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COMPANY SUMMARY

Friday, March 3, 2006

Speaker: Bob Cummins

Food Industry Comment:

Sara Lee (SLE-\$17.50)
SYSCO Corporation (SYU-\$29.50)
General Mills (GIS-\$49)
PepsiCo (PEP-\$59)
Dean Foods (DF-\$38)

These five companies, all of which are rated "1" (Strong Buy), were among the 28 food, beverage, tobacco and household products companies that made presentations to an audience of more than 500 analysts and money managers at last week's annual Consumer Analyst Group (CAGNY) conference in Scottsdale, Arizona. The comments below summarize our current investment views on each stock, based in part on their discussions at the conference, as well as other recent contacts.

Sara Lee CEO Brenda Barnes gave a progress report on the transformation plan, announced a year ago, to accelerate the company's growth and increase its profitability. Two of the three pillars of the program, a reorganization of the corporate structure and the divestiture of underperforming or noncore businesses, are nearing completion. The final step in the asset redeployment process will be the tax-free spinoff to shareholders of Hanesbrands, SLE's U.S. apparel subsidiary, presently estimated to take place in June or July. Including a remittance to SLE by Hanesbrands, asset dispositions are estimated to generate cash in excess of \$3 billion, which will be used to repay debt and repurchase stock. Steady progress is being made with regard to the other pillar, which focuses on increasing efficiency, reducing costs, and becoming a more innovative and marketing-driven company.

Ms. Barnes and CEO Theo de Kool reiterated the goals for the ongoing SLE operations through fiscal 2010 of 4%-5% annual growth in sales and a 12% operating margin, compared with only 7% in F2006. For the first time, the presentation included specific goals for each of the six business segments, thus adding to the credibility of the projections. Ms. Barnes also repeated

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previous assurances that while SLE's \$0.79 annual dividend will be reduced following the spinoff, the company intends to maintain a generous payout ratio going forward.

In our opinion, Sara Lee is one of the most attractive buy ideas in the food industry. We see significant upside potential for both earnings and the stock price over the next several years as the new CEO continues to implement her transformation plan, yet the shares remain near the low end of their three-year range. We expect investor confidence to increase gradually as fundamentals strengthen quarter by quarter, and as the spinoff is completed and share buybacks resume. On our calendar 2006 EPS estimate of \$1.40 for the combined operations (about 30% attributable to Hanesbrands and 70% to the "new" SLE), the shares sell at a moderate 12.6 multiple. Combined 12-month target price \$22-\$23. Recent comments: 11/10/05, 1/12/06, 2/8/06.

SYSCO Corporation is a world-class growth company whose shares are out of favor, selling 27% below their 2004 high, and at essentially the same price as in December, 2000, when earnings were much lower. The multiple of 20 times estimated F2006 (June) EPS compares with trailing fiscal yearend multiples of 22-31 times over the past decade (averaging 26.7 times), and is one of the lowest since SYY went public more than 30 years ago. Investors' disenchantment reflects a temporary slowing of volume growth in F2004 and F2005, and more recently reduced operating margins due to the first-time expensing of stock options, hurricane-related costs, startup expenses, escalating fuel prices, and other influences, most of which are temporary. Fortunately, volume growth has accelerated to a normal rate, and we expect that as margins recover over the next several quarters and double-digit earnings growth resumes, investors' confidence will revive. We expect SYY to achieve above-average sales and earnings growth for many years to come, and believe that purchases at this price will prove highly rewarding over time.

At the conference, CFO John Stubblefield discussed SYSCO's long-term strategy, which calls for achieving sales growth in the high single to low double-digits, including 3% a year from acquisitions, and leveraging that growth through margin expansion and share buybacks to achieve double-digit growth in EPS. Despite its many years of strong growth, both internally and through acquisitions, and its annual sales of \$31 billion, 70% higher than the nearest competitor, SYY still has significant growth potential, since it is estimated to account for only a 15% share of the growing and highly fragmented North American foodservice market. Between F1993 and F2003, its unit volume growth, excluding acquisitions and inflation, averaged 6.8% a year, reflecting its cost advantages over less efficient competitors, superior service to customers, and effective marketing programs. The slowing of unit growth in F2004-F2005 appears to have been attributable to high food price inflation, which led to reduced business for SYY's restaurant customers, and to a static sales force, in contrast to steady growth in the past. Now, food inflation has abated to less than 1%, while SYY has embarked on an aggressive recruiting and training program, resulting in an estimated 6% increase in marketing staff by the end of F2006.

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Internal unit volume growth has accelerated, reaching a healthy 6.8% in the December 2005 quarter, in line with the long-term trend. Importantly, much of the growth is coming from the highly profitable independent restaurant segment, thanks to a stepped-up effort to gain more of those customers' business.

SYSCO's management has long been known for its emphasis on customer service and on efficient operations. In that regard, two recent innovations are worth mentioning. The first is its new Business Review program, in which SYSCO's experts work closely with independent restaurant operators and make recommendations on how they can increase profits through menu changes and other innovations. Thus far, the response has been enthusiastic. In the December quarter, 8,500 such reviews were performed, leading to mid-teens increases in sales to the customers who participated.

The other new strategy is the creation of a network of nine redistribution centers (RDCs) around the country, where shipments of goods from suppliers will be consolidated into truckload lots to SYSCO's 85 broadline operating companies, thereby reducing both freight costs and inventories. The first RDC, in Virginia, although not yet fully operational, is already highly successful. The second, in Florida, will soon begin construction, and the company has chosen a site in Indiana for the third. We expect that the Business Reviews and the RDC concept will not only generate significant incremental profits, but will put SYSCO one more step ahead of the competition. Target price \$39-\$40. Recent comments: 11/4/05, 1/12/06, 2/1/06.

General Mills CEO Steve Sanger and his associates gave a highly professional presentation that detailed the positive changes in the company's makeup as a result of the 2001 acquisition of Pillsbury, and its strategies and goals for sales and earnings growth over the next five years. Long considered one of the best-managed companies in the food industry, GIS's image with investors suffered as a result of problems in some of the PSY businesses in the early stages of the merger, and more recently last year's market share erosion in breakfast cereals due to aggressive price promotions by competitors. Now that those issues have been resolved and the company is back on track, we believe it is well on its way to regaining investors' confidence and a higher valuation.

The PSY combination strengthened GIS in three major ways: (1) a greatly expanded presence in promising international markets, both directly and through joint ventures. In F2005, wholly-owned international operations and joint ventures contributed an estimated 18.5% of net income, up from 4.5% in F2001, pre-Pillsbury. (2) A broader range of distribution channels, including substantial sales to supermarket bakeries and to the growing foodservice market, where the company had not been a major participant. (3) Increased diversity of product lines, as GIS reduced its relative dependence on cereals, while adding the high-margin Pillsbury Doughboy products, as well as other strong brands such as Progresso, Old El Paso and Green Giant, plus Haagen-Dazs outside the U.S.

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The company's game plan from now through F2010 calls for low single-digit annual sales growth to about \$13 billion. Operating profit is expected to show mid single-digit growth, including annual gains of 10%-11% for the Bakeries & Foodservice and International segments, and 3%-3.5% for U.S. Retail. That implies an overall margin of 19.2% in F2010, up from 17.9% in F2005. The company does not break out profit margins by product lines, but states that Big G cereals, meals, Pillsbury USA, Yoplait and Canada already exceed the corporate average, while other international operations, baking products, snacks, Small Planet Foods, and the Bakeries & Foodservice segment all have high potential for margin expansion. Annual EPS growth through F2010 is projected in the high single digits, including the impact of rising joint venture income and the use of free cash flow to achieve a net reduction in shares outstanding of 2% a year, through share repurchases. Combined with dividend payments, the total shareholder return is projected to be in the double digits. These figures do not include any acquisitions, but the company is looking for attractive international opportunities, as well as possible additions to its bakery and foodservice businesses in the U.S.

Responding to improving fundamentals, the General Mills shares have shown some recovery from last September's low, but they remain in the middle of their 12-month trading range. At 15.8 times our calendar 2006 estimate of \$3.11, GIS sells at a discount to the 16.4 average for the other leading food companies instead of the premium we believe it deserves. Target price \$58-\$59. Recent comments: 9/29/05, 1/12/06, 1/19/06.

PepsiCo was represented this year by Michael White, Chairman and CEO of PepsiCo International, the largest and fastest-growing of PEP's four divisions, accounting for 35% of sales and 24% of profits in 2005, up from 34% and 22% a year earlier. Snacks, which account for 70% of PI's profits, achieved 6% unit volume growth last year, excluding an extra week, while beverages gained 11%. On a combined basis, the division achieved 14% growth in dollar revenues, and a 22% rise in profits, including a positive impact from exchange rates.

PI is a global business, with 2005 sales of \$11.4 billion, selling snacks in about 170 countries, and beverages in 175. Mexico and the U.K. are particularly important markets, but their contribution to international revenues has declined from 54% in 2002 to 43% in 2005, as the company's business in the rest of the world has grown. In the past year, PI gained market share in 21 of its 25 most important countries for snacks, and in 19 of the top 25 for soft drinks. Fifteen of its operations now have annual sales in excess of \$200 million, versus only seven three years ago. Most of its local businesses are achieving rising profit margins. In short, PepsiCo International is an impressive success story. Mr. White expects that in the next four to five years his division will become the number one profit contributor in the company, surpassing both Frito-Lay North America and PepsiCo Beverages North America.

Considering that PEP is the dominant salty snack company in the world, but ranks well behind the leading carbonated soft drink (CSD) marketer in most countries, the strategies in managing

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the two businesses are different. In snacks, every country is potentially a major market, and it is seeing strong growth in virtually every region, with notable gains being achieved in China and India, among others. In beverages, rather than going head-to-head with its larger competitor in mature markets such as Western Europe, it is more likely to feature non-CSD products such as Tropicana and Gatorade there, and concentrate its CSD efforts in rapidly growing markets, such as the Middle East, where it has more than a 70% share; India, Thailand, Egypt and Venezuela (all over 40%); and Nigeria, China and Russia (25%-36%). Needless to say, with rare exceptions such as Mexico, per capita consumption of both salty snacks and soft drinks in developing countries is well below that in the U.S. and other more affluent markets, indicating significant growth opportunities. Emerging markets in total showed revenue growth of more than 30% last year.

The success of PepsiCo International, and its obvious growth potential for many years to come, are important elements in our view of PEP as one of the outstanding growth companies in the consumer goods industry. Considering its impressive management team, its attractive businesses, its debt-free balance sheet, and the likelihood of continued double-digit earnings growth in the years ahead, PEP's multiple of 20 times estimated 2006 EPS of \$2.95 is not excessive. It remains an attractive buy for investors seeking quality, dependability, and above-average growth. Target \$66-\$67. Recent comments: 10/5/05, 1/12/06.

Dean Foods' presentation was by Gregg Engles, Chairman and CEO, who through acquisitions and internal growth has built the company from \$6.2 billion in sales in 2001 to \$10.5 billion in 2005, while the stock price, adjusted for a spinoff, since the end of 2001 has more than doubled, clearly one of the best performances in the food industry. Needless to say, DF's achievements have led to an upward revaluation, and the multiple of 17.5 times estimated 2006 EPS of \$2.15 exceeds that of most other large food companies. Also, the company does not pay a dividend. Nevertheless, we remain bullish on the long-term prospects, and consider the shares an attractive addition to growth-oriented portfolios.

The larger of Dean's two principal businesses, the Dairy Group, accounts for more than 80% of sales and segment profits. It is the largest processor and marketer of fluid milk, ice cream and other refrigerated products, with 99 facilities, well established regional brands, and a national direct store delivery (DSD) network that is unique in the industry. As a result of efficient operations and strong marketing efforts, it has consistently achieved gains in market share, with unit volume rising in contrast to a modest decline in milk consumption overall, as measured by the USDA. It is also more efficient than most others in the industry, and its 2005 operating margin of 7.1% of sales is believed to be well above those of its competitors. Costs have been reduced through the closing of redundant facilities, and management aims to continue enhancing the profitability of the system, thereby assuring healthy earnings growth in the coming years. Additional regional acquisitions could also contribute to its growth.

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The smaller but more exciting segment is White Wave Foods, which reported growth in 2005 of 13% in sales and 31% in profits, as its operating margin strengthened from 8.7% to 10.0% of sales. White Wave, with annual sales of \$1.1 billion, focuses on premium, high growth brands that are sold in the dairy case. Its principal products, in declining order of size, are Silk soymilk (up 20% in 2005), Horizon organic milk (up 39%), and International Delight coffee flavorings (up 13%), as well as Land O'Lakes and Hershey's products, both sold under licensing agreements. Dean is optimistic about further growth potential for these products, particularly Horizon, which is on allocation due to short supplies of organic milk, a situation that is being remedied as more producers convert to organic farming. We also expect that division profit margins a few years down the road could be substantially above the present level.

All of the White Wave businesses have operated separately in the past, but Dean is in the process of integrating them into a single unit, to achieve economies of scale and a unified marketing effort. To that end, last October it hired Joseph Scalzo, an executive at Gillette, with previous experience at Minute Maid (Coca-Cola) and Procter & Gamble, as President and CEO of that division, to oversee the integration process and drive White Wave's future growth.

Dean is committed to enhancing shareholder value, and over the past three years has used excess cash to repurchase \$1.2 billion worth of stock, equal to \$8.25 per diluted share. As a result, its balance sheet is somewhat leveraged. At the end of December, 2005, long-term debt amounted to \$3.3 billion, compared with stockholders' equity of \$1.9 billion, although the equity market value was a substantially larger \$5.5 billion. Our 12-month target price is \$42-\$43. Recent comments: 1/12/06.

In contrast to our positive views on the stocks discussed above, we are not as sanguine about **Kraft Foods** (KFT-\$29.50), which also participated in the CAGNY conference, and on which we have a "3" (Hold/Neutral) rating. We are inclined to avoid KFT at present, not because of skepticism about the success of its Sustainable Growth Plan, but due to our concerns about the likely impact on the share price when Altria Group (MO) distributes its remaining KFT shares to its own shareholders.

MO still owns about 85% of KFT, or 1.4-1.5 billion shares, and has long stated its intention to distribute those shares once several key court cases have been decided. Our discussions with MO's management suggest that the distribution could happen early next year. Further, we believe the MO holders are more interested in the tobacco operations than the food operations, and that most would quickly dispose of their KFT shares.

Kraft's trading volume recently has averaged about 1.5 million shares per day. Thus, the sale of a substantial portion of the newly distributed shares could depress the share price significantly for an extended period of time. That could create an attractive buying opportunity for patient investors, but it would be painful for those who already own the stock.

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Other Sara Lee reports issued by me are: 1/28/05 (\$23.15) – Strong Buy – Target \$27-\$28; 2/14/05 (\$23.50) – Strong Buy – Target \$29-\$30; 3/4/05 (\$22.50) – Strong Buy – Target \$29-\$30; 3/17/05 (\$21.20) – Strong Buy – Target \$29-\$30; 11/10/05 (\$17.90) – Strong Buy – Target \$21-\$22; 1/12/06 (\$18.50) – Strong Buy – Target \$22-\$23; 2/8/06 (\$17.50) – Strong Buy – Target \$22-\$23.

Other SYSCO Corporation reports issued by me are: 2/4/05 (\$34.75) – Strong Buy – Target \$44-\$45; 3/24/05 (\$34.40) – Strong Buy – Target \$44-\$45; 5/12/05 (\$36) – Strong Buy – Target \$44-\$45; 8/18/05 (\$34) – Strong Buy – Target \$41-\$42; 10/12/05 (\$32) – Strong Buy - Target \$41-\$42; 11/4/05 (\$30) – Strong Buy - Target \$39-\$40; 1/12/06 (\$31) – Strong Buy – Target \$39-\$40; 2/1/06 (\$30.60) – Strong Buy – Target \$39-\$40.

Other General Mills reports issued by me are: 3/4/05 (\$52) – Strong Buy – Target \$60-\$61; 6/30/05 (\$47) – Strong Buy – Target \$56-\$57; 9/29/05 (\$47.40) – Strong Buy – Target \$56-\$57; 1/12/06 (\$50) – Strong Buy – Target \$56-\$57; 1/19/06 (\$50) – Strong Buy – Target \$58-\$59.

Other PepsiCo reports issued by me are: 2/9/05 (\$55) – Strong Buy – Target \$62-\$63; 3/4/05 (\$54) – Strong Buy – Target \$62-\$63; 7/21/05 (\$54.60) – Strong Buy – Target \$63-\$64; 10/5/05 (\$57.50) – Strong Buy – Target \$66-\$67; 1/12/06 (\$59) – Strong Buy – Target \$66-\$67.

Other Dean Foods reports issued by me are: 2/1/05 (\$35.30) – Strong Buy – Target \$40-\$41; 5/18/05 (\$38.50) – Strong Buy – Target \$42-\$43; 1/12/06 (\$38) – Strong Buy – Target \$42-\$43.

Guide to Investment Ratings and Target Prices:

Strong Buy ("1"). The stock's total return is expected to exceed significantly the average total return of the analyst's industry coverage universe over the next 12 months.

Buy ("2"). The stock's total return is expected to exceed the average total return of the analyst's industry coverage universe over the next 12 months.

Hold (Neutral) ("3"). The stock's total return is expected to equal the average total return of the analyst's industry coverage universe over the next 12 months.

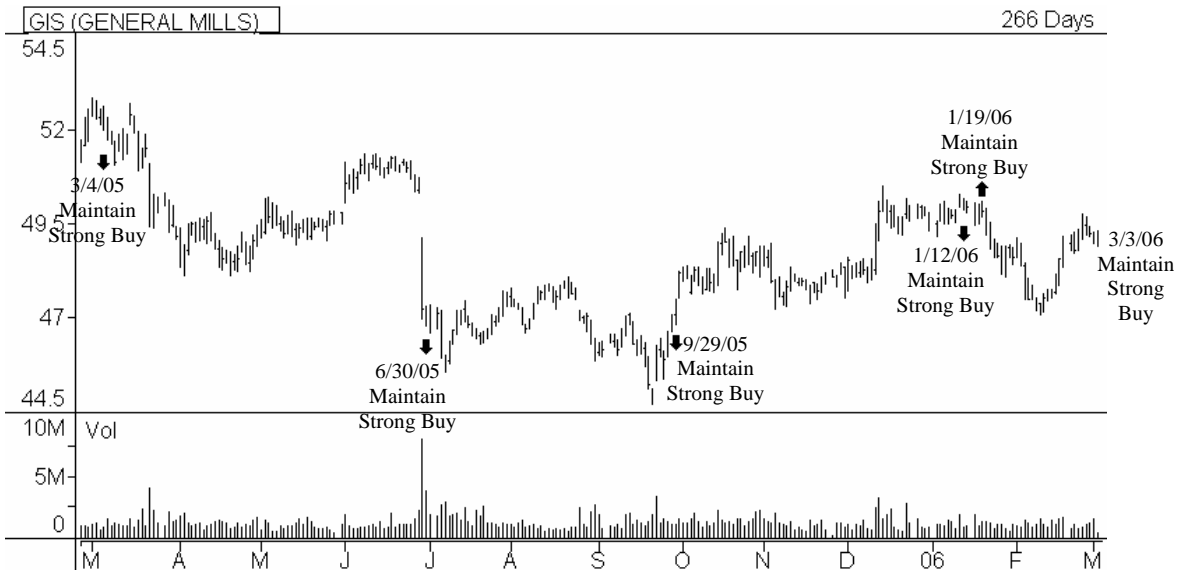
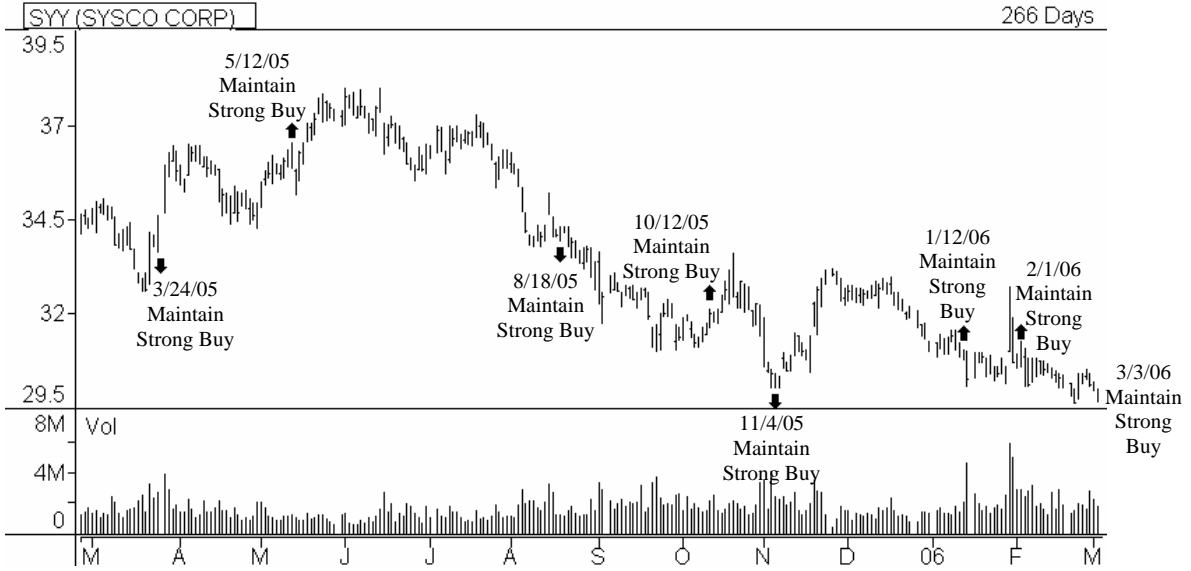
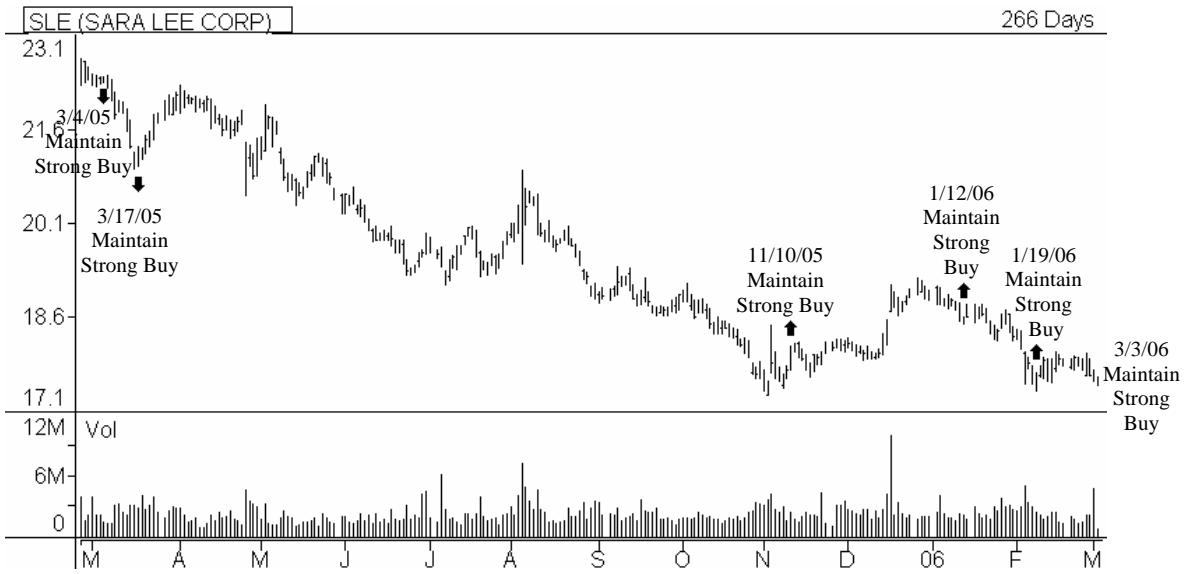
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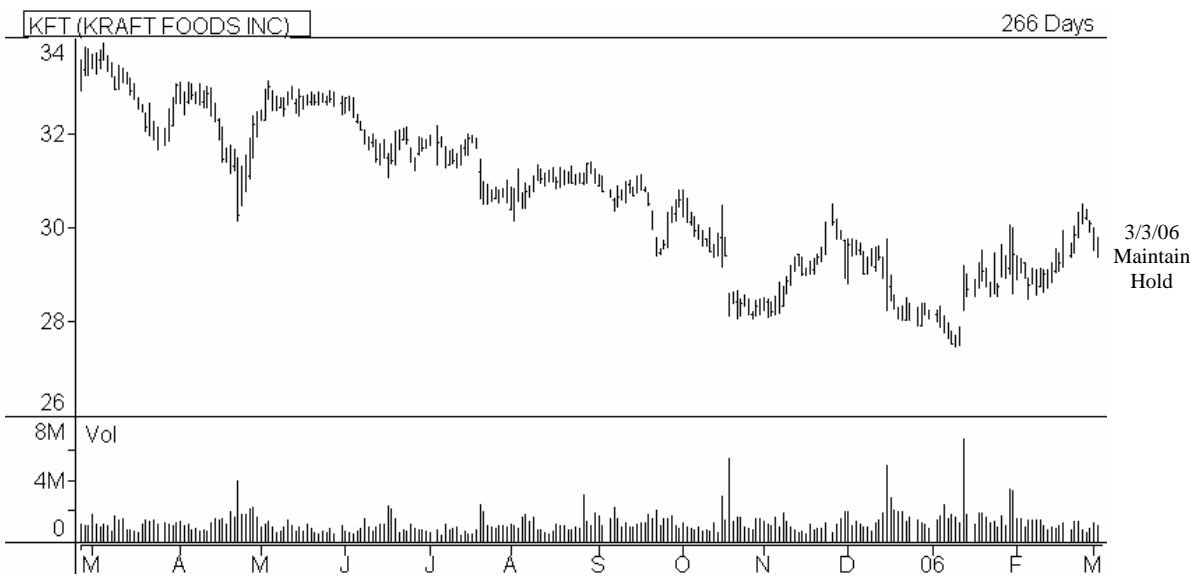
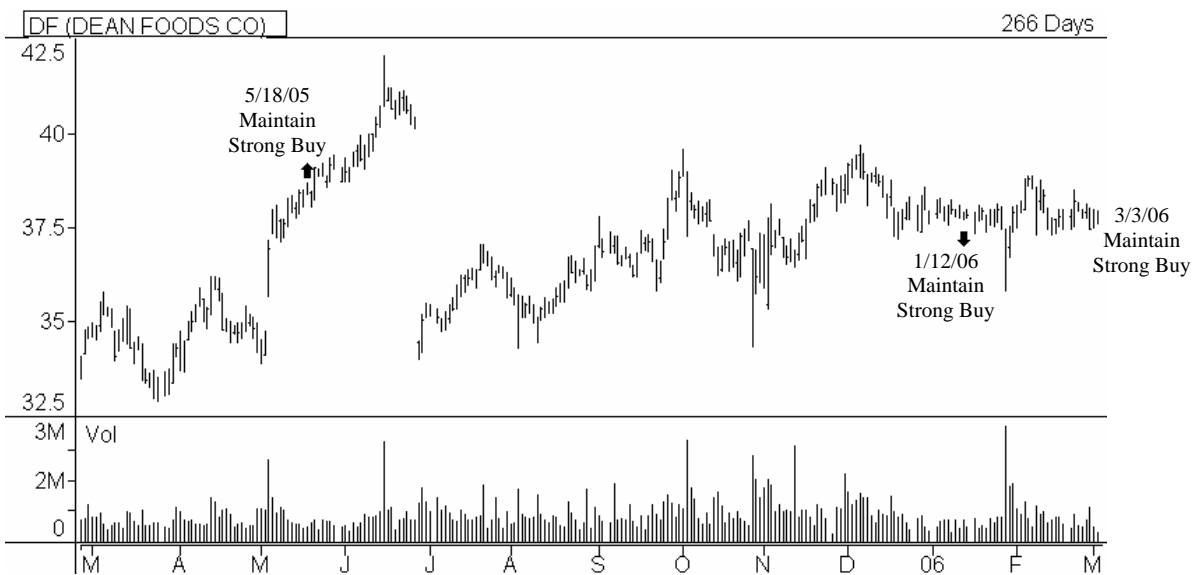
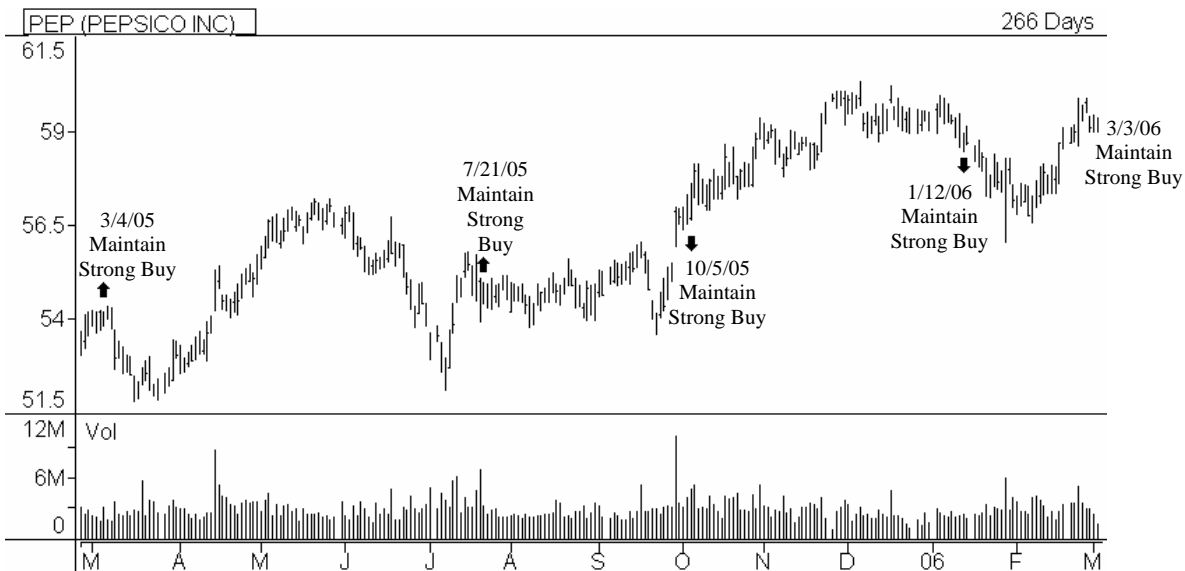
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Among the stocks we follow, 65% are rated Strong Buy, 0% Buy, 35% Neutral, and 0% Sell.

Our target prices are based on projected earnings for the following calendar year, and an assumed price/earnings ratio in line with the company's historical valuation or those of other companies with similar businesses and prospects.

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