



140 BROADWAY NEW YORK, NY 10005

ROBERT J. CUMMINS, CFA
(212) 651-0815

TRADING DESK
(212) 320-3001

JANUARY 22, 2009

COMPANY SUMMARY

Thursday, January 22, 2009

Speaker: Bob Cummins

Rating: Strong Buy

Food Industry Comment:

Del Monte Foods (DLM-\$6.90)

	<u>F2008</u>	<u>F2009E</u>	<u>F2010E</u>	<u>Dividend/ Yield</u>	<u>Shares Out. (mil.)</u>	<u>12-Mo. Range</u>	<u>12-Mo. Target</u>
EPS (a)	\$0.69	\$0.60	\$0.75	\$0.16	198.2	\$10-\$5	\$9-\$10
P/E	-	11.5x	9.2x	2.3%			

(a) April fiscal years. Excludes nonrecurring gains and charges. Continuing operations, excluding StarKist.

We are restoring our Strong Buy (“1”) rating on Del Monte Foods, having shaded our rating to a more moderate “2” (Buy) last summer when earnings were under pressure. Our more positive view reflects three principal developments:

- (1) Faced with rising costs, the company has raised prices aggressively, as evidenced by a 13.4% increase in revenues for the six months ended in October. In conjunction with the F2Q release, management raised its projection of F2009 sales growth from 6%-8% to 8%-10%, and its EPS expectation from \$0.58 (down 16% from last year) to \$0.60 (down 13%). We expect profit margins to recover gradually as lower input costs flow through the P&L statement.
- (2) By divesting a number of its lower-margin Consumer Products businesses and expanding its highly profitable and faster-growing Pet Products operations through the acquisition of Meow Mix and Milk-Bone in 2006, DLM has enhanced its overall profit margins and growth potential, as well as possibly adding to its appeal as a takeover candidate. We estimate that, pro forma for the sale of the StarKist Seafood business in October, 2008, Pet Products in the past 12 months accounted for 45% of sales and 59% of operating income, up from 26% and 36% in the April 2005 fiscal year. Both business segments have suffered margin erosion due to inflation pressures, but the Pet operating margin remains nearly twice that of Consumer, at 13.6% of sales versus 7.7%.

(Continued)

See page 10 for Analyst's Certification, pages 10-11 for Important Disclosures and pages 11-12 for Other Disclosures and Disclaimers

(Continued)

- (3) In the past 12 months, the company has made two significant management changes. Nils Lommerin joined DLM in 2003 as Executive VP of Human Resources, after previous experience at PepsiCo, Kraft, and Oxford Health Plans. The following year, he became EVP of Operations. In January, 2008, he was appointed Chief Operating Officer, a new position, with responsibility for Marketing, R&D, Operations and Supply Chain, and with the Senior VPs for Pet Products and Consumer Products reporting to him.

In May, 2008, the company recruited William Pearce, age 45, an executive with over 20 years of food industry experience, most recently at Taco Bell, and before that at Campbell Soup and Procter & Gamble (11 years). His title at DLM is Senior VP and Chief Marketing Officer, reporting to Mr. Lommerin. It was also announced that the Senior VPs heading the Consumer and Pet divisions would be leaving the company after a transition period.

Earnings from continuing operations in the seasonally low first quarter ended in July were disappointing. Sales showed a strong 16% gain, reflecting price increases, higher Consumer Products volume, and new product introductions. Operating income was weak, particularly in the Pet segment, and despite lower interest expense and a 4% reduction in average shares outstanding, the company reported a loss of \$0.04 per share, versus modest profits in prior years.

Results in the October quarter, reported in early December, were considerably more encouraging, and slightly above management's expectations. Sales rose more than 11%, and although profit margins remained below normal, both of the business segments reported small increases in operating income. Higher corporate and other expense led to a 5% decline in pretax income, but EPS rose 14%, to \$0.16 versus \$0.14, as a result of an unusually low tax rate and a 3% decline in average shares outstanding.

Typically, Del Monte earns about 70% of its annual profits in the second half of the fiscal year (November – April), and management's revised annual guidance of \$0.60 per share, which implies EPS of \$0.48 in the second half, fits that pattern. The sizable price increases taken to date will be beneficial to profit margins, although increased marketing expenditures, estimated to rise 30%-35% for the year as a whole, will be a partial offset. Volume should benefit if consumers continue to eat more meals at home instead of in restaurants. The sale of StarKist closed in early October, generating after-tax proceeds of about \$300 million, and those funds have been applied to reduce debt, which based on our calculations could lower annual interest expense by \$20 million, or \$0.065 per share after taxes (\$0.016 per quarter).

Several caveats should be mentioned. On last month's conference call, while raising its earnings guidance for the year, management cautioned that EPS for the January quarter would likely be below last year's \$0.25, reflecting significantly increased marketing expenditures and the absence of a one-time gain a year ago. Also, DLM's substantial price increases, while necessary

(Continued)

(Continued)

to restore normal profit margins, have led to a weakening of volume for some product lines. In addition, in view of the weak economy, some consumers have traded down to cheaper private label products to save money. Management has monitored both trends closely, and states that their impact has been in line with expectations.

On the positive side, in addition to the pass-through of commodity prices through pricing actions, the company has an aggressive cost reduction program under way, which is expected to yield annual productivity benefits of \$50 million. Meanwhile, despite a challenging economic environment, the company continues to roll out new products in both the Consumer and Pet areas. Management states that tomato and vegetable products, as well as dry pet foods, are seeing particularly strong sales growth. Finally, we consider the StarKist sale a positive move, since despite its strong brand recognition and annual sales of \$560 million, or 15% of the company total, its profits were highly volatile due to wide fluctuations in fish costs.

Management states that despite turmoil in the financial markets, the company has strong relationships with its lenders, and has access to funds when needed. Over the past four quarters, DLM's total debt, net of cash, has averaged \$1.94 billion, or \$1.64 billion after applying the funds from StarKist. For the same period, net income from operations, depreciation and amortization, deferred taxes, and other non-cash items amounted to \$286 million, while capital expenditures and dividend payments totaled \$123 million, resulting in net cash generation of \$163 million. Book equity at the end of October was \$1.51 billion, or \$7.60 per share. At the current depressed price, the company's equity market value is \$1.39 billion, or \$6.90 per share. Thus, this may be the only major food company whose shares are trading below book value.

Table 1: Del Monte Foods Company - Quarterly Data (millions except EPS) (a)

	F2009	F2008	F2007 (d)	F2006	F2006	F2006
		Cont. Ops. (f)		Cont. Ops. (c)		
July						
Net Sales	\$726.2	\$626.8	\$674.1	\$616.6	\$671.1	+7%
Cost of Products Sold	566.8	457.9	505.1	466.7	509.3	+8
Gross Profit	159.4	168.9	169.1	149.9	161.8	+8
SG&A Expenses	146.1	127.6	122.1	108.1	114.4	(3)
Operating Income	13.3	41.3	47.0	41.8	47.4	(3)
Interest Expense	27.6	32.8	30.5	21.2	21.2	
Other Expense (Income)	(1.1)	0.6	0.3	-	-	
Total	26.5	33.4	30.8	21.2	21.2	+16
Income Before Taxes	(13.2)	7.9	16.2	20.6	26.2	
Income Taxes	(5.2)	2.9	4.3	7.8	9.9	
Net Income	\$(8.0)	\$5.0	\$11.9	\$12.8	\$16.3	+17%
Diluted Shares	197.7	205.6	204.0	210.5	210.5	(1)%
Earnings Per Share	\$(0.04)	\$0.02	\$0.06	\$0.06	\$0.08	+33
Gross Margin	21.9%	26.9%	25.1%	24.3%	24.1%	
SG&A/Sales	20.1	20.4	18.1	17.5	17.0	
Operating Margin	1.8	6.6	7.0	6.8	7.1	
Effective Tax Rate	39.4%	36.7%	26.7%	37.9%	37.8%	
October						
Net Sales	\$901.0	\$808.2	\$893.5	\$793.2	\$882.3	+4%
Cost of Products Sold	666.5	588.5	644.9	580.6	650.8	+3
Gross Profit	234.5	219.7	248.6	212.6	231.5	+3
SG&A Expenses	155.0	140.3	146.2	129.0	139.1	(6)
Operating Income	79.5	79.4	102.4	83.6	92.4	(6)
Interest Expense	30.1	41.0	42.9	22.9	22.9	
Other Expense (Income)	6.4	(1.7)	0.1	1.1	1.1	
Total	36.5	34.2	43.0	24.0	24.0	(4)
Income Before Taxes	43.0	45.2	59.4	59.6	68.4	(4)
Income Taxes	11.6	17.5	22.8	22.3	25.7	(4)%
Net Income	\$31.4	\$27.7	\$36.6	\$37.3	\$42.7	(4)%
Diluted Shares	198.6	205.4	203.5	202.2	202.2	(5)%
Earnings Per Share	\$0.16	\$0.14	\$0.18	\$0.18	\$0.21	-
Gross Margin	26.0%	27.2%	27.8%	26.8%	26.2%	
SG&A/Sales	17.2	17.4	16.4	16.3	15.7	
Operating Margin	8.8	9.8	11.5	10.5	10.5	
Effective Tax Rate	27.0%	38.7%	38.4%	37.4%	37.6%	

(Continued)

Table 1: Continued (a)

	F2009	F2008	F2007 (d)	F2006	F2006
		Cont. Ops. (f)			Cont. Ops. (c)
January					
Net Sales	\$1,001.1	+10%	\$907.2	+15%	\$789.6
Cost of Products Sold	747.9		649.1		571.3
Gross Profit	253.2	(2)	258.1	+18	218.3
SG&A Expenses	138.4		135.4		125.8
Operating Income	114.8	(6)	122.7	+33	92.5
Interest Expense	38.8		42.2		22.7
Other Expense (Income)	(1.1)		(0.6)		(0.1)
Total	37.7		41.6		22.6
Income Before Taxes	77.1	(5)	81.1	+16	69.9
Income Taxes	26.7		28.0		24.7
Net Income	\$50.4	(5)%	\$53.1	+17%	\$45.2
Diluted Shares	201.4	(1)%	204.4	+1%	201.9
Earnings Per Share	\$0.25	(4)	\$0.26	+18	\$0.22
Gross Margin	25.3%		28.5%		27.6%
SG&A/Sales	13.8		15.0		15.9
Operating Margin	11.5		13.5		11.7
Effective Tax Rate	34.6%		34.5%		35.3%
April					
Net Sales	\$1,044.1	+11%	\$940.1	+18%	\$799.2
Cost of Products Sold	789.4		697.1		595.3
Gross Profit	254.7	+5	243.0	+19	203.9
SG&A Expenses	144.2		142.4		117.0
Operating Income	110.5	+10	100.6	+16	86.9
Interest Expense	32.5		39.0		21.4
Other Expense (Income)	(0.3)		0.6		0.1
Total	32.2		39.6		21.5
Income Before Taxes	78.3	+28	61.0	(7)	65.4
Income Taxes	24.5		15.9		23.7
Net Income	\$53.8	+19%	\$45.1	+8%	\$41.7
Diluted Shares	199.3	(3)%	205.0	+1%	202.9
Earnings Per Share	\$0.27	+23	\$0.22	+5	\$0.21
Gross Margin	24.4%		25.8%		25.5%
SG&A/Sales	13.8		15.1		14.6
Operating Margin	10.6		10.7		10.9
Effective Tax Rate	31.3%		26.1%		36.2%

(a) Excludes nonrecurring gains and charges.

(b) 14 weeks. (c) Continuing operations. Reflects sale of soup and infant feeding businesses.

(d) Includes acquisitions of Meow Mix from May '19 and Milk-Bone from July 2, 2006. July quarter excludes \$10 million pretax gain on divestiture.

(f) Continuing operations. Reflects sale of StarKist Seafood.

Table 2: Del Monte Foods Company - Quarterly Segment Data (millions) (a)

	F2009	F2008	F2007 (d)	F2006 Cont. Ops. (c)	F2006	F2005
July						
Net Sales:						
Consumer Products	\$383.5	\$444.6	\$420.6	\$422.2	\$476.7	\$447.0
Pet Products	342.7	308.9	253.5	194.4	194.4	179.0
Total	\$726.2	\$753.5	\$674.1	\$616.6	\$671.1	\$626.0
Operating Income:						
Consumer Products	\$9.8	\$14.2	\$15.8	\$30.0	\$34.9	\$39.4
Pet Products	15.4	47.8	43.5	22.8	23.5	17.3
Total	25.2	62.0	59.3	52.8	58.4	56.7
Corporate	(11.9)	(12.0)	(12.3)	(11.0)	(11.0)	(7.6)
Total Income	\$13.3	\$50.0	\$47.0	\$41.8	\$47.4	\$49.1
Operating Margin:						
Consumer Products	2.6%	3.2%	3.8%	7.1%	7.3%	8.8%
Pet Products	4.5	15.5	17.2	11.7	12.1	9.7
Total	3.5	8.2	8.8	8.6	8.7	9.1
Corporate	(1.7)	(1.6)	(1.8)	(1.8)	(1.6)	(1.3)
Total Income	1.8%	6.6%	7.0%	6.8%	7.1%	7.8%
October						
Net Sales:						
Consumer Products	\$491.9	\$593.5	\$566.5	\$584.4	\$673.5	\$629.1
Pet Products	409.1	344.6	327.0	208.8	208.8	217.5
Total	\$901.0	\$938.1	\$893.5	\$793.2	\$882.3	\$846.6
Operating Income:						
Consumer Products	\$45.8	\$45.8	\$52.6	\$63.7	\$71.7	\$76.7
Pet Products	45.7	48.7	63.4	32.5	33.3	33.2
Total	91.5	94.5	116.0	96.2	105.0	109.9
Corporate	(12.0)	(9.6)	(13.6)	(12.6)	(12.6)	(12.0)
Total Income	\$79.5	\$84.9	\$102.4	\$83.6	\$92.4	\$97.9
Operating Margin:						
Consumer Products	9.3%	7.7%	9.3%	10.9%	10.6%	12.2%
Pet Products	11.3	14.1	19.4	15.6	15.9	15.3
Total	10.2	10.1	13.0	12.1	11.9	13.0
Corporate	(1.3)	(1.0)	(1.5)	(1.6)	(1.4)	(1.4)
Total Income	8.8%	9.1%	11.5%	10.5%	10.5%	11.6%

(Continued)

Table 2: Continued (a)

	F2009	F2008	F2008 Cont. Ops. (f)	F2007 (d)	F2006 Cont. Ops. (c)	F2006	F2005
January							
Net Sales:							
Consumer Products		\$624.8	+13%	\$551.0	(2)%	\$562.3	\$638.3
Pet Products		376.3	+6	356.2	+57	227.3	223.0
Total		<u>\$1,001.1</u>	+10%	<u>\$907.2</u>	+15%	<u>\$789.6</u>	<u>\$861.3</u>
Operating Income:							
Consumer Products		\$55.8	+3%	\$54.3	(9)%	\$59.6	\$74.2
Pet Products		69.9	(15)	82.3	+81	45.4	41.1
Total		125.7	(8)	136.6	+30	105.0	115.3
Corporate		(10.9)	-	(13.9)	-	(12.5)	(7.6)
Total Income		<u>\$114.8</u>	(6)%	<u>\$122.7</u>	+33%	<u>\$92.5</u>	<u>\$107.7</u>
Operating Margin:							
Consumer Products		8.9%		9.9%		10.6%	11.6%
Pet Products		18.6		23.1		20.0	18.4
Total		12.6		15.1		13.3	13.4
Corporate		(1.1)		(1.5)		(1.5)	(0.9)
Total Income		<u>11.5%</u>		<u>13.5%</u>		<u>11.7%</u>	<u>12.5%</u>
April							
Net Sales:							
Consumer Products		\$642.4	+8%	\$594.9	+4%	\$573.4	\$626.6
Pet Products		401.7	+16	345.2	+53	225.8	220.4
Total		<u>\$1,044.1</u>	+11%	<u>\$940.1</u>	+18%	<u>\$799.2</u>	<u>\$847.0</u>
Operating Income:							
Consumer Products		\$51.3	+21%	\$42.3	(28)%	\$59.1	\$62.1
Pet Products		76.8	+7	72.1	+75	41.1	48.9
Total		128.1	+12	114.4	+14	100.2	111.0
Corporate		(17.6)	-	(13.8)	-	(13.3)	(12.4)
Total Income		<u>\$110.5</u>	+10%	<u>\$100.6</u>	+16%	<u>\$86.9</u>	<u>\$98.6</u>
Operating Margin:							
Consumer Products		8.0%		7.1%		10.3%	9.9%
Pet Products		19.1		20.9		18.2	22.2
Total		12.3		12.2		12.5	13.1
Corporate		(1.7)		(1.5)		(1.6)	(1.5)
Total Income		<u>10.6%</u>		<u>10.7%</u>		<u>10.9%</u>	<u>11.6%</u>

(a) Pro forma for Heinz acquisition. Excludes nonrecurring items. (b) 14 weeks.

(c) Continuing operations. Reflects sale of soup and infant feeding businesses.

(d) Includes acquisitions of Meow Mix from May 19 and Milk-Bone from July 2, 2006. July quarter excludes \$10 million pretax gain on divestiture.

(f) Continuing operations. Reflects sale of StarKist Seafood.

Table 3: Del Monte Foods Company - Quarterly Operating Profit Margins

	F2009	F2008	F2008	F2008	F2007	F2006	F2006	F2006	F2005	F2004	F2004	F2003
			Cont. Ops. (c)			Cont. Ops. (a)				Cont. Ops.		
July												
Consumer Products	2.6%	3.0%		(b)	3.8%	7.1%	7.3%	8.8%	8.3%	8.3%	12.6%	
Pet Products	4.5	14.2		17.2	11.7	11.7	12.1	9.7	16.8	16.0	18.0	
Total	3.5	8.5		8.8	8.6	8.6	8.7	9.1	10.6	10.5	14.1	
Corporate	(1.7)	(1.9)		(1.8)	(1.8)	(1.8)	(1.6)	(1.3)	(1.0)	(0.9)	(0.8)	
Total	1.8%	6.6%		7.0%	6.8%	6.8%	7.1%	7.8%	9.6%	9.6%	13.3%	
October												
Consumer Products	9.3%	9.5%		9.3%	10.9%	10.9%	10.6%	12.2%	12.0%	11.9%	10.3%	
Pet Products	11.3	13.1		19.4	15.6	15.6	15.9	15.2	19.0	16.4	20.2	
Total	10.2	11.0		13.0	12.1	12.1	11.9	13.0	13.7	13.1	13.1	
Corporate	(1.3)	(1.2)		(1.5)	(1.6)	(1.6)	(1.4)	(1.4)	(1.2)	(0.9)	(0.9)	
Total	8.8%	9.8%		11.5%	10.5%	10.5%	10.5%	11.6%	12.5%	12.2%	12.2%	
January												
Consumer Products				9.9%	10.6%	10.6%	10.8%	11.6%	13.7%	13.7%	12.7%	
Pet Products				23.1	20.0	20.0	20.4	18.4	22.3	21.1	21.1	
Total				15.1	13.3	13.3	13.3	13.4	15.9	14.9	14.9	
Corporate				(1.5)	(1.6)	(1.6)	(1.5)	(0.9)	(0.8)	(0.4)	(0.4)	
Total				13.5%	11.7%	11.7%	11.8%	12.5%	15.1%	14.5%	14.5%	
April												
Consumer Products				7.1%	10.3%	10.3%		9.9%	13.5%	13.5%	10.8%	
Pet Products				20.9	18.2	18.2		22.2	25.4	19.5	19.5	
Total				12.2	12.5	12.5		13.1	16.5	13.1	13.1	
Corporate				(1.5)	(1.6)	(1.6)		(1.5)	(0.9)	(0.2)	(0.2)	
Total				10.7%	10.9%	10.9%		11.6%	15.6%	12.9%	12.9%	

(a) Reflects divestiture of soup and infant feeding businesses. (b) Includes acquisitions of Meow Mix on May 19 and Milk-Bone on July 2. July quarter excludes \$10 million pretax gain on divestiture. (c) Continuing operations. Reflects sale of StarKist Seafood.

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. Other Del Monte Foods reports issued by me are: 3/4/05 (\$11) – Strong Buy – Target \$13-\$14; 7/20/05 (\$11.20) – Strong Buy – Target \$13-\$14; 9/29/05 (\$10.70) – Strong Buy – Target \$13-\$14; 12/7/05 (\$10.20) – Strong Buy – Target \$13-\$14; 1/12/06 (\$10.4) – Strong Buy – Target \$13-\$14; 3/30/06 (\$11.90) – Strong Buy – Target \$14-\$15; 6/15/06 (\$11.30) – Strong Buy – Target \$14-\$15; 7/26/06 (\$10.50) – Strong Buy – Target \$14-\$15; 9/15/06 (\$10.20) – Strong Buy – Target \$14-\$15, 12/7/06 (\$11.25) – Strong Buy – Target \$14-\$15; 3/19/07 (\$11.15) – Strong Buy – Target \$14-\$15; 6/27/07 (\$12) – Strong Buy – Target \$15-\$16; 9/5/07 (\$10.60) – Strong Buy – Target \$14-\$15; 12/19/07 (\$8.80) – Strong Buy – Target \$12-\$13; 3/4/08 (\$9.15) – Strong Buy – Target \$12-\$13; 6/18/08 (\$7.40) – Strong Buy – Target \$9-\$10.

Important Disclosures

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.

Sell ("4"). The stock's total return is expected to be below the average total return of the analyst's industry coverage universe over the next 12 months.

Analyst's Ratings Distribution

		% Investment Banking
Buy*	63%	0%
Hold	37%	0%
Sell	0%	0%

*Includes companies rated "Strong Buy" and "Buy."

Unless otherwise specified, the time frame for price targets included in this report is 12 months.

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.

The principal risks to the achievement of our price targets, in addition to general market trends, are disappointing earnings and a lower than expected price/earnings ratio.

Important Disclosures, continued



The analyst and his household members hold positions in the common shares of the subject company in various accounts.

Capital Management Associates holds positions in the common shares of the subject company in managed accounts.

Neither Shields nor a director, officer or the research analyst has received any compensation for products or services from the subject company in the past 12 months.

Other Disclosures and Disclaimers

This research report and recommendations agree with the personal opinion of the analyst who prepared this report.

Any financial interest that the research analyst or member of the analyst's household or any other individual directly involved with the preparation of this report has in the subject company, has been disclosed in the Important Disclosures section.

Investing is a risky activity and can lead to substantial losses. This report does not provide individually tailored investment advice. It has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The securities discussed in this report may not be suitable for all investors. Shields & Company recommends that investors independently evaluate particular investments and strategies, and encourages investors to seek the advice of a financial adviser. The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives.

Other Disclosures and Disclaimers, continued

This report is not an offer to buy or sell any security or to participate in any trading strategy. Shields & Company and/or its employees not involved in the preparation of this report may have investments in securities or derivatives of securities of companies mentioned in this report, and may trade them in ways different from those discussed in this report. Derivatives may be issued by Shields & Company or associated persons. The firm does not make a market in the shares of the companies mentioned, has no relationship with them, and has not received any compensation from them.

Shields & Company makes every effort to use reliable, comprehensive information, but we make no representation that it is accurate or complete. We have no obligation to tell you when opinions or information in this report change apart from when we intend to discontinue research coverage of a subject company.

Reports prepared by Shields & Company and its research personnel are based on public information. Facts and views presented in this report have not been reviewed by, and may not reflect information known to, professionals in other business areas.

Shields & Company research personnel conduct site visits from time to time but are prohibited from accepting payment or reimbursement by the company of travel expenses from such visits.