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## COMPANY SUMMARY

Thursday, June 25, 2009

Speaker: Bob Cummins

Rating: Strong Buy

Food Industry Comment:

### Del Monte Foods (DLM-\$8.95)

	<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)	\$0.66	\$0.74	\$0.83	\$0.20	198.3	\$9-\$5	\$11-\$12
P/E	-	-	10.8x	2.2%			

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

Del Monte finished its April 2009 fiscal year with a strong fourth quarter, as sales and EPS increased by an impressive 21% and 46%, respectively, in both cases to new all-time highs. Both figures reflected the inclusion of an extra 14<sup>th</sup> week, but management states that the impact on earnings was fully offset by a significant increase in marketing expenditures. For the year as a whole, sales rose 14%, to \$3.6 billion, and EPS gained 12% to \$0.74 versus \$0.66 in F2008.

Management has done a good job of passing on inflationary cost increases, while emphasizing stepped-up marketing investments to build its brands. The company faces relatively easy earnings comparisons in the first two quarters of F2010 (\$0.04 loss, \$0.14 earnings last year), and management's stated EPS expectation of \$0.76-\$0.80 appears conservative. Although the shares are trading near their recovery high, they remain inexpensive. Moreover, we are favorably impressed by management's more aggressive emphasis on building the business. We are maintaining our "1" (Strong Buy) rating, and are raising our 12-month target price from \$9-\$10 to \$11-\$12. Including the recently increased dividend, that would represent a total return of 25%-36%.

In its 2002 fiscal year, DLM had sales of \$1.7 billion. The evolution of the company since then began in December, 2002, with the purchase of certain businesses from H.J. Heinz Company,

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See page 9 for Analyst's Certification, pages 9-10 for Important Disclosures and pages 10-11 for Other Disclosures and Disclaimers

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including StarKist tuna; 9Lives, Kibbles 'n Bits, Pup-Peroni, Snausages and Pounce pet foods and snacks; and private label soup and infant feeding products. The transaction increased DLM's annual sales by about 50%. The soup and infant feeding businesses were sold to TreeHouse Foods, a private label specialist, in April, 2006. In the meantime, DLM was in the process of a major expansion of its pet foods business, with the purchase of the Meow Mix and Alley Cat brands, in May, 2006, and the Milk-Bone brand, in July, 2006. Along the way, StarKist experienced difficulties, and it was sold to a Korean company in June, 2008. Results for DLM's 2008 fiscal year were restated to reflect the tuna business as a discontinued operation.

The net result of these acquisitions and divestitures is that while Del Monte's traditional canned fruit and vegetable businesses (Consumer Products) continue to grow and prosper, the faster-growing and higher-margin Pet Products now account for 46% of DLM's \$3.6 billion of annual sales, and 53% of segment profits. Pet sales increased 17% in the April, 2009, fiscal year, versus 12% for Consumer, while the operating profit margins were 13.1% and 10.0% respectively.

In the April quarter, **Consumer Products** sales increased by a healthy 20%, or 11% excluding the extra week. Pricing actions taken across the product portfolio to offset inflation played a role, but volume growth in existing vegetable and tomato products, as well as new products, also contributed. Segment profits rose by a healthy 55%, reflecting cost reduction actions and price increases, partly offset by increased marketing expenditures, in line with management's Accelerated Growth Plan strategy.

**Pet Products** sales for the quarter were also strong, up nearly 22%, or 13% adjusted. The increase was driven by pricing actions, as well as volume growth for dry pet foods. New products under the Meow Mix and Kibbles 'n Bits brands also contributed. F4Q operating income for the segment rose only 7.5%, reflecting an \$11.7 million writedown of secondary trademarks and the absence of prior-year insurance proceeds. We estimate that absent those two items, profits would have been up about 30%. Cost reduction actions exceeded the impact of higher ingredient costs. Marketing expenditures increased, with a particular emphasis on the Pup-Peroni and Milk-Bone snack brands, as part of the Accelerated Growth Plan.

Looking ahead to F2010, management expects that pricing and productivity should again exceed inflation. Marketing expenditures will increase again, and will be double those of F2008. The gross margin is expected to be 100 basis points above those of the past year, reflecting pricing and productivity gains. The first quarter ending in July is always the low point of the year, but Pet Products had particularly weak profits a year ago, and the bottom line should show a healthy improvement on last year's \$0.04 per share loss. Both segments face easy comparisons in the October quarter, while January will be more of a challenge. In the April period, leaving aside the impact of one less week in F2010, Consumer Products had a stellar quarter in F2009, but Pet Products results were affected by a writedown, and should return to normal.



**Table 1: Continued (a)**

	F2009	F2008	F2007 (d)	F2006	F2006
		Cont. Ops. (f)		Cont. Ops. (c)	
<b>January</b>					
Net Sales	\$942.3	\$869.0	\$907.2	\$789.6	\$878.5
Cost of Products Sold	659.8	632.4	649.1	571.3	638.3
Gross Profit	282.5	236.6	258.1	218.3	240.2
SG&A Expenses	149.0	120.7	135.4	125.8	136.2
Operating Income	133.5	115.9	122.7	92.5	104.0
Interest Expense	27.4	34.0	42.2	22.7	22.7
Other Expense (Income)	7.9	(1.1)	(0.6)	(0.1)	(0.1)
Total	35.3	32.9	41.6	22.6	22.6
Income Before Taxes	98.2	83.0	81.1	69.9	81.4
Income Taxes	38.6	29.7	28.0	24.7	29.4
Net Income	\$59.6	\$53.3	\$53.1	\$45.2	\$52.0
Diluted Shares	198.5	204.1	204.4	201.9	201.9
Earnings Per Share	\$0.30	\$0.26	\$0.26	\$0.22	\$0.26
Gross Margin	30.0%	27.2%	28.5%	27.6%	27.3%
SG&A/Sales	15.8	13.9	15.0	15.9	15.5
Operating Margin	14.2	13.3	13.5	11.7	11.8
Effective Tax Rate	39.3%	35.8%	34.5%	35.3%	36.1%
<b>April</b>	(b)				
Net Sales	\$1,057.4	\$875.8	\$940.1	\$799.2	\$799.2
Cost of Products Sold	729.6	640.5	697.1	595.3	595.3
Gross Profit	327.8	235.3	243.0	203.9	203.9
SG&A Expenses	193.2	131.0	142.4	117.0	117.0
Operating Income	134.6	104.3	100.6	86.9	86.9
Interest Expense	25.2	28.7	39.0	21.4	21.4
Other Expense (Income)	5.3	(0.3)	0.6	0.1	0.1
Total	30.5	28.4	39.6	21.5	21.5
Income Before Taxes	104.1	75.9	61.0	65.4	65.4
Income Taxes	35.3	28.1	15.9	23.7	23.7
Net Income	\$68.8	\$47.8	\$45.1	\$41.7	\$41.7
Diluted Shares	198.8	199.3	205.0	202.9	202.9
Earnings Per Share	\$0.35	\$0.24	\$0.22	\$0.21	\$0.21
Gross Margin	31.0%	26.9%	25.8%	25.5%	25.5%
SG&A/Sales	18.3	15.0	15.1	14.6	14.6
Operating Margin	12.7	11.9	10.7	10.9	10.9
Effective Tax Rate	33.9%	37.0%	26.1%	36.2%	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		F2005	
<b>July</b>										
Net Sales:										
Consumer Products	\$383.5	+21%	\$317.9	\$444.6	+6%	\$420.6	\$422.2	\$476.7	+7%	\$447.0
Pet Products	342.7	+11	308.9	308.9	+22	253.5	194.4	194.4	+9	179.0
Total	\$726.2	+16%	\$626.8	\$753.5	+12%	\$674.1	\$616.6	\$671.1	+7%	\$626.0
Operating Income:										
Consumer Products	\$9.8	+3%	\$9.5	\$14.2	(10)%	\$15.8	\$30.0	\$34.9	(11)%	\$39.4
Pet Products	15.4	(65)	43.9	47.8	+10	43.5	22.8	23.5	+36	17.3
Total	25.2	(53)	53.4	62.0	+5	59.3	52.8	58.4	+3	56.7
Corporate	(11.9)	-	(12.1)	(12.0)	-	(12.3)	(11.0)	(11.0)	-	(7.6)
Total Income	\$13.3	(68)%	\$41.3	\$50.0	+6%	\$47.0	\$41.8	\$47.4	(3)%	\$49.1
Operating Margin:										
Consumer Products	2.6%		3.0%	3.2%		3.8%	7.1%	7.3%		8.8%
Pet Products	4.5		14.2	15.5		17.2	11.7	12.1		9.7
Total	3.5		8.5	8.2		8.8	8.6	8.7		9.1
Corporate	(1.7)		(1.9)	(1.6)		(1.8)	(1.8)	(1.6)		(1.3)
Total Income	1.8%		6.6%	6.6%		7.0%	6.8%	7.1%		7.8%
<b>October</b>										
Net Sales:										
Consumer Products	\$491.9	+6%	\$463.6	\$593.5	+5%	\$566.5	\$584.4	\$673.5	+7%	\$629.1
Pet Products	409.1	+19	344.6	344.6	+5	327.0	208.8	208.8	(4)	217.5
Total	\$901.0	+11%	\$808.2	\$938.1	+5%	\$893.5	\$793.2	\$882.3	+4%	\$846.6
Operating Income:										
Consumer Products	\$45.8	+4%	\$44.0	\$45.8	(13)%	\$52.6	\$63.7	\$71.7	(7)%	\$76.7
Pet Products	45.7	+1	45.1	48.7	(23)	63.4	32.5	33.3	-	33.2
Total	91.5	+3	89.1	94.5	(19)	116.0	96.2	105.0	(4)	109.9
Corporate	(12.0)	-	(9.7)	(9.6)	-	(13.6)	(12.6)	(12.6)	-	(12.0)
Total Income	\$79.5	-	\$79.4	\$84.9	(17)%	\$102.4	\$83.6	\$92.4	(6)%	\$97.9
Operating Margin:										
Consumer Products	9.3%		9.5%	7.7%		9.3%	10.9%	10.6%		12.2%
Pet Products	11.3		13.1	14.1		19.4	15.6	15.9		15.3
Total	10.2		11.0	10.1		13.0	12.1	11.9		13.0
Corporate	(1.3)		(1.2)	(1.0)		(1.5)	(1.6)	(1.4)		(1.4)
Total Income	8.8%		9.8%	9.1%		11.5%	10.5%	10.5%		11.6%

(Continued)

**Table 2: Continued (a)**

	F2009	F2008	F2007 (d)	F2006	F2005
<b>January</b>					
Net Sales:					
Consumer Products	\$509.3	\$492.7	\$551.0	\$651.2	\$638.3
Pet Products	433.0	376.3	356.2	227.3	223.0
Total	\$942.3	\$869.0	\$907.2	\$878.5	\$861.3
Operating Income:					
Consumer Products	\$69.0	\$60.1	\$54.3	\$70.2	\$74.2
Pet Products	76.7	66.7	82.3	46.3	41.1
Total	145.7	126.8	136.6	116.5	115.3
Corporate	(12.2)	(10.9)	(13.9)	(12.5)	(7.6)
Total Income	\$133.5	\$115.9	\$122.7	\$104.0	\$107.7
Operating Margin:					
Consumer Products	13.5%	12.2%	9.9%	10.8%	11.6%
Pet Products	17.7	17.7	23.1	20.4	18.4
Total	15.5	14.6	15.1	13.3	13.4
Corporate	(1.3)	(1.3)	(1.5)	(1.5)	(0.9)
Total Income	14.2%	13.3%	13.5%	11.8%	12.5%
<b>April</b>					
Net Sales:					
Consumer Products	\$568.8	\$474.1	\$594.9	\$626.6	\$626.6
Pet Products	488.6	401.7	345.2	225.8	220.4
Total	\$1,057.4	\$875.8	\$940.1	\$847.0	\$847.0
Operating Income:					
Consumer Products	\$70.5	\$45.6	\$42.3	\$62.1	\$62.1
Pet Products	82.1	76.4	72.1	41.1	48.9
Total	152.6	122.0	114.4	103.2	111.0
Corporate	(18.0)	(17.7)	(13.8)	(12.4)	(12.4)
Total Income	\$134.6	\$104.3	\$100.6	\$90.8	\$98.6
Operating Margin:					
Consumer Products	12.4%	9.6%	7.1%	9.9%	9.9%
Pet Products	16.8	19.0	20.9	18.2	22.2
Total	14.4	13.9	12.2	12.5	13.1
Corporate	(1.7)	(2.0)	(1.5)	(1.6)	(1.5)
Total Income	12.7%	11.9%	10.7%	10.9%	11.6%

(a) 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.

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

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

	F2009	F2008 Cont. Ops. (c)	F2008	F2007	F2006 Cont. Ops. (a)	F2006	F2005	F2004 Cont. Ops.	F2004	F2003
<b>July</b>										
Consumer Products	2.6%	3.0%	3.2%	(b) 3.8%	7.1%	7.3%	8.8%	8.3%	8.3%	12.6%
Pet Products	4.5	14.2	15.5	17.2	11.7	12.1	9.7	16.8	16.0	18.0
Total	3.5	8.5	8.2	8.8	8.6	8.7	9.1	10.6	10.5	14.1
Corporate	(1.7)	(1.9)	(1.6)	(1.8)	(1.8)	(1.6)	(1.3)	(1.0)	(0.9)	(0.8)
Total	1.8%	6.6%	6.6%	7.0%	6.8%	7.1%	7.8%	9.6%	9.6%	13.3%
<b>October</b>										
Consumer Products	9.3%	9.5%	7.7%	9.3%	10.9%	10.6%	12.2%	12.0%	11.9%	10.3%
Pet Products	11.3	13.1	14.1	19.4	15.6	15.9	15.2	19.0	16.4	20.2
Total	10.2	11.0	10.1	13.0	12.1	11.9	13.0	13.7	13.1	13.1
Corporate	(1.3)	(1.2)	(1.0)	(1.5)	(1.6)	(1.4)	(1.4)	(1.2)	(0.9)	(0.9)
Total	8.8%	9.8%	9.1%	11.5%	10.5%	10.5%	11.6%	12.5%	12.2%	12.2%
<b>January</b>										
Consumer Products	13.5%	12.2%	8.9%	9.9%	10.6%	10.8%	11.6%	13.7%	13.7%	12.7%
Pet Products	17.7	17.7	18.6	23.1	20.0	20.4	18.4	22.3	21.1	21.1
Total	15.5	14.6	12.6	15.1	13.3	13.3	13.4	15.9	14.9	14.9
Corporate	(1.3)	(1.3)	(1.1)	(1.5)	(1.6)	(1.5)	(0.9)	(0.8)	(0.4)	(0.4)
Total	14.2%	13.3%	11.5%	13.5%	11.7%	11.8%	12.5%	15.1%	14.5%	14.5%
<b>April</b>										
Consumer Products	12.4%	9.6%	8.0%	7.1%	10.3%		9.9%	13.5%		10.8%
Pet Products	16.8	19.0	19.1	20.9	18.2		22.2	25.4		19.5
Total	14.4	13.9	12.3	12.2	12.5		13.1	16.5		13.1
Corporate	(1.7)	(2.0)	(1.7)	(1.5)	(1.6)		(1.5)	(0.9)		(0.2)
Total	12.7%	11.9%	10.6%	10.7%	10.9%		11.6%	15.6%		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: 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; 1/22/09 (\$6.90) – Target \$9-\$10.

## Important Disclosures

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**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



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