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COMPANY SUMMARY
Wednesday, July 26, 2006

Speaker: Bob Cummins

Rating: Strong Buy

Food Industry Comment:

Del Monte Foods (DLM-$10.50), despite inflationary cost pressures on its earnings over the past several years, in our opinion remains an attractive investment idea, based on its capable management, its strong brands, its sizable potential for margin recovery, its favorable cash flow characteristics, and the upgrading of its growth potential through a recent divestiture and two acquisitions, as well as a reasonable multiple of 14 times estimated EPS of $0.75, before one-time charges, for the April 2007 fiscal year. We are reemphasizing our "1" (Strong Buy) rating and our 12-month target price of $14-$15.

DLM on July 20th held a major investor meeting in New York, where CEO Rick Wolford and seven other top executives discussed the company's strategies, opportunities and goals for the future. Since the Heinz acquisition 3 ½ years ago, management has done a good job of building DLM's brands, introducing new, value-added products, reducing costs, and using free cash flow to retire shares and pay down debt. However, sharply rising costs for packaging, diesel fuel and other inputs have pressured margins, despite price increases on most products. Sales have risen steadily, but the operating margin, before one-time items, has narrowed from 13.5% of sales in F2004 to 11.2% in F2005, and 10.2% in F2006. Despite lower interest expense and reduced shares outstanding, EPS from operations have been essentially flat, averaging $0.81 over the past four years.

Nevertheless, we remain bullish on the company, based on management's stated determination to restore profit margins to historical levels and on a major upgrading of its business mix that should enhance both top-line and bottom-line growth. On April 24th, it sold its soup and infant feeding businesses, which had annual sales of $295 million. Soup was strictly a low-margin private label business for DLM, contrary to its stated emphasis on brand-name products, and its margins had suffered due to a lack of pricing power during a period of high cost inflation. In

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baby food, the company was disadvantaged by being number three behind the dominant player, Gerber, and second-ranking Beech Nut.

On May 19th, soon after the beginning of F2007, the company purchased Meow Mix, a leading brand of dry cat food, with annual sales of $250 million and a record of strong growth, from a private equity group that had previously bought it from Ralston Purina. It followed up by acquiring Milk-Bone, a leader in the dog snack category and one of the oldest brands in the pet food industry, from Kraft Foods on July 3rd. Milk-Bone's sales last year were $180 million.

The two pet food acquisitions will increase DLM's annual sales in that market by 50%, to $1.3 billion, and give it the leading market share in pet snacks (versus number two previously), and the number two position in dry cat food (up from fourth). On an overall basis, it is now the industry's second largest pet food marketer, compared with third previously. The faster-growing, higher-margin pet food area accounted for 29% of DLM's sales and 40% of segment profits in F2006, and earned a healthy segment operating margin of 16.6% of sales, compared with only 9.9% for consumer foods. Including the newly acquired businesses, pet foods are estimated to reach 40% of sales and 52% of profits (excluding integration costs) in the year ahead. The merger of Meow Mix into the system is expected to generate over $20 million of annual cost synergies over time. The opportunities for Milk-Bone are more on the marketing side, as the brand was neglected as part of Kraft, and DLM's management expects to accelerate its growth through a stepped-up sales effort.

Based on continuing operations (i.e., excluding soup and infant feeding), DLM's sales in F2006 were just under $3.0 billion, and EPS were $0.67. In F2007, management expects sales to increase 14%-16%, primarily reflecting the recent acquisitions. While inflation is expected to continue, the impact on margins will be more than offset by recent price increases, cost reduction steps, and the addition of higher-margin pet food business. Thus, the operating margin for DLM as a whole, before one-time charges, is expected to strengthen, although higher interest costs will be a partial offset. Reported EPS for F2007 are forecast at $0.53-$.058, after $0.06 of integration expense and $0.11-$0.14 of expenses arising from the company's recently announced transformation plan, implying adjusted EPS of $0.70-$0.78.

From the F2007 base, management looks for annual growth over the long term of 3%-5% in sales and 7%-9% in EPS. Earnings growth in F2008 alone is expected to exceed the high end of the long-term target, based on a full year's inclusion of the pet food acquisitions, the achievement of the planned Meow Mix synergies, and most of the expected benefits from the transformation program, which aims at increasing efficiency and reducing costs throughout the company.

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.

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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.
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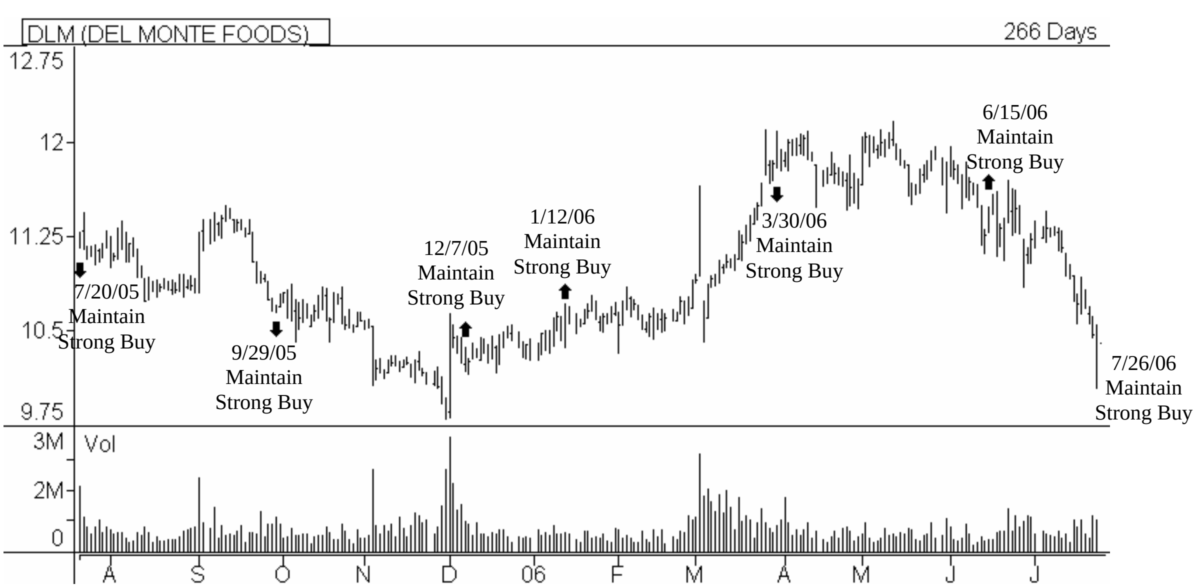
Unless otherwise specified, the time frame for price targets included in this report is 12 months.
Among the stocks we follow, 53% are rated Strong Buy, 12% Buy, 35% Neutral, and 0% Sell.
Our target prices are based on projected earnings for the following calendar year, and an assumed price/earnings 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.



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