Howie & Newman Analysts

ADM Spooks Market: Creates Entry Opportunity For Corn Products International

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Current Price: $40.28 **Rating: BUY**

Target Price: $46

12-Month Investment Thesis: We believe that Corn Products International is currently undervalued by 13%. CPO's stock price saw a steep decline when it missed analysts' estimates and again when ADM announced expected sales prices below CPO's projections. Strong demand drivers for sweeteners and continued strong performance of CPO relative to its peers suggest the company's price merits a correction.

1) CPO to Achieve Higher Prices Than ADM

The market is valuing the company as if it will not be able to achieve projected price increases in 2008, however given CPO's higher-than-average ability to pass through costs to customers, relative to its peers, we believe that it will be able to see higher price increases than ADM.

2) Despite Small Size CPO to Continue to Hold Its Own Against ADM

CPO's operational metrics show that despite its small size, the company achieves higher margins than peers in the ag-processing space. The company's focus on sweeteners and starches has allowed it to reap operational efficiencies that competitors ADM and BG may not be able to achieve with their diversified portfolio of products that includes ethanol.

3) Takeover Target or Not: This Company is Hot

Though the current undervaluation and limited debt make CPO an attractive takeover target, we do not feel that ag-processing giants such as ADM and BG will go after this player, but rather focus their attention on international and ethanol plays.

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

Risks to our call:

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

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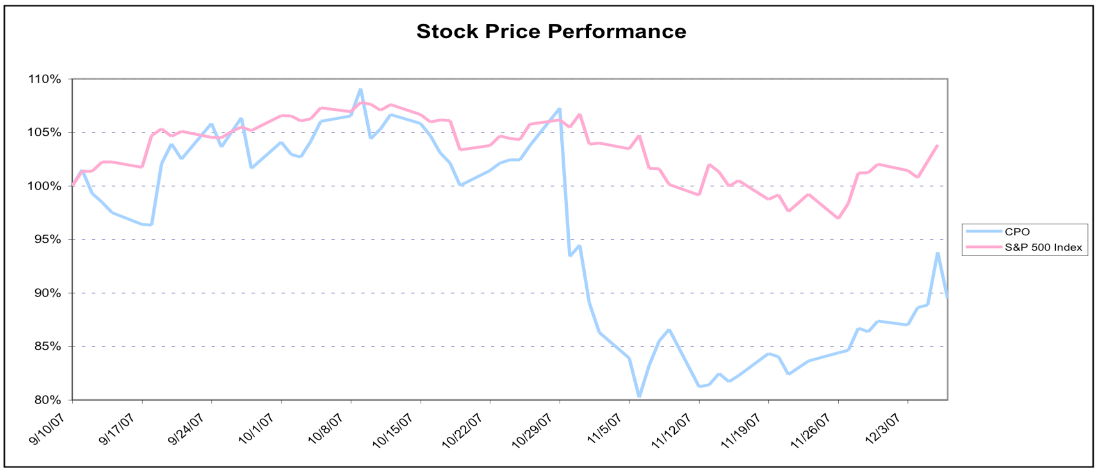
Recent Stock Price Drop
Creates Buying Opportunity

CPO's stock price has been hit twice over the past month – first when it missed analyst expectations for 3Q07 and then when ADM announced corn price increases below CPO's estimates. Both of these events have created an attractive buying opportunity for investors interested in gaining exposure to the strong agricultural processing industry through a small/mid cap company.

Last Earnings: Meets Targets, But Miss Expectations

After CPO's 3Q07 earnings call, the company's stock plummeted 15%. Did profits decline? No, they increased 38% y-o-y for the quarter. Did the company miss its target? No, it announced $0.66 EPS, in line with their 1Q and 2Q estimates and full-year guidance of $2.35-$2.55. So what happened? They missed analyst estimates…by a mere cent.



Source: Capital IQ

ADM Spooks Market with Corn Price Announcement:

A week later, just as the stock was starting to climb back, ADM announced that it expected to increase prices on its corn products by 10% for 2008. CPO had announced increases of 15-20%. Presumably analysts and investors felt CPO had overestimated the amount of input price increases it would be able to pass through to customers, and reduced their projections.[1]

In fact, based on the current price, the market appears to assume that CPO will not be able to achieve its announced price increases of 15-20% for 2008 and will achieve price growth at levels similar to ADM's price announcement. By adjusting *only* the 2008 price growth rate from 17.5% to 10.0%, our valuation results in a market price of $43, within 6% of the current price *(see appendix V)*.

We believe this severe market reaction is not warranted by ag-industry trends or CPO performance outlook *(see below)*. As a result, we feel that the recent stock price decline has created an interesting buying opportunity.

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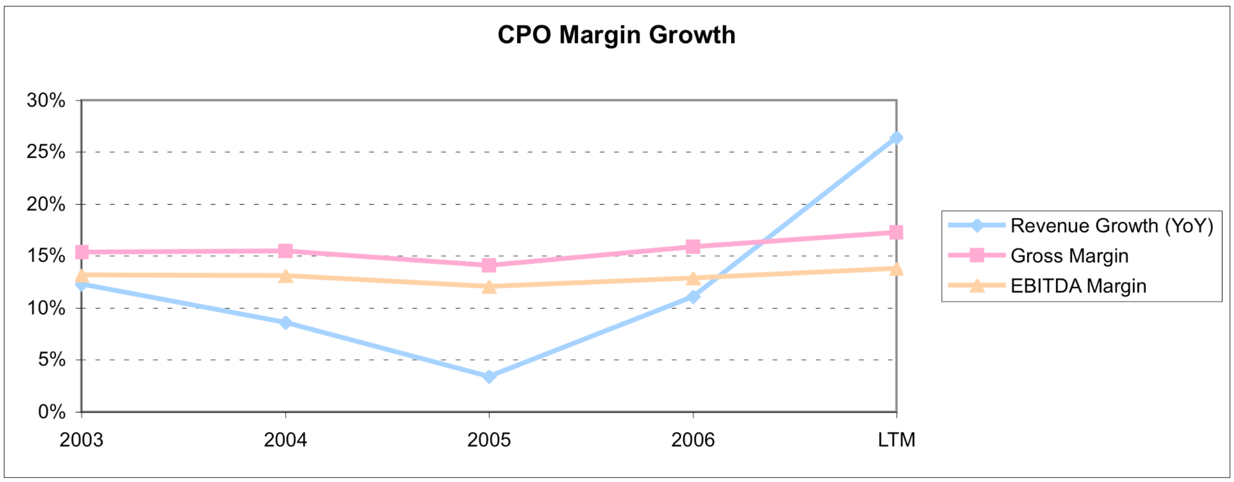
[1] BB&T Capital Markets, November 7, 2007.

Strong Company Fundamentals Support Claim that Price Drop Was Over-reaction

CPO has historically been very well managed, with high margins and a strong and stable balance sheet. Moreover, it has not been swept up in the ethanol craze and dominates the corn sweeteners market – for which we forecast solid growth. We believe CPO is well positioned to continue its solid performance, even in a market governed by giants, such as ADM, Bunge and Cargill.

Top-Notch Management:

In April 2007, Forbes magazine named CPO one of "America's Best Managed Companies" for the third consecutive year.[2] This isn't surprising given the company's performance metrics over the past five years, which have risen steadily.



Source: Capital IQ

Forbes rating is based on accounting, governance, profitability and growth.[3] This award is consistent with the company's historical performance and confirms its stated focus on shareholder value. In its earnings call, the company emphasized that if it cannot find attractive expansion opportunities, it will buy back shares in an effort to increase shareholder wealth.[4] The company has already repurchased 3.3 million shares of a total 4 million authorized, and has recently authorized the repurchase of another 5 million shares.[5]

Ag Fundamentals Still Positive, CPO To Hold Its Own Against Giants

Strong global GDP, population, and demand growth is expected to drive strong performance in the agricultural processing industry (see *Ag-Processors in a Sweeter Spot than Market Suggests*, Howie & Newman Analysts, October 2007). Though small, CPO's historically strong performance suggest it will be able to hold its own against behemoth ADM.

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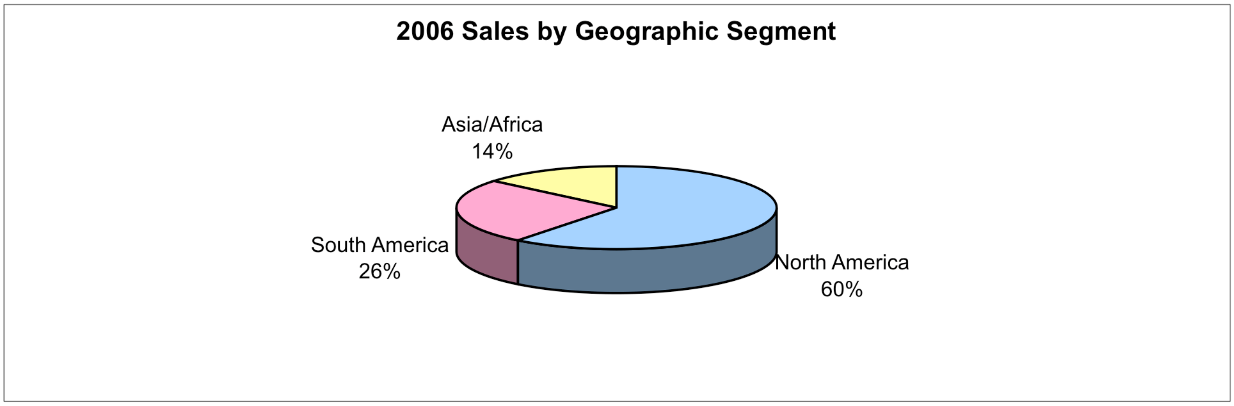
[2] "Forbes Magazine Names Corn Products as one of America's Best Managed Companies" CPO News, April 2, 2007.
[3] "America's Best Big Companies," Forbes Magazine, December 2006.
[4] 3Q07 Earnings Call Transcript.
[5] Press Release, November 7, 2007.

Much of the growth in food demand will come from emerging markets in Eastern Europe and Asia, where ADM is strong and expanding rapidly. While CPO has sites in Asia and Africa, the bulk of its foreign operations remain in the Americas, including Mexico, Argentina and Brazil.



Source: Capital IQ

For this reason, we forecast CPO growing at 1% below industry average growth rates in the Americas (compared to our above-industry growth projections for ADM). Because of the intense competition in Asian markets and CPO's recent logistics problems there, we forecast very conservative growth of 1% annually for this segment. Even with these conservative growth estimates, we find CPO is undervalued by 13%.

Relative to its peers, CPO had strongest operational statistics

ADM may have a more diverse product offering, including corn, oilseeds, wheat, and cocoa processing, plastics, and chemicals, which gives it certain flexibility in responding to supply and demand trends across the various segments, but CPO's focus on sweeteners and starches has allowed it to higher margins than its competitors.

Comparable Company Operating Statistics
($ in millions, except per share data)

Company Name	5-yr Beta	Debt/Total Capital	Debt/LTM EBITDA	1 Yr Total Rev Growth	EBITDA Growth	EBIT Growth	Income Growth	Gross Margin	EBIT Margin	LTM EBITDA Margin	Income Margin
Archer-Daniels-Midland Co. (NYSE:ADM)	0.80	38.25	2.6x	26.68	(0.27)	(2.74)	43.92	7.01	4.39	5.90	4.64
Bunge Ltd. (NYSE:BG)	0.71	41.17	3.6x	51.79	80.13	124.63	96.31	5.89	2.80	3.72	2.07
High	0.80	41.17	3.6x	51.79	80.13	124.63	96.31	7.01	4.39	5.90	4.64
Low	0.71	38.25	2.6x	26.68	(0.27)	(2.74)	43.92	5.89	2.80	3.72	2.07
Mean	0.76	39.71	3.1x	39.23	39.93	60.95	70.11	6.45	3.60	4.81	3.36
Median	0.76	39.71	3.1x	39.23	39.93	60.95	70.11	6.45	3.60	4.81	3.36
Corn Products International Inc. (NYSE:CPO)	0.52	28.23	1.4x	26.36	37.32	51.44	61.66	17.27	9.91	13.78	5.81

Source: Capital IQ

Much of CPO's strong performance has come from its ability to achieve lower COGS/Sales ratios relative to competitors:

COGS/Sales	2002	2003	2004	2005	2006
Industry	92.44%	93.52%	92.19%	92.36%	93.02%
ADM	92.84%	94.42%	93.92%	93.12%	91.70%
CPO	85.73%	84.59%	84.49%	85.93%	84.13%

As a small player, it is unlikely that CPO has the buyer power of an ADM or Cargill to push input prices down. This implies that it is likely achieving higher sales prices for its products than competitors. We hypothesized that a smaller player like CPO could wield stronger pricing power than industry giants because it is a niche player. Though one-tenth the size of ADM, CPO is actually the world's largest producer of dextrose, a sweetener used throughout the food industry.[6] However we found that in corn processing, ADM's COGS/Sales were lower than for other segments and in-line with CPO's:

ADM COGS/Sales by Segment	2005	2006	2007
Oilseeds Processing	97.1%	95.0%	92.0%
Corn Processing	87.9%	82.0%	79.4%
Agricultural Services	98.3%	98.2%	97.4%
Other	91.0%	93.0%	91.7%
Total	95.7%	94.4%	92.8%
CPO COGS/Sales	85.9%	84.1%	82.2%

There is one differentiating factor between ADM's corn business and CPO's: CPO is focused solely on corn-derived sweeteners and starches, while ADM is focusing more heavily on ethanol production. Thus we are driven to conclude that comparing CPO to ADM – as the market appears to be doing – is not an apples-to-apples comparison. When ADM says it will achieve a 10% price increase in corn products, it incorporates prices across all corn products, including ethanol, which is projected to see reduced margins as a result of a production glut. CPO, on the other hand, is focused solely on higher-margin sweeteners, for which there is sustained demand. For this reason, we believe that CPO's announced price increases for 2008, 5 to 10% above ADM's, reflect its different product mix within the corn processing segment, are reasonable, and therefore should not spook the market.

Note that even when projecting conservative COGS/Sales at 86% and below industry volume growth, our valuation shows that CPO is undervalued by at least 13%.

Takeover Target or Not, This Company is Hot

Given the current undervaluation, and CPO's strong balance sheet and performance metrics, it would be an attractive target for larger players looking to continue their expansion through acquisition. However, because of the ag-industry's current focus on expanding in emerging markets and expanding into ethanol, CPO may not be considered the most strategic acquisition. We do not feel that the price incorporates any speculation on a potential acquisition.

Risks To Our Call:

[6] CPO 3Q07 Earnings Press Release, 10/30/07

- **Weather & Disease**
  CPO is undoubtedly at the mercy of weather for access to grain inputs. The company also faces the threat of disease outbreaks and scares. 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. Moreover, CPO has retained its ability to realize higher-than-average margins in the face of current corn volatility.

- **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.

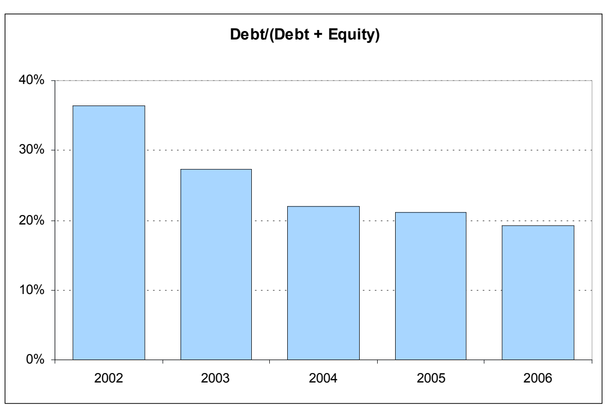
- **Appreciation of US Currency**
  With growth concentrated in emerging markets, an appreciation of the US dollar could adversely impact the amount of grain sourced from CPO. However, current market conditions in the US, resulting from the mortgage crisis, suggest that the dollar will not see significant appreciation in the near-term.

- **Changing Dietary Habits**
  Sudden and drastic changes to dietary habits, particularly corn-based high fructose corn syrup, could adversely impact our projections for CPO. However, shifts in dietary habits (when unrelated to disease outbreaks) tend to be gradual.

Valuation:

Method:

To value CPO, we looked at the $\frac{\text{debt}}{\text{debt} + \text{equity}}$ of the company and found that CPO has been targeting a ratio of 20% over the past three years, even during periods of high CapEx.



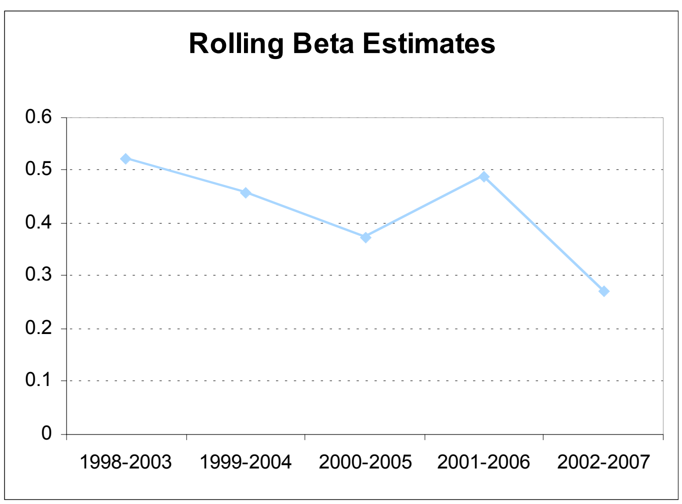
Data Source: Capital IQ

Moreover, the company has indicated that it is very focused on the strength of its balance sheet and on maintaining an investment grade credit rating.[7] We therefore believe that CPO will continue to target this debt level and will maintain a $\frac{\text{debt}}{\text{debt + equity}}$ ratio of 20% during our projection window. Given this assumption, we used a weighted average cost of capital (WACC) for our discounted cash flow model to value the company. We forecast revenue and other key driver growth using the assumptions described below and discounted free cash flows using a WACC of 5.4 %. **Our valuation showed that CPO is undervalued by 13%.**

Beta and WACC:

The cost of equity of the company 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 Bond return. The current 10-year T-Bond return of 4.114% was reduced by 1% to adjust for the risk premium associated with longer term bonds. CPO's raw beta was determined from a 5-year regression on CRSP and Yahoo Finance monthly total return data using the 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 CPO's common stock minus the 10-year Treasury Bond.

We calculated a raw beta of 0.27 for CPO over the past 5 years. Because this value was so low, we examined the 5-year rolling beta estimates over five 60-month periods beginning in 1998 using the same methodology described above to compare the company's beta over time.



The current beta of 0.27 was well below the historical average of 0.42. Thus, to adjust the company's uncharacteristically low beta for the recent period, we smoothed the beta using the

[7] CPO 3Q2007 conference call.

following formula: $\beta_{smooth} = \frac{1}{3} + \left(\frac{2}{3}\right)\beta_{raw}$.[8] This resulted in a smoothed beta of 0.51. We unlevered the beta by multiplying the smooth beta by the equity ratio of the company. Our unlevered company beta of 0.41 is in line with our unlevered industry beta of 0.51 (see *Ag-Processors in a Sweeter Spot than Market Suggests*, Howie & Newman Analysts, October 2007). We then relevered this beta at the target company debt ratio of 20% to reach a relevered company beta of 0.401.

CPO's weighted average cost of capital 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 debt ratio of 20% and a tax rate of 35% based on historical effective tax rates. For the cost of debt, we used interest expense/previous year's long-term debt (5.0%). This calculation results in a weighted average cost of capital of 5.4% for CPO.

Key Assumptions:

1) Earnings

- **Revenue Growth:** We used our projections of the corn industry's volume and price growth as a baseline for projecting CPO's revenue growth in North and South America for 2008 through 2011. These projections take into account projected population growth and grain price trends (based on USDA data) and projected GDP growth in emerging markets (based on World Bank data). We based our 2007 projections on the company's year-to-date performance.

  The industry level data project the following growth for corn:

Assumptions for Corn Industry Key Driver Growth	2008	2009	2010	2011
Volume Growth	8.7%	3.2%	1.8%	1.8%
Price Growth	9.8%	4.2%	(5.3%)	(1.4%)

  Source: Analyst estimates based on USDA and World Bank data.

  We adjusted these projections based on CPO's competitive position within the industry. CPO is in a strong position in North and South America but lacks the scale and scope (logistics and transportation, for example) of ag giants like ADM. While we projected ADM to grow at 1% *above* the industry growth rate at the expense of smaller processors, we believe that CPO will experience strong volume growth but at levels 1% *below* the industry growth rate.

  Because CPO's Asia/Africa segment has experienced volume decline due to a weak South Korean economy and freight difficulties, we project a modest volume growth rate of 1% per year during our projection window as these conditions improve.

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

CPO recently announced pricing increases of 15% to 20% as they conclude their contract negotiation process.[9] Although these price increases are above ADM's announced price increases (10%[10]) and USDA projections, we believe CPO will achieve this price growth during 2008 due to the company's historically lower COGS ratio, which we attribute to higher realized prices. We project price growth in line with industry projections for 2009 through 2011.

Assumptions for CPO Key Driver Growth	**2008**	**2009**	**2010**	**2011**
Volume Growth				
North America	7.7%	2.2%	0.8%	0.8%
South America	7.7%	2.2%	0.8%	0.8%
Asia/Africa	1%	1%	1%	1%
Wtd Avg Volume Growth	*7%*	*2%*	*1%*	*1%*
Price Growth	*17.5%*	*4.2%*	*(5.3%)*	*(1.4%)*
Total Sales Growth	25%	6%	(4.5%)	(0.6%)

Source: CPO 3Q2007 conference call, analyst estimates based on USDA and World Bank Data

- **Terminal Growth Rate:** Based on revenue trends in the later part of our projection window, we assumed the company would grow at 2.0% 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. This is between the industry's terminal growth rate and ADM's terminal growth rate, representing CPO's position as a strong but small player.

- **Cost of Goods Sold:** Historically, CPO's Cost of Goods Sold has consistently been between 84% and 86% of Sales as the company is able to pass costs through to customers and volume growth is the primary driver of COGS. We conservatively forecast a COGS ratio of 86% for the company, consistent with this historical performance.

- **SG&A, Tax Rate, and Other Income:** Based on consistent historical performance, we do not expect that SG&A and tax rate will change significantly through our forecast window. We 2006 and 2007 YTD performance to forecast SG&A at 7.7% of Sales and a 35% effective tax rate.

2) Working Capital

- **Receivables:** We forecast receivables days outstanding to decline during our projection window. Receivables increased in 2006 due to the sharp increase in corn prices which end-users had difficulty absorbing. 2007 receivables levels remain elevated but decline each year as input volatility declines.

[9] CPO 3Q2007 conference call.
[10] ADM 1Q2008 conference call.

- **Inventory Levels:** We expect an industry-wide reduction in inventories to historically low levels over the next five years.[11] As a result, we forecast that CPO's inventory days outstanding will decrease from 45 in 2007 to 41 by 2011.

- **Accounts Payable, Accrued Expenses, and Other Current Liabilities:** We expect A/P days outstanding to continue their gradual rise. We project payables days outstanding to rise from 52 in 2007 to 54 in 2011. Accrued Expenses and Other Current Liabilities have been historically consistent and we project them to remain at 3.7% and 0.3% of Sales, respectively, during our projection window.

- **Cash:** Based on the consistent historical relationship between Cash and Sales, we forecast that the Cash balance will remain 5% of Sales through our projection window.

3) Long-Term Assets and Liabilities:

- **Long-Term Investments, Goodwill and Intangibles, Other Long-Term Assets, Pension and OPEB, and Other Non-Current Liabilities:** Based on the consistent historical relationship between these items and Sales, we forecast that they will remain at their historical levels.

- **Deferred Tax Assets:** Both long- and short-term Deferred Tax Assets are projected to remain at their 3Q2007 dollar values for the duration of our projection based on historical values that have remained relatively consistent for extended periods of time.

- **Deferred Tax Liabilities:** Non-Current Deferred Tax Liabilities are expected to continue their descent, declining at a rate of 10% per year. These reductions flow through the Current Tax Liabilities account which therefore declines at an equivalent rate.

4) PP&E:

- **CapEx:** CPO's expansion plans will be directly related to its processing volumes and we thus forecast CapEx based on the company's projected volume growth. As volume rises in 2008, the company will be investing heavily in CapEx, with capital investments declining relative to Sales thereafter.

- **Depreciation:** We forecast Depreciation as 4.4% of Sales based on consistent performance over the past 3 years.

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 in both directions. Our second analysis examined valuations under a variety of terminal growth rate and cost of capital scenarios. Even under more conservative assumptions, the company appears undervalued.

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

The model is sensitive to the COGS ratio which confirms our decision to project COGS at the high end of CPO's historical range. The model is also quite sensitive to WACC but given that we have smoothed CPO's beta rather than using a lower cost of capital based on its raw beta, we believe our valuation to be valid.

Target Price (USD)		**Adjustment to COGS/Sales**				
		(1.0%)	(0.5%)	0.0%	0.5%	1.0%
Adjustment to Revenue	(2.0%)	55.5	50.9	46.3	41.7	37.2
	(1.0%)	55.9	51.1	46.3	41.5	36.7
	0.0%	56.1	51.1	46.1	41.1	36.1
	1.0%	56.3	51.1	45.9	40.7	35.4
	2.0%	56.4	51.0	45.5	40.1	34.7

Target Price (USD)		**WACC**				
		4.4%	4.9%	5.4%	5.9%	6.4%
Terminal Growth Rate	1.0%	48.2	40.3	34.2	29.3	25.4
	1.5%	57.6	47.2	39.4	33.4	28.6
	2.0%	71.0	56.4	46.1	38.5	32.6
	2.5%	91.5	69.5	55.2	45.1	37.6
	3.0%	126.8	89.6	68.1	54.0	44.1

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Appendix I:
CPO Income Statements

1) Historical

Historical Income Statement	For the Fiscal Year Ending December 31,							
$ Millions	**2002**	**2003**	**2004**	**2005**	**2006**	**Q1 2007**	**Q2 2007**	**Q3 2007**
Total Revenue	$1,871.0	$2,102.0	$2,283.0	$2,360.0	$2,621.0	$761.9	$857.0	$877.4
% Growth		*12.3%*	*8.6%*	*3.4%*	*11.1%*			
Cost Of Goods Sold	1,604.0	1,778.0	1,929.0	2,028.0	2,205.0	615.7	701.5	735.7
% of Sales	*85.7%*	*84.6%*	*84.5%*	*85.9%*	*84.1%*	*80.8%*	*81.9%*	*83.9%*
Gross Profit	**$267.0**	**$324.0**	**$354.0**	**$332.0**	**$416.0**	**$146.2**	**$155.5**	**$141.7**
Selling General & Admin Exp.	130.0	149.0	158.0	158.0	202.0	57.6	64.9	61.7
% of sales	*6.9%*	*7.1%*	*6.9%*	*6.7%*	*7.7%*	*7.6%*	*7.6%*	*7.0%*
Other Operating Expense Total	**$130.0**	**$149.0**	**$158.0**	**$158.0**	**$202.0**	**$58.4**	**$64.9**	**$59.7**
EBIT	**$137.0**	**$175.0**	**$196.0**	**$174.0**	**$214.0**	**$87.8**	**$90.6**	**$82.0**
Net Interest Expense	(37.0)	(39.0)	(33.0)	(32.0)	(28.0)	(9.9)	(12.9)	(10.0)
% of Debt	*4.9%*	*6.5%*	*6.0%*	*5.6%*	*5.3%*			
Income/(Loss) from Affiliates	20.0	1.0	1.0	1.0	1.0	0.0	0.0	0.0
EBT (1)	**$120.0**	**$137.0**	**$164.0**	**$143.0**	**$187.0**	**$77.9**	**$77.7**	**$72.0**
Income Tax Expense	42.0	49.0	43.0	55.0	69.0	26.5	25.5	25.8
Minority Int. in Earnings	(12.0)	(10.0)	(8.0)	(3.0)	(4.0)	(1.4)	(1.6)	(1.1)
Net Income	**$66.0**	**$78.0**	**$113.0**	**$85.0**	**$114.0**	**$50.0**	**$50.6**	**$45.1**
Other Items								
Depreciation	103.0	101.0	102.0	106.0	114.0	31.0	31.0	31.0
% of Sales	*5.5%*	*4.8%*	*4.5%*	*4.5%*	*4.3%*	*4.1%*	*3.6%*	*3.5%*
Capital Expenditures	78.0	83.0	104.0	143.0	171.0	32.0	37.0	36.0
% of Sales	*4.2%*	*3.9%*	*4.6%*	*6.1%*	*6.5%*	*4.2%*	*4.3%*	*4.1%*

(1) Earnings exclude unusual items such as gain/loss on sale of assets and investments, currency exchange gain/loss, and restructuring charges.

2) Projected

Projected Income Statement	For the Fiscal Year Ending December 31,				
$ Millions	2007	2008	2009	2010	2011
Total Revenue	$3,328.7	$4,175.8	$4,436.7	$4,236.2	$4,211.7
% Growth	*27.0%*	*25.4%*	*6.2%*	*(4.5%)*	*(0.6%)*
Cost Of Goods Sold	2,862.7	3,591.1	3,815.6	3,643.2	3,622.1
% of Sales	*86.0%*	*86.0%*	*86.0%*	*86.0%*	*86.0%*
Gross Profit	**$466.0**	**$584.6**	**$621.1**	**$593.1**	**$589.6**
Selling General & Admin Exp.	256.3	321.5	341.6	326.2	324.3
% of Sales	*7.7%*	*7.7%*	*7.7%*	*7.7%*	*7.7%*
Other Operating Expense Total	**$256.3**	**$321.5**	**$341.6**	**$326.2**	**$324.3**
EBIT	**$209.7**	**$263.1**	**$279.5**	**$266.9**	**$265.3**
Other Items					
Depreciation	146.5	183.7	195.2	186.4	185.3
% of Sales	*4.4%*	*4.4%*	*4.4%*	*4.4%*	*4.4%*
Capital Expenditures	199.7	334.1	266.2	211.8	210.6
% of Sales	*6.0%*	*8.0%*	*6.0%*	*5.0%*	*5.0%*

Appendix II:
CPO Balance Sheets

1) Historical

Historical Balance Sheet *$ Millions*	For the Fiscal Year Ending December 31, 2002	2003	2004	2005	2006	Q3 2007
ASSETS						
Total Cash & Short Term Investments	**$36.0**	**$70.0**	**$101.0**	**$116.0**	**$131.0**	**$157.0**
% of Sales	*1.9%*	*3.3%*	*4.4%*	*4.9%*	*5.0%*	
Accounts Receivable	185.0	227.0	235.0	235.0	282.0	389.0
Other Receivables	59.0	25.0	49.0	52.0	75.0	0.0
Total Receivables	**$244.0**	**$252.0**	**$284.0**	**$287.0**	**$357.0**	**$389.0**
Receivables Days Outstanding	*47.6*	*43.8*	*45.4*	*44.4*	*49.7*	
Inventory	194.0	215.0	258.0	258.0	321.0	380.0
Inventory Days Outstanding	*37.8*	*37.3*	*41.2*	*39.9*	*44.7*	
Prepaid Expenses	11.0	10.0	11.0	11.0	12.0	17.0
% of Sales	*0.6%*	*0.5%*	*0.5%*	*0.5%*	*0.5%*	
Deferred Tax Assets, Current	0.0	0.0	30.0	13.0	16.0	17.0
Total Current Assets	**$485.0**	**$547.0**	**$684.0**	**$685.0**	**$837.0**	**$960.0**
Net Property, Plant & Equipment	1,154.0	1,187.0	1,211.0	1,274.0	1,356.0	1,450.0
Long-term Investments	26.0	29.0	9.0	11.0	33.0	12.0
% of Sales	*1.4%*	*1.4%*	*0.4%*	*0.5%*	*1.3%*	
Goodwill and Intangibles	280.0	325.0	353.0	359.0	381.0	432.0
% of Sales	*15.0%*	*15.5%*	*15.5%*	*15.2%*	*14.5%*	
Deferred Tax Assets, Long Term	59.0	61.0	42.0	3.0	1.0	2.0
Other Long-Term Assets	64.0	67.0	68.0	57.0	54.0	96.0
% of Sales	*3.4%*	*3.2%*	*3.0%*	*2.4%*	*2.1%*	
Total Assets	**$2,068.0**	**$2,216.0**	**$2,367.0**	**$2,389.0**	**$2,662.0**	**$2,952.0**
LIABILITIES						
Accounts Payable	164.0	200.0	261.0	263.0	311.0	457.0
Payable Days Outstanding	*37.3*	*41.1*	*49.4*	*47.3*	*51.5*	
Accrued Expenses	80.0	81.0	93.0	83.0	98.0	0.0
% of Sales	*4.3%*	*3.9%*	*4.1%*	*3.5%*	*3.7%*	
Short-term Borrowings	72.0	56.0	88.0	47.0	56.0	85.0
Current Portion of Long Term Debt	12.0	42.0	0.0	10.0	18.0	0.0
Current Income Taxes Payable	15.0	11.0	15.0	15.0	13.0	0.0
Deferred Tax Liability, Current	0.0	0.0	0.0	1.0	14.0	14.0
Other Current Liabilities	4.0	4.0	5.0	5.0	7.0	0.0
% of COGS	*0.2%*	*0.2%*	*0.3%*	*0.2%*	*0.3%*	
Total Current Liabilities	**$347.0**	**$394.0**	**$462.0**	**$424.0**	**$517.0**	**$556.0**
Long-Term Debt	516.0	452.0	480.0	471.0	480.0	535.0
Minority Interest	93.0	78.0	18.0	17.0	19.0	20.0
% of Sales	*5.0%*	*3.7%*	*0.8%*	*0.7%*	*0.7%*	
Pension & OPEB	0.0	82.0	84.0	86.0	129.0	0.0
% of Sales	*0.0%*	*3.9%*	*3.7%*	*3.6%*	*4.9%*	
Deferred Tax Liability, Non-Current	189.0	196.0	177.0	128.0	121.0	117.0
% of Sales	*10.1%*	*9.3%*	*7.8%*	*5.4%*	*4.6%*	
% Growth		*(7.7%)*	*(16.9%)*	*(30.0%)*	*(14.9%)*	
Other Non-Current Liabilities	95.0	36.0	32.0	24.0	22.0	168.0
% of Sales	*5.1%*	*1.7%*	*1.4%*	*1.0%*	*0.8%*	
Total Liabilities	**$1,240.0**	**$1,238.0**	**$1,253.0**	**$1,150.0**	**$1,288.0**	**$1,396.0**
Total Equity	**$828.0**	**$978.0**	**$1,114.0**	**$1,239.0**	**$1,374.0**	**$1,556.0**
Total Liabilities And Equity	**$2,068.0**	**$2,216.0**	**$2,367.0**	**$2,389.0**	**$2,662.0**	**$2,952.0**

2) Projected

Selected Balance Sheet Items *$ Millions*	For the Fiscal Year Ending December 31, 2007	2008	2009	2010	2011
ASSETS					
Total Cash & Short Term Investments	$166.4	$208.8	$221.8	$211.8	$210.6
% of Sales	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*
Total Receivables	$437.7	$543.4	$571.3	$539.7	$530.8
Receivables Days Outstanding	*48.0*	*47.5*	*47.0*	*46.5*	*46.0*
Inventory	352.9	432.9	449.5	419.2	406.9
Inventory Days Outstanding	*45.0*	*44.0*	*43.0*	*42.0*	*41.0*
Prepaid Expenses	16.6	20.9	22.2	21.2	21.1
% of Sales	*0.5%*	*0.5%*	*0.5%*	*0.5%*	*0.5%*
Deferred Tax Assets, Current	17.0	17.0	17.0	17.0	17.0
Total Current Assets	**$990.7**	**$1,223.0**	**$1,281.8**	**$1,208.9**	**$1,186.3**
Net Property, Plant & Equipment	1,409.3	1,559.6	1,630.6	1,656.0	1,681.3
Long-term Investments	43.3	54.3	57.7	55.1	54.8
% of Sales	*1.3%*	*1.3%*	*1.3%*	*1.3%*	*1.3%*
Goodwill and Intangibles	499.3	626.4	665.5	635.4	631.8
% of Sales	*15.0%*	*15.0%*	*15.0%*	*15.0%*	*15.0%*
Deferred Tax Assets, Long Term	2.0	2.0	2.0	2.0	2.0
Other Long-Term Assets	69.9	87.7	93.2	89.0	88.4
% of Sales	*2.1%*	2.1%	2.1%	2.1%	2.1%
Total Assets	**$3,014.5**	**$3,552.9**	**$3,730.8**	**$3,646.3**	**$3,644.5**
LIABILITIES					
Accounts Payable	407.8	516.5	554.0	534.0	535.9
Payable Days Outstanding	*52.0*	*52.5*	*53.0*	*53.5*	*54.0*
Accrued Expenses	123.2	154.5	164.2	156.7	155.8
% of Sales	*3.7%*	*3.7%*	*3.7%*	*3.7%*	*3.7%*
Current Income Taxes Payable	13.0	13.0	13.0	13.0	13.0
Deferred Tax Liability, Current	14.0	10.9	9.8	8.8	7.9
Other Current Liabilities	8.6	10.8	11.4	10.9	10.9
% of COGS	*0.3%*	0.3%	0.3%	0.3%	0.3%
Total Current Liabilities (non-debt)	**$566.6**	**$705.7**	**$752.4**	**$723.5**	**$723.5**
Minority Interest	23.3	29.2	31.1	29.7	29.5
% of Sales	*0.7%*	*0.7%*	*0.7%*	*0.7%*	*0.7%*
Pension & OPEB	166.4	208.8	221.8	211.8	210.6
% of Sales	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*
Deferred Tax Liability, Non-Current	108.9	98.0	88.2	79.4	71.4
% Growth	*(10.0%)*	*(10.0%)*	*(10.0%)*	*(10.0%)*	*(10.0%)*
Other Non-Current Liabilities	33.3	41.8	44.4	42.4	42.1
% of Sales	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*
Total Liabilities (non-debt)	**$898.5**	**$1,083.5**	**$1,137.9**	**$1,086.7**	**$1,077.1**

Appendix III: Calculating Beta & WACC

1) Beta

Calculating Beta	
	CPO
Raw Betas (1)	0.27
Smoothed Beta (2)	0.51
Credit Rating	BBB-
Debt Ratio	0.20
Debt Beta (3)	0.37
Unlevered Betas (4)	0.41
Target Company Debt Ratio (5)	20%
Relevered Company Beta (6)	0.401

Discount Rate Calculation	
R(f) (7)	3.11%
Re-levered Company Beta	0.401
Risk Premium (8)	7.00%
CAPM: R(e) = R(f)+ B(RP)	
R(e)	5.92%

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, *Valuation: Measuring and Managing the Value of Companies* . McKinsey & Company, 2005. Page 314.
(3) Debt beta by bond class based on Koller, Goedhart, and Wessels, page 321.
(4) Unlevered beta = (Raw Beta)(E/V)
(5) The company consistently experienced D/V ratios around 20% in the past three years, even during periods of high CapEx, which suggests they are pursuing this as a target D/V strategy.
(6) (Equity Beta)(E/V)+(Debt Beta)(D/V)
(7) Adjusted 10-year T-bond return (T-bond return - 1%). Subtract the historical risk premium of 1% on long-term bonds to avoid double counting risk.
(8) 56 year average of risk premium on 10-year T-bills

2) Weighted Average Cost of Capital

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

WACC	
R(e)	5.92%
R(d)	5.00%
Tax Rate	35.00%
D/EV	20.00%
E/EV	80.00%
WACC	5.38%

Appendix IV:
Discounted Cash Flow

($ millions)	2007	2008	2009	2010	2011
EBIT	$209.7	$263.1	$279.5	$266.9	$265.3
Tax-Adjusted EBIT (1)	136.3	171.0	181.7	173.5	172.5
Plus: Depreciation & Amortization	146.5	183.7	195.2	186.4	185.3
Less: Change in Working Capital	(68.7)	(50.8)	1.0	34.0	21.4
Less: Capital Expenditures	(199.7)	(334.1)	(266.2)	(211.8)	(210.6)
Less: Changes in Other LT Assets	(27.2)	(28.8)	(8.9)	6.8	0.8
Less: Changes in Intangibles	(118.3)	(127.1)	(39.1)	30.1	3.7
Plus: Changes in LT Liabilities	40.9	45.9	7.7	(22.3)	(9.6)
Free Cash Flow	**($90.2)**	**($140.1)**	**$71.3**	**$196.6**	**$163.5**
PV of FCF	**($90.2)**	**($132.9)**	**$64.2**	**$168.0**	**$132.6**

Perpetuity Growth Method		
Weighted average cost of capital:		**5.4%**
Net present value of free cash flow		$141.6
Growth rate of FCF after 2011		2.0%
Terminal value		$4,928.1
Present value of the terminal value		3,791.4
Enterprise Value		**$3,933.1**
LESS: Debt, pref. stock, & minority interest (2)		(640.0)
PLUS: Cash & cash equivalents (2)		157.0
Equity Value		**$3,450.1**
Shares Outstanding		74.8
Target Share Price		$46.12
Current Price	12/7/2007	$40.28
		13%

(1) Effective tax rate of 35%

(2) Based on balance sheet values as of September 30, 2007.

Appendix V:
Matching the Market Price

1) Adjusted Growth Assumptions

Assumptions for CPO Key Driver Growth	**2008**	**2009**	**2010**	**2011**
Volume Growth				
North America	7.7%	2.2%	0.8%	0.8%
South America	7.7%	2.2%	0.8%	0.8%
Asia/Africa	1%	1%	1%	1%
Wtd Avg Volume Growth	*7%*	*2%*	*1%*	*1%*
Price Growth	*10.0%*	*4.2%*	*(5.3%)*	*(1.4%)*
Total Sales Growth	17%	6%	(4.5%)	(0.6%)

2) Adjusted income Statement

Projected Income Statement		**For the Fiscal Year Ending December 31,**			
$ Millions	**2007**	**2008**	**2009**	**2010**	**2011**
Total Revenue	$3,328.7	$4,175.8	$4,436.7	$4,236.2	$4,211.7
% Growth	*27.0%*	*25.4%*	*6.2%*	*(4.5%)*	*(0.6%)*
Cost Of Goods Sold	2,862.7	3,591.1	3,815.6	3,643.2	3,622.1
% of Sales	*86.0%*	*86.0%*	*86.0%*	*86.0%*	*86.0%*
Gross Profit	**$466.0**	**$584.6**	**$621.1**	**$593.1**	**$589.6**
Selling General & Admin Exp.	256.3	321.5	341.6	326.2	324.3
% of Sales	*7.7%*	*7.7%*	*7.7%*	*7.7%*	*7.7%*
Other Operating Expense Total	**$256.3**	**$321.5**	**$341.6**	**$326.2**	**$324.3**
EBIT	**$209.7**	**$263.1**	**$279.5**	**$266.9**	**$265.3**
Other Items					
Depreciation	146.5	183.7	195.2	186.4	185.3
% of Sales	*4.4%*	*4.4%*	*4.4%*	*4.4%*	*4.4%*
Capital Expenditures	199.7	334.1	266.2	211.8	210.6
% of Sales	*6.0%*	*8.0%*	*6.0%*	*5.0%*	*5.0%*

3) Adjusted DCF Analysis

($ millions)	2007	2008	2009	2010	2011
EBIT	$209.7	$246.3	$261.7	$249.8	$248.4
Tax-Adjusted EBIT (1)	136.3	160.1	170.1	162.4	161.5
Plus: Depreciation & Amortization	146.5	172.0	182.8	174.5	173.5
Less: Change in Working Capital	(68.7)	(30.6)	0.8	31.7	20.0
Less: Capital Expenditures	(199.7)	(312.7)	(249.2)	(198.3)	(197.1)
Less: Changes in Other LT Assets	(27.2)	(19.7)	(8.3)	6.4	0.8
Less: Changes in Intangibles	(118.3)	(87.1)	(36.6)	28.2	3.4
Plus: Changes in LT Liabilities	40.9	28.0	6.6	(21.4)	(9.5)
Free Cash Flow	**($90.2)**	**($90.1)**	**$66.1**	**$183.5**	**$152.5**
PV of FCF	**($90.2)**	**($85.5)**	**$59.5**	**$156.8**	**$123.7**

Perpetuity Growth Method		
Weighted average cost of capital:		**5.4%**
Net present value of free cash flow		$164.2
Growth rate of FCF after 2011		2.0%
Terminal value		$4,596.6
Present value of the terminal value		3,536.4
Enterprise Value		**$3,700.5**
LESS: Debt, pref. stock, & minority interest (2)		(640.0)
PLUS: Cash & cash equivalents (2)		157.0
Equity Value		**$3,217.5**
Shares Outstanding		74.8
Target Share Price		$43.02
Current Price	12/7/2007	$40.28
		6%

(1) Effective tax rate of 35%

(2) Based on balance sheet values as of September 30, 2007.

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