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COMPANY SUMMARY Tuesday, March 9, 2004

Speaker: Bob Cummins

Food Industry Comment:

Del Monte Foods (DLM - \$11.10) - We are pleased by DLM's successful integration of the former Heinz product lines, acquired in December, 2002, and even more by management's implementation of product and marketing strategies designed to achieve the maximum long-term potential of the newly acquired brands in the categories of pet foods, pet snacks, tunafish, soup, and baby foods. Results for F3Q (January), released last week, were at the high end of expectations, and management looks for F4Q (April) to be the first to reflect significant benefits from the merger, with EPS up 40% - 60%. We expect strong EPS progress in F2005 that should drive the stock to new highs. At 10.3 times estimated calendar 2004 EPS, the shares remain modestly valued and attractive for purchase. Rated "1" (Strong Buy), with a 12-month target price of \$14- \$15, or 12-13 times projected calendar 2005 EPS of \$1.18.

The company reported favorable results for F3Q (January), with EPS from continuing operations (excluding a small pet food business that is being divested) up 8%, to \$0.27 versus \$0.25. That was at the high end of management's earnings guidance of \$0.23-\$0.27. Net sales were flat, but segment operating income showed a healthy 7% increase, as a result of higher margins for both Consumer Products (13.7%, up 110 basis points) and Pet Products (22.3%, up 30 bp). EPS also benefited from a 9% decline in interest expense, partly offset by higher corporate expenses, a higher tax rate, and slightly more shares outstanding. EPS for the first nine months were \$0.57 versus \$0.62, reflecting lower earnings in F1Q.

The Consumer Products segment, accounting for 76% of sales and 64% of operating income for the year to date, reported a 1% decline in F3Q sales (reflecting fewer selling days than a year ago), but a healthy 8% rise in profits. Management is pleased with the performance of its premium-priced, value-added products under the Del Monte brand. The relaunch of the former Heinz baby food line under the Del Monte Nature's Goodness brand took place in January, and thus had little impact on results for the quarter, but the reception by the trade has been favorable, with several supermarket chains stocking the line for the first time. Tunafish sales and earnings were strong, driven by high-margin StarKist Pouch products, which continue to show double-digit growth. Private-label soups showed significant growth in the quarter, as a result of the penetration of new retail accounts and increased volume with existing customers.

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Pet Products achieved growth of 2% in sales and 4% in operating income for the quarter, reversing weak trends in the first half. Those figures understate the performance of the ongoing brands, inasmuch as management has been reducing sales of low-margin, non-core products, a process that is nearly completed. DLM's key brands, Kibbles 'n Bits, 9Lives, Pup-Peroni, Snausages, and NawSomes, are performing well. As in the other product lines acquired from Heinz, Del Monte's strong relationships with the major mass merchandise and club store chains are leading to expanded retail penetration for its pet foods and snacks.

In the F3Q press release and on the conference call, management reiterated its F2004 earnings guidance of \$0.87-\$0.91 per share, excluding discontinued operations and integration expense. The implied F4Q EPS range of \$0.30- \$0.34 (up from \$0.21 a year ago) includes the benefit of an extra 14th week, which we estimate at about \$0.02 per share. It also reflects growth in most of DLM's businesses, with a particular emphasis on the higher-margin products; increased marketing programs to support a variety of new products; a price increase on pet foods; cost savings from merger synergies; and a continued decline in interest costs.

Three recent news items from Del Monte Foods are worth noting:

- (1) On January 15th, the company announced the sale of 12 million DLM shares by Texas Pacific Group in an underwritten public offering. This transaction, representing about half of TPG's holdings, reduced its DLM ownership from 11.6% to 5.9% of the shares outstanding. The offering was well received by investors, and after a brief dip on the announcement, the share price soon recovered to its previous trading range. The ready absorption of these shares by the market adds to our confidence that the eventual sale of TPG's remaining shares will not have a disruptive effect either.
- (2) On February 2nd, DLM announced an agreement with its lenders to reduce the interest rates on its term loan facility by 150 basis points, and on its revolving credit facility by 100 bp, reflecting its strong cash flow and the reduction of its financial leverage since the Heinz deal. While the cash interest savings will be partly offset by the amortization of capitalized financing fees, management estimates that the agreement will add \$4 million (\$0.02 per share) to net income in F2005.
- (3) On February 6th, the company agreed to sell three specialty pet food brands, with annual sales of \$57 million (7% of division sales), to Royal Canin for \$82.5 million. The after-tax proceeds of \$60-\$65 million, along with the \$175 million of excess cash expected to be generated from operations in F2004, will be used to pay down debt. As cash flow increases and integration costs decline in F2005, we expect debt repayment to accelerate. Total debt at the end of F2004 is estimated at \$1.4 billion, down from \$1.6 billion a year ago.

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 Del Monte Foods. Other reports issued by me are: ConAgra Foods (\$26) 12/30/03-Strong Buy; General Mills (\$46) 2/27/04-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 (\$22) 2/27/04-Strong Buy; Sensient Technologies (\$20) 3/5/04-Buy; Performance Food Group (\$32) 2/3/04- Strong Buy; Dean Foods (\$36) 2/27/04- Strong Buy.

-2-

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