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COMPANY SUMMARY
Friday, February 27, 2004

Speaker: Bob Cummins

Food Industry Comment:

Sara Lee (SLE - $22)
General Mills (GIS - $46)
Dean Foods (DF - $36) - The managements of these three companies, which are on our Recommended List, gave presentations at the annual Consumer Analyst Group of New York (CAGNY) conference last week in Scottsdale. 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 at this time is our number-one buy idea among the large-cap companies we follow, based on its modest valuation and on our belief that it is on the verge of a strong upsurge in earnings, after four quarters of disappointing results. Over the past 12 months, while most of SLE's businesses have made steady progress, the gains have been offset by weakness in its largest segment, apparel, against strong prior-year results, as consumer apparel purchases lagged and retailers reduced their inventories. Now, those trends appear to be reversing, and with easy comparisons beginning in the June quarter, we look for a resumption of healthy growth in EPS, leading to renewed appreciation in the stock.

At the conference, CEO Steve McMillan and Executive Vice President - Global Marketing & Sales Lee Chaden discussed the company's long-term strategies to increase its profitability and its growth rate. The four basic principles governing the company's actions are (1) Invest in the organization; (2) Focus on cash generation; (3) Develop innovative products; and (4) Invest in the key brands. SLE expects to generate $1.9 billion ($2.40 per share) of operating cash flow in F2004, while spending less than $600 million on capital expenditures, down from $750 million last year. It increased its annual dividend by 21% last August, and thus far in F2004 has repurchased $350 million worth of stock at an average cost of $19.55 per share. As interest rates rise, an increasing portion of free cash flow will be devoted to paying down debt. Meanwhile, product development and marketing dollars are being concentrated increasingly on its key brands, which have the strongest consumer recognition, the highest profit margins, and the most attractive growth potential. We believe the payoff from SLE's strategies will become increasingly apparent over the next several years.

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Although the SLE shares are trading near their 12-month high, they capitalize estimated calendar 2004 EPS of $1.70 at only 13.0 times, a 24% discount to the average of 17.2 for the leading packaged-foods companies, and one of the lowest multiples of all the stocks we follow. The dividend yield is 3.4%, more than double that of the S&P 500. We are reemphasizing our Strong Buy ("1") rating, and raising our 12-month target price range from $25-$26 to $26-$27. For further information, please see our Company Summary dated January 23, 2004.

General Mills in 2003 and 2004 has shown one of the weakest market performances in the food industry. Since January 1, 2003, the shares are down 2%, compared with an average gain of 18% for our 16-stock food universe, and a 30% rise for the S&P 500. The weakness reflects lower than expected earnings growth, including a further reduction of guidance at last week's conference, as a result of volume declines in some product lines and rising commodity costs. Additional factors affecting the stock price have been concerns about the eventual sale of the 50 million GIS shares still owned by Diageo, and an SEC investigation of the company's sales practices. We continue to have confidence in GIS's ability to increase sales and earnings over the long term at a rate exceeding most other food companies, as in the past, through product innovation, creative marketing, and margin expansion through productivity gains, and believe the relative weakness in the share price, and the resulting below-average P/E ratio, have created an unusually attractive buying opportunity.

At the beginning of F2004 (May), management projected EPS for the year, before nonrecurring charges, at $2.95 - $3.05, up 11% - 15% from last year's $2.05, including a $0.05 benefit from an extra week in F4Q-04. Expectations were reduced to $2.85 - $2.95, up 8% -11%, in December, and at the CAGNY meeting management stated that results were likely to be at the low end of that range. This year's slower than expected earnings progress is partly attributable to factors affecting all of the food companies, including higher energy and ingredient costs, the popularity of low-carbohydrate diets, and a strike against major California supermarket chains that has been under way since October. Company-specific issues include a continued weak trend for Pillsbury refrigerated dough products, lower volume in breakfast cereals (after a strong F2003), as Kellogg has gained market share, and disappointing results in the Bakeries and Foodservice segment, whose earnings had been expected to turn up this year, following the completion of a major manufacturing realignment program. Steps have been taken to deal with all of these issues, including the introduction of new low-carb products in the cereal, yogurt, soymilk and soup categories. We expect that management's efforts, coupled with a likely settlement of the California strike, will lead to a resumption of healthier earnings growth over the next several quarters.

GIS's financial strategies continue to emphasize a reduction of the debt incurred in the Pillsbury acquisition in October 2001. Despite its reduced earnings guidance, management still expects to pay down $450 million of debt by the end of F2004, and another $1.55 billion over the next two years. Lower interest expense added nearly $0.04 to EPS in this year's first half, and should be a continued source of earnings growth going forward.

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At the conference, CEO Steve Sanger provided a detailed rebuttal to the issues raised by the SEC, which appear to center on alleged trade loading in the February 2003 quarter, in order to inflate earnings and boost the stock price. The company believes that its sales practices and related accounting comply with all applicable rules and regulations. Whatever the ultimate outcome of the SEC proceedings may be, we do not expect it will have a material impact on the company either operationally or financially.

Historically, General Mills has sold at a premium to other food stocks, as a result of its superior sales and earnings growth over the years. The present multiple of 15.2 times estimated calendar 2004 EPS of $3.03 represents an unjustified 12% discount to the group average, and reflects short-term disappointments rather than a change in the long-term prospects. We believe purchases at this price will be well rewarded over time. There is no change in our "1" (Strong Buy) rating or our 12-month target price of $57-$58. Additional comments can be found in our Company Summary of December 23, 2003.

Dean Foods, the nation's leading dairy products marketer, since its creation through a merger in December 2001 has gained recognition as one of the most dynamic companies in the food industry. Dean's strategy is to maximize the profits of its large but mature fluid milk operations through plant consolidation and increased efficiency, while utilizing the expertise, infrastructure, and a portion of the earnings and cash flow generated by that business to build a portfolio of brand-name refrigerated foods and beverages with superior profit margins and attractive growth potential. Considerable progress has been achieved in just two years, inasmuch as through rapid internal growth and a number of selective acquisitions, annual sales of non-dairy products have increased to $2.3 billion, or 24% of the company total. Moreover, despite heavy marketing expenditures, as well as rising milk costs, net income increased 15% in 2003, with EPS up 11% to a record high of $2.05.

Dean's principal growth brands, whose results will be reflected in a new Branded Products Group segment beginning in 2004, are Silk and Sun Soy soymilk, Dean's dips, Marie's salad dressings, Land O Lakes lactose-free milk and other items, Hershey's milks and milkshakes, International Delight coffee creamers, and its latest acquisition, Horizon organic dairy products. Management is continuing to look at other potential acquisitions that would fit in with its growth strategies. Branded Products marketing expenditures will continue high in 1H-04, and margins for the segment will likely be in the low to mid-single digits (versus 4%-5% a year ago). However, management expects a rise "well into the double-digits" in the second half, which implies strong year-to-year earnings gains for the group, particularly in 3Q, when its profits last year were minimal.

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One factor contributing to increased profitability in the Branded Products segment this year will be the expiration of quarterly performance bonuses payable to the management of White Wave (former owner of Silk) under the terms of the May 2002 acquisition. The last such accrual is due in March 2004. The charge in 4Q-03 reduced EPS by about $0.02, and a similar impact is expected in 1Q-04. In addition, the California supermarket strike is estimated to have reduced earnings for Dean as a whole by about $0.015 per share in the December quarter. There will be a continuing impact in the current period as well, but recent reports suggest that a settlement may be imminent.

The Dairy Group performed extremely well in 2003, as segment profits rose 16% on a 1% sales gain. The operating margin rose to 8.7% of sales, versus 7.6% in 2002, the first full year of the Dean/Suiza merger. The company benefited from low raw milk costs in the first half. Prices rose sharply in the second half, but to management's credit, margins and profits continued strong, reflecting operating efficiency gains and a prompt pass-through of costs through higher selling prices. In 4Q alone, Dairy sales increased 11%, largely reflecting pricing, while operating income increased 18%, representing a margin of 8.0%, versus 7.6% a year earlier. As in the past, we expect that management will continue to adjust prices quickly to reflect any increases in raw milk costs. We expect Dairy Group margins to rise further over time, as the company continues to gain operating efficiency, and as the weaker players in the industry reduce capacity.

Management projects total sales at about $10 billion (versus $9.2 billion) in 2004, and foresees EPS in the $2.28- $2.34 range (up 11%-14%), excluding any impact from further acquisitions, divestitures, or one-time charges. March quarter EPS are estimated at $0.44 - $0.46, versus $0.42 a year ago, for a 5%-10% increase. In view of Dean's aggressive acquisition strategy, earnings progress may vary from year to year, but we believe annual EPS growth in the 10%-15% range should be achievable over the foreseeable future. Management has no immediate plans to initiate a dividend, believing that strategic acquisitions and share buybacks are better uses of the company's funds at present.

Dean Foods' attractions have not gone unrecognized, as its share price rose 33% in 2003, and another 11%, to a new all-time high, thus far in 2004. However, its P/E ratio of 15.6 times does not seem excessive for a company that may well prove to be one of the outstanding growth stories in the food industry over the next few years. We are maintaining our "1" (Strong Buy) rating, and are raising our target price from $37-$38 to $42-$43.

Analyst's Certification: I Robert J. Cummins certify that the views expressed in this research report accurately reflect my personal views about the subject companies and their securities. I also certify that I have not been and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendations in this report. I have a long position in the shares of Sara Lee, General Mills, and Dean Foods. Other reports issued by me are: ConAgra Foods ($26) 12/30/03-Strong Buy; General Mills ($45.50) 12/23/03-Strong Buy; Del Monte Foods ($10.40) 12/19/03-Strong Buy; PepsiCo ($48) 2/6/04-Strong Buy; SYSCO Corporation ($38) 1/27/04-Strong Buy; Sara Lee ($20.30) 1/23/04-Strong Buy; Sensient Technologies ($20) 10/21/03-Strong Buy; Heinz ($35.50) 10/10/03-Strong Buy ; Dial Corporation ($22.70) 10/24/03-Neutral; Performance Food Group ($32) 2/3/04- Strong Buy.