Industry Research Monitor

CONTENTS:

Industry Headlines

- **Weaker economic environment and consumer confidence starting to show up in food spending metrics.** Government data appears to indicate that consumers are shifting their food dollars to food at home consumption (from restaurants) as evidenced by food retail sales outpacing foodservice sales in recent months.

- **Inflation is driving a greater portion of food spending growth as food cost inflation accelerates.** Food and beverage price inflation averaged 4.6% in the first quarter compared to a more modest 2.9% in 1Q07. Given a base of 5.4% food spending growth in 1Q08, it appears that higher prices drove about 85% of industry growth.

- **WASDE report indicates another year of higher soft commodity costs.** High grain prices continue to capture headlines and stoke the food vs. fuel debate. The USDA's first forecast for 2008/09 prices indicates the potential for another 35% increase in average farm prices for a basket of six key grains following large increases last year.

- **M&A activity in confectionery and beef sectors revamps industry landscape.** In March, Brazil-based JBS S.A. took further steps to expand its beef presence with three acquisitions worth $1.7 billion. Notably, in the U.S. JBS acquired National Beef and the beef and cattle operations of Smithfield Foods which had combined revenue of $8.3 billion. Not to be outdone, in the confectionery space, the Mars-Wrigley merger announced in late April creates a privately-held global leader with $27 billion in sales.

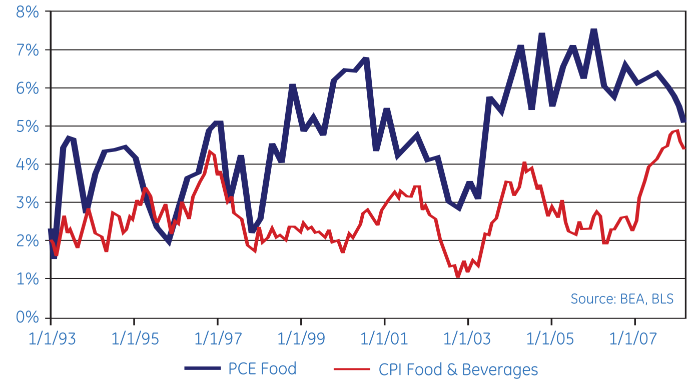
- **Global food, beverage & agribusiness loan volume fell 24% in the first quarter of 2008 from the year ago period.** Syndicated non-investment grade food sector loan issuance was $24 billion in 1Q08, down from $32 billion in 1Q07.

Current Environment

Nominal food spending growth appears to have decelerated in the first quarter despite accelerating food inflation. Based on BEA data, growth of personal consumption expenditures (PCE) on food growth averaged 5.4% year over year in 1Q08, down from 6.1% growth posted on average in 1Q07. At face value, this would not be surprising in the context of a weaker economic environment. However, over this same period, headline-grabbing food cost inflation increased by about 1.7% versus last year, implying a more notable slowdown in real food consumption expenditures. Based on BLS' Consumer Price Index data for food and beverages, price inflation averaged a whopping 4.6% in 1Q08, up from an average increase of 2.9% in 1Q07.

Kevin Flaherty
SVP, Senior Research Analyst
203-229-1434 • kevin.flaherty@ge.com

Consumer Expenditures on Food vs. Food Inflation

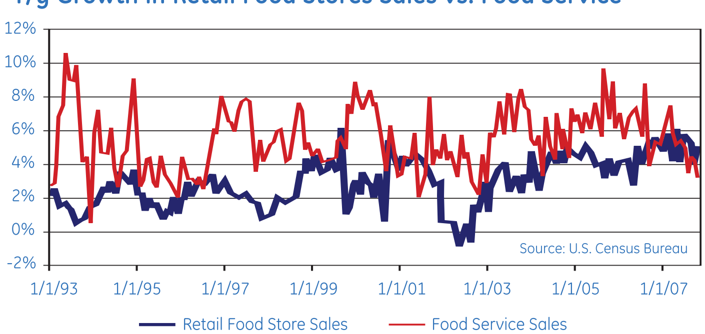


While consumers are becoming accustomed to more expensive food with food inflation above the 4% level since last June, it is worth noting that these are the highest numbers we have seen in more than a decade (since late 1996). Given the industry-wide plans of food manufacturers to take pricing based on the recent runup in input costs and the potential for continued ag price increases, consumers probably should not bank on much relief from the food inflation trend for some time.

Retail food sales continue to post faster growth than the foodservice segment in 1Q08. Based on U.S. Census Bureau data, retail food store sales grew 4.6% year over year on average in the first quarter, outpacing foodservice sales growth of 3.9% for the same period. This follows on a strong relative performance by food retailers in 2007 when the segment posted 5.7% growth versus 5.3% for foodservice. We believe this trend is the result of a weaker economic environment which has prompted more consumers to save money by eating at home (cocooning effect).

In the past we have reviewed the sales trends on a two-year comp basis in order to normalize the results, and this has shown foodservice sales growing faster when accounting for more difficult comparisons in 2006. Interestingly, for the first time in our data series (dating back to 1993), food retail sales outpaced foodservice sales on a two-year basis as well. This recent reversal is noteworthy because it represents a meaningful shift from the past several years in which food service sales regularly posted significantly higher sales growth than retail.

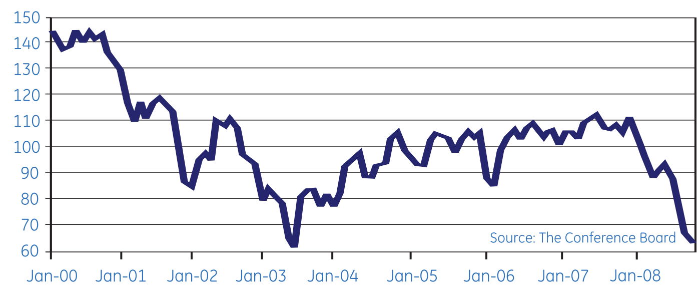
Y/y Growth in Retail Food Stores Sales vs. Food Service



Restaurant industry conditions worsened in the first quarter of 2008. The National Restaurant Association's *Restaurant Performance Index*, a monthly composite index that tracks the health of and outlook for the restaurant industry, fell 0.9% to 97.9 in March, marking its lowest level on record. A measure below 100 indicates a period of contraction for key indicators. The index posted declines in both the current situation and expectations components of the index as operators increasingly worry about the economy. In March, only 28% of restaurant operators surveyed reported positive same store sales compared to 44% of respondents in February. In terms of expectations, only 29% of operators expected to have higher sales in six months (also the lowest level on record).

The Conference Board Consumer Confidence Index declined further in April as consumers remain pessimistic on the outlook and inflation expectations rise. The consumer confidence index fell to 62.3 in April, down from 65.9 in January and 41% below the reading of 106.3 in April 2007. April's reading marks the fourth straight decline in the index as consumers worry about the economy and employment. Lower consumer confidence does not bode well for more discretionary food spending, especially among lower and middle-income consumers. We believe this is being reflected in the previously noted weakness in foodservice sales and expectations.

Consumer Confidence Index



Recent Industry News & Developments

Soft Commodity Costs Point Up

USDA Indicates Significant Increases For 2008/09

On May 9, the USDA published its World Agricultural Supply and Demand Estimates report which includes its initial assessment of U.S. and world crop supply and demand dynamics and price estimates for the 2008/2009 crop season. While the forecasts are dynamic and conditions and estimates can change significantly due to adverse weather conditions or disease, they provide useful directional information. In line with near daily headlines about higher food prices, it appears that the direction of the major soft commodities is up again after solid increases (some to record levels) achieved last year. On average for the 2007/2008 season, average farm prices for six major crops increased 43% from 2006/2007. While the ranges for 2008/2009 projections are fairly wide, based on the midpoint of the range, prices for the same sample of crops are forecast to increase 35% on average this year.

Even higher ag prices (not to mention $125+/barrel oil prices) would necessitate continued aggressive pricing action on the part of food manufacturers to offset input cost inflation.

WASDE Average Farm Price Forecasts
2008/2009 estimate based on midpoint of range

	2006/7	2007/8 Est	2008/9 Projected	07/08 Change	08/09 Change
Corn ($/bu)	$3.04	$4.25	$5.50	40%	29%
Wheat ($/bu)	$4.26	$6.55	$7.35	54%	12%
Soybeans ($/bu)	$6.43	$10.00	$11.25	56%	13%
Barley ($/bu)	$2.85	$4.00	$6.20	40%	55%
Oats ($/bu)	$1.87	$2.60	$4.00	39%	54%
Rice ($/cwt)	$9.96	$13.00	$19.00	31%	46%
Average				43%	35%
Median				40%	38%

Source: USDA WASDE.

Protein Processing Update

Additional Rationalization of Capacity

The major protein players continue to consolidate and rationalize operations in order to improve production efficiency and optimize their business mix in an industry with continued overcapacity issues.

In April, **Tyson** announced that it would consolidate some of its prepared foods business (uncooked meats and other sliced beef and pork products) by discontinuing production at its York, NE plant and shifting the work to its recently restructured Emporia, KS plant. This followed on an announcement at the end of February that the company would exit production of its refrigerated, oven roasted chicken line at one of its facilities in Wilkesboro, NC as demand for that product has waned due to shifting consumer demand (specifically the shift to ready-to-eat foods in line with consumers' focus on convenience). In mid-March, **Pilgrim's Pride** announced plans to close a chicken processing plant in Siler City, NC as well as six distribution centers to reduce costs in the face of a chicken glut and record-high costs for feed.

Beef Industry – JBS Acquisitions Revamp Landscape

Brazil-based **JBS S.A.**, which acquired Colorado-based **Swift** last year, continued to expand its beef presence with the announcement of three strategic acquisitions. On March 5, JBS announced the acquisitions of U.S.-based **National Beef** and **Smithfield Beef Group** (the beef unit of Smithfield Foods) and Australia-based **Tasman Group** in three deals valued at approximately $1.7 billion. National Beef, which will be acquired for $970 million, had revenue of $5.6 billion and processed 3.9 million cattle units. Smithfield Beef, which will be acquired for $565 million, includes the beef processing and cattle feeding operations of Smithfield Foods and had revenue of $2.7 billion. With this sale, Smithfield will exit the beef industry to focus on higher return opportunities for the company. Lastly, Tasman Group, which will be acquired for $150 million, expands JBS's presence in Australia and adds revenue of approximately $420 million. Following these acquisitions, JBS will have annual sales of approximately $21.5 billion. JBS' cattle slaughter capacity would be 79,200 head per day and hog slaughter capacity would be 48,000 head per day.

Separately, while beef industry conditions have been difficult, the industry should benefit from South Korea's decision to resume importing U.S. beef. In April, an agreement was signed in which South Korea would lift most restrictions on U.S. beef imports, including allowing most beef cuts (including bone-in cuts) and eliminating age limits on cattle (previously South Korea had only agreed to boneless beef from cattle under 30 months of age following mad cow concerns in 2003). This should be a positive for the industry, although regaining consumer acceptance may not be swift (there have been reports of protests by groups of South Koreans opposed to the resumption of imports).

Chicken Industry - Seeing Tough Times

Chicken processors reported a difficult first quarter due to significant increases in feed and other input costs. Highlighting the negative financial impact, in their most recent quarter **Pilgrim's Pride** reported an adjusted EBITDA loss of $65.8 million compared to adjusted EBITDA of positive $46.5 million for the prior year period. In mid-April, Pilgrim's Pride announced plans to reduce weekly chicken production by 5% year over year in the second half in an effort to better balance supply and demand, with the reduction to stay in place until average industry margins return to "more normalized levels". Other chicken processors have also recently announced production cuts in response to high grain costs. In early April, Georgia-based **Fieldale Farms** and **Cagle's** reported 5% and 4% cutbacks in production, respectively.

Interestingly, **Sanderson Farms** appears to be headed in a different direction. On April 24, Sanderson announced that it had selected sites in Kinston, NC for a $126.5 million investment in a new feed mill, poultry processing plant and hatchery.

Pork Industry – Pork Profits Reduced by Weaker Hog Production Results

Pork processors have benefited recently from lower input costs (lower hog prices) and growth in exports, which have both helped pork margins, while hog producers have been negatively affected by a decline in hog prices and much higher feed costs. Higher grain prices could prompt hog producers to reduce the size of the herd which could boost prices and help production profitability. In February, industry leader **Smithfield Foods** responded to difficult hog industry conditions (driven by record grain costs) by announcing that it would reduce its U.S. sow herd by 4-5%, resulting in the production of 800,000 to 1 million fewer market hogs annually.

Dairy Sector Update

Some Milk Price Relief; Organic Milk Supplies Tightening

On April 17, the USDA published its Livestock, Dairy, and Poultry Outlook which forecast a mid-point of all milk price of $17.90 per cwt, representing a moderate decline of 6.4% from record 2007 levels of $19.13. The most recent forecast is $0.40 lower than January's estimate, which marks a positive for dairy processors who have struggled to keep up with rapidly rising costs. The 1Q08 all milk price of $19.30, while still up 29% from last year's level of $15.00, actually came in nearly $1 below previous forecasts.

In 2007, we witnessed an oversupply of organic milk as farmers took advantage of the one-time opportunity to convert to organic before stricter feed regulations became effective. It appears that the supply/demand balance for organic milk has reversed. On its earnings call on April 30, **Dean Foods'** CFO indicated that "the organic milk market is shifting rapidly from a state of oversupply to one of undersupply".

Cheese prices remained high at $1.93 per pound (based on cheddar cheese), up 43% year over year, which represents a negative for manufacturers and foodservice companies with high cheese exposure. Some relief in cheese prices is expected to come in the second half of 2008.

Confectionery Update

Candy Mega-Merger & Spinoff Are Game Changers

On April 28, **The Wm. Wrigley Jr. Company** announced that it had reached an agreement to merge with privately-held **Mars, Incorporated** in a transaction valued at $23 billion. The combined company will have over $27 billion in sales and boast a portfolio of leading confectionery brands such as Orbit, Extra and Doublemint in the gum category and M&M's, Snickers and Mars in the chocolate category (among many others). As part of the financing for the transaction, Berkshire Hathaway purchased a $2.1 billion minority equity interest in the Wrigley subsidiary.

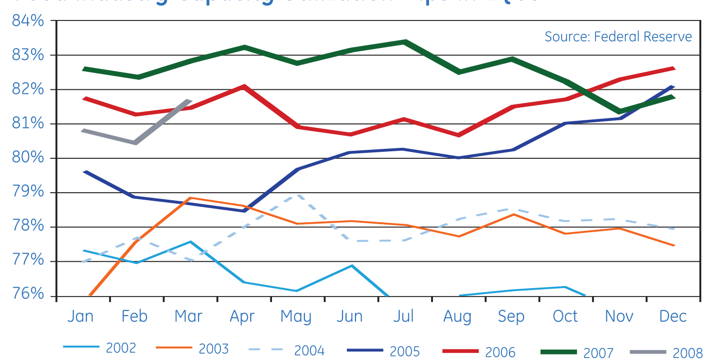
With this transaction, Wrigley will become a private company and will gain Mars' non-chocolate brands like Skittles and Starburst for its confectionery portfolio. The deal is intended to accelerate the growth of the combined companies via the "cross-pollination of people, ideas and brands" and further leverage the companies' sales and marketing infrastructure and distribution networks. Aside from the potential synergies to be achieved, the deal allows Wrigley to invest for long-term growth without the quarterly results-oriented pressure of being publicly held. The companies expect the deal to close in the next 6-12 months.

In addition to this historic merger announcement in April, #2 global confectionery player **Cadbury Schweppes** has also taken significant steps to enhance its focus and growth potential with the demerger of its Americas Beverages business. On May 7, the official separation of Cadbury Schweppes Americas Beverages business from Cadbury Schweppes plc was completed with the listing of **Dr Pepper Snapple Group, Inc.** on the NYSE. Cadbury plc, the new standalone confectionery company, has sales of more than £5 billion and owns strong brands across chocolate (such as Cadbury, Crème Egg, Flake), gum (including Trident and Dentyne) and candy (includes Halls). According to the company, it holds 10.1% global market share and is the leading player outside the U.S. Management has committed to 4-6% annual sales growth through 2011.

Capacity Utilization

Food industry capacity utilization appears to have dipped slightly in the first quarter. Industry capacity utilization based on Federal Reserve data averaged 81.0% in the first quarter of 2008, down from 82.6% in 1Q07. While these are not huge swings, it is worth noting that capacity utilization has declined on a year over year basis in each of the past five months. This is in contrast to the recent trend in which utilization rates have generally moved up over the past few years as many of the largest food companies have placed substantial focus on rationalizing their operations.

Food Industry Capacity Utilization Dips in 1Q08



Recent M&A Activity

- On March 27, **ConAgra Foods** announced that it has reached an agreement to sell its commodity trading and merchandising operations to the **Ospraie Special Opportunities fund** and other investors for $2.1 billion.
- On March 25, **Heineken** announced today that it will acquire **Drinks Union** in the Czech Republic.
- On March 20, **PepsiCo Inc.** and **The Pepsi Bottling Group Inc.** announced that they have agreed to jointly acquire a 75.53% stake in Russia's leading branded juice company **JSC Lebedyansky,** excluding the company's baby food and mineral water business, for $1.4 billion.
- On March 13, **Sara Lee** announced that it would sell its 49.9% stake in the **Qualtia Alimentos** business in Mexico to its joint venture partner, **Xignux.**

- On March 10, **Pilgrim's Pride** announced that it would exit the turkey business (which had sales of $122 million in 2007) with the sale of its turkey production facility and distribution center in New Oxford, PA to **New Oxford Foods, LLC**, a subsidiary of **Hain Pure Protein Corp.**

- On March 6, **Vivartia S.A.** announced its entry into the U.S. bakery and confectionery market with an agreement to acquire **Nonni's Food Company,** a U.S.-based producer of baked specialty snacks, from Wind Point Partners and Nonni's management for $320 million.

- On March 6, **Hain Celestial** announced the acquisition of the MaraNatha and SunSpire brands and their nut butter manufacturing facility in Ashland, OR from **American Capital Strategies.**

- On February 28, **Constellation Brands** completed the sale of the Almaden and Inglenook wine brands, and the Paul Masson winery located in Madera, CA to **The Wine Group LLC** for $134 million in cash.

- On February 25, **ConAgra Foods** announced the acquisition of Kennewick, WA-based **Watts Brothers,** a privately held vegetable processing and agricultural company with $100 million in sales. The company was acquired for $130 million in cash plus the assumption of $85 million in debt.

- On February 20, **McCormick** announced that it has purchased the shares of **Billy Bee Honey Products Ltd.** for $75 million in cash.

- On February 14, **Viterra** announced that **Unifeed Hi-Pro Inc.,** a wholly owned subsidiary doing business as Hi-Pro Feeds, has signed a definitive purchase and sale agreement with **Sunrise Feed, LLC** in Cheyenne and Elk City, OK.

- On January 29, **Saputo** announced that it has entered into an agreement to acquire the activities of Wisconsin-based **Alto Dairy Cooperative** for $160 million.

- On January 18, **Performance Food Group** announced that it has signed a definitive merger agreement to be acquired by an affiliate of **The Blackstone Group** and **Wellspring Capital Management** in a transaction valued at approximately $1.3 billion.

- On January 18, **Tangerine Confectionery Ltd** announced the acquisition of the Monkhill business of **Cadbury Schweppes PLC** for $113 million in cash.

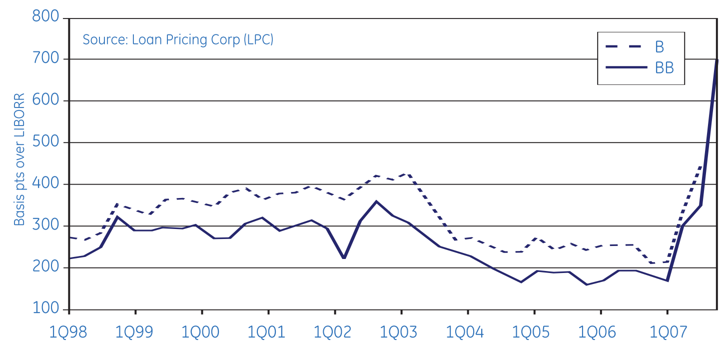
- On January 17, **Kellogg** announced that it has acquired **The United Bakers Group**, one of Russia's largest cracker, biscuit and breakfast cereal producers.

- On January 14, **Canada Bread Company** announced that it has reached an agreement to acquire **Aliments Martel**, a privately held Quebec-based manufacturer and distributor of sandwiches, meals and sweet goods.

Debt/Loan Market Trends

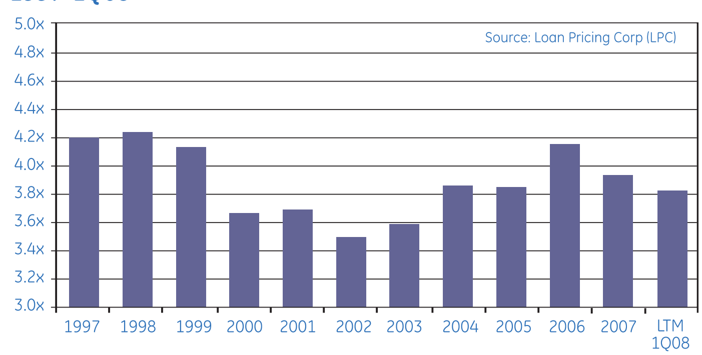
The chart below shows average LIBOR pricing spread for leveraged institutional term loans since 1997. Spreads spiked significantly in the second half of 2007 as investors repriced risk. Spreads on BB loans increased 182 bps and spreads on B loans increased 231 bps between 2Q07 and 4Q07 based on LPC data. After having narrowed significantly in recent quarters, the spread between BB and single B credits appears to have widened substantially in 4Q07 as illustrated below. While the leveraged loan market did not see enough issuance to provide very meaningful data in the first quarter of 2008, it appears that spreads increased again thanks to OIDs.

Spreads on Leveraged Institutional Term Loans, 1998-1Q08



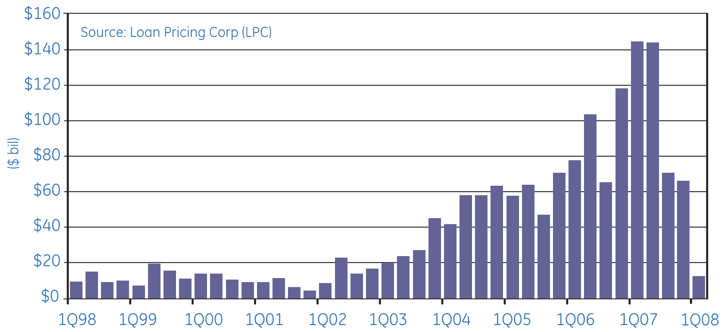
Structures in the middle market tightened a bit in 2007 with the average maximum total debt to EBITDA covenant level declining to 3.93x for the full year, down from 4.15x in 2006. The trend continued in the first quarter with covenants declining to 3.83x for the LTM period.

Average Middle Market Maximum Debt to EBITDA Covenants, 1997-1Q08



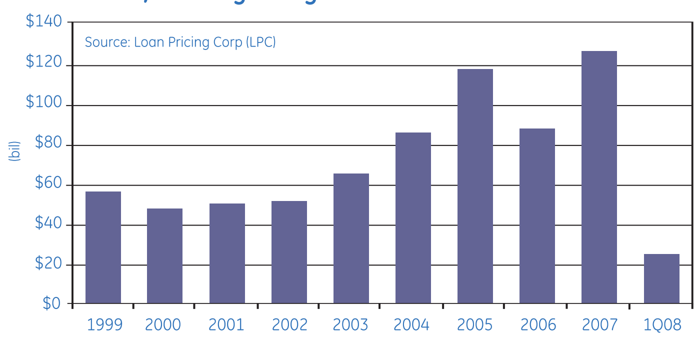
Institutional term loan issuance rose 16% in 2007 to a record $426 billion following a 52% surge in 2006. The full year numbers do not tell the whole story though. While 1H07 loan issuance was extremely strong, up 59% year over year to $289 billion, the second half saw loan volumes decline 25% year over year to $137 billion. In the first quarter of 2008, institutional loan issuance plummeted 91% to a mere $12.4 billion as the credit markets dealt with significant turmoil.

U.S. Quarterly Institutional Term Loan Issuance



Global food, beverage & agribusiness loan volume fell 24% in the first quarter of 2008 from the year ago period. Syndicated non-investment grade food sector loan issuance was $24 billion in 1Q08, down from $32 billion in 1Q07.

Global Food, Beverage & Agribusiness Loan Volume



Recent GE Food Financings

$850 Million Senior Credit Facility

Provided for the refinancing of a leading distributor of agricultural inputs

C$600 Million Credit Facility

Provided to a leading agribusiness to replace current debt and support working capital needs

$335 Million Bridge Loan

Provided to a leading agribusiness company to fund an acquisition

$275 Million Senior Secured Credit Facility

Provided to fund an acquisition and recapitalization of a baked goods manufacturer

$75 Million Leveraged Lease

Provided for a fruit and vegetable processor

C$73.5 Million Senior Credit Facility

Provided to support the acquisition of a leading private label manufacturer and fund working capital needs

$71 Million Senior Credit Facility

Provided to a leading beef processor to refinance debt and for working capital needs

$50 Million Capex Line of Credit

Provided to fund tractors, trailers, forklifts and IT for a diversified food company

$50 Million Senior Facility

Provided for the refinancing of a leading produce company

$35 Million Credit Facility

$20 million senior term loan, $10 million revolver and $5 million development facility provided to brew pub group for new store development and growth plans

$20 Million Fixed Rate Tax Lease

Provided for annual equipment capex line of credit for a vegetable processor

$16 Million FMV Lease with EBO

Provided for processing and material handling equipment for a fruit and vegetable processor

Industry Financing Experience

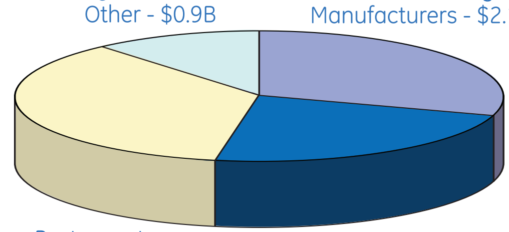
GE Commercial Finance is a long-term financier to the food, beverage and agribusiness industry with capital solutions to fit your particular situation...

- Long-term player with more than 25 years investing in the food and beverage industry through the cycles across all asset types (equipment, real estate, receivables and inventory)
- History and ability to invest large dollars for long tenure (longer than most banks)
- Multitude of products available to meet your needs: senior credit facilities, acquisition financing, growth capital, project financing, real estate and equipment financing, refinancing/recapitalizations, balance sheet and tax management, increasing working capital, restructuring/turnarounds, vendor financing programs
- Focus and expertise in financing stand-alone facilities or lines ("Critical Assets")... a means to un-trap (monetize) equity value that may be imbedded in key Fixed Assets
- Ability to arrange and administer small or large senior facilities, as well as invest in new projects

Multiple Structures to Provide Optimal Financing Solutions:

- Revolving credit facilities
- Term loans
- Tax-efficient products (leasing)
- Tax-advantaged products (IDBs)
- Project financing
- DIP financing
- Trade finance
- Asset securitizations

GE Commercial Finance Has More Than $7.5 Billion Invested in the Food Industry.



Access GE through At the Customer, For the Customer (ACFC)

Imagine a business partner spending time with you to understand your company and the unique challenges you face, then helping you identify proven strategies and solutions to make fast, lasting changes with bottom-line results. Imagine your team being taught how to apply these methods to your business. And the best part of all? There's no fee.

You don't have to imagine. That's *Access GE*, GE's At the Customer, For the Customer (ACFC) program. Our commitment to strengthening strategic relationships for mutual growth.

The ACFC offering is focused in three areas:

- **Best practice sharing** – acquisition integration, finance, hedging, leadership development
- **Process improvement** – train employees or partner on Lean and Six Sigma projects
- **Business solutions** – leverage the GE enterprise to create unique business solutions

The ACFC program has improved customers' results through cost reduction and revenue growth. It's done by collaborating with customers to solve business issues and sharing GE's expertise, experience and tools. If you have additional questions, please contact your local GE sales representative to discuss this exciting opportunity.

Kevin Flaherty
SVP, Senior Research Analyst
Food, Beverage & Agribusiness
203 229-1434
kevin.flaherty@ge.com

INDUSTRY RESEARCH GROUP
GE Commercial Finance
299 Park Ave. 6th floor
New York, NY 10017 USA