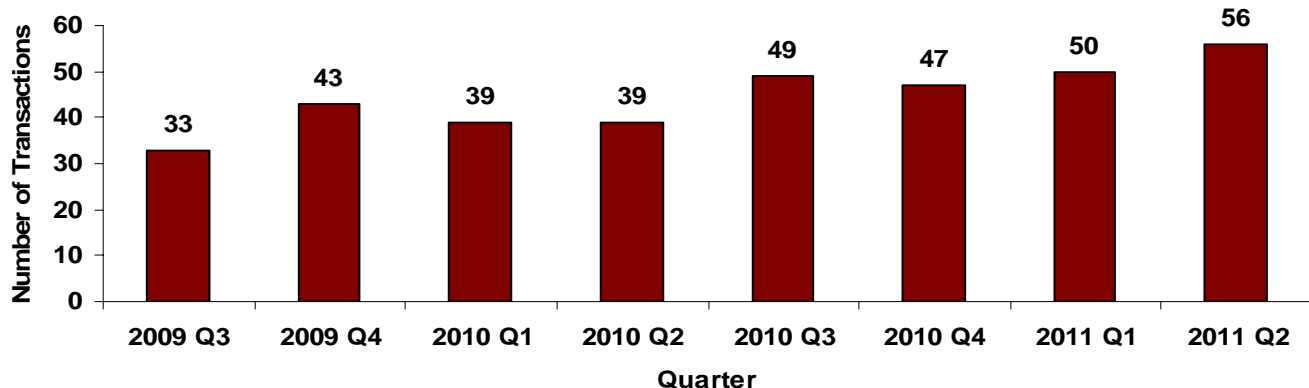


*projections
Source: Nutrition Business Journal

M&A TRANSACTIONS

There has been a recent surge in the number of M&A transactions in the food industry and we expect this pattern to continue. Many highly leveraged companies have been struggling to find the funds to pay for the cost of new product launches, R&D, and capital expenditures to fund growth and are therefore subject to acquisition pressures. Stronger and better capitalized companies interested in acquiring them are basing their buy vs. build decisions on the strength and stability of customer relationships, depth of channel penetration, elimination of competition, and procurement of synergistic savings needed in the face of soaring commodity prices. Food companies are also of particular interest to private equity companies due to their relatively steady cash flows. Private equity companies are sitting on about \$450 billion of dry powder which needs to be invested before the funds expire which should also give a boost to M&A activity in the food sector.

M&A Transactions in US Food Industry



Source: Capital IQ, Tully & Holland analysis

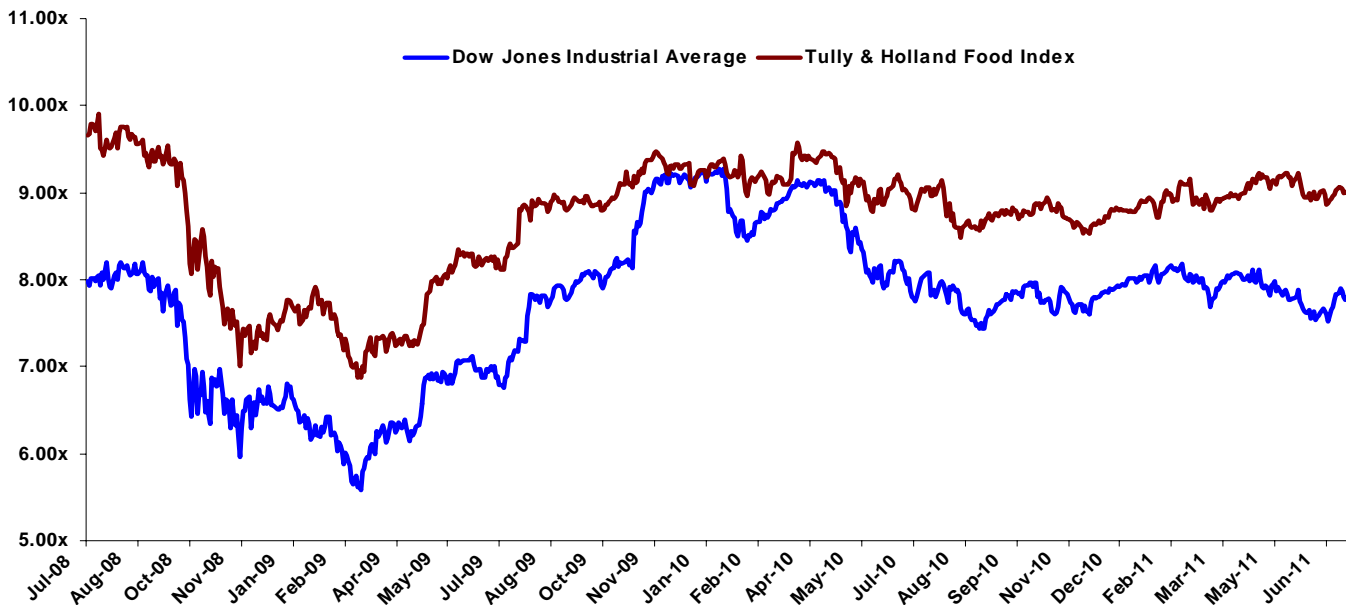
The chart below shows the largest disclosed food M&A transactions in the first half of 2011.

Date	Target	Transaction Value (\$USDmm)	Acquirer
04/05/2011	The Wimble Company	\$ 2,517.57	Diamond Foods, Inc.
06/17/2011	Clement Pappas & Co., Inc.	\$ 390.00	Lassonde Industries Inc.
05/16/2011	Rowland Coffee Roasters, Inc.	\$ 360.00	The J. M. Smucker Company
04/10/2011	Tasty Baking Co.	\$ 149.65	Flowers Bakeries, LLC
01/09/2011	Crumbs Bake Shop, Inc.	\$ 108.34	57th Street General Acquisition Corp.
05/25/2011	Renaissance Food Group, LLC	\$ 95.62	Calavo Growers Inc.
05/05/2011	Aidells Sausage Company, Inc.	\$ 87.00	Sara Lee Corp.
05/06/2011	Idaho Pacific Holdings, Inc.	\$ 86.80	Novacap Investments, Inc.
02/03/2011	Townsend's, Inc.	\$ 51.40	Peco Foods, Inc.
04/27/2011	Premium Standard Farms LLC,	\$ 33.00	Cargill, Incorporated
01/31/2011	Chism Hardy Enterprises, LLC	\$ 30.00	City Brewing Company, LLC

Source: Capital IQ

PUBLIC COMPARABLES

The following graph shows the valuation of the companies within the Tully & Holland Food Index which consists of 18 publicly traded food manufacturers. Using a weighted average based on market cap, these companies are currently trading at an EV/EBITDA multiple of 9.02x. This is significantly higher than the Dow Jones Industrial Average which is trading at a multiple of 7.80x. Over the past three years the food industry has consistently outperformed the Dow Jones Industrial Average and we predict that this trend will continue into the future.



Source: Capital IQ, Tully & Holland analysis as of 7/14/11
EV / EBITDA multiple represents the quotient of the summation of EVs and EBITDAs for each component over LTM
Tully & Holland Food Index Components: ADM, KFT, BG, TSN, GIS, K, CAG, DF, SFD, SLE, HNZ, HRL, CPB, DOLE, CPO, SJM, DMND, JJSF

VALUATION ANALYSIS

In the first half of 2011 we have seen numerous precedent transactions in the food industry. The majority of valuation metrics have not been publicized, as most of these deals have been private. One recent disclosed deal was the June 17, 2011 acquisition of Clement Pappas & Co., Inc. by Lasonde Industries Inc. for \$390 million. This value represented an 8.02x EBITDA multiple and is representative of a typical valuation in middle market food M&A transactions. Given the fact that there is limited recently disclosed M&A activity, the public equity markets can be used to provide accurate, relevant, and up to date valuation guidance. As of July 14, 2011, fourteen of the major sales drivers in the food industry were trading at a mean enterprise value multiple of 9.02x EBITDA. Given that these are large publicly traded companies we would realistically apply size and liquidity discounts to valuations of smaller privately held companies. Past Tully & Holland experience suggest a valuation range of 7.0x to 8.5x times last twelve months EBITDA depending on the size, growth prospects, and liquidity of the company.

T&H CONCLUSIONS

Soaring commodity prices and cash conscious consumers have eroded the profits of many non-differentiated food companies. Some sectors, however, such as healthy foods and international foods, are poised for continued above average expansion. Food inflation is expected to rise substantially during the coming years in response to higher prices and demand for raw materials. In this context and with the abundance of cash-heavy financial buyers sitting on close to half a trillion dollars of dry powder, there will likely be an appetite for LBO transactions for strong brands with steady cash flows. We also expect continued consolidation among strategic buyers seeking to expand and eliminate competition by acquiring highly leveraged cash-strapped competitors facing the prospect of margin erosion due to rising commodity costs. These factors have led to a recent rise in the number of transactions within this sector and we expect this trend to accelerate.

ABOUT TULLY & HOLLAND

INVESTMENT BANKING SOLUTIONS FOR CONSUMER PRODUCT COMPANIES

Founded in 1992, Tully & Holland, Inc. is a leading US investment bank that provides merger & acquisition advisory services and private placements to consumer companies with special emphasis on food companies, multi-channel marketers, consumer product manufacturers/distributors, and retailers. Tully & Holland's Managing Directors have a combination of deep industry knowledge and sophisticated financial experience enabling them to craft innovative solutions for each client's needs.

Footnotes

¹ Private Label Manufacturers Association

² Index Mundi

³ National Restaurant Association

⁴ Mintel

⁵ U.S. Census Bureau

⁶ Mintel

Tim Tully
Principal
781.239.2900 x14
ttully@tullyandholland.com

20 William Street, Suite 135
Wellesley, MA 02481
www.tullyandholland.com