

GREAT AMERICAN GROUP ADVISORY & VALUATION SERVICES

Food Monitor
July 2011 - Volume 3

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Introduction

Welcome to the third issue of the *Food Monitor* from Great American Group Advisory & Valuation Services (“GA”). This publication will provide you with market value trends for a variety of segments within the food industry. The enclosed information represents a composite of GA’s industry expertise, well-respected industry publications, liquidation and appraisal experience, and conversations with industry personnel. Due to the commodity nature of certain food products, timely reporting is necessary to understand an ever-changing marketplace. GA strives to contextualize important indicators in order to provide a more in-depth perspective of the market as a whole.

In this issue of the *Food Monitor*, we have included market pricing and trends for beef, pork, poultry, seafood, dairy, vegetables, commodity goods, and wholesale distributors and their relation to the valuation process. GA provides our customer base with a concise document highlighting the food industry. Please feel free to utilize our contact information shown in this and all *Food Monitor* issues. GA welcomes the opportunity to make our expertise available to you in every possible way.

Trends in Recovery Values

Continued increases in raw material prices and inventory mix have resulted in higher recovery values of up to five percentage points for both finished goods and raw materials in the second quarter of 2011 versus the prior year, which is consistent with the trends observed in the first quarter. Raw material inventory levels have decreased as companies have been forced to work through existing inventory. Cash flow continues to be constrained and companies have been able to realize price increases due to the market environment.

Trend Tracker

NOLVs: **Increasing**

Sales Trends: **Mixed**

Gross Margin: **Mixed**

Inventory: **Decreasing**

Pricing: **Increasing**

Commodity prices are above 2010 levels as the prices for underlying feedstocks, such as corn, continue to trade at historical highs. Corn remains in great demand for ethanol production as well as animal feed. This has significantly impacted raw material prices and limited overall supply, but has also allowed companies to institute price increases which will lead to higher overall margins.

GA internally tracks recovery ranges for numerous commodity food segments, as well as finished and cooked products and trends in food service, retail, and food distribution, but we are mindful to adhere to your request for a simple reference document. Should you need any further information or wish to discuss recovery ranges for a particular segment, please feel free to contact your GA Business Development Officer.



ABOUT GREAT AMERICAN GROUP

GA is a leading provider of asset disposition solutions and valuation and appraisal services to a wide range of retail, wholesale, and industrial clients, as well as lenders, capital providers, private equity investors and professional services firms. In addition to the *Food Monitor*, GA also provides clients with industry expertise in the form of monitors for the metals, building materials, automotive, and chemicals industries, among many others.

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EXPERIENCE

GA has been involved in the liquidation of several food processing and distribution companies, including Metropolitan Foods; BSB, Inc.; New Sam Woo Trading; Markel Johnson; and Gulf Shrimp Company. GA has worked with and appraised many large and well-known companies within the food service industries. While our clients remain confidential, they have included meat processors and distributors, leading fresh and processed fruit and vegetable distributors, and specialty and prepared food distributors servicing restaurants, retailers, food service companies, and wholesalers across the U.S. GA's extensive list of appraisal experience includes:

- One of the nation's largest independent canning and frozen food companies, which maintains production facilities throughout the country and exceeds \$700 million in sales annually;
- One of the world's largest producers of fresh and packaged fruits and vegetables, which exceeds \$800 million in annual sales;
- Processors of both conventional and organic frozen vegetables;
- Multiple importers and distributors of fresh and frozen seafood products to large national food wholesalers;
- One of the nation's premier manufacturers of pork ribs to restaurants, food service companies, and retailers throughout the US;
- Vertically-integrated producers of high-quality coffees for the restaurant and supermarket industries;
- Leading portion-controlled beef and poultry cutting operations for the casual dining and quick serve restaurant segments; and
- Distributors of specialty food products, including pasta, sauces, marinades, and fine artisan cheeses.

In addition to our internal personnel, GA maintains contacts within the food industry that we utilize for insight and perspective on recovery values.

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Overview

Retail food prices remained above average during the second quarter of 2011. Retail food prices as reported by the Consumer Price Index increased 0.2% in June 2011 over the prior year, representing a 3.6% increase since December 2010. In terms of categories, meats, poultry, fish, and eggs declined 0.4% after increasing for the four previous months. Fruits and vegetables decreased 0.3% in June due to a substantial decline in the index for tomatoes, which resulted in the fresh vegetables index falling for the third consecutive month. All other grocery categories increased during June. As more households are opting to eat at home rather than dining out, the CPI's index for food consumed at home increased 0.5% during June.

Prices have generally continued to increase across all segments from the first quarter of 2011. Milk experienced its largest increase in more than three years, reflecting stronger export demand for U.S. dairy products, including cheese, driven by a weak U.S. dollar. Corn continues to trade at historic levels due to its demand as a feedstock for ethanol production and animal grain. Tight supplies of wheat and rice have resulted in higher prices for those commodities as well. Sugar and coffee have also posted significant increases thus far in 2011.

In the meat category, beef and pork prices continued to rise in the second quarter, with the latter driven by increased demand from China. Bacon averaged a near-record price per pound, while lean and extra-lean ground beef reached the highest monthly price (unadjusted for inflation) among records going back to 1991. Higher beef and pork prices reflect herd reductions resulting from the recession coupled with higher feed costs. Cattle and hog prices reached record highs in the spring as meat processors bid more aggressively on slaughter animals.

By contrast, prices for boneless chicken breasts have declined in recent months, and there is concern that consumers may reduce consumption of beef and pork products and turn to less costly poultry in an effort to save cash.

Rising costs have impacted the supermarket industry. Some retailers have been able to disguise rising food costs by utilizing creative packaging, according to the *New York Times* ("NYT"). Many boxed and canned goods have imperceptibly shrunk by several ounces while prices remained unchanged. Manufacturers may add more air to bagged goods, such as chips, or create a scoop in the bottom of plastic jars in order to keep the size looking consistent. Other manufacturers are less subtle, promoting smaller packages as more portable or containing fewer calories.



Higher food prices have also affected the restaurant industry. In response, some restaurants have opted to reduce orders for butter and cheese. Others have reduced portion sizes, while some have passed along price increases to customers by raising costs. Consumers have responded by eating out on a less frequent basis. The National Restaurant Association's monthly *Restaurant Performance Index* ("RPI") – a composite index that tracks the health of and outlook for the U.S. restaurant industry – was at 99.9 in May, representing a decrease of 1% from April. This was the first time in six months that the RPI was below 100, which signifies contraction in the index of key industry indicators.

It is expected that food prices will continue their upward trend through year-end 2011 and into 2012, due to reduced stocks and increases in raw material commodity prices.

Recent Appraisal Trends

Recent recovery trends

Companies continue to focus on sourcing raw materials at favorable prices to help limit margin compression. As the majority of manufacturers produce to order, finished goods inventory levels are largely influenced by sales volume. The majority of food companies have experienced softening sales trends due to customers buying more on a just-in-time basis as well as the weakening of the economy.

In an effort to maintain margins, raw materials inventory levels have been the focus, as companies have looked to manage liquidity and take advantage of favorable prices. Margins have increased in certain industries but are largely influenced by feed costs which have been increasing at significant levels. This has had a positive influence on recovery values, as the hedge between inventory cost and USDA market prices has improved over the last year, due largely to favorably priced materials. Overall recovery values have increased up to five percentage points in the second quarter of 2011 versus the prior year.

Gross margins are mixed due to raw material prices and the ability of processors to pass along price increases to customers.

Trends in market prices/inventory

Inventory levels are decreasing due to liquidity constraints. Consistent with previously noted trends, market prices have been volatile, as the weak U.S. dollar has resulted in an increase of U.S. beef exports to foreign customers and farmers continue to shift crop production from canning and frozen vegetables to cash crops such as corn, wheat, soybeans, and cotton.

Industry/sales overview

As mentioned in the prior volume, foodservice and retail customers experienced selling price concessions in 2010 as companies worked to reduce food costs. With many market contracts resetting as of July 1st, processors have been able to take significant price increases as a result of inflationary concerns and higher raw material prices.

Monitoring Points

Monitoring Point	Impact
Monitor inventory levels.	Weather patterns and harvesting conditions could impact crop yields which could result in lower available inventory.
Monitor raw material acquisition prices and gross margin.	Increasing raw material prices could result in margin compression, as most customers purchase finished goods on fixed contracts.
Monitor aged inventory levels.	As aged inventory is much more difficult to sell in a liquidation, it is important to track aged inventory as a percentage of total on-hand goods. These products typically require discounting in order to sell through the inventory.
Monitor changes in customer base.	Sales volume is driven by companies' customers. Consolidation within the food industry has resulted in many companies securing additional volume from their existing customers, as dual sourcing is typical in the industry.
Monitor market prices.	The variance between market prices and a company's inventory cost will impact overall recovery values.

Pricing Trends

Beef and Cattle

According to July 2011 data from the USDA, retail beef prices are expected to jump 7% to 8% in 2011, up from a March forecast of 4.5% to 5.5%. As mentioned, beef prices rose 10% in the second quarter of 2011 as compared with 2010 and U.S. consumers paid near-record prices for ground beef during this period. U.S. beef producers blame higher production costs - up 14% in the past year - for the increase in consumer prices.

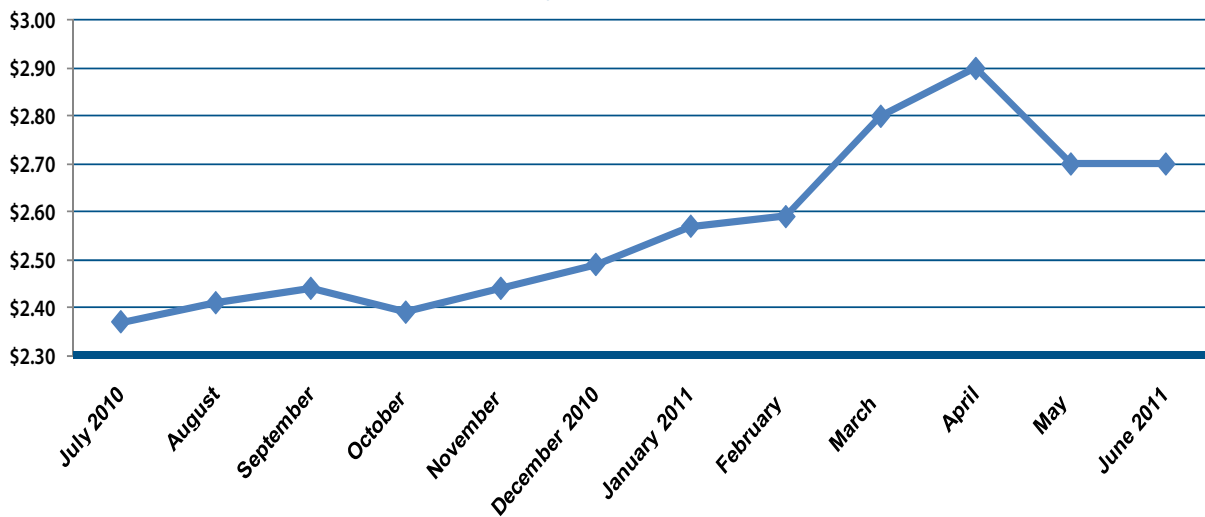
Fuel and feed costs have increased and producers are dealing with shrinking herds. More farmers are selling heifers for meat production than breeding due to the high feed costs and with prices for commodities such as soy and corn surging, farmers are replacing grazing land with higher margin grain crops.

Retail costs for choice beef fell slightly in June, averaging \$4.80 per pound as compared to \$4.87 in the prior month and \$4.49 in June 2010. The wholesale to retail beef spread declined from \$2.17 in May to \$2.13 in June.



U.S. beef exports are on track to surpass the levels reached in previous years. U.S. domestic production through year-end 2011 is estimated at 26.3 billion pounds. Exports are expected to represent 9.9% of production through year-end, and are predicted to increase to 10.1% in 2012.

**Monthly Choice Beef Wholesale Value Per Pound of Retail Equivalent
July 2010 - June 2011**



Pricing Trends

Pork

While the USDA is forecasting a 6.5% increase in pork prices for 2011 compared to the prior year, demand has fallen as a combination of increased slaughter numbers and heavier weights has raised pork production at a time when domestic demand appears to be soft. The grilling season was slow to start due to excessively wet weather in the U.S. Midwest and Northeast, while high pork prices have compromised consumer interest even though export demand remains strong.

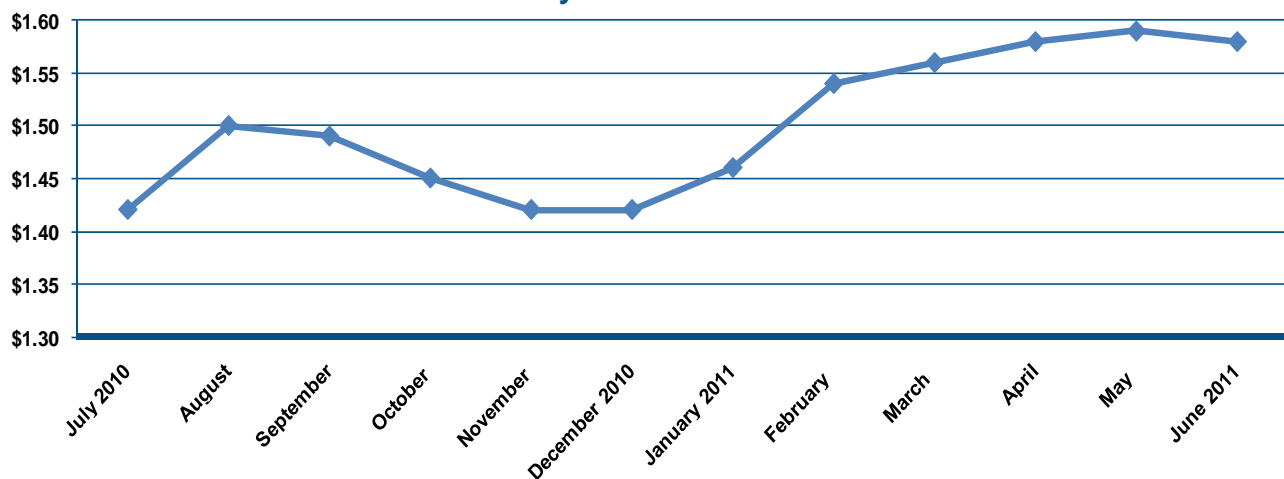
Retail pork prices rose 10% in the second quarter of 2011 as compared with 2010. Bacon averaged a near-record \$4.77 per pound in May, up \$0.11 from April and up \$0.91 from a year earlier. Retail costs for pork averaged \$3.48 per pound in June 2011 as compared to \$3.10 in June 2010. The wholesale to retail pork spread increased from \$1.89 in May to \$1.90 in June.

In mid-July, prices skyrocketed following a substantial purchase by China, the largest consumer of pork. China purchased 38,000 metric tons in the first half of the year, as compared to 671 tons in 2010. According to the Wall Street Journal, price increases reached their daily limit immediately after trading began on the Chicago Mercantile Exchange. Lean hogs for August delivery increased 3.1% to \$.09917 per pound.



In an effort to boost its pork production, China made its largest purchase of U.S. corn in early July. The country, which is battling inflation and rapid growth, is attempting to modernize its pork production facilities and thus is in need of animal feed. Pork demand is increasing, as fewer Chinese live on farms where they can raise their own stock.

Monthly Average Pork Wholesale Value Per Pound of Retail Equivalent
July 2010 - June 2011



Pricing Trends

Poultry

According to the USDA, over the last several months, prices from a number of broiler products have been moving in different directions. Prices for boneless/skinless breasts were \$1.31 per pound, which represented a 21% drop from the previous year due to increased inventory stocks. However, prices have risen for a number of leg meat products. Leg quarters were up 30% from a year earlier to 49.6 cents per pound and thigh meat prices climbed 43% to \$1.35 per pound.

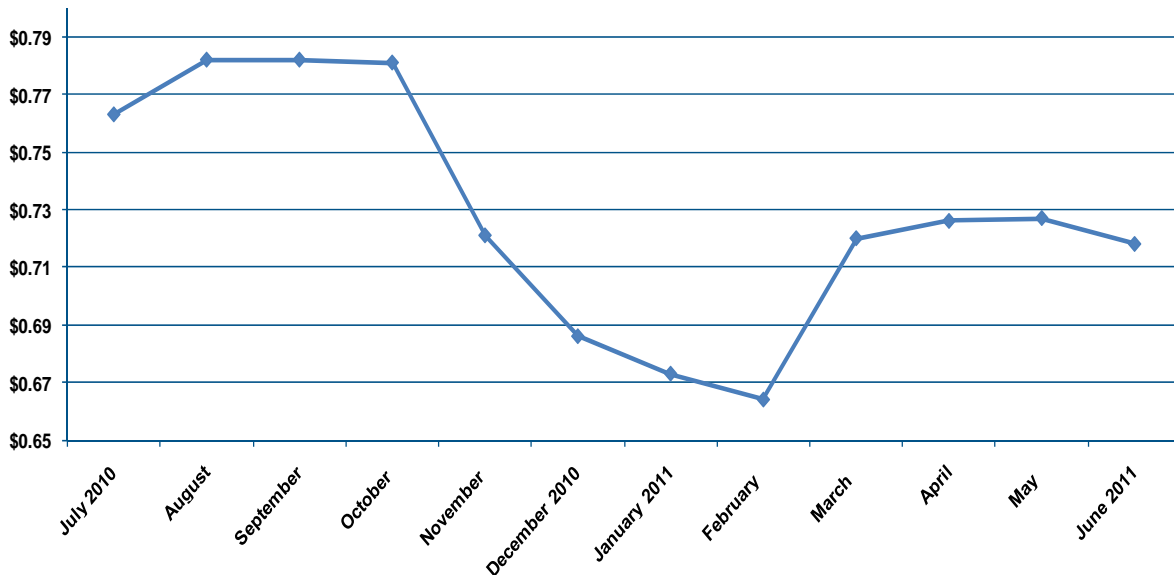
With lower stocks and production and strong exports, prices for whole birds remained considerably higher than a year earlier. In the second quarter 2011, frozen whole hens averaged \$1.00 per pound and prices for frozen whole toms averaged \$1.02 per pound, up 21% and 24%, respectively from last year.

Turkey prices have risen steadily in the past year. Frozen whole turkey prices rose to \$1.58 per pound in June. This compares with \$1.47 per pound in June 2010.



The poultry industry has the potential to improve sales as consumers turn away from higher-priced beef and pork in favor of more reasonably priced poultry products.

Monthly Wholesale Broiler Composite Per Pound July 2010 - June 2011



Pricing Trends

Dairy

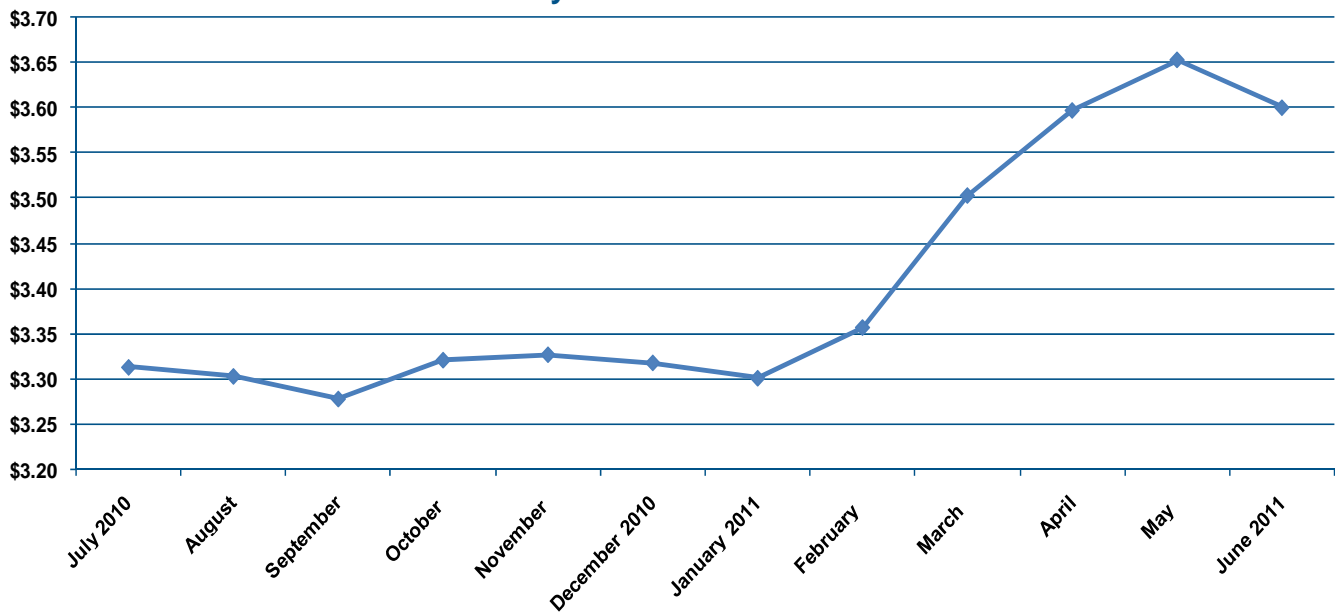
Retail milk prices increased nearly 12% in May from the prior year, representing the largest increase in more than three years. Average milk prices were up 7% during the first five months of the year, after increasing 3.6% in 2010. Retail milk prices increased from \$3.60 per gallon in April to \$3.66 per gallon in May and fell slightly in June. This was a substantial increase from \$3.12 in May 2010. Rising milk prices reflect stronger export demand for U.S. dairy products, including cheese, fueled by a weak dollar.

Similarly, retail American cheese prices increased from \$3.89 per pound in April to \$4.00 per pound in June. Cheddar cheese increased from \$5.20 to \$5.44 during the two-month period.

According to the ERS, high feed prices will continue to affect the dairy industry for the balance of 2011 and into 2012. The feed price forecast is expected to impact dairy herd size both this year and next. Milk yield per cow is expected to climb to 21,305 pounds in 2011, which will represent the same overall gain in a number of years.



**Average Monthly Milk Retail Prices
Fresh, Whole Fortified Per Gallon
July 2010 - June 2011**



Pricing Trends

Vegetables

Over the first half of 2011, fresh-market vegetable prices averaged 15% higher than a year earlier. Higher prices for vegetable crops such as head lettuce, carrots, celery, cucumbers, broccoli, and cauliflower earlier outweighed lower prices for bulb onions, snap beans, tomatoes, and sweet corn. This was the third consecutive year of double digit price growth, which was predominately due to weather related issues and reduced crop size.

In April and May, processors began raising their list prices for many canned and frozen vegetables in reaction to increased contract prices as a result of reduced crop size, reduced stocks, and weather-delayed planting.

Stocks of frozen vegetables were down 11% from a year earlier as processors were looking to align to current demand.

Despite the 15% surge in farm prices during January through May, the CPI for fresh-market vegetables averaged just 6% above a year earlier.

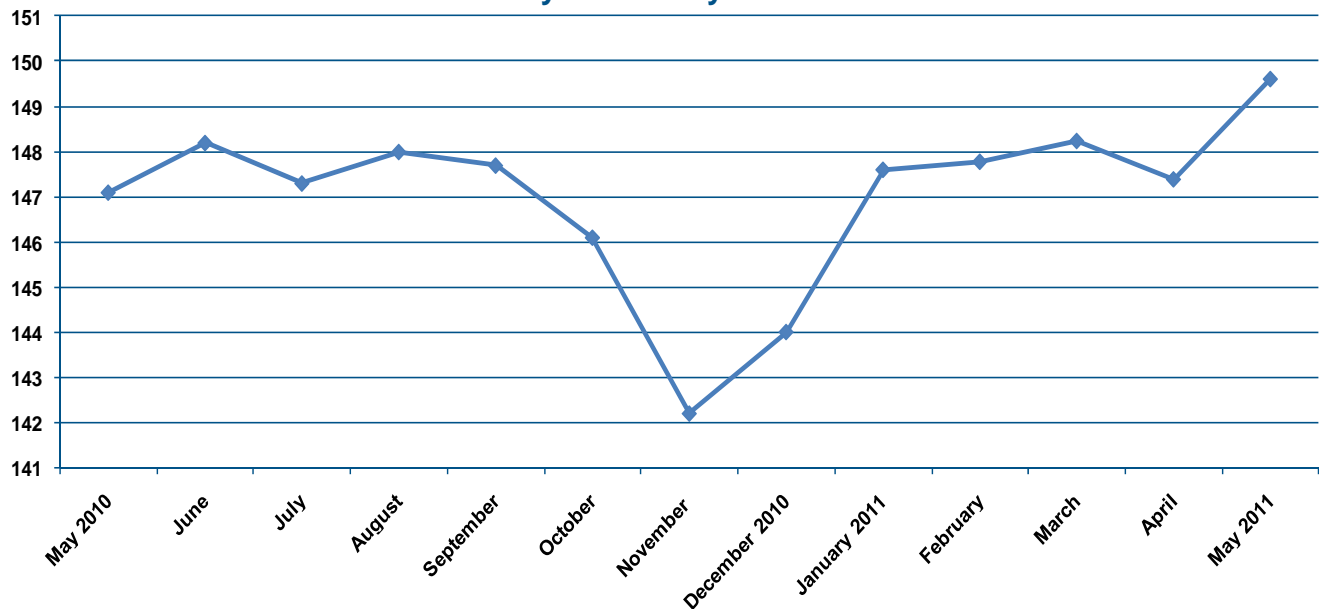


Broccoli prices increased 13%, iceberg lettuce 26%, and potatoes 13%.

According to the USDA's Market News Service, average advertised retail prices at major retail supermarket outlets for selected vegetables in June 2011 were as follows:

- Asparagus rose 7% from a year earlier to \$2.71/lb;
- Green beans increased 13% to \$1.44/lb; and
- Baby carrots increased 13% to \$1.45/lb.

Monthly Consumer Price Indexes - Processed Fruits and Vegetables (December 1997 = 100)
May 2010 - May 2011



Pricing Trends

Corn

Prices for corn have increased steadily over the past few years, reaching a three-year high in June 2011, according to the USDA. The expected 2011/2012 marketing-year weighted average price received by farmers was increased to \$6.00 to \$7.00 per bushel in June; this is an increase from \$5.20 to \$5.50 per bushel in the 2010/2011 season.

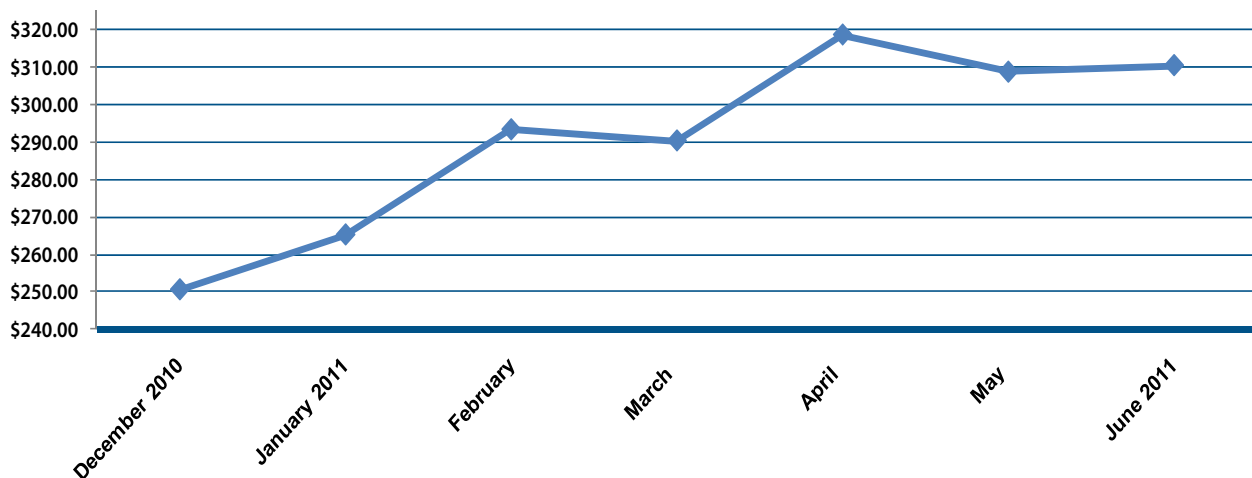


The increase in pricing has been driven by increased global demand for corn in livestock feed, biofuel, and food products. Prices have been volatile. While prices had decreased earlier in the year in response to additional acreage planted, a large purchase of U.S. corn by China in early July led to a further increase in corn prices.

Soybeans

The USDA recently revised its estimate of 2011/2012 soybean exports to 1.52 billion bushels, a decrease of 20 million bushels, due largely to increased competition from Brazil. The expected carryover at season's end increased, totaling 190 million bushels. Despite the decrease in exports and increase in supply, the USDA increased its forecast of 2011/2012 soybean prices to \$13.00 to \$15.00 per bushel, a \$1.00 increase from previous forecasts. The increase in the USDA's pricing forecast was attributed to high corn prices. Soybean meal and oil are also expected to increase in price over the course of the season.

**U.S. No. 2 Yellow Corn Prices - U.S. \$ Per Metric Ton
December 2010 - June 2011**



Pricing Trends

Seafood

After a strong rebound in 2010, the seafood market is on track to set new trade records in 2011 due to strong demand and rising global prices. The earthquake and tsunami in Japan impacted world markets, as Japan is the single largest importer of fish and the earthquake destroyed many fish zones and fishing vessels, thereby reducing their ability to catch and produce fish locally.

In 2010, farmed shrimp prices reached their highest levels in a decade and since September 2008, prices have increased by approximately 23%, predominately due to supply side issues but also a willingness of consumers to pay higher prices.



Fish and seafood prices increased 2.2% from April to May 2011 and were 8.6% above the May 2010 level. Through year-end, prices are expected to be 6.5% above 2010 levels due to rising feed prices and recent Japanese supply disruptions.

Overall imports of salmon in the U.S. in 2010 fell 3% in volume, but given a 12% increase in price, the value of imported salmon increased approximately 8%. Imports of Atlantic salmon accounted for 75% of total imported value. Prices for fresh fillets showed significant increases from mid November 2010 and remained stable until mid February when they started to rise again.

Domestic forecasts show a 25% increase in pink salmon, while sockeye salmon captures are expected to increase 11%, as a result of favorable environmental conditions and management measures.

Commodity Goods

Wheat and coarse grains: According to the USDA, the 2011/12 season-average farm price for domestic wheat is projected at \$6.60 to \$8.00 per bushel as of July, down \$0.40 from June due to the recent and temporary decline in corn prices. All wheat production for 2011/12 is forecast at 2,106 million bushels as of July 2011, 48 million higher than the prior month due to higher winter wheat production and higher forecast yields for durum and other spring wheat, which offset lower area as estimated in June. This was partially offset by a 10-million-bushel decline in projected imports, with lower expected supplies in Canada. Prices are significantly higher than in 2010.

Rice: Tight supplies have resulted in higher price estimates for the remaining part of the year, as long-grain rice increased approximately \$.70 per cwt to between \$12.00 and \$13.00 per cwt in June, which represents an increase from June 2010 pricing. According to the USDA, the 2011/12 production forecast was reduced 12.5 million cwt to 187.0 million cwt based on a 22% decrease in rice planting from the prior year. U.S. rice exports were lowered in the second quarter due to the smaller supplies and a wider price difference over Asian competitors for long grain varieties.



Pricing Trends

Coffee: The continuously increasing cost of coffee continues to impact the entire food industry. Manufacturers have already raised prices for the fourth time in 2011, as costs are already higher than they were a year ago; the price of un-roasted coffee on commodity exchanges went up more than 90% in the past year. According to the U.S. Department of Labor, a one-pound can of ground coffee sold for an average of \$5.10 in the U.S. in April, up from \$3.64 the year prior.

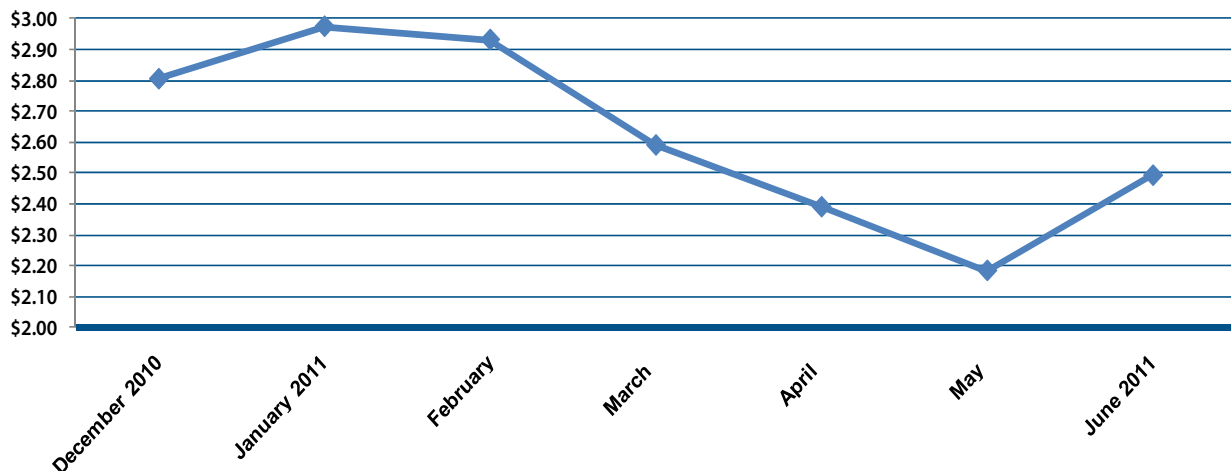
The ICO composite in June 2011 was \$2.16 per pound, a substantial increase from \$1.42 per pound in June 2010. Brazilian Natural Arabicas increased from \$1.43 per pound to \$2.51 per pound.

It is expected that prices will continue to increase due to dismal crop forecasts issued by Colombia and Ivory Coast. Columbia production is expected to fall approximately 10% in the second quarter, due to inclement weather that disrupted farm production, while political unrest is expected to impact the crops in the Ivory Coast. Increased demand from developing nations such as China and intense commodity speculation are also expected to influence overall prices.



Sugar: According to the USDA, world sugar exports are projected to increase 3.1 million metric tons raw value (MTRV) to 55.7 million MTRV in 2011/12. Significant export growth is expected in Brazil, Thailand, and India. At the same time, imports are projected to decline by 3.05 million MTRV in 2011/12. This is driven by reduced supply from India, due to their position in the sugar cycle. Exports from Brazil are expected to increase marginally at 2 percent, due to an increase in the portion being used in ethanol production. The USDA is forecasting a 2011/12 world sugar surplus of 6.5 million MTRV, which is in addition to the 1.6 million MTRV surplus realized in 2010/11.

U.S. Raw Sugar Prices Per Pound - Duty Fee Paid New York December 2010 - June 2011



FOOD REFERENCE SHEET

Choice Beef Values, Price Spread, and All-Fresh Retail Value

	Dollars/lb of retail equivalent		
	June 2011	May 2011	June 2010
Retail Value	4.809	4.872	4.491
Wholesale Value	2.674	2.706	2.405
Net Farm Value	2.227	2.647	2.081
Beef Price Spreads			
Wholesale to Retail	2.135	2.166	2.086
Farm to Wholesale	0.447	0.407	0.324
Total	2.582	2.573	2.410
All-Fresh Beef Retail Value	4.443	4.430	4.061

Source: ERS/USDA

Pork Values and Spreads

	Dollars/lb of retail equivalent		
	June 2011	May 2011	June 2010
Retail Value	3.481	3.484	3.104
Wholesale Value	1.581	1.591	1.435
Net Farm Value	1.205	1.183	1.015
Pork Price Spreads			
Wholesale to Retail	1.900	1.893	1.669
Farm to Wholesale	0.376	0.408	0.420
Total	2.276	2.301	2.089

Source: ERS/USDA

FOOD REFERENCE SHEET

Retail Prices for Poultry Cuts

	Dollars/lb		
	June 2011	May 2011	June 2010
Retail Broiler Composite	1.755	1.701	1.766
Wholesale Broiler Composite	0.718	0.727	0.760
Wholesale-Retail Broiler Spread	1.037	0.974	1.007
Chicken, Fresh, Whole	1.305	1.302	1.239
Chicken, breast, bone-in	2.307	2.123	2.309
Chicken, legs, bone-in	1.452	1.483	1.491
Chicken, boneless breast	3.127	3.111	3.323
Turkey, frozen, whole	1.581	1.596	1.474

Source: ERS/USDA

Retail Prices for Dairy Products

	June 2011	May 2011	June 2010
Milk, fresh, whole, fortified-gal. (\$/gal.)	3.622	3.653	3.297
Butter, salted, grade AA, stick, 1-pound package (\$/lb)	3.605	3.693	2.953
American processed cheese (\$/lb)	3.922	4.052	4.074
Cheddar cheese, natural (\$/lb)	5.443	5.435	4.525

Source: ERS/USDA

FOOD REFERENCE SHEET

Coffee: ICO Indicators and Futures Prices (New York Market)

	US dollars/lb		
	June 2011	May 2011	June 2010
ICO Composite	2.1558	2.2797	1.4220
Colombian Milds	2.8795	3.0217	2.0033
Other Mild Arabicas	2.7498	2.9109	1.7328
Brazilian Natural Arabicas	2.5059	2.6866	1.4320
Robustas	1.1795	1.2198	0.7061

Source: International Coffee Organization

Durum Wheat: Prices received by Farmers, Monthly and Marketing Year Average, Montana, USA (USDA)

	Dollars per bushel											
	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec
2011	7.07	8.43	8.15	8.60	8.44	8.00	N/A	N/A	N/A	N/A	N/A	N/A
2010	5.02	5.28	5.25	4.15	4.46	4.29	4.20	4.20	4.44	5.19	6.10	7.00

Source: NASS/USDA

Corn and Sorghum: Average Prices Received by Farmers

	Dollars/bushel		
	June 2011	May 2011	June 2010
Corn	6.58	6.30	3.41
Sorghum	6.61	6.50	3.01

Source: ERS/USDA