

GREAT AMERICAN GROUP ADVISORY & VALUATION SERVICES

Food Monitor
April 2011 - Volume 2

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Introduction

Welcome to the second 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 contact 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

In the first quarter of 2011, GA has noted continued increases in recovery values of three to five percentage points as compared to prior appraisals in 2010 due to increased prices for finished goods and a larger spread between market price and cost for raw materials. Levels of raw materials have continued to increase as companies seek out favorable pricing opportunities, and commodity raw materials typically recover higher than customer-specific finished goods.

In early 2011, commodity prices continued to trend higher as the prices for underlying feedstocks, such as corn, traded at historical highs. This is expected to have a negative impact on margins throughout the year, as customers are unable to raise prices at the same rates as commodity increases.

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 US. 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 \$600 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;
- Leading portioned controlled 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 as reported by the Consumer Price Index increased 0.6% in February 2011 over the prior year, bringing year-to-date totals to 2.8% above 2010 levels and representing the largest increase since 2009. Center-of-the plate beef and pork increased 10.8% and 8.9%, respectively, while seafood increased 6.3% in February and poultry prices rose 2.0% from a year earlier. Fresh fruit and vegetables increased 5.7%, driven by an 8.9% gain in fresh vegetable prices.



Wholesale food prices rose 3.9% in February, marking the largest increase since 1974. This dramatic increase was spurred by a 49% gain in fresh vegetable prices due to weather issues that impacted crop production, as well as a 4% increase in prices for beef and pork. Prices for eggs, dairy, and coffee rose 7.6%, 4.1%, and 3.2%, respectively, during February.

The latest U.S. Agriculture Department plantings report, released on March 31, 2011, indicated that farmers intend to increase their corn and wheat plantings, while decreasing the level of soybeans being planted this year. Stockpiles of these crops continue to trend lower than a year ago and global demand for these crops continue to grow.

According to the USDA, farmers intend to plant 5% more acres of corn this year, along with an 8% increase in wheat plantings. Ethanol fuel has caused such an increase in demand for corn that cattle farmers are worried that rising prices will further drive up feed costs. Corn and wheat future prices were up 5% in early 2011 and the price for U.S. grown corn and wheat has roughly doubled in value from a year ago.

In response to the anticipation of rising prices, processors and restaurant customers continue to look to commodity price hedging to guard against price fluctuations. Adequate cash flow and liquidity will be key, as these companies will be looking to lock in positions at favorable prices so that they are not required to purchase a large amount of goods on the spot market.

Following two years of flat prices, the USDA reports that food prices are expected to climb 3% to 4% in 2011 compared to 0.03% in 2010. Higher food commodity and energy prices are expected to exert pressure on wholesale and retail food prices in the coming months.

Retailers are beginning to get a sense of whether or not customers will accept higher shelf prices. Investment bank Goldman Sachs believes that suppliers will experience a 10% increase in input costs, which will most likely be passed on to retailers. Retailers are expected to see gross margin compression, reflecting the higher product costs and a potential drop in unit volume.

Recent Appraisal Trends

Recent recovery trends

Companies continue to focus on sourcing raw materials at favorable prices to help limit margin compressions. As most food manufacturers base production on orders, finished goods inventory levels are largely influenced by sales volume. In the first quarter of 2011, recovery values increased three to five percentage points as compared to prior appraisals in 2010 due to increased prices for finished goods and a larger spread between market price and cost for raw materials.

In an effort to maintain margins, raw materials inventory levels have increased as companies have been able to make their seasonal buys at favorable prices. This has had a positive influence on recovery values, as the hedge between inventory cost and USDA market prices has improved approximately 5.0% to 7.5% over the last six months, due largely to favorably priced materials. Overall recovery values as compared to prior appraisals have been positively impacted.

Trends in market prices/inventory

Finished goods continue to be manufactured to contract or order, with limited supply on hand. Consistent with previously noted trends, market prices have been volatile, as the weak US dollar has resulted in an increase of U.S. beef exports to foreign customers and a reduction of imports into the US.

Industry/sales overview

In 2010, selling price concessions occurred within the food-service and retail customer segments, as companies were under significant pressure to reduce food costs. Processors absorbed the brunt of the squeeze, while packers posted above average margins and cash flow. As pounds sold have steadily increased over the last 18 months, average selling prices were hindered by these pricing pressures and are expected to remain flat in 2011. The majority of food companies have experienced positive sales trends, as growth continues to increase from a well balanced mix across all segments, including natural restaurant chains, quick serve restaurants, and industrial and retail customers.

Monitoring Points

Monitoring Point	Impact
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.
Market prices.	Fluctuations in the spread between inventory costs and market prices will impact overall recovery values.
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.
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.

Pricing Trends

Beef and Cattle

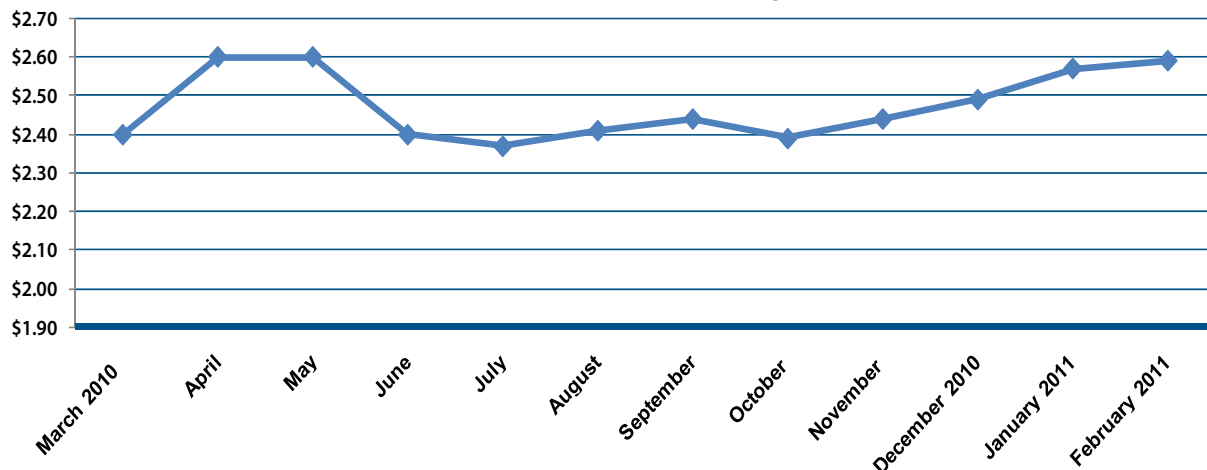
High cattle futures have largely been driven by further consolidation in the slaughter industry and improved discipline by packers. Reductions in cow herds and higher domestic demand on value cuts (grinding meat, thin meats, and end cuts) have influenced pricing, as packers have been less willing to contract for weekly deliveries of raw materials.

Beef exports have almost doubled since the beginning of 2009 due primarily to a weak US dollar and stronger foreign purchasing power. Rising corn prices have increased the cost of raising cattle, which processors believe will keep futures pricing elevated and potentially compress margins, as uncovered sales commitments associated with certain raw materials may require spot market buys at higher than anticipated prices.



In the quarter, the average retail price per pound for beef was up 12.4% versus a year ago due to increased production costs, cattle feed costs, fuel prices, and inflation. These factors are likely to continue to drive up beef prices throughout 2011.

Monthly Choice Beef Wholesale Value Per Pound of Retail Equivalent
March 2010 - February 2011



Pricing Trends

Pork

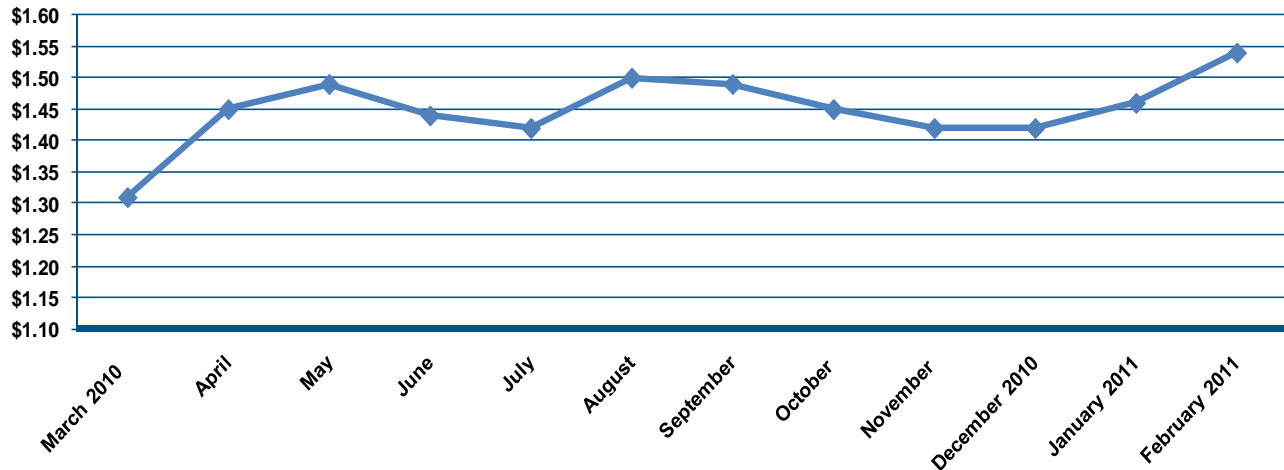
US hog producers may be reducing breeding herds in response to higher feed costs, signaling a continuing rally in pork prices that are already forecasted to climb higher than other protein options.

Rising demand for US pork helped propel wholesale prices to a six month high in the third week of March, while producers have been reluctant to expand due to the increase in prices of corn, the main ingredient in livestock feed. As a result, the government believes that consumers are paying as much as 7% more for pork this year.

Retail prices for pork chops averaged \$3.48 per pound in February, up 8.5% from a year earlier and the highest level since April 2007, according to the USDA. Boneless ham was 10% more expensive than in 2010, while pricing for sliced bacon jumped 20%. Strong export demand has driven these increases, as US exporters shipped 368.9 million pounds of pork in January, up 17% from a year earlier. Japan, the largest buyer of US pork in 2010, will be forced to import more meat in the wake of the recent deadly earthquake and tsunami, according to the US Meat Export Federation.



**Monthly Average Pork Wholesale Value Per Pound of Retail Equivalent
March 2010 - February 2011**



Tight supplies in the pork industry have also led to lower producer profit, as rising export demand encouraged slaughterhouses to pay more for animals to maintain their supply. Spot-market prices have risen approximately 22% from the prior year, due to the increased market demand and higher feed costs.

Higher prices, driven by export activity, have not been enough for producers to expand herds, as input costs have been too high. Hogs placed in feed pens will now consume approximately \$165 of feed before they are slaughtered, compared to \$123 last year. This will slow the expansion of the breeding herd. As a result, processors will be paying higher prices and the costs to consumers will climb faster than expected.

Pricing Trends

Poultry

Broiler meat production increased notably in January 2011, while hatchery numbers point to lower growth in the coming months. Production for January was reported at 3.13 billion pounds, which would signal a 10% gain over the prior year, due to strong growth in both the volume of and average weight of the slaughtered birds.

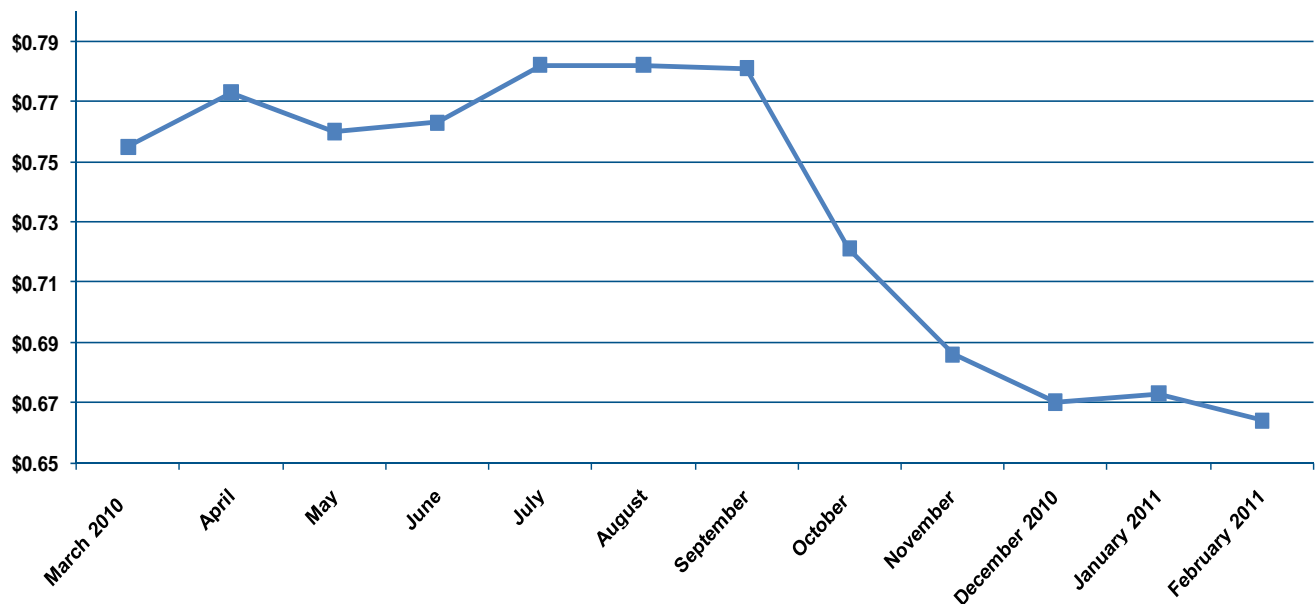
In spite of the strong increase in boiler meat production and higher than average stock levels, wholesale prices dropped in early 2011. Prices for boneless/skinless breast meat in the Northeast market averaged \$1.15 per pound, representing a 12% drop in market price from the prior year due to increased volumes.

Turkey meat production was up 9.1% from a year earlier due to a higher volume of turkeys being slaughtered and an increase in the average weight of birds.



The overall decrease in stocks of whole birds at the end of 2010 and into 2011 has pushed prices higher. In February, prices for frozen whole hens averaged \$.90 per pound, which was 19.6% higher than the comparative period last year.

**Monthly Wholesale Broiler Composite Per Pound
March 2010 - February 2011**



Pricing Trends

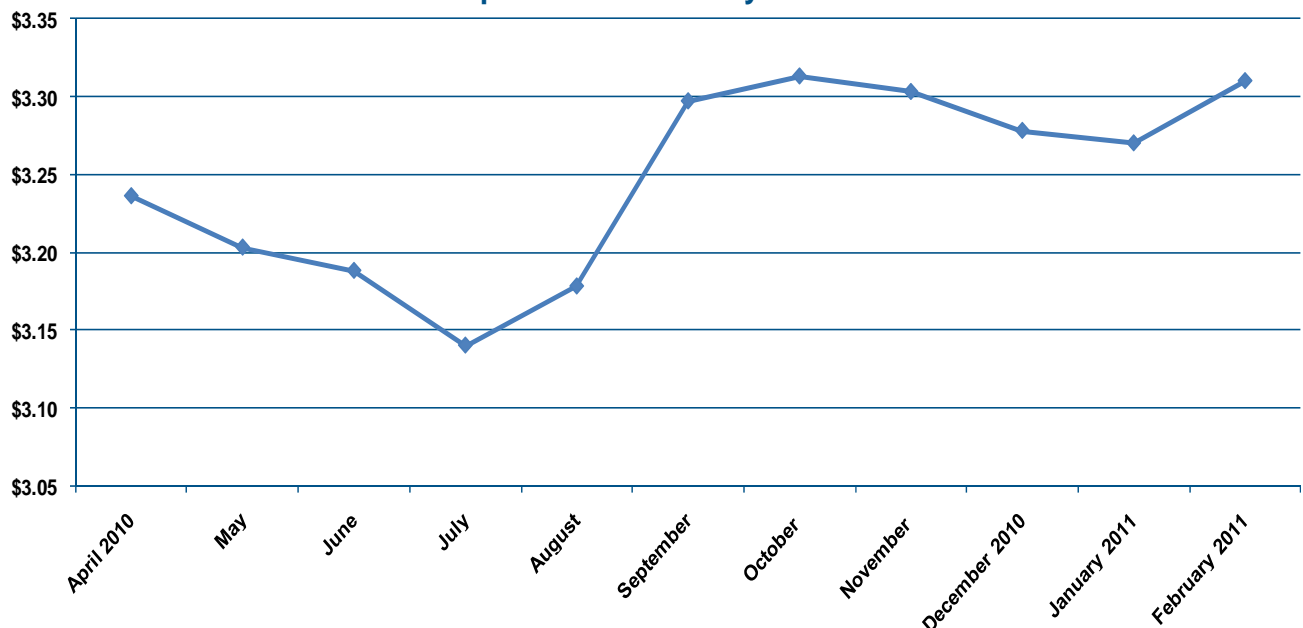
Dairy

In March, the ERS reported that higher milk prices are likely this year due to higher feed prices; however, producers are also expected to modestly expand dairy cow stock to take advantage of the higher prices. Milk yield per cow rose by 2.8% in 2010 and is expected to rise an additional 1% in 2011. Major dairy product prices are expected to go higher in 2011. Output in the US, the world's second-largest market, may rise 1.7% to 196 billion pounds in 2011; however, dairies are largely missing out on profits, since the surge in grain prices has boosted the cost of feeding cows. While income for grain and cotton growers will rise more than 20% this year, earnings at dairies may drop 13%, according to the USDA.

Dairyherd Network reported that cheese prices are forecast to increase across the board in 2011 due to higher prices for butter and nonfat dry milk as well as increased commercial use of cheese. Cheese prices are forecast to average \$1.695 to \$1.755 per pound for the year, while butter is expected to average \$1.735 to \$1.825 per pound. Export demand continues to increase, as firm demand for nonfat dry milk and skim milk powder, along with a weak dollar, are influencing gains.



**Average Monthly Milk Retail Prices
Fresh, Whole Fortified Per Gallon
April 2010 - February 2011**



Pricing Trends

Corn

Prices for corn have increased steadily over the past few years, reaching a three-year high at the end of March 2011, according to the USDA. Prices in March averaged \$290.43 as compared to \$205.84 in September 2010.

The increase in pricing has been driven by a lowering of supply. The U.S., the world's largest grower of corn, reported lower than average supplies in the first quarter. Corn supplies in March fell to 6.523 billion bushels, which was the lowest level in four years due to increased global demand for corn in livestock feed, biofuel, and food products.

Corn stockpiles on September 1 are estimated to total 589 million bushels, representing a 66% decline from 2010 levels. Supplies are expected to remain tight through year-end 2011, falling to a 15-year low despite an estimated 5% increase in plantings.

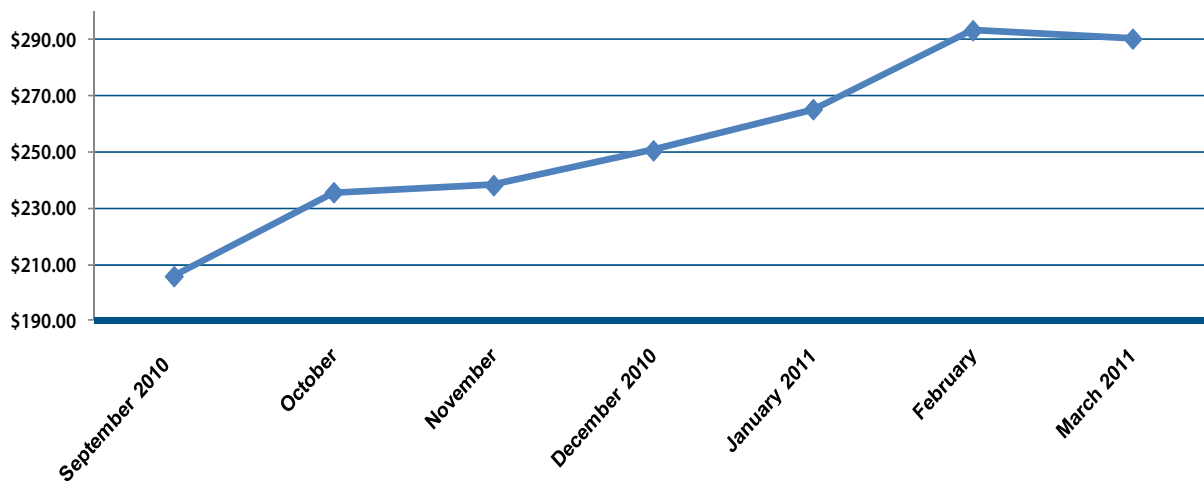
Corn futures for May delivery increased 3.3% to settle at \$7.6 per bushel on the Chicago Board of Trade, representing the highest closing price ever for a contract closest to expiration. Corn reached \$7.65, the highest for a most-active contract since July 7, 2008, in March.



Approximately 40% of the corn supply will be utilized in the production of ethanol as the government subsidizes the fuel additive and retail gasoline prices continue to soar. Corn futures have more than doubled in the past year, reaching their highest level in three years, due to rising pork and beef prices which increased demand from livestock producers. Additionally, U.S. export-sales increased at their fastest pace since 2008.

The overall rise in corn prices is expected to result in overall higher costs for food products.

U.S. No. 2 Yellow Corn Prices - U.S. \$ Per Metric Ton September 2010 - March 2011



Pricing Trends

Vegetables and Fruits

According to the ERS, as much as one million acres of crop in Sinaloa, which supplies the majority of Mexico’s winter fresh vegetable exports to the US, may have been damaged by freezing weather. Imports from Mexico supply more than half of the warm season vegetables (e.g. tomatoes, peppers, squash, eggplant, cucumbers, snap beans, etc.) consumed in the US during the winter months. These issues may limit fresh vegetable supplies and shift consumers to purchase more frozen inventory until fresh-market supplies improve due to spring harvesting activity in Florida and California.



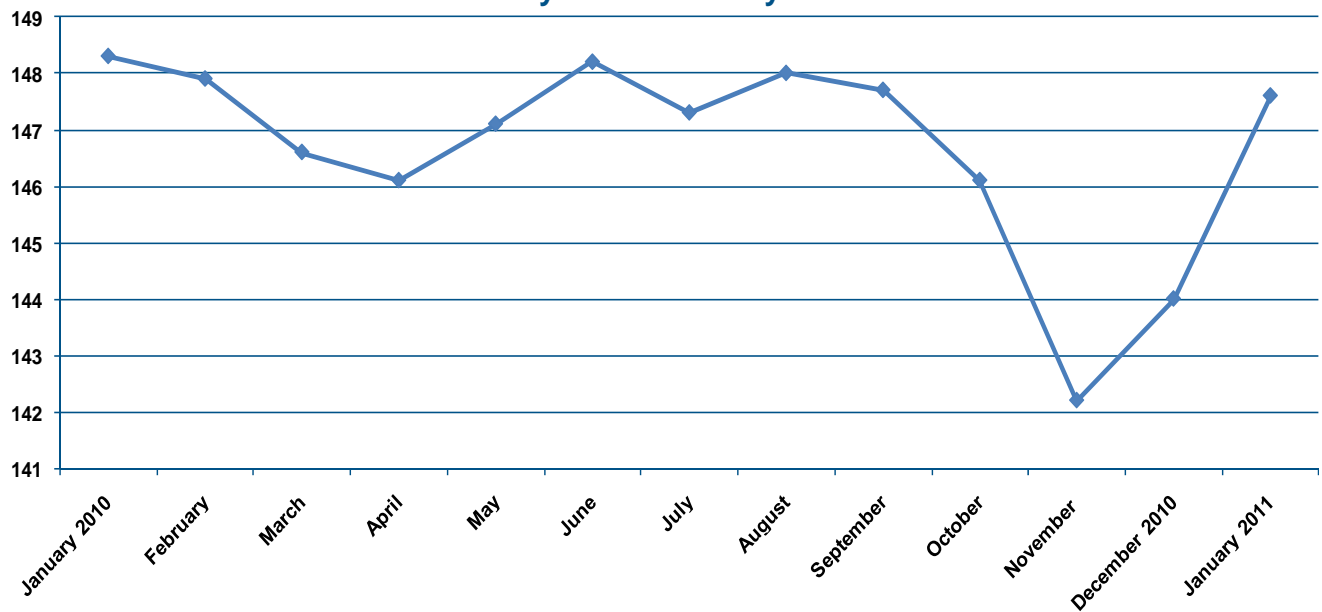
Consumers have seen an increase in vegetable prices in early 2011, but lower costs are expected soon. Crops planted after the winter freezes are beginning to appear in stores, which is expected to help lower pricing.

Fresh fruit prices decreased 3.7% in February, but remain up 2.4% from last year. Apple prices have increased 4.1%, banana prices are up 5.1%, and citrus prices are up 11.2%.

The fresh vegetable index increased 4.7% in February compared to January and is trending up 8.9% from the year prior. Potatoes are up 7.5%, lettuce prices are up 19%, and tomato prices are up 10.3%.

Prices for a handful of crops, such as melons, may not drop as quickly as other products, since the growth cycle is longer than for greens and other short harvest vegetables.

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



Pricing Trends

Seafood

All segments of the seafood industry suffered in 2010 as a result of the BP oil spill. Revenues fell an estimated 14.3% to \$11 billion in the fish and seafood wholesaling industry in 2010, 13% to \$995 million for the fish and seafood farming industry, and 11.4% to \$9.8 billion for the seafood preparation industry, according to a trio of reports from research company IBISWorld, Inc. (“IBISWorld”).

Already dwindling supplies took a major hit from the oil spill, while demand also shrank due to consumer fears of possibly oil-tainted seafood. Moreover, cheap imports from Asian and Latin markets continue nibbling away at profits.



The earthquake and accompanying tsunami in Japan will undoubtedly further impact the seafood markets. Japan is the world’s single largest importer of fish and fishery products, and in the short term the damage to infrastructure and the disruption in transportation will negatively impact imports, distribution, and consumption of chilled and frozen products.

Flooding in Thailand may also impact export volumes and prices as damage has occurred at farming operations and could affect processing levels.

Commodity Goods

Wheat and coarse grains: According to the most recent March 2011 release of the WASDE, wheat prices were impacted by dry weather in various countries as well as in Kansas, the largest winter-wheat-growing state in the U.S. May futures for wheat delivery rose 1.8%, or \$0.1275, to \$7.23 per bushel as of March 18. Export projections declined as Japan slashed its planned purchases of wheat more than 765 tons following the earthquake and tsunami in mid-March.

Rice: In spite of the disaster in Japan, rice prices remained steady through late March, and no long-term shortages are predicted. Japan currently holds approximately 1.86 million tons of rice in stocks. World market prices for milled and rough long grain rice stood at \$19.00 and \$11.95 per hundred-weight (“cwt”) as of March 30. Milled and rough medium/short grain were \$18.67 and \$12.56 per cwt, while the price for broken rice stood at \$13.44 per cwt.



Pricing Trends

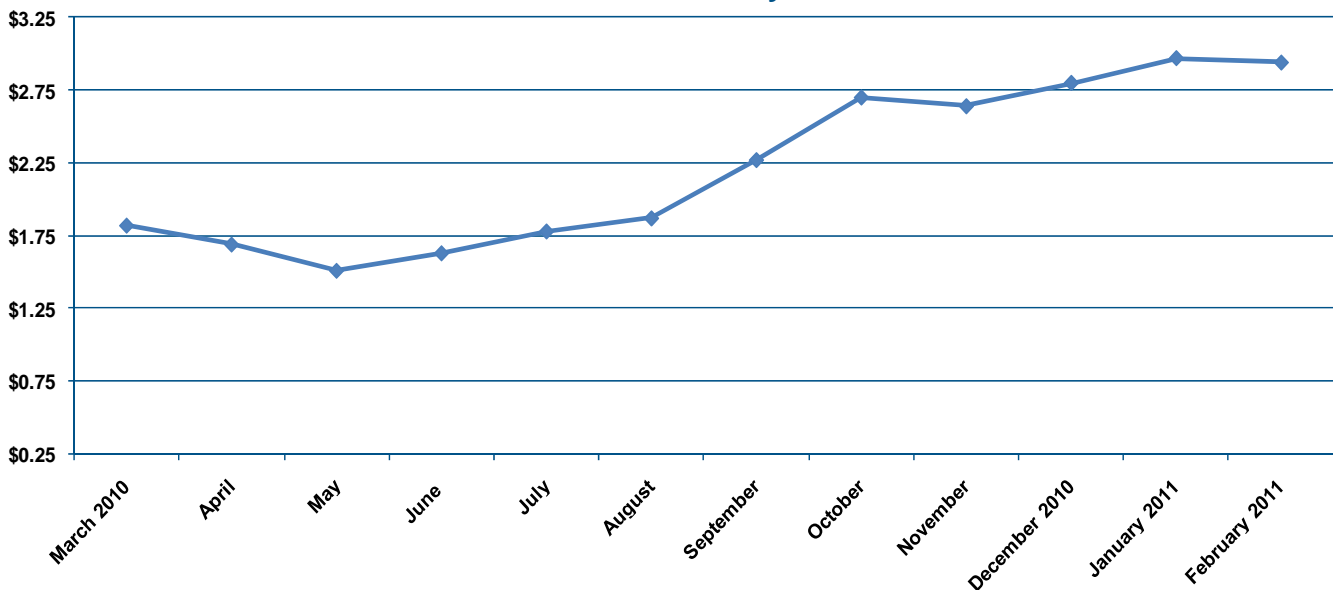
Coffee: According to a recent report issued by the International Coffee Organization (“ICO”), coffee prices have continued to increase through March 2011. The monthly average composite indicator price reached \$2.16 per pound in February, a sharp increase from January’s \$1.97 per pound. Prices have been rising steadily since March 2010 due to decreased supply and a rise in overall demand.

While new acreage planted by growers in Brazil and Vietnam was expected to boost supplies, prices continued to increase as demand caught up with supply in the marketplace. Despite record harvests (including a record 55 million bags from Brazil in 2010), coffee prices continued to rise and are expected to continue this pattern well into 2012. The Arabica coffee plant, which is highly desired by the gourmet sector that includes Starbucks and Peet’s Coffee, remains in short supply. Demand for Arabica coffee was boosted by the popularity of espresso, cappuccino, and latte drinks, as well as gourmet coffee consumption in developing nations such as China. Additionally, as Brazilians are developing a taste for Arabica blends, the country has been forced to maintain a larger amount of its own supply in order to fulfill demand.



Sugar: In the USDA’s March *Sugar and Sweeteners Outlook*, it was reported that the projected U.S. sugar supply for fiscal year 2011 declined 163,000 short tons, raw value (STRV) from February. Cane sugar production in Florida is down 60,000 STRV, as Florida processors have reduced their production forecast from 1.7 million STRV in December to 1.44 million STRV in March. Imports from Mexico are projected to decrease 110,000 STRV to 1.349 million STRV. Since the first of the year, refined beet sugar prices, Midwest, from the *Milling and Baking News* have averaged \$0.55 per pound. The corresponding average for the raw sugar nearby No. 16 Intercontinental Exchange (ICE) is \$0.39 per pound.

US Raw Sugar Price per Pound, Duty Fee Paid, New York Monthly March 2010 - February 2011



FOOD REFERENCE SHEET

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

	Dollars/lb of retail equivalent		
	February 2011	January 2011	February 2010
Retail Value	4.618	4.542	4.204
Wholesale Value	2.591	2.569	2.210
Net Farm Value	2.269	2.219	1.911
Beef Price Spreads			
Wholesale to Retail	2.027	1.973	1.994
Farm to Wholesale	0.322	0.350	0.299
Total	2.349	2.323	2.293
All-Fresh Beef Retail Value	4.288	4.255	3.920

Source: ERS/USDA

Pork Values and Spreads

	Dollars/lb of retail equivalent		
	February 2011	January 2011	February 2010
Retail Value	3.283	3.241	2.917
Wholesale Value	1.540	1.456	1.251
Net Farm Value	1.065	0.960	0.849
Pork Price Spreads			
Wholesale to Retail	1.743	1.785	1.666
Farm to Wholesale	0.475	0.496	0.402
Total	2.218	2.281	2.068

Source: ERS/USDA

FOOD REFERENCE SHEET

Retail Prices for Poultry Cuts

	Dollars/lb		
	February 2011	January 2011	February 2010
Retail Broiler Composite	1.776	1.758	1.730
Wholesale Broiler Composite	0.664	0.673	0.733
Wholesale-Retail Broiler Spread	1.112	1.085	0.997
Chicken, Fresh, Whole	1.266	1.241	1.265
Chicken, breast, bone-in	2.285	2.375	2.230
Chicken, legs, bone-in	1.521	1.422	1.471
Chicken, boneless breast	3.175	3.209	3.313
Turkey, frozen, whole	1.526	1.459	1.375

Source: ERS/USDA

Retail Prices for Dairy Products

	February 2011	January 2011	February 2010
Milk, fresh, whole, fortified-gal. (\$/gal.)	3.357	3.301	3.203
Butter, salted, grade AA, stick, 1-pound package (\$/lb)	3.670	3.526	2.838
American processed cheese (\$/lb)	3.734	3.758	3.943
Cheddar cheese, natural (\$/lb)	5.023	5.143	4.608

Source: ERS/USDA

FOOD REFERENCE SHEET

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

	US dollars/lb		
	March 2011	February 2011	March 2010
ICO Composite	2.2433	2.1603	1.2530
Colombian Milds	3.0068	2.9644	2.0571
Other Mild Arabicas	2.9207	2.8731	1.6450
Brazilian Natural Arabicas	2.6098	2.4700	1.2621
Robustas	1.1813	1.0935	0.6725

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	6.55	7.00	7.16	N/A	N/A	N/A	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		
	February 2011	January 2011	February 2010
Corn	5.66	4.94	3.55
Sorghum	5.82	5.29	3.05

Source: ERS/USDA