**Industry Overview**

The US dairy products manufacturing industry consists of about 1,200 companies that have combined annual revenue of $60 billion. Large industry participants include Dean Foods, cooperatives like Dairy Farmers of America and Land O'Lakes, and the US subsidiaries of foreign companies like Danone. The industry is rapidly consolidating: the 50 largest companies hold 75 percent of the market. Although most companies in the industry are small, a few large companies have been built through acquisitions.

**COMPETITIVE LANDSCAPE**

Changes in consumer income drive demand for various types of dairy foods. The profitability of individual companies depends on efficient operations and marketing, as milk is a commodity product. There are few economies of scale in the manufacturing process, which is why small companies can effectively compete with the large ones in local markets.

**PRODUCTS, OPERATIONS & TECHNOLOGY**

The four major product segments are fluid milk and milk products ($30 billion); cheese ($20 billion); frozen desserts ($10 billion); and butter ($1 billion). Most companies specialize in only one product segment, although large companies may participate in several. Because of the perishable nature of much of the products, especially fluid milk, local production is the norm. Companies receive raw milk from local producers, process it, and distribute the products to local customers. Large companies own many local plants; Dean Foods (formerly Suiza Foods) owns about 77 local production plants.

Nearly all milk sold in the US is pasteurized and homogenized. The basic steps in a milk processing plant are separating milk fat from milk; adjusting the fat content; heating the milk to kill bacteria (pasteurization); pressure-treating to disperse fat droplets throughout the liquid (homogenization); and bottling in cartons or plastic containers. Milk designated as raw hasn’t been pasteurized or homogenized. Butter is produced by solidifying milk fat.

Cheese, yogurt, cottage cheese, and sour cream are made from milk by adding various cultures of bacteria that coagulate the proteins in the milk. Ice cream is made by chilling a mixture of milk fat and sugar. Manufacturing processes are usually standardized and highly automated. Testing for product safety and quality is done at numerous steps in the production process. The number of products within each major segment is large, with differences in fat content, additives, flavors, and textures.

Milk, the major raw ingredient, is usually bought from individual local farms or farm cooperatives, which can be very large, with hundreds or thousands of members. Dairy Farmers of America, the largest cooperative, has almost 20,000 members in 45 states. Long-term supply contracts are rare, mainly because milk production has been abundant in the US. Supply contracts typically extend for a year and specify quantities, but not prices. Minimum prices for raw milk are set by states and the federal government.

Advances in dairy farming technology, including computerized, automated milking systems, and technology-based feeding systems, have created excess milk production capacity in the US. In ten years, annual milk yield per cow increased 15 percent to 19,200 pounds. As a consequence, total milk production increased to 171 billion pounds, even though the number of milk cows decreased to 9 billion.

**SALES & MARKETING**
Dairy products are sold to retailers like grocery, convenience, and club stores; food service customers like schools, hospitals, restaurants, and hotels; and food manufacturers. Because of the perishable nature of many dairy products, most manufacturers provide direct-to-store delivery (DSD), using their own or third-party refrigerated trucks. The success of large companies like Dean Foods in what is essentially a commodity business has resulted largely from their development of an extensive and dependable distribution system. In fact, some smaller dairy producers piggyback on the distribution systems of the large ones.

Customer consolidation, especially among grocery chains, has advantaged large manufacturers that can provide DSD to all customer stores. Companies usually use an in-house sales force to get new customers, and companies with several dairies may use a local sales force at each dairy to serve the local market. Products are often sold under a variety of local brand names or under the customer's private label. The growth in the size of customers has produced competition from customers, especially in the milk segment, as large grocery chains have entered the production business. Kroger, a grocery chain, is also one of the largest dairy products manufacturers in the country.

FINANCE & REGULATION

Many dairy products producers have slight seasonality in revenue, with sales higher in third and fourth quarters. Ice cream makers, not surprisingly, have higher sales in summer. Because of rapid product turnover, producer accounts receivable is usually low. Inventories are low for fluid milk producers, higher for cheese makers.

The industry is subject to extensive government regulation. The federal government regulates the price of raw milk through the Federal Milk Marketing Order program, a complicated system that essentially guarantees all raw milk producers in an area the same minimum price, based on the market price for finished products, such as cheese, butter, and nonfat dry milk. The 1969 Milk Stabilization Act set a minimum price that processors (those who package milk into bottles or cartons, or turn milk into products such as cheese and yogurt) have to pay dairy farmers. Despite regulation, market prices for raw milk can fluctuate widely.

Several regional state Dairy Compacts in past years have set even higher minimum raw milk prices in their areas. The federal government also supports milk prices by buying nonfat dry milk, often for government export programs, through the Commodity Credit Corporation (CCC).

EPA environmental regulations apply to the disposal of waste products, most notably whey, a byproduct of cheese manufacture that was formerly dumped into waterways. Safety and health regulations are enforced by the FDA, which also requires that products meet standards of identity and are appropriately labeled with a variety of consumer information.

REGIONAL & INTERNATIONAL ISSUES

Most companies in the industry are local and regional businesses, due mainly to the perishable nature of the products. The largest raw milk producing states are California, Wisconsin, New York, Pennsylvania, and Minnesota.

Imports and exports are mainly cheeses. Imports come mainly from New Zealand, Italy, and Ireland; exports go mainly to Canada, Mexico, and Japan.

HUMAN RESOURCES

Some jobs in dairy product manufacture are technical, involving specialized machine operations and product testing, but many jobs are highly manual, such as handling products in warehouses and during distribution. Average hourly pay is around $17, about a dollar more than the average national wage. Manufacturing processes are highly automated, with very high revenue per production worker of $750,000. To retain workers, employers provide benefits that total an additional 30 percent of wages. The operation of machinery, and extremes of heat and cold in some processes, leads to a higher than average number of injuries. The industry's annual injury rate is over eight cases per 100 full-time workers, almost double the national average.

Industry Employment Growth
Bureau of Labor Statistics
Recent Developments

MONTHLY NEWS

Prices threaten to explode Cash crunch at pump, in groceries may be just the beginning Cold comfort . Ice cream vendors hit by rising milk prices
St. Louis Post-Dispatch, 28 July, 2008, 1230 words
On a sunny summer evening, Lowell Daniels and Steven Stokes stood in a parking lot on South Kingshighway in St. Louis, spooning lumps of ice cream from small paper cups. For the two college-bound teenagers and ice cream die-hards, eating ...

US: Lactalis McLelland launches Seriously in US
Just-Food, 24 July, 2008, 158 words
Lactalia McLelland plans to launch its Seriously range of cheeses in the US this month. The UK-based cheese maker is set to introduce its Seriously Vintage, Seriously Strong, Seriously Mild Red Cheddar and Seriously Mild White Cheddar ...

Reduced-fat milk OK for all toddlers, doctors say
The Globe and Mail, 15 July, 2008, 1054 words
When Tiffany Branton runs out of whole milk for her 20-month-old son, Alex, she offers him the 1 per cent milk she and her husband drink. But since whole milk is the gold standard for babies under 2, she stocks up again immediately. "If I ...

QUARTERLY INDUSTRY UPDATE

Consumers Paying More for Dairy Products - US consumers paid 11 percent more for dairy products in March 2008 compared to March 2007. Consumer prices of dairy products were stable from 2004 through early 2007, but began rising rapidly in April 2007. Dairy product manufacturers may be negatively impacted if rising dairy product prices reduce
demand in the US.

**US Dairy Exports Rose in 2007** - US dairy product exports rose 23 percent in 2007 compared to 2006. Foreign demand is being driven by US wholesale dairy product prices that are below world price levels. While prices in both the US and international markets are lower in 2008 than the record levels of 2007, prices remain well above historical levels.

**US Corn Acreage Expected to Decline** - US farmers intend to plant 8 percent less corn in 2008 than in 2007. Dairy farmers may pay more for corn-based feed if demand for corn exceeds supply. High nitrogen costs and strong soybean prices are cited as key causes for the expected decline in US corn acreage.

---

**Business Challenges**

**CRITICAL ISSUES**

**Consumer Milk Consumption Flat** - Total consumption of fluid milk in the US has been flat for the past 10 years. Milk consumption per person decreased 20 percent, while consumption of some other dairy products increased. Each year, the average American consumer drinks 23 gallons of milk, compared to 50 gallons of soft drinks and 26 gallons of coffee.

- US milk production is forecast to rise 2.4 percent in 2008 compared to 2007.

**Government Controls Raw Milk Prices** - Because of state and federal support of dairy farmers, the price of raw milk is regulated, though not fixed. Regulation raises prices for consumers and reduces the incentive for dairy product manufacturers to control their major raw material cost by, for example, entering into fixed-price supply contracts. Manufacturers can't always pass along price increases.

- Prices received by US dairy producers for dairy products increased 13.5 percent in March 2008 compared to a year earlier.

**OTHER BUSINESS CHALLENGES**

**Competition from Big Customers** - Large grocery chains use a large enough volume of dairy products to justify their own manufacturing facilities, buying raw milk directly from farmers. Kroger, one of the largest US grocery chains, operates dairies, ice cream plants, and cheese plants. While large customers may not get all their needs supplied from captive manufacturing operations, they often take a large share of the market in major cities.

**Economies of Distribution Favor Large Manufacturers** - The economics of distribution favor large dairy companies. Although small dairies can readily compete with larger ones in production economics, they can't match the efficiencies larger companies achieve in distribution, especially because larger companies can deliver a broader range of products. In a business with low profit margins, distribution costs can be significant.

**Customer Concentration** - Consolidation in the grocery industry has produced several very large chains that can exercise considerable buying power over dairy product manufacturers. Consolidation reduces the number of potential customers, and favors large producers that can supply product to all a customer's outlets.

**Competition from Soy Milk** - The dairy industry is experiencing competition from the soy milk industry. Sales of soy milk are still relatively small at about $1 billion per year but have increased steadily in recent years, while milk sales remained flat. Some school districts now offer soy milk as a milk substitute in school cafeterias.

---

**Trends & Opportunities**

**BUSINESS TRENDS**

**Supplier Consolidation** - The number of US dairy farms dropped from 200,000 in 1990 to 78,000 in 2005, while the average herd size increased from 50 to 90 head. A better regional distribution system enables large dairy farmers to attain economies of scale in milk production unavailable to local farmers.

**Consolidation** - Many dairy product manufacturers have grown rapidly in the last several years by buying local dairies and creating more efficient production and distribution systems. Dean Foods, the largest company in the industry, grew
through 43 acquisitions. In many cases, acquiring companies are really buying customers instead of production facilities, and may cut capacity or shift production to more-efficient plants.

**More Cheese** - More raw milk is being processed into cheese. Currently, about 50 percent of raw milk is processed into cheese, versus 30 percent 20 years ago. Cheese production requires 10 pounds of raw milk per pound of cheese.

**INDUSTRY OPPORTUNITIES**

**Higher-Margin Products** - Profitability can be increased by more efficient production and distribution operations, or by creating products with higher profit margins. Large milk producers like Dean Foods have become the most efficient operators in the commodity segment of the industry, mainly because of their distribution system. Other producers have concentrated on making premium products, like gourmet Italian cheeses, or new products, such as “lite” and low-fat versions. Dreyer's doesn't produce the low-cost ice creams that grocers frequently produce themselves, but only "premium" and "super premium" frozen desserts, and newer products like Starbucks and M&M ice creams. New ice cream products include baked inclusions, no-sugar-added varieties, and sundae cups.

**Organic Products** - Organic dairy product revenue has expanded by 20 percent since 1990 and is now the fastest-growing segment of the organic food industry. A substantial market has emerged in the US for organic milk products made from cow milk that hasn't been treated with antibiotics or hormones, and has been fed with corn or other feeds grown without synthetic fertilizers or pesticides. Organic dairy products are more expensive to produce, but command higher retail prices. Consumers are willing to pay a premium for organic foods, making the segment a very profitable part of the industry.

**Cultured Product Trends** - Cultured dairy products are becoming a value-added trendy food, rather than a commodity. The segment, which includes cottage cheese, dips, sour cream, and yogurt, has revived its dollar and volume sales due to innovative packaging, promotion, processing, and ingredients. Americans are buying cultured dairy beverages, such as drinkable yogurt.

**Selling to Kids** - Market research indicates children aged six to 12 represent 20 percent of total milk beverage consumption. Significant changes, such as more colorful packaging, plastic single-serve containers, more flavor varieties, and more kid-focused promotions have helped drive the increases. Dairy checkoff marketing efforts try to position milk as “hip” and “cool” to appeal to kids.

**Private-Label Customers** - Because they often provide mainly commodity products, dairy producers can readily supply grocers with private-label products, which provide a dependable (though not highly profitable) volume of business. In addition to milk, basic products like yogurt, ice cream, sour cream, and cottage cheese are frequently produced under private labels.

**Health Awareness** - The aging US population is more aware of the health benefits of dairy products. In particular, post-menopausal women, a segment of the population that will increase rapidly during the next decade, are more likely to increase milk consumption to avoid the possibility of developing osteoporosis.

**Extended Shelf Life Using New Bottling Technique** - A new bottling technique performed under sterile conditions extends the shelf life of milk, allows it to be stored and shipped at room temperature, eliminates the need for refrigeration, and expands distribution possibilities. The aseptic bottling technique extends shelf life of milk to 180 days, and allows it to be homogenized and pasteurized without preservatives and additives.

---

**Executive Insight**

**CHIEF EXECUTIVE OFFICER - CEO**

**Managing New Competitive Threats**

Dairy manufacturers face increasing competition from major customers, especially large grocery chains like Kroger, which operates its own dairy. Dairies manufacture a wide variety of products and have economies of scale that deter all but the largest grocers from directly competing. Dairies promote their brand identities heavily and operate efficient distribution systems that can service multiple customers and their outlets.

**Increasing Plant and Distribution Efficiency**

Most dairy products are commodities with narrow margins. Companies have boosted production efficiency by increasing
plant automation and creating better distribution systems to increase profitability. Dean Foods has become one of the most efficient dairy operators by creating a highly efficient distribution network of refrigeration trucks.

**CHIEF FINANCIAL OFFICER - CFO**

**Developing Core Private-Label Customers**
Milk is a commodity and competition is primarily a function of price and distribution. While margins are narrow for private-label products, many manufacturers cultivate relationships with private-label customers, as they’re a dependable core volume business. Companies sell dairy products to private-label companies, such as large grocery chains, while also offering “premium” brands.

**Financing Consolidations**
The industry has consolidated greatly in the past few years, which has enabled many dairies to create more efficient production and distribution systems. Some consolidations with other dairies are designed to acquire new customers and expand the territory served. Acquisitions are funded by debt or by exchange of equities.

**CHIEF INFORMATION OFFICER - CIO**

**Developing Efficient Delivery Systems**
Dairy products are largely commodity items with little economies of scale in production. Efficiency gains are usually in creating efficient direct-to-store delivery using refrigerated trucks. Companies install software to manage and track shipments and help schedule deliveries. Large companies have developed extensive distribution systems, which many smaller companies pay to use.

**Extending Dairy Shelf Life**
Because dairy products are perishable, companies are developing new aseptic bottling techniques using sterile conditions that lengthen the shelf-life of milk to as much as 180 days and allow it to be stored at room temperature. With room temperature storage, refrigeration trucks are unnecessary, lowering distribution costs and increasing the reach of the distribution system.

**HUMAN RESOURCES - HR**

**Retaining Workers**
While dairy automation has reduced overall employment in the industry, it's also increased the importance of retaining skilled plant operators; therefore, companies pay wages slightly higher than the national norm. To retain production workers, companies offer lucrative benefit packages that average about a third of worker compensation, significantly higher than the 25 percent of typical US workers.

**Training Workers on Equipment**
Dairy manufacturing has become highly automated. Workers are trained on automated systems, expanding their skill set from dairy production skills to include operating sophisticated machinery. Companies also conduct training to improve worker safety.

**VP SALES/MARKETING - SALES**

**Offering Organic Products**
Organic dairy products are one of the fastest-growing food segments. Many producers now offer organic milk products that, while more expensive to produce, command premium prices. Organic products are made from milk produced by cows that haven’t been treated with antibiotics or hormones, and have been fed corn or other feeds grown without synthetic fertilizers or pesticides. Companies market organic milk, cheeses, and yogurt, promoting the absence of hormones, pesticides, and antibiotics.

**Packaging to Target Children**
Children consume about 20 percent of all milk sold. To better attract them, manufacturers are using more colorful packaging, creating more varieties, and using child-focused promotions in their advertising. Yogurt, first marketed to the health-conscious, is packaged and flavored to appeal to children.
Call Preparation Questions

CONVERSATION STARTERS

How does the low US milk consumption rate affect the company’s business?
Total consumption of fluid milk in the US has been flat for the past 10 years.

What concerns does the company have about variability in raw milk prices?
Because of state and federal support of dairy farmers, the price of raw milk is regulated, though not fixed.

How is the company positioning itself to compete against large grocers entering the dairy production industry?
Large grocery chains use a large enough volume of dairy products to justify their own manufacturing facilities, buying raw milk directly from farmers.

What strategies does the company have to improve profitability and margins?
Profitability can be increased by more efficient production and distribution operations, or by creating products with higher profit margins.

What opportunities might the organic dairy market present for the company?
Organic dairy product revenue has expanded by 20 percent since 1990 and is now the fastest-growing segment of the organic food industry.

How beneficial are cultured products to the company’s product mix?
Cultured dairy products are becoming a value-added trendy food, rather than a commodity.

QUARTERLY INDUSTRY UPDATE

How might rising US consumer prices for dairy products affect the company?
US consumers paid 11 percent more for dairy products in March 2008 compared to the same month in 2007.

How much of the company’s revenue comes from exports?
US dairy product exports rose 23 percent in 2007 compared to 2006, according to the USDA.

OPERATIONS, PRODUCTS, AND FACILITIES

How many facilities does the company operate?
Most companies operate a single dairy, but consolidation has been strong in recent years.

How many workers does the company employ?
The typical fluid milk plant has from 50 to 250; cheese plants typically have from 20 to 100.

What major products does the company produce?
Fluid milk (and yogurt, sour cream, cottage cheese); cheese; butter; and ice cream are the four major categories. Most companies produce only one.

How many individual products does the company make?
The trend has been to produce more specialty products; for example, milk in many flavors, and "lite" versions.

How much raw milk does the company buy in a typical year?
US production of raw milk is about 170 billion pounds per year.

Does the company buy raw milk under annual or longer-term contracts?
Annual supply contracts are typical, but without specified prices.

What quality-control procedures does the company use?
Companies must test for both health and product quality reasons.

CUSTOMERS, MARKETING, PRICING, COMPETITION

What major customers does the company sell to?
Retail distributors, food service institutions, and food manufacturers are the three major types.

**Does the company sell under its own brands or under private labels?**
Private labels account for a large part of industry production.

**Has the company changed its product mix in recent years?**
In the past decade, fluid milk consumption has been down, cheese consumption up.

**Who are the major competitors in the company's market?**

**Does the company provide direct-store-delivery (DSD) for customers?**
The ability to provide DSD has advantaged larger dairy companies.

**How large a sales force does the company have?**

**How is the company positioning itself to compete against the growing popularity of soy milk?**
Sales of soy milk increased to $550 million in 2002; milk sales remained flat.

**REGULATIONS, R&D, IMPORTS AND EXPORTS**

**Is the company involved in international trade?**
Cheese and nonfat dry milk are international commodities. Trade in milk protein concentrates has been increasing.

**Does the company develop new product formulations?**
Product and packaging innovations have added value in what is otherwise a commodity business.

**Has the company had difficulty complying with FDA regulations, or had product recalls?**
Non-pasteurized products, especially cheeses, can contain dangerous bacteria.

**ORGANIZATION AND MANAGEMENT**

**How does the company recruit, train, and retain new workers?**
Employment in the industry has generally been flat in recent years, but average earnings are high because of the highly technical nature of most of the work.

**If the company operates several dairies, is each responsible for its own sales?**
Some of the larger companies delegate local sales to local plants.

**FINANCIAL ANALYSIS**

**Is revenue seasonal?**
Milk consumption is lower in summer; ice cream consumption is higher.

**Has the company been profitable in recent years?**
With industry volume almost flat and raw milk prices high, many dairies have not been profitable.

**Has the company recently invested in new production equipment?**
Dairies have concentrated on production efficiencies to boost profits.

**If an organic products producer, does the company own organic raw milk farms?**
Some organic companies own milk herds to ensure quality.

**BUSINESS AND TECHNOLOGY STRATEGIES**

**How does the company plan to increase profitability in a commodity business?**
Lowering production and distribution costs or making higher-margin products may be options.

**Does the company plan to expand into the organic market?**
Consumer perception of higher quality has fostered demand for organic products.

**Does the company plan to expand operations?**
Smaller dairies are disadvantaged by large ones that can deliver a broad range of products to national grocery chains.

**Does the company plan to increase its product mix?**
Milk fat and protein have become the basis for a large number of new products in recent years.
Financial Information

COMPANY BENCHMARK INFORMATION

Dairy Product Manufacturing - (NAICS: 3115)

<table>
<thead>
<tr>
<th>12 Month Rolling Data Period</th>
<th>Last Update February 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small Company Data</td>
<td>Sales &lt; $5,906,034</td>
</tr>
<tr>
<td>Table Data Format</td>
<td>Median Values</td>
</tr>
</tbody>
</table>

**US Private Company Data**

<table>
<thead>
<tr>
<th>Company Count in Analysis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aggregate</td>
</tr>
<tr>
<td>136</td>
</tr>
</tbody>
</table>

**Income Statement**

<table>
<thead>
<tr>
<th></th>
<th>Aggregate</th>
<th>Small Company</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net Sales</strong></td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td><strong>Gross Profit</strong></td>
<td>24.1%</td>
<td>27.7%</td>
</tr>
<tr>
<td><strong>Operating Income</strong></td>
<td>3.8%</td>
<td>3.4%</td>
</tr>
<tr>
<td><strong>Net Profit After Tax</strong></td>
<td>1.2%</td>
<td>0.6%</td>
</tr>
</tbody>
</table>

**Balance Sheet**

<table>
<thead>
<tr>
<th></th>
<th>Aggregate</th>
<th>Small Company</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash</strong></td>
<td>3.7%</td>
<td>4.7%</td>
</tr>
<tr>
<td><strong>Accounts Receivable</strong></td>
<td>18.6%</td>
<td>16.7%</td>
</tr>
<tr>
<td><strong>Inventory</strong></td>
<td>18.4%</td>
<td>22.7%</td>
</tr>
<tr>
<td><strong>Total Current Assets</strong></td>
<td>42.5%</td>
<td>45.9%</td>
</tr>
<tr>
<td><strong>Total Fixed Assets</strong></td>
<td>33.7%</td>
<td>31.0%</td>
</tr>
<tr>
<td><strong>Other Non-Current Assets</strong></td>
<td>23.9%</td>
<td>23.1%</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>100.0%</td>
<td>100.0%</td>
</tr>
<tr>
<td><strong>Accounts Payable</strong></td>
<td>11.4%</td>
<td>6.7%</td>
</tr>
<tr>
<td><strong>Total Current Liabilities</strong></td>
<td>22.2%</td>
<td>16.6%</td>
</tr>
<tr>
<td><strong>Total Long-Term Liabilities</strong></td>
<td>11.2%</td>
<td>7.3%</td>
</tr>
<tr>
<td><strong>Net Worth</strong></td>
<td>66.7%</td>
<td>76.1%</td>
</tr>
</tbody>
</table>

**Financial Ratios**

(Click on any ratio for comprehensive definitions)

<table>
<thead>
<tr>
<th></th>
<th>Aggregate</th>
<th>Small Company</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Quick Ratio</strong></td>
<td>0.86</td>
<td>0.91</td>
</tr>
<tr>
<td><strong>Current Ratio</strong></td>
<td>1.56</td>
<td>1.73</td>
</tr>
<tr>
<td><strong>Current Liabilities to Net Worth</strong></td>
<td>54.0%</td>
<td>40.0%</td>
</tr>
<tr>
<td><strong>Current Liabilities to Inventory</strong></td>
<td>200%</td>
<td>127.5%</td>
</tr>
<tr>
<td><strong>Total Liabilities to Net Worth</strong></td>
<td>90.0%</td>
<td>61.0%</td>
</tr>
<tr>
<td></td>
<td>Measurement 1</td>
<td>Measurement 2</td>
</tr>
<tr>
<td>--------------------------------</td>
<td>---------------</td>
<td>---------------</td>
</tr>
<tr>
<td>Fixed Assets to Net Worth</td>
<td>63.0%</td>
<td>55.0%</td>
</tr>
<tr>
<td>Collection Period</td>
<td>24.1</td>
<td>23.1</td>
</tr>
<tr>
<td>Inventory Turnover</td>
<td>17.4</td>
<td>9.5</td>
</tr>
<tr>
<td>Assets to Sales</td>
<td>31.0%</td>
<td>33.0%</td>
</tr>
<tr>
<td>Sales to Working Capital</td>
<td>9.5</td>
<td>6.5</td>
</tr>
<tr>
<td>Accounts Payable to Sales</td>
<td>4.0%</td>
<td>3.0%</td>
</tr>
<tr>
<td>Return on Sales</td>
<td>1.0%</td>
<td>1.0%</td>
</tr>
<tr>
<td>Return on Assets</td>
<td>3.0%</td>
<td>2.0%</td>
</tr>
<tr>
<td>Return on Investment</td>
<td>15.0%</td>
<td>36.0%</td>
</tr>
<tr>
<td>Interest Coverage</td>
<td>6.7</td>
<td>2.4</td>
</tr>
</tbody>
</table>

Financial industry data provided by Fintel -- offering leading benchmarking with a database of over 900 industries. Utilize financial analysis through profitability, liquidity, sustainable growth rate, business valuation, custom research, and other tools. Visit us on the web at [www.fintel.us/firstresearch](http://www.fintel.us/firstresearch) to find out how we can help you.

**ECONOMIC STATISTICS AND INFORMATION**

**Index of Industrial Production - Federal Reserve Board**

![Index of Industrial Production Chart](chart1.png)

**Change in Producer Prices - Bureau of Labor Statistics**

![Change in Producer Prices Chart](chart2.png)

**Change in Consumer Prices - Bureau of Labor Statistics**

![Change in Consumer Prices Chart](chart3.png)
VALUATION MULTIPLES

Dairy Products Manufacture

Acquisition multiples below are calculated using at least 4 middle-market (valued at less than $1 billion) industry transactions completed between 5/1998 and 8/2007. Last update: May 2008.

<table>
<thead>
<tr>
<th>Valuation Multiple</th>
<th>MVIC/Net Sales</th>
<th>MVIC/Gross Profit</th>
<th>MVIC/EBIT</th>
<th>MVIC/EBITDA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Median Value</td>
<td>0.8</td>
<td>2.2</td>
<td>20.5</td>
<td>12.8</td>
</tr>
</tbody>
</table>

*MVIC (Market Value of Invested Capital)* = Also known as the selling price, the MVIC is the total consideration paid to the seller and includes any cash, notes and/or securities that were used as a form of payment plus any interest-bearing liabilities assumed by the buyer.

*Net Sales* = Annual Gross sales, net of returns and discounts allowed, if any.

*Gross Profit* = Net Sales minus Cost of Goods Sold.

*EBIT* = Operating Profit

*EBITDA* = Operating Profit + Noncash Charges.

SOURCE: Pratt's Stats™ (Portland, OR: Business Valuation Resources, LLC) To purchase more detailed information, please either visit [www.BVMarketData.com](http://www.BVMarketData.com) or call Business Valuation Resources at 888-287-8258.

Industry Forecast

The output of US dairy products manufacturing is forecast to grow at an annual compounded rate of 3.3 percent between 2007 and 2012.

Dairy Products Manufacturing Growth Peaks then Steadies

First Research forecasts are based on INFORUM forecasts that are licensed from the Interindustry Economic Research Fund, Inc. (IERF) in College Park, MD. INFORUM's "interindustry-macro" approach to modeling the economy captures
the links between industries and the aggregate economy.

**First Research Industry Growth Rating**

The First Research Industry Growth Rating reflects the expected industry growth relative to other industries, based on INFORUM's forecasted average annual growth for the combined years of 2008 and 2009.

- Demand: Limited by demographics
- Large manufacturers have economies of scale
- Risk: Slowing economy pushes consumers to low-margin products

**First Research Industry Drivers**

Changes in the economic environment that may positively or negatively affect industry growth.

- **Government Regulations**: Changes in federal, state, or local government regulations or business-related policies
- **Commodity Prices**: Changes in prices for commodities, such as crops, metals, and other raw materials

**Web Links & Acronyms**

**INDUSTRY WEBSITES**

- **Agriculture and Agri-Food Canada**
  Canadian dairy industry statistics.
- **Canadian Dairy Information Centre**
  Canadian dairy industry information.
- **Dairy Farmers of America**
  Largest farmers cooperative. Market information, good industry links.
- **Dairy Foods**
- **Dairy Management Inc.**
  Industry promotion information. Links to dairy associations.
- **Dairy Product Processing Descriptions**
  Description of various dairy products processing steps from the University of Guelph, Canada.
- **Dairy.com**
  News.
- **International Dairy Foods Association**
- **Livestock, Dairy, and Poultry Outlook**
  Annual dairy statistics.
- **National Milk Producers Federation**
  Lobbying organization. Milk production and price statistics. Legislative update.
- **USDA Dairy Programs**
  Programs operated by the Department of Agriculture.
GLOSSARY OF ACRONYMS

CFIA - Canadian Food Inspection Agency
CME - Chicago Mercantile Exchange
CWT - Cooperative Working Together
DEIP - Dairy Export Incentive Program
DSD - direct-to-store delivery
IDFA - International Dairy Foods Association
MILC - Milk Income Loss Contract
MREA - Milk Regulatory Equity Act
USDA - US Department of Agriculture

“The purpose of the Profiles is for sales call preparation and general business and industry analysis. Profiles provide general background information only and are not intended to furnish detailed information about the creditworthiness of any individual borrower or purchaser or to be used for making any loans, leases or extension of credit to any individual borrower or purchaser. First Research, Inc. is not an investment advisor, nor is it in the business of advising others as to the value of securities or the advisability of investing in securities, and the Profiles are not intended to be relied upon or used for investment purposes.”

© Copyright 2007, First Research, Inc. All Rights Reserved. This information cannot be copied, sold or distributed in any manner without the written permission of First Research, Inc. www.firstresearch.com