Howie &
Newman
Analysts

Ag-Processors in a Sweeter Spot Than Market Suggests

Lisa Howie: 202-236-6977 Naomi Newman: 917-689-8784

October 13, 2007

Current Price: $51.6B Rating: BUY
Target Price: $59.2B

12-Month Investment Thesis: We believe the agricultural processing industry is currently undervalued by 14.6%. Our bullish outlook is predicated on three factors:

1) Impact of consumption shifts in developing countries underestimated

The market valuation of the agricultural processing industry aligns with the USDA's projections of corn prices, meat consumption and consumer spending. However, we believe that these estimates do not fully capture the changing trends in developing countries with respect to population growth and food consumption.

2) Impact of corn costs overestimated

Despite ethanol sustaining a high floor of $3.50/bushel under corn prices going forward, food processors are better positioned to pass through costs to consumers than market expects due to growing international demand for grains and proteins.

3) Internal and external trends: shore up industry fundamentals

Recent trade legislation has increased agricultural processors' ability to tap into the growing international and developing markets. Moreover, being at the tail end of a phase of industry consolidation and on the cusp of a shift into higher-margin products, agricultural processors are in a favorable position to capitalize on growth opportunities.

Sensitivity: A sensitivity analysis on COGS/Sales, Revenue Growth, WACC, and Terminal Growth Rate showed that even with more conservative assumptions, the industry is undervalued.

Risks to our call:

1. Poor harvests
2. Grain or cattle disease outbreaks or scares
3. Currency fluctuations
4. Change in legislation
5. Change in eating habits

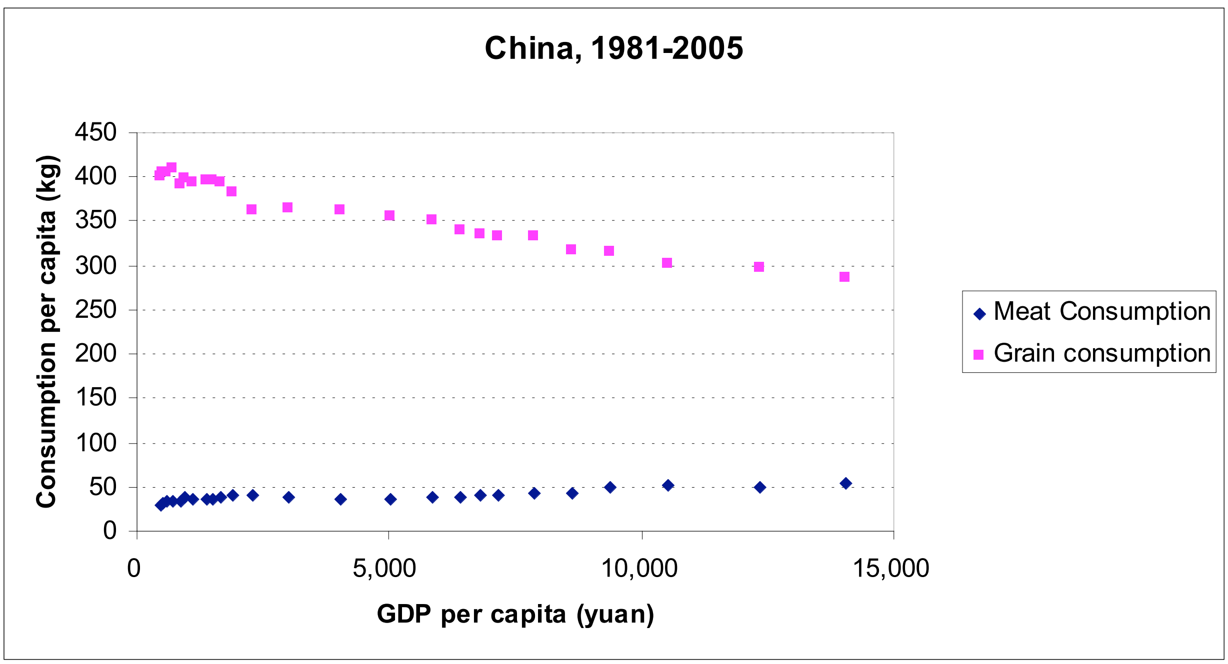
*****Please see disclaimer at end of report Before Reading*****

Where's the Beef?
Demand from emerging markets underestimated

While overall population growth has been slowing to an average 1.2% p.a.,[1] demographic and socio-economic trends in developing countries are changing the nature of food consumption faster than expected. Using the International Monetary Fund's GDP projections, we find that projected earnings growth of the agricultural processing industry is not currently captured by the market's valuation of the industry.

Population Growth and Consumption Decisions Favor Top-Line Growth

An important driver of the demand for agricultural products is simply global population. As the population grows, demand for food and livestock feed increases as well. Underlying this simple mathematics, however, is an additional complexity. As incomes rise in developing countries, consumption shifts away from grain staples toward meat and processed foods, including vegetable oils and high fructose corn syrup. For example, China's per capita meat consumption nearly doubled between 1981 and 2005 as the country's GDP per capita rose from 500 to 14,000 yuan, while direct grain consumption saw a marked decline (*see chart below).* As a result, meat consumption increases more rapidly than linear population growth in the developing world.



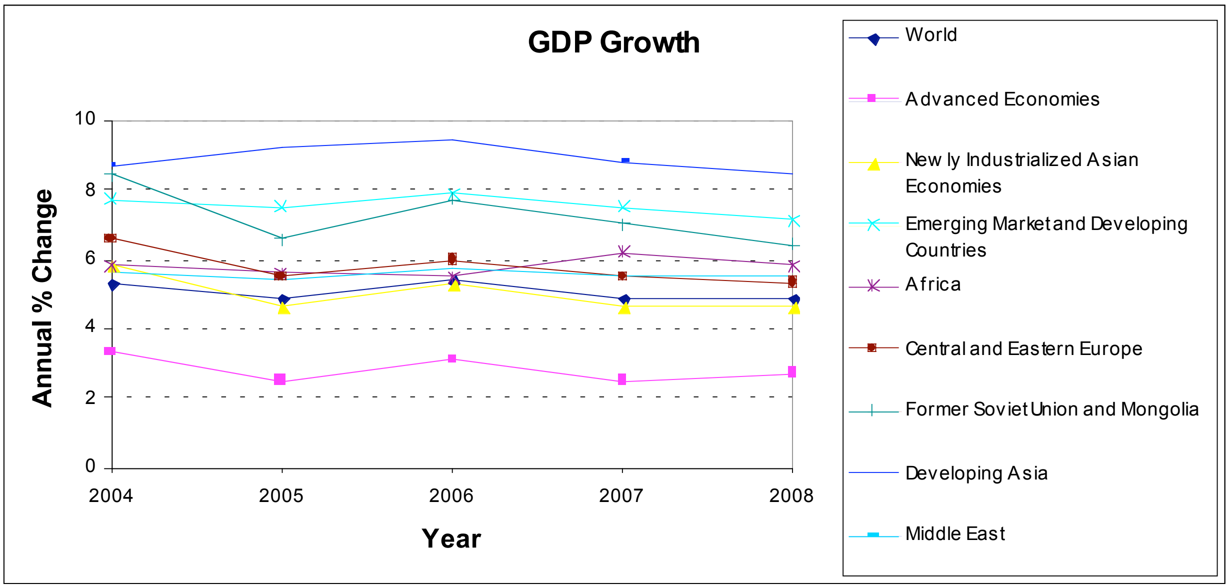
Source: USDA

This shift increases both livestock demand and grain demand, because meat consumption requires more grain (as feedstock) than does direct grain consumption: a beef cow must consume 6 pounds of grain to gain one pound.[2] Furthermore, developing countries project both more rapid population growth and more rapid GDP growth than the developed world. This will result

---

[1] USDA *Agricultural Projections to 2006*, USDA
[2] Scott Kilman, "Historic Surge in Grain Prices Roils Markets," *Wall Street Journal*, September 28, 2007. A1.

in a dramatic consumption shift and indicates that agricultural products will experience exponential demand growth. For instance, the IMF projects annual GDP growth of over 7% for emerging market and developing countries, while advanced economies are expected to grow at only 2.5% annually. We have adjusted the USDA's meat consumptions projections up by 1% per year to incorporate these growth trends, which are higher than the USDA baseline assumptions.



Source: IMF

These trends support strong top-line growth for ag-processors, and current valuation suggests their impact on earnings is underestimated by the market. Moreover, recent changes in trade policies have increased the opportunities for ag-processors to tap into these growing markets (*see section 3 below*).

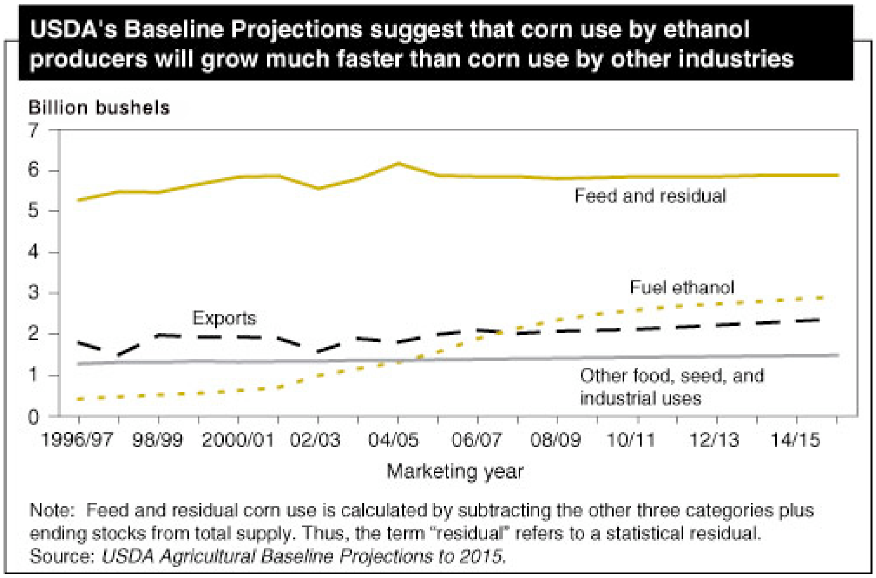
Ethanol Fears:
Not Fully Founded

We believe that recent press about ethanol production has driven the market to underestimate the ability of ag-processors to pass through increased corn costs to end-users. As middlemen between growers and food sellers, grain and meat processors are in a sweeter spot than market predicts.

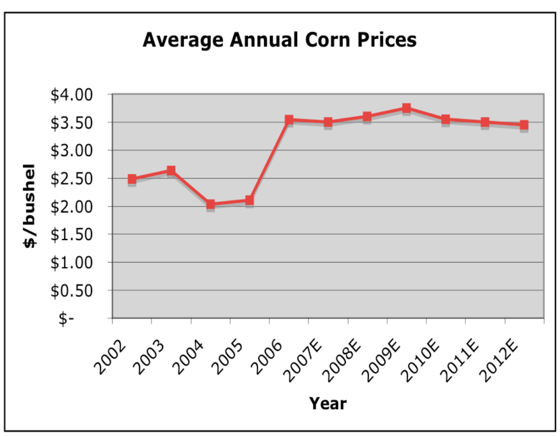
Ethanol *IS* driving up corn prices:

1. **High oil prices and environmental concerns have fueled the expansion of ethanol production in the US over the past 10 years.** The 2005 Renewable Fuels Standard, which took effect on September 1, 2007, mandates ethanol use of 12B gallons by 2012. With a current capacity of 6B gallons, this represents a production increase of 100%. (6B gallons of

ethanol capacity are currently under construction.[3]) As new facilities come online, total corn consumed by ethanol production expected to grow to 30% from 14% currently.[4]



2. **Growing demand for corn from ethanol is expected to pressure prices and decrease soy and other grain acreage as farmers shift toward higher profit crops.** Corn prices are projected to peak in 2009/10 at $3.75 before stabilizing around $3.50. Soy prices follow a similar trajectory due to decreased production and supply, as farmers shift away from soy into corn.

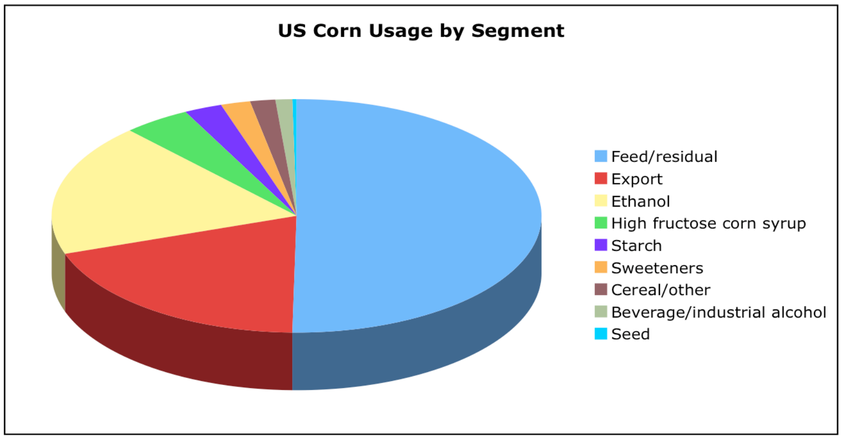


Source: *USDA Economic Research Service*

[3] Renewable Fuels Association, www.ethanolrfa.org
[4] USDA, *US Ethanol Expansion Driving Changes Throughout the Agricultural Sector*, Sept. 2007.

BUT STRONG PROJECTED DEMAND ALLOWS PROCESSORS TO PASS THROUGH COSTS

The current oversupply of ethanol[5] has depressed prices and limits corn processors' ability to pass on costs to ethanol end-users (i.e. blenders and gasoline refiners). However ethanol is a relatively small portion of overall corn use:



Source: Standard & Poor's, *Agribusiness Industry Survey*, May 2007

While soy can substitute for corn, there are limited substitutes for grain products overall. And, grain is not a luxury good whose demand fluctuates with market conditions. These factors, coupled with growing demand in developing countries, mean that major grain processors benefit from increased supplier power relative to their customers (e.g. beverage companies purchasing high fructose corn syrup), enabling them to pass through much of the increased costs to end-users for their food and feed products.[6]

For meat processors, we expect increases in corn and soybean meal feed costs to be offset by the increased availability of distillers' dried grain solubles (DDGS), an ethanol by-product that can substitute for grain feed.

Meat processors can pass on the increased input costs to the extent that the market is not saturated with excess supply of meat products, as was the case for poultry in 2006.[7] We forecast that, as a result of recent inventory draw-downs,[8] meat supplies will be more in line with demand, and prices will stabilize (absent disease outbreaks). Meat processors will therefore be protected, to an extent, from feed inflation, and will also be able to pass on most of the increased costs to end-users because of growing protein demand.

We anticipate that a majority of the impact of increased corn costs on COGS will be muted by related increases to revenues. Moreover, corn prices are likely to stabilize as technology advantages increase corn yields/acre, farmers adjust plantings in response to high corn prices, and the ethanol industry equilibrates supply and demand.

---

[5] Based on ethanol supply and demand data from the Renewable Fuels Association.
[6] ADM & Bunge Company Reports.
[7] Standard & Poor's, *Agribusiness Industry Survey*, May 2007.
[8] Standard & Poor's, *Agribusiness Industry Survey*, May 2007.

Internal and External Trends: Shore up Industry Fundamentals

Recent trade legislation has increased agricultural processors ability to tap into the growing international and developing markets. Moreover, being at the tail end of a phase of industry consolidation and on the cusp of a shift into higher-margin products, agricultural processors are in a favorable position to capitalize on growth opportunities.

1) Shifting trade policies will increase demand from trading partners

Corn syrup tax lifted: In late 2006, Mexico repealed its 20% tax on high fructose corn syrup on beverages, which had been enacted in 2002 but subsequently found illegal by the WTO. The Corn Refiners Association estimates that the tax resulted in $944 million of annual lost sales (168 million bushels). Demand for American corn syrup will grow as beverage producers shift away from more expensive cane sugar and could lead to corn price increases of 6 to 10 cents per bushel.[9]

Easing of meat import bans in Asian countries: Following the December 2003 Bovine Spongiform Encephalopathy (BSE) case in Washington state, many countries closed their markets to U.S. beef imports. In June 2006, however, Japan began allowing beef imports from animals less than 20 months old. South Korea followed in May 2007, allowing imports from animals less than 30 months old.[10] Barring any unforeseen Mad Cow outbreaks, foreign import restrictions will continue to ease, restoring U.S. exports to their pre-2003 levels.

U.S. policy not anticipated to rock the boat: The 2007 farm bill passed the House in July and is currently stalled in the Senate.[11] The bill, however, is expected to be a "stay-the-course" bill, extending current systems and programs for an additional five years.[12] While changes in subsidies and support guarantees can have significant impact on agricultural prices and processing, no reform is expected at this time.

This policy landscape facilitates the ability of agricultural processors to capitalize on the expanded population and GDP growth in developing countries.

2) Shift towards higher margin products strengthen economics:

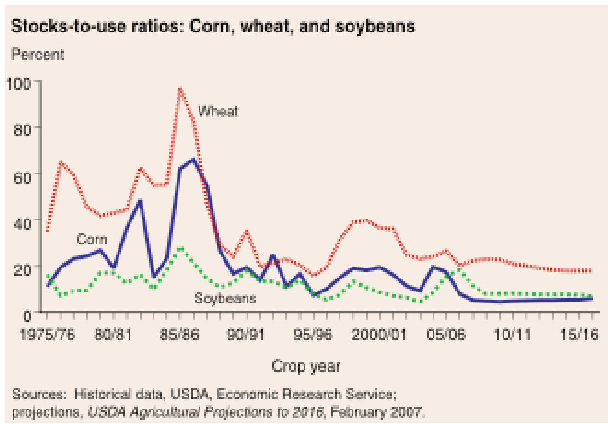
Meat processors are shifting towards delivering more value-added products on longer-term contracts.[13] We anticipate this shift will improve margins and reduce earnings volatility in the near-term. These contracts should help counterbalance fluctuations in feed prices.

---

[9] Corn Refiners Association press release, 12/22/06 (http://www.corn.org/12-22-06MexicoLiftsHFCSTax.doc)
[10] SFD 10-K, 4/29/2007, page 5.
[11] David Rogers, "Farm Bill Withers in the Absence of a Strongman," *Wall Street Journal*, October 5, 2007. A6.
[12] Stanford Group, Washington Agribusiness Bulletin, 7/27/07.
[13] PPC 10-K, 9/30/2007.

3) **The calm after the consolidation storm:** Recent consolidation activity in the grain and meat processing groups has led to enhanced vertical integration, greater efficiencies and cost savings.[14] We believe that these cost savings provide a cushion in the face of increased corn prices. (See Appendix VI)

4) **Run down of inventories gives processors leverage with customers:** Early 2007 marked a period of declining inventories in grains and meats,[15] which will enhance processors' pricing power with food retailers going forward.



Risks To Our Call

- **Weather & Disease**
  Agricultural-processors are undoubtedly at the mercy of weather for access to grain inputs and feed. They also face the threat of disease outbreaks and even disease scares, such as Asian soybean rust, or Avian Flu and Bovine Spongiform Encephelopathy ("Mad Cow Disease"). These events can cause volatility in the commodities industry, which can have a materially adverse effect on the processing industry. That said, these events are not correlated with market conditions. In fact, agricultural processor stocks present a good hedge in the face of a potential macro-economic downturn.

- **Change in Food Safety and Trade Regulations**
  Current and predicted near-future government policy is favorable to agribusiness, however changes in farm, energy and trade regulations could shift the economics of agricultural processing. With 2008 being an election year, we anticipate that Congress will maintain the status quo.

- **Appreciation of US Currency**
  With growth concentrated in emerging markets, an appreciation of the US dollar could adversely impact the amount of grains and meats sourced from US agricultural suppliers.

---

[14] Standard & Poor's, *Agribusiness Industry Survey*, May 2007.
[15] Standard & Poor's, *Agribusiness Industry Survey*, May 2007; USDA.

However, current market conditions in the U.S., resulting from the mortgage crisis, suggest that the dollar will not see significant appreciation in the near-term.

- **Changing dietary habits:**
  Sudden and drastic changes to dietary habits could adversely impact our projections for the agricultural processing industry. However, shifts in dietary habits (when unrelated to disease outbreaks) tend to be gradual.

Industry Valuation

Method:

To value the agricultural processing industry, we created an index of the six key players: ADM, BG, CPO, PPC, SFD, and TSN. As the companies operate under different fiscal years, quarterly data were aggregated to create calendar year periods. SFD's fiscal year begins on May 1, so the company's quarters are one month behind the calendar quarter. We forecast revenue and other key driver growth using the assumptions described below and discounted free cash flows using a weighted average cost of capital of 6%. **Our valuation showed that the agricultural-processing industry is undervalued by 14.6%.**

Beta and WACC:

The cost of equity of the industry was determined from the Capital Asset Pricing Model, $R_e = R_f + \beta(RP)$, (*see Appendix III*). The risk-free rate (R_f) was determined by using an adjusted 10-year Treasury Bill return. The current 10-year T-Bill return of 4.64% was reduced by 1% to adjust for the risk premium associated with longer-term government bonds and make R_f better reflect a risk free rate. Raw betas were determined from a 5-year regression on CRSP and Yahoo Finance monthly total return data using the following formula: $r_p - r_f = \alpha + \beta(r_m - r_f) + \varepsilon$. For $(r_m - r_f)$, we used the CRSP value-weighted total returns of the AMEX, NYSE, and NASDAQ indices minus the 10-year Treasury Bond. For $(r_p - r_f)$, we used the monthly returns of each company's common stock minus the 10-year Treasury Bond. We then smoothed the betas for each company using the following formula: $\beta_{smooth} = \frac{1}{3} + \left(\frac{2}{3}\right)\beta_{raw}$.[16] We unlevered each beta by multiplying the smooth beta by the equity ratio of the company, and weighted each unlevered beta by the market share of the company within our index to determine the weighted average unlevered industry beta. We then relevered this beta at the target industry debt ratio of 28%. Although the industry experienced debt ratios of 40% to 50% in 2001-2003, the past three years have seen industry debt levels revert back to historical values of less than 30%.

[16] Tim Koller, Marc Goedhart, David Wessels. *Valuation: Measuring and Managing the Value of Companies*. McKinsey & Company, 2005. Page 314.

The weighted average cost of capital for the industry was calculated using the following formula: $WACC = R_e\left(\frac{E}{D+E}\right) + R_d\left(\frac{D}{D+E}\right)(1-\tau)$. We use the target industry debt ratio of 28% and a tax rate of 30% based on historically low effective tax rates in the industry due to loss carryforwards, foreign income, and foreign operations. We use a 5% cost of debt based on historical interest expense as a percentage of total debt for the industry. This calculation results in a weighted average cost of capital of 5.96% for the agricultural processing industry.

Market Valuation:
We were able to replicate the current market valuation of the ag processing industry within 1% by using the USDA's GDP and consumption projections and slightly higher COGS levels, indicating a slightly lower level of input price pass-through in the near future (*see Appendices I.B, II.B, and IV.A*). Methodology and assumptions are described in 'Key Assumptions' below.

Analyst Valuation:
We then adjusted this market valuation to take our GDP and COGS pass-through assumptions into consideration. These adjustments indicate that the agricultural-processing industry is undervalued by 14.6% (*see Appendices I.C, II.C, and IV.B*). Our methodology and assumptions are described below.

Key Assumptions:

- **Revenue Growth:** We calculated industry revenue growth based on the weighted contribution of beef, pork, chicken, corn, soybean meal, and soybean oil price and consumption growth rates. In the market valuation, we used the USDA's consumption estimates. In the analyst valuation, we adjusted USDA's meat consumption estimates upward by 1% to more accurately reflect the impact of increasing GDP in developing countries (*see Appendix V*).
- **COGS Growth:** In the 2007 market analysis, we forecast that COGS will represent 94% of sales, consistent with COGS ratios in the first half of 2007. COGS levels return to 93% in 2008, on the high end of historical observations to demonstrate the market's fear that input prices will not be passed through to consumers. The analyst valuation has 2007 COGS at 93.5% of sales due to our belief that these market fears are not fully founded and COGS should be just slightly above historical levels during 2007. As corn prices stabilize, COGS returns to historically consistent levels of 92.5% to 93%.
- **SG&A, Net Interest Expense, Income Tax Rate:** Based on consistent historical performance, we do not expect these items will change significantly through our five year forecast window. Both the market and analyst valuations incorporate SG&A/Sales of 3.9%, Net Interest Expense at 5% of total debt, and an Income Tax Rate of 30% as a result of loss carryforwards, foreign income, and foreign operations. These assumptions are consistent with historical financial performance.
- **Receivables:** In both valuations, receivables days outstanding decrease from 37.0 days in 2007 and 2008 to 33.0 days in 2012. We believe that receivables will remain at high levels through 2008 due to high prices and tight economic conditions but will return to historical levels thereafter.

- **Inventory Levels:** In both the market and analyst valuations, 2007 inventory levels are based on 53.0 inventory days outstanding, slightly below the 2006 level. Inventory days outstanding then declines linearly through 2012 to 43.0 days. This demonstrates the industry-wide reduction in inventories as levels are expected to reach historic lows over the next five years.[17]
- **Cash, Other Assets, Goodwill and Intangibles, Liabilities:** Based on consistent historical performance, we do not expect these items will change significantly through our five year forecast window. Both the market and analyst valuations incorporate Cash and Short-Term Investments at 1.5% of sales, Other Current Assets at 3.8% of sales, Goodwill and Intangibles at 4.7% of sales, Other Long-Term Assets at 6.9% of sales, Accounts Payable at 35 days outstanding, Accrued Liabilities at 3.9% of COGS, and Other Current Liabilities at 1.5% of COGS. . These assumptions are consistent with historical financial performance.
- **Terminal Growth Rate:** Based on revenue trends in the later part of our projection window, we assumed the company would grow at 1.5% in perpetuity. While this is less than GDP, we felt this was in line with projected population and food consumption trends, which are key drivers for this industry.

Sensitivity Analysis:

We conducted a sensitivity analysis on COGS/Sales, Revenue Growth, WACC, and Terminal Growth Rate to examine the sensitivity of our valuation to our assumptions. Our first analysis adjusted revenue growth rate and COGS ratio by a percentage point in either direction. Our second analysis examined valuations under a variety of terminal growth rate and cost of capital scenarios. Even under more conservative assumptions, the industry is undervalued.

The model is very sensitive to the COGS ratio but we believe that our elevated COGS levels in the near future are conservative given the pass-through nature of agricultural input prices.

Equity Value ($ millions)		Adjustment to COGS/Sales				
		(1.0%)	(0.5%)	0.0%	0.5%	1.0%
Adjustment to Revenue	(1.0%)	80,227.6	70,451.0	60,674.3	50,897.7	41,121.0
	(0.5%)	79,677.7	69,645.7	59,613.8	49,581.9	39,549.9
	0.0%	79,054.3	68,761.2	58,468.1	48,175.1	37,882.0
	0.5%	78,354.9	67,794.7	57,234.5	46,674.3	36,114.1
	1.0%	77,577.0	66,743.6	55,910.2	45,076.7	34,243.3

Equity Value ($ millions)		WACC				
		5.0%	5.5%	6.0%	6.5%	7.0%
Terminal Growth Rate	1.0%	70,270.7	59,426.7	50,763.5	43,686.0	37,797.5
	1.5%	81,820.6	68,199.1	57,617.4	49,163.3	42,256.3
	2.0%	97,220.4	79,477.9	66,184.8	55,857.9	47,606.9
	2.5%	118,780.2	94,516.2	77,200.1	64,226.0	54,146.5
	3.0%	151,119.8	115,569.8	91,887.0	74,985.1	62,321.0

[17] USDA, *Ethanol Expansion in the United States*, May 2007.

Industry Players

Archer Daniels Midland Company (ADM)

ADM is one of the world's largest processors of oilseeds, corn, wheat, and cocoa and is the leading manufacturer of biodiesel, ethanol, soybean oil and meal, corn sweeteners, flour, and other food and feed ingredients. ADM's FY 2007 revenue topped $44B. The company's customers are primarily other manufacturers and processors.[18]

Bunge (BG)

With over $26B in sales in 2006, Bunge is the world's leading oilseed processing company, producer and supplier of fertilizer to farmers in South America, and seller of vegetable oils. Bunge sells grains, vegetable oils, and fertilizer to feed manufacturers, wheat and corn millers and other oilseed processors.[19]

Corn Products International, Inc. (CPO)

Corn Products International is one of the world's largest corn refiners and a supplier of food and feed ingredients (corn syrup, dextrose, and starches) and industrial products (used in food and beverage, pharmaceutical, and paper applications) derived from wet milling and processing corn and other starches. CPO had 2006 revenue of $2.6B and LTM revenue of nearly $3.0B.[20]

Pilgrim's Pride (PPC)

With over $2B in revenues in its last fiscal year, Pilgrim's Pride is a fully integrated broiler production, processing, and marketing business. PPC produces and sells whole and cut-up broilers, segregated broiler parts, and further-processed products into the retail, industrial, foodservice and export markets. The company is focusing growth efforts on value added products such as further processed meats.[21]

Smithfield Foods, Inc. (SFD)

Smithfield Foods, Inc. is the largest hog producer and pork processor in the world and the fifth largest beef producer in the U.S. Smithfield sells fresh pork, packaged meats, beef and other meat products to supermarkets, wholesale distributors, the foodservice industry, export markets, and other food processors. FY 2007 revenues were $11.9B and LTM revenues were $12.5B.[22]

Tyson Foods (TSN)

With over $25B in revenues, TSN is the world's largest processor and marketer of chicken, beef and pork products. Customers include national and regional grocery retailers, regional grocery wholesalers, meat distributors, clubs and warehouse stores, military commissaries, industrial food processing companies, national and regional chain restaurants or their distributors, international export companies and domestic distributors.[23]

---

[18] ADM 10-K, 6/30/2007
[19] BG 10-K, 12/31/2006
[20] CPO 10-K, 12/31/2006; Capital IQ
[21] PPC 10-K, 9/30/2006
[22] SFD 10-K, 4/29/2007; Capital IQ
[23] TSN 10-K, 9/30/2006

Industry Comps

	Stock Price*	% of 52 Wk. High*	Market Cap ($mm)*	TEV ($mm)*	LTM Total Rev ($mm)	LTM EBITDA ($mm)	TEV/ LTM Total Rev	TEV/ LTM EBITDA	P/E (LTM)	Beta
ADM	$35.48	88.7	22,859.76	27,481.76	44,018.00	3,058.00	0.6	9.0	10.6	0.80
BG	$103.82	94.0	12,541.46	17,855.46	32,752.00	1,091.00	0.5	16.4	21.3	0.48
CPO	$48.03	99.5	3,592.64	4,109.64	2,980.10	420.00	1.4	9.8	21.2	0.51
PPC	$33.25	81.1	2,214.45	3,867.15	6,787.90	317.00	0.6	12.2	NM	0.65
SFD	$29.36	82.0	3,940.11	7,316.51	12,506.40	653.70	0.6	11.2	16.5	0.78
TSN	$18.16	74.7	6,486.75	9,505.75	26,488.00	1,035.00	0.4	9.2	35.1	0.77
dustry Total			**$51,635.17**	$ 70,136.27	$ 125,532.40	$ 6,574.70				
Average							0.7	11.3	20.9	0.67
Median							0.6	10.5	21.2	0.71
	*10/12/07 close									

Source: Capital IQ

This Page Intentionally Left Blank

Appendix I:
Income Statements

A. Historical

Historical Aggregate Income Statement (1)

($ millions)	2002	2003	2004	2005	2006	Q1 2007	Q2 2007
	For the Calendar Year Ending						
Total Revenue	$76,272.3	$93,270.3	$107,154.0	$105,907.6	$110,058.3	$32,105.9	$35,114.0
% growth		*22.3%*	*14.9%*	*(1.2%)*	*3.9%*		
Cost Of Goods Sold	70,503.6	87,227.5	98,786.3	97,812.9	102,375.3	30,176.5	32,704.6
% of sales	*92.4%*	*93.5%*	*92.2%*	*92.4%*	*93.0%*	*94.0%*	*93.1%*
Gross Profit	**$5,768.5**	**$6,024.6**	**$8,367.6**	**$8,094.8**	**$7,683.1**	**$1,929.2**	**$2,409.3**
Selling General & Admin Expense	3,185.8	3,309.3	3,877.7	4,161.3	4,246.1	1,111.6	1,180.1
% of sales	*4.2%*	*3.5%*	*3.6%*	*3.9%*	*3.9%*		
Other Operating Expense/(Income)	(65.7)	0.1	(1.1)	(6.0)	50.0	0.8	0.0
Other Operating Expense, Total	**$3,120.1**	**$3,309.4**	**$3,876.6**	**$4,155.3**	**$4,296.1**	**$1,112.4**	**$1,180.1**
Operating Income	**$2,648.4**	**$2,733.1**	**$4,491.1**	**$3,939.6**	**$3,386.9**	**$816.8**	**$1,229.3**
Net Interest Expense	(789.3)	(642.1)	(800.7)	(725.5)	(806.2)	(233.0)	(238.7)
% of debt	4.9%	4.0%	5.6%	5.2%	4.9%		
Non-Operating Income (Expense)	(80.6)	101.7	198.5	198.7	397.8	207.7	138.5
% of sales	*-0.1%*	*0.1%*	*0.2%*	*0.2%*	*0.4%*	*0.6%*	*0.4%*
EBT (2)	**$1,778.2**	**$2,192.7**	**$3,888.9**	**$3,412.5**	**$2,978.5**	**$791.4**	**$1,129.0**
Income Tax Expense	519.4	729.7	1,096.2	824.2	678.8	261.8	630.2
% of pretax income (3)	*29.2%*	*33.3%*	*28.2%*	*24.2%*	*22.8%*		
Minority Int. in Earnings	(114.0)	(150.0)	(154.0)	(74.0)	(64.0)	(13.4)	(36.6)
% of EBT	*(6.4%)*	*(6.8%)*	*(4.0%)*	*(2.2%)*	*(2.1%)*		
Net Income	**$1,144.8**	**$1,313.0**	**$2,638.7**	**$2,514.3**	**$2,235.7**	**$516.2**	**$462.2**
Other Items							
Depreciation & Amortization	**$1,558.0**	**$1,623.5**	**$1,805.3**	**$1,831.0**	**$1,988.7**	**$1,086.0**	**$558.3**
% of sales	*2.0%*	*1.7%*	*1.7%*	*1.7%*	*1.8%*	*3.4%*	*1.6%*
Capital Expenditures	**$1,467.9**	**$1,392.6**	**$1,792.0**	**$2,370.0**	**$2,673.6**	**$1,371.3**	**$739.2**
% of sales	*1.9%*	*1.5%*	*1.7%*	*2.2%*	*2.4%*	*4.3%*	*2.1%*

Notes

(1) Index includes ADM, BG, CPO, PPC, SFD, and TSN. Financial data accessed through Capital IQ. As the companies operate under different fiscal years, quarterly data were aggregated to create calendar year periods. SFD's fiscal year begins on May 1, so the company's quarters are one month behind the calendar quarter.

(2) Earnings exclude unusual items such as gain/loss on sale of assets, asset and goodwill impairments, legal settlements, restructuring charges, discontinued operations, and other extraordinary items.

(3) The industry has experienced low tax rates as a result of loss carryforwards, foreign income, and foreign operations.

B. Market Valuation

Projected Aggregate Income Statement - ***Market Valuation***

	For the Calendar Year Ending					
($ millions)	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Total Revenue	$125,493.9	$132,268.9	$137,138.4	$136,749.5	$138,127.6	$138,928.5
% growth (1)	*14.0%*	*5.4%*	*3.7%*	*(0.3%)*	*1.0%*	*0.6%*
Cost Of Goods Sold	117,964.3	123,010.1	127,538.7	127,177.0	128,458.6	129,203.5
% of sales (2)	*94.0%*	*93.0%*	*93.0%*	*93.0%*	*93.0%*	*93.0%*
Gross Profit	**$7,529.6**	**$9,258.8**	**$9,599.7**	**$9,572.5**	**$9,668.9**	**$9,725.0**
Selling General & Admin Expense	4,894.3	5,158.5	5,348.4	5,333.2	5,387.0	5,418.2
% of sales (3)	*3.9%*	*3.9%*	*3.9%*	*3.9%*	*3.9%*	*3.9%*
Other Operating Expense/(Income)	0.0	0.0	0.0	0.0	0.0	0.0
Other Operating Expense, Total	**$4,894.3**	**$5,158.5**	**$5,348.4**	**$5,333.2**	**$5,387.0**	**$5,418.2**
Operating Income	**$2,635.4**	**$4,100.3**	**$4,251.3**	**$4,239.2**	**$4,282.0**	**$4,306.8**
Net Interest Expense	(505.0)	(546.2)	(546.6)	(589.3)	(598.6)	(641.1)
% of debt (3)	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*
Non-Operating Income (Expense)	502.0	529.1	548.6	547.0	552.5	555.7
% of sales (3)	*0.4%*	*0.4%*	*0.4%*	*0.4%*	*0.4%*	*0.4%*
EBT	**$2,632.3**	**$4,083.2**	**$4,253.3**	**$4,196.9**	**$4,235.8**	**$4,221.4**
Income Tax Expense	789.7	1,225.0	1,276.0	1,259.1	1,270.8	1,266.4
% of pretax income (4)	*30.0%*	*30.0%*	*30.0%*	*30.0%*	*30.0%*	*30.0%*
Minority Int. in Earnings	(55.3)	(85.7)	(89.3)	(88.1)	(89.0)	(88.6)
% of EBT (3)	*(2.1%)*	*(2.1%)*	*(2.1%)*	*(2.1%)*	*(2.1%)*	*(2.1%)*
Net Income	**$1,787.4**	**$2,772.5**	**$2,888.0**	**$2,849.7**	**$2,876.1**	**$2,866.3**
Other Items						
Depreciation & Amortization	2,133.4	2,248.6	2,331.4	2,324.7	2,348.2	2,361.8
% of sales (3)	*1.7%*	*1.7%*	*1.7%*	*1.7%*	*1.7%*	*1.7%*
Capital Expenditures	2,886.4	3,042.2	3,154.2	3,145.2	3,176.9	3,195.4
% of sales (3)	*2.3%*	*2.3%*	*2.3%*	*2.3%*	*2.3%*	*2.3%*

Notes

(1) Revenue growth based on the weighted contribution of beef, pork, chicken, corn, soybean meal, and soybean oil price and consumption growth rates according to the USDA.

(2) In 2007, COGS represents a larger portion of sales than historically observed as a small fraction of corn price increases are not fully passed through to the customer, resulting in COGS growth that surpasses revenue growth. As corn prices stabilize, COGS returns to historically consistent levels.

(3) Based on consistent historical performance that is not expected to change significantly.

(4) The industry will continue to realize low effective tax rates as a result of loss carryforwards, foreign income, and foreign operations.

C. Analyst Valuation

Projected Aggregate Income Statement - ***Analyst Valuation***

($ millions)	For the Calendar Year Ending 2007	2008	2009	2010	2011	2012
Total Revenue	$125,952.2	$133,252.1	$138,681.2	$138,808.5	$140,736.6	$142,085.6
% growth (1)	*14.4%*	*5.8%*	*4.1%*	*0.1%*	*1.4%*	*1.0%*
Cost Of Goods Sold	117,765.3	123,924.5	128,973.5	129,091.9	130,181.4	131,429.1
% of sales (2)	*93.5%*	*93.0%*	*93.0%*	*93.0%*	*92.5%*	*92.5%*
Gross Profit	**$8,186.9**	**$9,327.6**	**$9,707.7**	**$9,716.6**	**$10,555.2**	**$10,656.4**
Selling General & Admin Expense	4,912.1	5,196.8	5,408.6	5,413.5	5,488.7	5,541.3
% of sales (3)	*3.9%*	*3.9%*	*3.9%*	*3.9%*	*3.9%*	*3.9%*
Other Operating Expense/(Income)	0.0	0.0	0.0	0.0	0.0	0.0
Other Operating Expense, Total	**$4,912.1**	**$5,196.8**	**$5,408.6**	**$5,413.5**	**$5,488.7**	**$5,541.3**
Operating Income	**$3,274.8**	**$4,130.8**	**$4,299.1**	**$4,303.1**	**$5,066.5**	**$5,115.1**
Net Interest Expense	(505.0)	(546.2)	(546.6)	(589.3)	(598.6)	(641.1)
% of debt (3)	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*
Non-Operating Income (Expense)	503.8	533.0	554.7	555.2	562.9	568.3
% of sales (3)	*0.4%*	*0.4%*	*0.4%*	*0.4%*	*0.4%*	*0.4%*
EBT	**$3,273.6**	**$4,117.7**	**$4,307.3**	**$4,269.0**	**$5,030.8**	**$5,042.4**
Income Tax Expense	982.1	1,235.3	1,292.2	1,280.7	1,509.3	1,512.7
% of pretax income (4)	*30.0%*	*30.0%*	*30.0%*	*30.0%*	*30.0%*	*30.0%*
Minority Int. in Earnings	(68.7)	(86.5)	(90.5)	(89.6)	(105.6)	(105.9)
% of EBT (3)	*(2.1%)*	*(2.1%)*	*(2.1%)*	*(2.1%)*	*(2.1%)*	*(2.1%)*
Net Income	**$2,222.8**	**$2,795.9**	**$2,924.6**	**$2,898.7**	**$3,415.9**	**$3,423.8**
Other Items						
Depreciation & Amortization	2,141.2	2,265.3	2,357.6	2,359.7	2,392.5	2,415.5
% of sales (3)	*1.7%*	*1.7%*	*1.7%*	*1.7%*	*1.7%*	*1.7%*
Capital Expenditures	2,896.9	3,064.8	3,189.7	3,192.6	3,236.9	3,268.0
% of sales (3)	*2.3%*	*2.3%*	*2.3%*	*2.3%*	*2.3%*	*2.3%*

Notes

(1) Revenue growth based on the weighted contribution of beef, pork, chicken, corn, soybean meal, and soybean oil price and consumption growth rates, adjusted to reflect higher GDP growth. For detailed calculations, see Appendix VI.

(2) In 2007, COGS represents a larger portion of sales than historically observed as a small fraction of corn price increases are not fully passed through to the customer, resulting in COGS growth that surpasses revenue growth. As corn prices stabilize, COGS returns to historically consistent levels.

(3) Based on consistent historical performance that is not expected to change significantly.

(4) The industry will continue to realize low effective tax rates as a result of loss carryforwards, foreign income, and foreign operations.

Appendix II:
Selected Balance Sheet Items

A. Historical

Historical Aggregate Balance Sheet (1)

($ millions)	For the Calendar Year Ending 2002	2003	2004	2004	2006	Jun-30-2007
ASSETS						
Cash And Equivalents	1,730.9	1,297.6	1,173.9	1,537.6	1,575.4	1,690.6
Short Term Investments	177.3	13.0	14.0	49.0	27.5	28.8
Total Cash & ST Investments	**$1,908.3**	**$1,310.6**	**$1,187.9**	**$1,586.6**	**$1,603.0**	**$1,719.4**
% of sales	*2.5%*	*1.4%*	*1.1%*	*1.5%*	*1.5%*	
Accounts Receivable	6,762.3	8,227.6	8,499.4	8,384.7	10,361.7	11,663.2
Other Receivables	138.0	95.0	187.0	709.0	892.9	329.7
Total Receivables	**$6,900.3**	**$8,322.6**	**$8,686.4**	**$9,093.7**	**$11,254.7**	**$11,993.0**
Receivables Days Outstanding	*33.0*	*32.6*	*29.6*	*31.3*	*37.3*	
Inventory	10,012.7	11,801.4	11,292.0	11,709.4	14,964.1	16,475.4
Inventory Days Outstanding	*51.8*	*49.4*	*41.7*	*43.7*	*53.4*	
Other Current Assets	1,872.1	3,222.6	3,207.6	3,055.7	4,137.3	5,998.5
% of sales	*2.5%*	*3.5%*	*3.0%*	*2.9%*	*3.8%*	
Total Current Assets	**$20,693.4**	**$24,657.4**	**$24,374.0**	**$25,445.2**	**$31,959.2**	**$36,186.2**
Net Property, Plant & Equipment	14,921.5	15,592.6	16,065.4	16,577.9	18,475.2	19,609.7
Goodwill and Intangibles	4,250.0	4,171.1	4,330.4	4,222.6	5,167.1	5,517.1
% of sales	*5.6%*	*4.5%*	*4.0%*	*4.0%*	*4.7%*	
Other Long-Term Assets	4,359.1	5,359.5	6,142.8	6,801.2	7,608.0	7,618.8
% of sales	*5.7%*	*5.7%*	*5.7%*	*6.4%*	*6.9%*	
Total Assets	**$44,224.1**	**$49,780.5**	**$50,912.4**	**$53,046.8**	**$63,209.5**	**$68,931.8**
LIABILITIES						
Accounts Payable	6,007.3	7,380.4	7,879.2	7,999.4	9,823.6	10,333.2
Payable Days Outstanding	*31.1*	*30.9*	*29.1*	*29.9*	*35.0*	
Accrued Liabilities	2,425.5	2,925.3	2,918.5	3,199.4	4,004.3	4,553.8
% of COGS	*3.4%*	*3.4%*	*3.0%*	*3.3%*	*3.9%*	
Other Current Liabilities	1,366.9	1,689.2	1,503.2	1,414.6	1,539.0	2,528.4
% of COGS	*1.9%*	*1.9%*	*1.5%*	*1.4%*	*1.5%*	
Total Current Liabilities (non-debt)	**$9,830.8**	**$12,025.8**	**$12,330.0**	**$12,643.3**	**$15,402.0**	**$17,415.4**
Total Debt	16,018.8	16,221.2	14,230.3	14,086.6	16,532.8	18,899.0
Minority Interest	612.3	641.4	326.8	361.7	490.5	541.4
Deferred Income Tax	2,108.4	2,075.8	2,015.8	1,773.2	1,751.2	1,550.8
Other Non-Current Liabilities	1,146.3	1,687.7	1,923.3	1,993.4	3,475.2	2,936.3
Total Liabilities	**$29,716.6**	**$32,651.9**	**$30,826.2**	**$30,858.2**	**$37,651.7**	**$41,342.9**
Total Pref. Equity	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$690.0**	**$690.0**
Total Common Equity	**$14,538.6**	**$17,159.3**	**$20,115.4**	**$22,218.6**	**$24,902.7**	**$26,898.7**
Total Equity	**$14,538.6**	**$17,159.3**	**$20,115.4**	**$22,218.6**	**$25,592.7**	**$27,588.7**
Total Liabilities And Equity	**$44,224.1**	**$49,780.5**	**$50,912.4**	**$53,046.8**	**$63,209.5**	**$68,931.8**

Notes

(1) Index includes ADM, BG, CPO, PPC, SFD, and TSN. Financial data accessed through Capital IQ. As the companies operate under different fiscal years, quarterly data were aggregated to create calendar year periods. SFD's fiscal year begins on May 1, so the company's quarters are one month behind the calendar quarter.

B. Market Valuation

Selected Balance Sheet Items - ***Market Valuation***

($ millions)	2007	2008	2009	2010	2011	2012
	For the Calendar Year Ending					
ASSETS						
Total Cash & ST Investments	**$1,882.4**	**$1,984.0**	**$2,057.1**	**$2,051.2**	**$2,071.9**	**$2,083.9**
% of sales (1)	*1.5%*	*1.5%*	*1.5%*	*1.5%*	*1.5%*	*1.5%*
Total Receivables	**$12,721.3**	**$13,408.1**	**$13,526.0**	**$13,113.0**	**$12,866.7**	**$12,560.7**
Receivables Days Outstanding (2)	*37.0*	*37.0*	*36.0*	*35.0*	*34.0*	*33.0*
Inventory	17,129.1	17,187.7	17,121.6	16,376.2	15,837.4	15,221.2
Inventory Days Outstanding (3)	*53.0*	51.0	49.0	47.0	45.0	43.0
Other Current Assets	4,768.8	5,026.2	5,211.3	5,196.5	5,248.8	5,279.3
% of sales (1)	*3.8%*	*3.8%*	*3.8%*	*3.8%*	*3.8%*	*3.8%*
Total Current Assets	**$36,501.5**	**$37,606.0**	**$37,915.9**	**$36,736.9**	**$36,024.8**	**$35,145.1**
Net Property, Plant & Equipment (4)	19,228.16	20,021.78	20,844.61	21,665.10	22,493.87	23,327.44
Goodwill and Intangibles	5,898.2	6,216.6	6,445.5	6,427.2	6,492.0	6,529.6
% of sales (1)	*4.7%*	*4.7%*	*4.7%*	*4.7%*	*4.7%*	*4.7%*
Other Long-Term Assets	8,659.1	9,126.6	9,462.5	9,435.7	9,530.8	9,586.1
% of sales (1)	*6.9%*	*6.9%*	*6.9%*	*6.9%*	*6.9%*	*6.9%*
Total Assets	**$70,287.0**	**$72,971.0**	**$74,668.6**	**$74,264.9**	**$74,541.5**	**$74,588.2**
LIABILITIES						
Accounts Payable	11,311.6	11,795.5	12,229.7	12,195.1	12,318.0	12,389.4
Payable Days Outstanding (1)	*35.0*	*35.0*	*35.0*	*35.0*	*35.0*	*35.0*
Accrued Liabilities	4,600.6	4,797.4	4,974.0	4,959.9	5,009.9	5,038.9
% of COGS (1)	*3.9%*	*3.9%*	*3.9%*	*3.9%*	*3.9%*	*3.9%*
Other Current Liabilities	1,769.5	1,845.2	1,913.1	1,907.7	1,926.9	1,938.1
% of COGS (1)	*1.5%*	*1.5%*	*1.5%*	*1.5%*	*1.5%*	*1.5%*
Total Current Liabilities (non-debt)	**$17,681.7**	**$18,438.0**	**$19,116.8**	**$19,062.6**	**$19,254.7**	**$19,366.4**

Notes

(1) Based on consistent historical performance that is not expected to change significantly.

(2) Receivables will remain at high levels through 2008 due to high prices and tight economic conditions but will return to historical levels from 2009 through 2012.

(3) Inventories will approach historic lows through 2012 as prices and demand increase (USDA, Ethanol Expansion in the United States, May 2007)

(4) Previous Net PP&E + Capex - Depreciation

C. Analyst Valuation

Selected Balance Sheet Items - ***Analyst Valuation***

($ millions)	2007	2008	2009	2010	2011	2012
	For the Calendar Year Ending					
ASSETS						
Total Cash & ST Investments	**$1,889.3**	**$1,998.8**	**$2,080.2**	**$2,082.1**	**$2,111.0**	**$2,131.3**
% of sales (1)	*1.5%*	*1.5%*	*1.5%*	*1.5%*	*1.5%*	*1.5%*
Total Receivables	**$12,767.8**	**$13,507.7**	**$13,678.1**	**$13,310.4**	**$13,109.7**	**$12,846.1**
Receivables Days Outstanding (2)	*37.0*	*37.0*	*36.0*	*35.0*	*34.0*	*33.0*
Inventory	17,100.2	17,315.5	17,314.2	16,622.8	16,049.8	15,483.4
Inventory Days Outstanding (3)	*53.0*	51.0	49.0	47.0	45.0	43.0
Other Current Assets	4,786.2	5,063.6	5,269.9	5,274.7	5,348.0	5,399.3
% of sales (1)	*3.8%*	*3.8%*	*3.8%*	*3.8%*	*3.8%*	*3.8%*
Total Current Assets	**$36,543.4**	**$37,885.6**	**$38,342.5**	**$37,290.0**	**$36,618.5**	**$35,860.1**
Net Property, Plant & Equipment (4)	19,230.91	20,030.43	20,862.51	21,695.36	22,539.78	23,392.30
Goodwill and Intangibles	5,919.8	6,262.8	6,518.0	6,524.0	6,614.6	6,678.0
% of sales (1)	*4.7%*	*4.7%*	*4.7%*	*4.7%*	*4.7%*	*4.7%*
Other Long-Term Assets	8,690.7	9,194.4	9,569.0	9,577.8	9,710.8	9,803.9
% of sales (1)	*6.9%*	*6.9%*	*6.9%*	*6.9%*	*6.9%*	*6.9%*
Total Assets	**$70,384.7**	**$73,373.3**	**$75,292.0**	**$75,087.2**	**$75,483.8**	**$75,734.3**
LIABILITIES						
Accounts Payable	11,292.6	11,883.2	12,367.3	12,378.7	12,483.1	12,602.8
Payable Days Outstanding (1)	*35.0*	*35.0*	*35.0*	*35.0*	*35.0*	*35.0*
Accrued Liabilities	4,592.8	4,833.1	5,030.0	5,034.6	5,077.1	5,125.7
% of COGS (1)	*3.9%*	*3.9%*	*3.9%*	*3.9%*	*3.9%*	*3.9%*
Other Current Liabilities	1,766.5	1,858.9	1,934.6	1,936.4	1,952.7	1,971.4
% of COGS (1)	*1.5%*	*1.5%*	*1.5%*	*1.5%*	*1.5%*	*1.5%*
Total Current Liabilities (non-debt)	**$17,651.9**	**$18,575.1**	**$19,331.9**	**$19,349.6**	**$19,512.9**	**$19,700.0**

Notes

(1) Based on consistent historical performance that is not expected to change significantly.

(2) Receivables will remain at high levels through 2008 due to high prices and tight economic conditions but will return to historical levels from 2009 through 2012.

(3) Inventories will approach historic lows through 2012 as prices and demand increase (USDA, Ethanol Expansion in the United States, May 2007)

(4) Previous Net PP&E + Capex - Depreciation

Appendix III:
Calculating Beta & WACC

A. Beta

Calculating The Industry Beta						
	ADM	**BG**	**CPO**	**PPC**	**SFD**	**TSN**
Raw Betas (1)	0.69	0.22	0.27	0.48	0.68	0.66
Smoothed Beta (2)	0.80	0.48	0.51	0.65	0.78	0.77
Credit Rating	A	BBB-	BBB-	BB-	BB+	BBB-
Debt Ratio	0.21	0.25	0.20	0.27	0.48	0.32
Debt Beta (3)	0.27	0.37	0.37	0.37	0.37	0.37
Weight (4)	36%	24%	2%	5%	10%	23%
Unlevered Betas (5)	0.62	0.36	0.41	0.48	0.41	0.53
Weighted Unlevered Betas	0.22	0.09	0.01	0.02	0.04	0.12
Weighted Average Industry Beta (unlevered)	0.51					
Target Industry Debt Ratio (6)	28%					
Median Debt Beta	0.37					
Relevered Industry Beta (7)	0.468					

Industry Discount Rate Calculation	
R(f) (8)	3.64%
Re-levered Industry Beta	0.468
Risk Premium (9)	7.00%
CAPM: R(e) = R(f)+ B(RP)	
R(e)	6.91%

Notes

(1) Raw betas were determined from a 5-year regression on CRSP and Yahoo Finance monthly total return data
(2) Smoothed Beta = (.33) + (.67)(Raw Beta); Tim Koller, Marc Goedhart, David Wessels, 314.
Valuation: Measuring and Managing the Value of Companies . McKinsey & Company, 2005. Page
(3) Debt beta by bond class based on Koller, Goedhart, and Wessels, page 321.
(4) Weighted by market share of the company within our index.
(5) Unlevered beta = (Raw Beta)(E/V)
(6) Although the industry experienced D/V ratios of 40-50% in 2001-2003, the past three years have seen debt levels revert back to historical values of less than 30%.
(7) (Equity Beta)(E/V)+(Debt Beta)(D/V)
(8) Adjusted 10-year T-bill return (T-bill return - 1%). Subtract the historical risk premium of 1% to avoid double counting risk.
(9) 56 year average of risk premium on 10-year T-bills

B. Weighted Average Cost of Capital

$$WACC = R(e)(E/EV) + R(d)(1\text{-}T)(D/EV)$$

WACC	
R(e)	6.91%
R(d)	5.00%
Tax Rate	30.00%
D/EV	28.00%
E/EV	72.00%
WACC	5.96%

Appendix IV:
Discounted Cash Flow

A. Market Valuation

Discounted Cash Flow Analysis - ***Market Valuation***

($ millions)	2007	2008	2009	2010	2011	2012
EBIT	$3,137.3	$4,629.4	$4,799.8	$4,786.2	$4,834.5	$4,862.5
After-Tax EBIT	2,347.6	3,404.4	3,523.9	3,527.1	3,563.7	3,596.1
Plus: Depreciation & Amortization	2,133.4	2,248.6	2,331.4	2,324.7	2,348.2	2,361.8
Less: Change in Working Capital (1)	(1,983.2)	(246.6)	441.9	1,119.0	924.9	1,003.4
Less: Capital Expenditures	(2,886.4)	(3,042.2)	(3,154.2)	(3,145.2)	(3,176.9)	(3,195.4)
Less: Changes in Other LT Assets	(1,051.1)	(467.5)	(336.0)	26.8	(95.1)	(55.3)
Less: Changes in Intangibles	(731.1)	(318.4)	(228.9)	18.3	(64.8)	(37.6)
Plus: Changes in LT Liabilities	0.0	0.0	0.0	0.0	0.0	0.0
Free Cash Flow	**($2,170.7)**	**$1,578.4**	**$2,578.1**	**$3,870.8**	**$3,500.0**	**$3,673.0**
PV of FCF	**($2,170.7)**	**$1,489.7**	**$2,296.4**	**$3,254.1**	**$2,777.0**	**$2,750.5**

Perpetuity Growth Method	
Weighted average cost of capital:	**6.0%**
Net present value of free cash flow (2)	$10,396.9
Growth rate of FCF after 2012 (3)	1.5%
Terminal value	$83,678.7
Present value of the terminal value (4)	59,140.0
Enterprise Value	**$69,536.9**
LESS: Debt, pref. stock, & minority interest (5)	(20,130.4)
PLUS: Cash & cash equivalents (5)	1,719.4
Equity Value	**$51,125.9**

Notes

(1) Change in NWC = Change in current assets - Change in current liabilities

(2) Net present value as of 12/31/07

(3) Perpetuity growth rate derived from revenue growth rates in 2011 and 2012

(4) Discounted 5 years based on 2012 FCF of $3,673.0

(5) Based on balance sheet values as of June 30, 2007.

Note: When using USDA projections for population growth and food demand, we come to a valuation of $51.1B for the ag-processing industry, which is very close the market's $51.6B valuation.

B. Analyst Valuation

Discounted Cash Flow Analysis - ***Analyst Valuation***

($ millions)	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
EBIT	$3,778.6	$4,663.8	$4,853.8	$4,858.3	$5,629.5	$5,683.4
After-Tax EBIT	2,796.5	3,428.5	3,561.7	3,577.6	4,120.2	4,170.7
Plus: Depreciation & Amortization	2,141.2	2,265.3	2,357.6	2,359.7	2,392.5	2,415.5
Less: Change in Working Capital (1)	(2,048.0)	(309.5)	381.3	1,072.1	863.8	965.7
Less: Capital Expenditures	(2,896.9)	(3,064.8)	(3,189.7)	(3,192.6)	(3,236.9)	(3,268.0)
Less: Changes in Other LT Assets	(1,082.7)	(503.7)	(374.6)	(8.8)	(133.0)	(93.1)
Less: Changes in Intangibles	(752.7)	(343.1)	(255.2)	(6.0)	(90.6)	(63.4)
Plus: Changes in LT Liabilities	0.0	0.0	0.0	0.0	0.0	0.0
Free Cash Flow	**($1,842.5)**	**$1,472.7**	**$2,481.1**	**$3,802.1**	**$3,915.9**	**$4,127.4**
PV of FCF	**($1,842.5)**	**$1,389.9**	**$2,210.1**	**$3,196.4**	**$3,107.0**	**$3,090.8**

Perpetuity Growth Method	
Weighted average cost of capital:	**6.0%**
Net present value of free cash flow (2)	$11,151.6
Growth rate of FCF after 2012 (3)	1.5%
Terminal value	$94,033.0
Present value of the terminal value (4)	66,457.9
Enterprise Value	**$77,609.5**
LESS: Debt, pref. stock, & minority interest (5)	(20,130.4)
PLUS: Cash & cash equivalents (5)	1,719.4
Equity Value	**$59,198.5**

Notes

(1) Change in NWC = Change in current assets - Change in current liabilities

(2) Net present value as of 12/31/07

(3) Perpetuity growth rate derived from revenue growth rates in 2011 and 2012

(4) Discounted 5 years based on 2012 FCF of $4,124.5

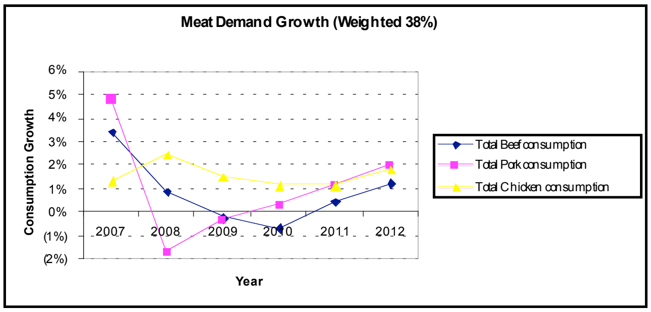
(5) Based on balance sheet values as of June 30, 2007.

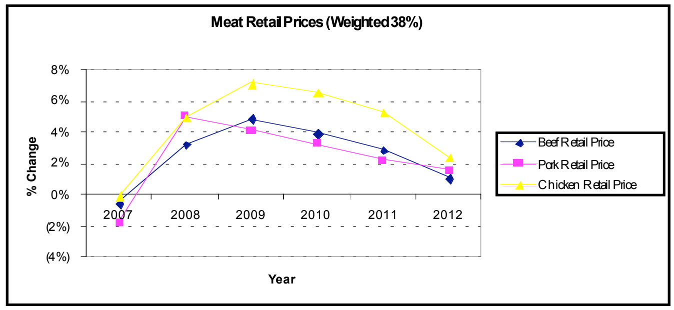
Note: When using the IMF's data on population and GDP growth – which we feel more accurately reflects trends in emerging markets – we come to a valuation of $59.2B, which represents a 14.6% undervaluation of the industry, by the market.

Appendix V:
Revenue Growth Projections

Analyst Valuation Projections

Revenue Growth Weighting

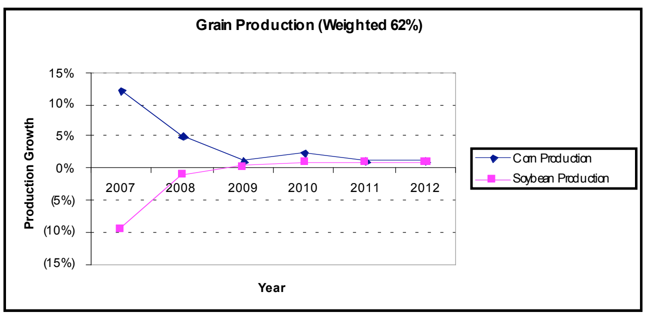


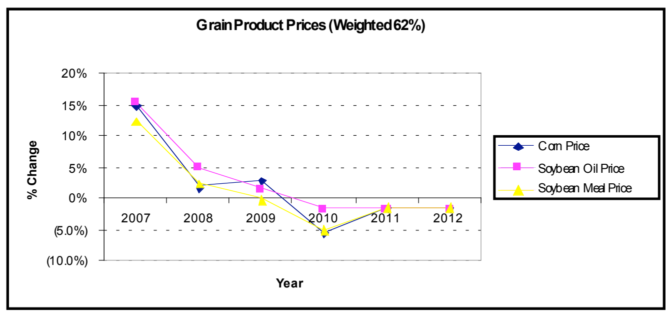


Meat demand growth is determined by adjusting USDA's consumption projections upward to reflect our belief that those projections do not capture the population and GDP growth in developing countries.

Meat retail prices are based on USDA projections.

Within the meat segment, each meat product was weighted based on its percent of meat expenditures.
Between 2007 and 2012, beef varied between 45% and 47%, pork between 24% and 25%, and poultry between 28% and 32%.





Grain demand and price growth are based on USDA projections.

Within the grain segment, we focused on the behavior of corn and soybeans, the primary grain products, and weighted the products based on their relative market share. During the 2007-2012 period, corn varied between 63% and 70% and soybeans varied between 30% and 37%.

Appendix VI:
Merger & acquisition Activity, 2001-Present

Note: *All M&A data sourced from Capital IQ*

ADM:

Closed Date	Transaction Type	Role	Target	Size ($mm)
Pending	Merger/Acquisition	Buyer	Fasco Mills Company	-
Pending	Merger/Acquisition	Seller	Archer Daniels Midland Co., 32 Retail Outlets in Kansas and Oklahoma	-
Apr-24-2007	Buyback	Seller	Overseas Shipholding Group Inc. (NYSE:OSG)	333.20
Mar-16-2007	Merger/Acquisition	Buyer	IMEZ	-
Mar-31-2007	Buyback	Target	**Archer-Daniels-Midland Co. (NYSE:ADM)**	370.00
Feb-22-2007	Private Placement	Target	**Archer-Daniels-Midland Co. (NYSE:ADM)**	1,150.00
Jan-30-2007	Merger/Acquisition	Seller	Archer Daniels Midland Company, Specialty Bakery Ingredients Business	55.00
Dec-11-2006	Merger/Acquisition	Seller	Haldane Foods Ltd.	-
Oct-27-2006	Merger/Acquisition	Buyer	Usicam	-
Oct-06-2006	Merger/Acquisition	Buyer	International Malting Company LLC	-
Sep-08-2006	Merger/Acquisition	Buyer	Classic Couverture Ltd.	-
Nov-15-2006	Private Placement	Buyer	Metabolix, Inc. (NasdaqNM:MBLX)	7.50
Apr-04-2006	Merger/Acquisition	Buyer	Lysac Technologies, Inc.	-
May-18-2006	Merger/Acquisition	Buyer - Parent	Refco Hong Kong Limited (nka:ADMIS Hong Kong Limited)	9.10
Dec-13-2005	Merger/Acquisition	Buyer	ADM Sunlight Foods	-
Feb-15-2005	Merger/Acquisition	Buyer	Solae Co., Global Soy Isoflavone Business	-
Jul-2004	Merger/Acquisition	Buyer	Gold River Mills, California Rice Mill Facility	-
Jan-02-2004	Merger/Acquisition	Seller	Heartland Rail Corporation	-
Feb-25-2003	Merger/Acquisition	Buyer - Parent	Associated British Foods plc, British Third Party Flour Milling Business	-
Oct-02-2002	Merger/Acquisition	Seller	Archer Daniels Midland Co., Martha Gooch and LaRosa Pasta Brands	5.00
Sep-06-2002	Merger/Acquisition	Buyer	Minnesota Corn Processors, L.L.C.	637.74
Dec-03-2001	Merger/Acquisition	Buyer	Alfred C. Toepfer International G.m.b.H.	-
Jul-2001	Merger/Acquisition	Buyer	Consolidated Nutrition L.C.	33.00
Jan-01-2001	Merger/Acquisition	Buyer	IBP, Inc. (nka:Tyson Fresh Meats, Inc.)	-

BG:

Closed Date	Transaction Type	Role	Target	Size ($mm)
Pending	Merger/Acquisition	Buyer	Agroindustrial Santa Juliana S/A	-
Apr-20-2007	Merger/Acquisition	Buyer	Chia Tai (Tianjin) Industrial Co., Ltd.	-
Nov-08-2006	Merger/Acquisition	Seller - Parent	OJSC Fisakivske grain storage facility	-
Aug-14-2006	Private Placement	Buyer - Parent	Renewable Energy Group, Inc.	100.00
Mar-20-2006	Merger/Acquisition	Buyer - Parent	OAO Efirnoye	-
Jul-13-2005	Merger/Acquisition	Buyer - Parent	Perdigao S.A., Oil Crushing Plant Assets	-
Jul-11-2005	Private Placement	Target - Parent	Bunge Limited Finance Corp	400.00
Sep-28-2004	Merger/Acquisition	Buyer	Bunge Brasil SA	277.00
Apr-2004	Merger/Acquisition	Buyer - Parent	Polska Oil Investment B.V.	27.00
Jan-23-2004	Merger/Acquisition	Buyer - Parent	Lan Ltd.	-
Oct-24-2003	Merger/Acquisition	Buyer - Parent	Fertilizantes Fosfatados SA (BOVESPA:FFTL4)	83.77
Sep-22-2003	Merger/Acquisition	Buyer - Parent	Prestige Foods Limited, Soybean Crushing Business	-
Sep-02-2003	Merger/Acquisition	Buyer	Hindustan Lever Ltd., Edible Oils and Fats Businesses	19.40
May-02-2003	Merger/Acquisition	Seller	Bunge Ltd., Brazilian Ingredients Business	256.00
Nov-27-2002	Private Placement	Target	**Bunge Ltd. (NYSE:BG)**	250.00
Jul-03-2003	Merger/Acquisition	Seller	Lesieur	179.97

Oct-15-2002	Merger/Acquisition	Buyer	Cereol SA	1,186.95
Mar-04-2002	Merger/Acquisition	Buyer	La Plata Cereal S.A.	50.00
Oct-2001	Merger/Acquisition	Seller	QAF Meat Industries Pty Ltd	81.20

CPO:

Closed Date	Transaction Type	Role	Target	Size ($mm)
Feb-12-2007	Merger/Acquisition	Buyer - Parent	GETEC Guanabara Quimica Industrial S/A	-
Feb-12-2007	Merger/Acquisition	Buyer	SPI Polyols Inc.	-
Jan-11-2007	Merger/Acquisition	Buyer - Parent	Derivados Del Maiz Sa Industrial	-
Oct-01-2006	Merger/Acquisition	Buyer - Parent	Nurture, Inc.	-
Sep-15-2006	Merger/Acquisition	Buyer - Parent	GETEC Guanabara Quimica Industrial S/A	-
-	Buyback	Target	**Corn Products International Inc. (NYSE:CPO)**	-
Dec-29-2004	Merger/Acquisition	Buyer	Corn Products Korea, Inc.	65.00
Apr-08-2004	Merger/Acquisition	Buyer	GTC Nutrition LLC	-
Feb-05-2002	Merger/Acquisition	Seller	Enzyme Bio-Systems Ltd.	36.78

PPC:

Closed Date	Transaction Type	Role	Target	Size ($mm)
Jan-05-2007	Merger/Acquisition	Buyer	Gold Kist, Inc.	1,215.19
Nov-2005	Merger/Acquisition	Buyer	Wayne Farms LLC, Prepared Foods Plant in Bossier City	-
Nov-2005	Merger/Acquisition	Buyer	Bumble Bee Foods, Inc., Canning Facility in Bossier City	-
Aug-09-2005	Buyback	Target	**Pilgrim’s Pride Corporation (NYSE:PPC)**	482.40
Nov-24-2003	Merger/Acquisition	Buyer	ConAgra Foods, Inc., Chicken Division	590.00
Jan-27-2001	Merger/Acquisition	Buyer	WLR Foods, Inc.	316.55

SFD:

Closed Date	Transaction Type	Role	Target	Size ($mm)
-	Merger/Acquisition	Seller - Parent	Zaklady Miesne Morliny SA	-
Oct-18-2006	Merger/Acquisition	Buyer - Parent	Transfrigotren International, S.A.	-
May-07-2007	Merger/Acquisition	Buyer	Premium Standard Farms Inc.	803.68
Oct-02-2006	Merger/Acquisition	Buyer	ConAgra Foods, Inc., Branded Meats Business	246.00
Aug-16-2006	Merger/Acquisition	Seller	Quik-to-Fix Foods, Inc.	-
Aug-08-2006	Merger/Acquisition	Buyer	Groupe Smithfield, S.L.	448.28
Apr-03-2006	Merger/Acquisition	Buyer	Lamb Weston, Inc., Cooks Ham Business	260.00
Mar-21-2005	Merger/Acquisition	Buyer - Parent	Sociedad 814 Americas Inc.	8.55
Nov-04-2004	Merger/Acquisition	Buyer	Comtim Group SRL	29.45
Oct-19-2004	Merger/Acquisition	Buyer - Parent	MF Cattle Feeding, Inc.	56.60
Aug-13-2004	Merger/Acquisition	Buyer	Campofrío Alimentación, S.A. (CATS:CPF)	49.00
Nov-03-2004	Merger/Acquisition	Buyer - Parent	Zaklady Miesne Morliny SA	51.59
Feb-09-2004	Merger/Acquisition	Buyer - Parent	Ridpath Pek Ltd.	-
Feb-09-2004	Merger/Acquisition	Buyer - Parent	Norwich Food Company Ltd.	-
Feb-04-2004	Merger/Acquisition	Buyer	Campofrío Alimentación, S.A. (CATS:CPF)	87.76
Aug-31-2003	Merger/Acquisition	Buyer	Cumberland Gap Provision Company	56.00
Jul-18-2003	Merger/Acquisition	Buyer	Smithfield Innovation Group	-
Oct-28-2003	Merger/Acquisition	Buyer	Farmland Foods, Inc.	363.50
Nov-12-2002	Merger/Acquisition	Buyer	Vall, Inc.	60.70
Feb-27-2002	Merger/Acquisition	Target - Parent	Animex SA	0.41
Oct-25-2001	Merger/Acquisition	Buyer	Packerland Packing Company, Inc.	250.00
Jul-25-2001	Merger/Acquisition	Buyer	Quik-to-Fix Foods, Inc.	34.00

Closed Date	Transaction Type	Role	Target	Size ($mm)
Jul-30-2001	Merger/Acquisition	Buyer	Smithfield Companies	17.13
Jun-28-2001	Merger/Acquisition	Buyer	Pennexx Foods Inc. (OTCPK:PNNX)	6.98
Jun-22-2001	Merger/Acquisition	Buyer	Moyer Packing Company, Inc.	89.50

TSN:

Closed Date	Transaction Type	Role	Target	Size ($mm)
May-25-2007	Merger/Acquisition	Seller	Tyson Foods Inc., Plants in Ashland and Gadsden	-
Jan-12-2007	Merger/Acquisition	Buyer	Exportaciones Agroindustriales Argentinas S.A.	15.00
Dec-06-2004	Merger/Acquisition	Seller	Specialty Brands, Inc.	-
2003	Merger/Acquisition	Buyer - Parent	Cobb-Vantress Philippines, Inc.	-
Sep-27-2002	Merger/Acquisition	Seller	Specialty Brands, Inc.	-
Jun-07-2001	Merger/Acquisition	Buyer	Tyson de Mexico S.A. de C.V.	-
Mar-23-2001	Merger/Acquisition	Buyer - Parent	DTN Tradelink	-
Jan-01-2001	Merger/Acquisition	Target - Parent	IBP, Inc. (nka:Tyson Fresh Meats, Inc.)	-
Sep-28-2001	Merger/Acquisition	Buyer	IBP, Inc. (nka:Tyson Fresh Meats, Inc.)	4,615.00
Jan-2001	Merger/Acquisition	Buyer - Parent	Seafood.com, Inc.	-
Jun-09-2000	Merger/Acquisition	Buyer - Parent	Avian Farms USA Inc	-

IMPORTANT DISCLAIMER

Please read this document before reading this report.

This report has been written by MBA students at Yale's School of Management in partial fulfillment of their course requirements. *The report is a* ***student and not a professional*** report. It is intended solely to serve as an example of student work at Yale's School of Management. It is not intended as investment advice. It is based on publicly available information and may not be complete analyses of all relevant data.

If you use this report for any purpose, you do so at your own risk. **YALE UNIVERSITY, YALE SCHOOL OF MANAGEMENT, AND YALE UNIVERSITY'S OFFICERS, FELLOWS, FACULTY, STAFF, AND STUDENTS MAKE NO REPRESENTATIONS OR WARRANTIES, EXPRESS OR IMPLIED, ABOUT THE ACCURACY OR SUITABILITY FOR ANY USE OF THESE REPORTS, AND EXPRESSLY DISCLAIM RESPONSIBIITY FOR ANY LOSS OR DAMAGE, DIRECT OR INDIRECT, CAUSED BY USE OF OR RELIANCE ON THESE REPORTS**