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COMPANY SUMMARY

Wednesday, May 18, 2005

Speaker: Bob Cummins

Food Industry Comment:

Dean Foods (DF-\$38.50), the leading dairy company and a rapidly growing marketer of brand-name foods and beverages, sold off sharply last fall on disappointing earnings news, but since then has recovered to a new high, including an 11% rise since May 4th, when DF reported better than expected 1Q results and raised its EPS guidance for the year. Having gained 36% from last year's low, the shares may consolidate for a while, but they remain reasonably valued at 16.5 times the new midrange forecast of \$2.31, compared with an average of 17.7 times for our food stock universe. Prospects for steady earnings and cash flow growth in dairy products, exciting opportunities in branded foods, and the planned spinoff of DF's Specialty Foods unit under a proven turnaround team make this one of our most interesting buy ideas for aggressive investors. We continue to rate the stock "1" (Strong Buy), and based on the increased earnings guidance are raising our 12-month target price from \$40-\$41 to \$42-\$43.

In Dean's yearend earnings release, issued on February 10th, management estimated 1Q-05 EPS at \$0.41-\$0.43, 4%-9% below the year-earlier \$0.45. That signalled a resumption of the year-to-year earnings declines seen in the June and September, 2004 periods, reversing a healthy gain to an all-time high in the December quarter. Thus, while actual results in 1Q-05 were mixed, analysts were pleased to see EPS from operations of \$0.48, up 7% from a year ago, and a new high for the period. The earnings increase reflected a 7% increase in Dairy Group profits and a 4% decline in shares outstanding, attributable to buybacks. WhiteWave Foods, the branded products division, posted a small earnings gain, while Specialty Foods and Dean's Spanish subsidiary were down. Management projects 2Q adjusted EPS of \$0.54-\$0.56, up 15%-19% from a depressed \$0.47 a year ago, reflecting a recovery in Dairy and stronger progress at WhiteWave. The new expectation for the year is \$2.28-\$2.33, up 13%-15%, versus a previous \$2.20-\$2.30. Barring a repeat of last year's sharp runup in milk costs, we believe the new range could prove to be conservative. Management's earnings guidance assumes ownership of Specialty Products for a full 12 months. Once Specialty is spun off to shareholders in the third quarter, we expect that results will be adjusted for continuing operations.

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See pages 4 to 6 of report for important disclosures and Analyst's Certification.

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The **Dairy Group** had a difficult year in 2004, as price increases failed to keep pace with the most dramatic increase in raw milk costs in history. The problem was compounded by the fact that the division's results had been unusually strong in 2003, with profit margins at record highs, thus creating a difficult comparison. Sales in 2004 rose nearly 15%, mainly due to higher prices, but profits declined 7%. Based on results so far, 2005 promises to be a more normal year. Milk costs remain historically high, but well below the peak. Sales growth of 12% in 1Q-05 again was heavily influenced by pricing, but the company continues to gain market share, as shown by a 1.2% increase in fluid milk volume, versus a decline for the industry. Operating income rose 7% to a new high for the period. Profits for the division were particularly weak in last year's second and third quarters, and we look for a continued recovery. Moreover, while milk prices will always fluctuate, we consider last year's extreme volatility a unique occurrence, and not indicative of increased risks in an industry that has typically been relatively stable.

Dean's dairy business, the leading company in a mature industry, is largely a cash cow, although it does have the potential for continued earnings growth based on further competitive gains, increasing efficiency, and periodic accretive acquisitions. On the other hand, **WhiteWave Foods** (formerly the Branded Products Group) whose annual sales of \$1.2 billion account for only 11% of the corporate total, is expected to be the company's principal growth driver, since it emphasizes proprietary, high-margin, brand-name products that cater to consumers' changing lifestyles, and are responsive to marketing and innovation. The segment posted a strong 19% increase in sales in 1Q-05, including growth of 36% for Horizon Organic products, 27% for Silk soymilk, 18% for International Delight coffee creamers, and 11% for Land O' Lakes products. Operating income, which increased dramatically for the full year 2004, rose only 5% in 1Q-05, reflecting an unusually large increase in marketing expenditures, as well as procurement problems related to short supplies of organic milk during the winter. Neither issue is expected to affect earnings materially over the balance of the year.

Last August, Dean announced plans to combine the three separate units comprising its Branded Products Group (Silk, Horizon Organic, and Dean National Brands) into a single company headquartered in Boulder, Colorado, named WhiteWave Foods. Steve Demos, who joined Dean's management team through the Silk acquisition in 2002, was named president of the newly formed company, reporting to DF Chairman and CEO Gregg Engles. In March, 2005, Mr. Demos resigned unexpectedly, and Mr. Engles assumed his responsibilities on an interim basis, pending a search for a new WhiteWave president. Management states that the recruiting process is moving expeditiously, and that a decision will be made in the near future. Meanwhile, the consolidation of the three businesses seems to be proceeding on schedule, and should be completed by early 2006. Mr. Demos's resignation does not seem to be having a material impact either on the reorganization or on the performance of the brands.

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As discussed in our Company Summary dated February 1, 2005, Dean plans to spin off the smallest of its three business segments, the **Specialty Foods Group** (annual sales of \$700 million, or 6.5% of the total) to shareholders in a tax-free transaction. A favorable ruling has been received from the IRS, and the new company, which will be debt-free, will be spun off sometime in the third quarter. While this business had some setbacks in the past year, attributable in large measure to an operation that has now been discontinued, it is well-established in its major product lines and has had respectable results over the years, while earning the highest profit margins among Dean's three segments (14.8% of sales in 2003). The most intriguing aspect of the spinoff is the new management team that took charge at Specialty Foods (soon to become Tree House Foods) at the time of the January 27th announcement: Sam Reed and David Vermylen, who took charge at Keebler in 1996, when it was losing money, and turned it into one of the fastest growing companies in the food industry. Based on their track record, Dean Foods' holders may want to consider adding to their positions in Tree House following the distribution, particularly if the newly-issued shares come under selling pressure.

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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 position in the shares of Dean Foods. Other Dean Foods reports issued by me are: 2/27/04 (\$36) – Strong Buy – Target \$42-\$43; 5/7/04 (\$35) – Strong Buy – Target \$41-\$42; 5/18/04 (\$34) – Strong Buy – Target \$41-\$42; 8/6/04 (\$35.40) – Strong Buy – Target \$41-\$42; 9/10/04 (\$30.80) – Strong Buy – Target \$37-\$38; 11/9/04 (\$32.50) – Strong Buy – Target \$38-\$39; 12/14/04 (\$32) – Strong Buy – Target \$38-\$39; 2/1/05 (\$35.30) – Strong Buy – Target \$40-\$41.

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.

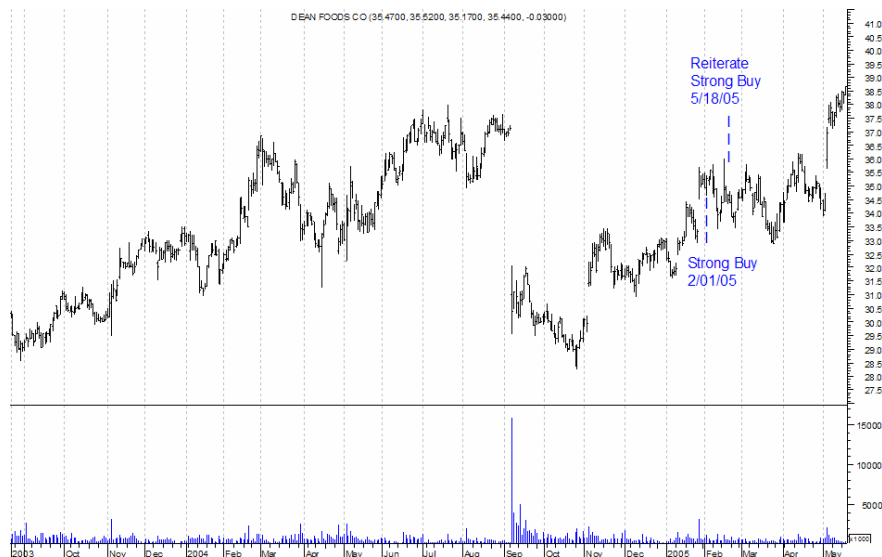
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