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Agricultural Outlook Forum
U.S. Department of Agriculture

Presented: February 26-27, 2009

Wall Street's View of Protein Companies

Farha Aslam
Food and Agribusiness Research
Managing Director

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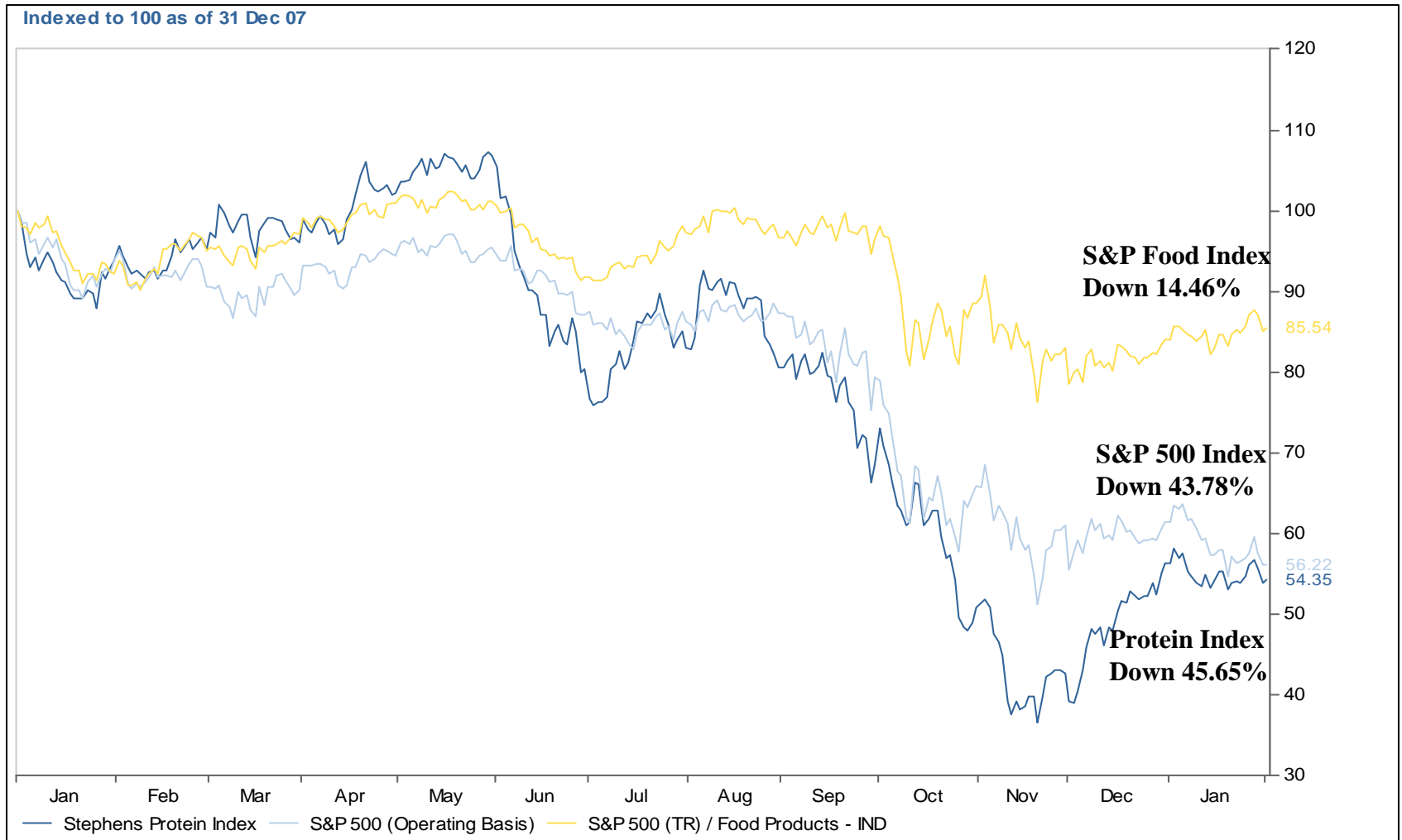
(212) 891-1778

faslam@stephens.com

February 27, 2009

2008: Challenging Year For Protein Stocks

Stock Indices Performance Jan 2008- Feb 2009

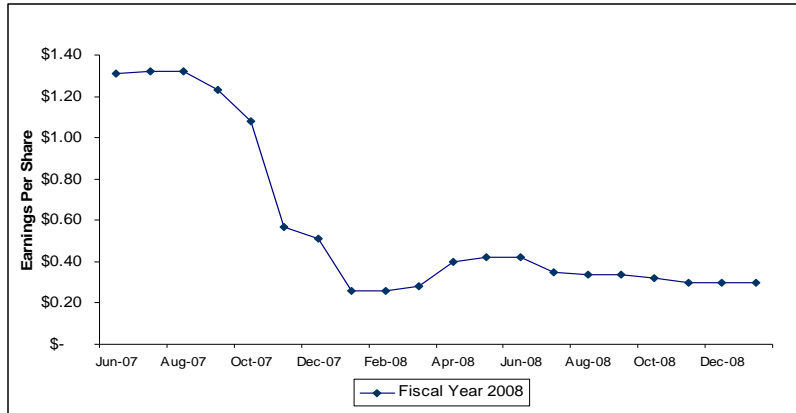


*Stephens Protein index includes Hormel Foods (HRL), Pilgrim's Pride (PGPDQ), Sanderson Farms (SAFM), Smithfield Foods (SFD) and Tyson Foods (TSN)

Source: Factset Research Systems Inc. and Stephens Inc.

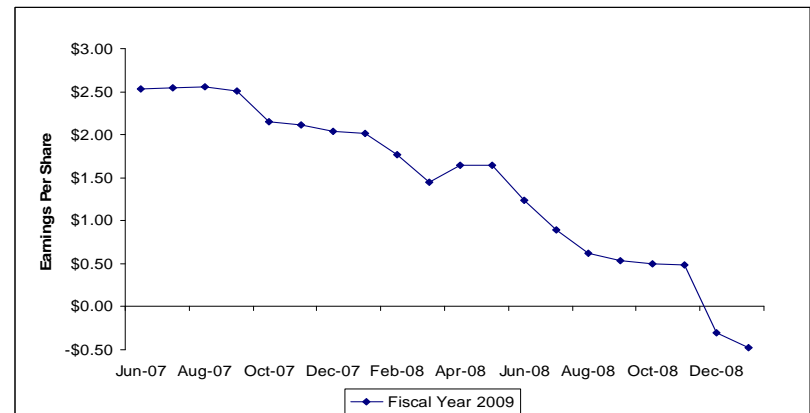
Poor Share Performance Reflected Poor Earnings Performance

Tyson Foods Consensus Earnings Estimate Revisions



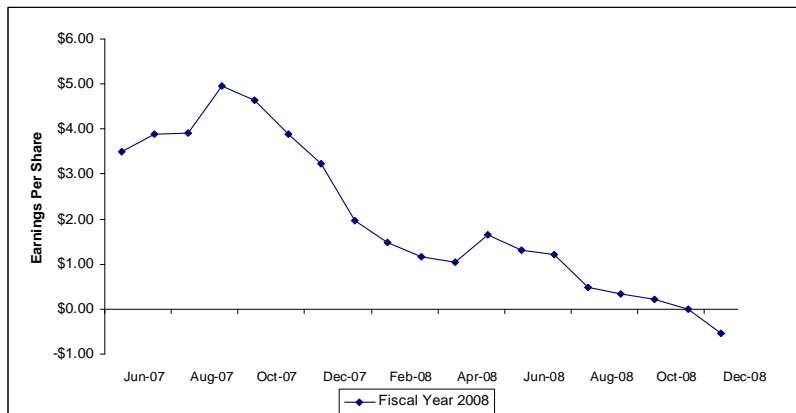
Source: Thomson Financial/First Call and Stephens Inc.

Smithfield Foods Consensus Earnings Estimate Revisions



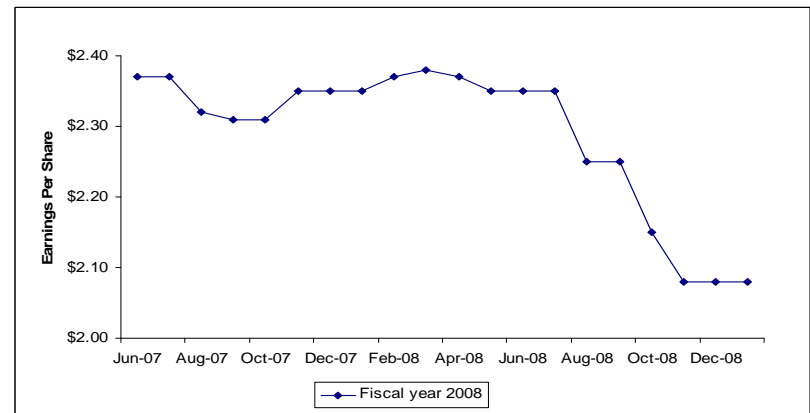
Source: Thomson Financial/First Call and Stephens Inc.

Sanderson Farms Consensus Earnings Estimate Revisions



Source: Thomson Financial/First Call and Stephens Inc.

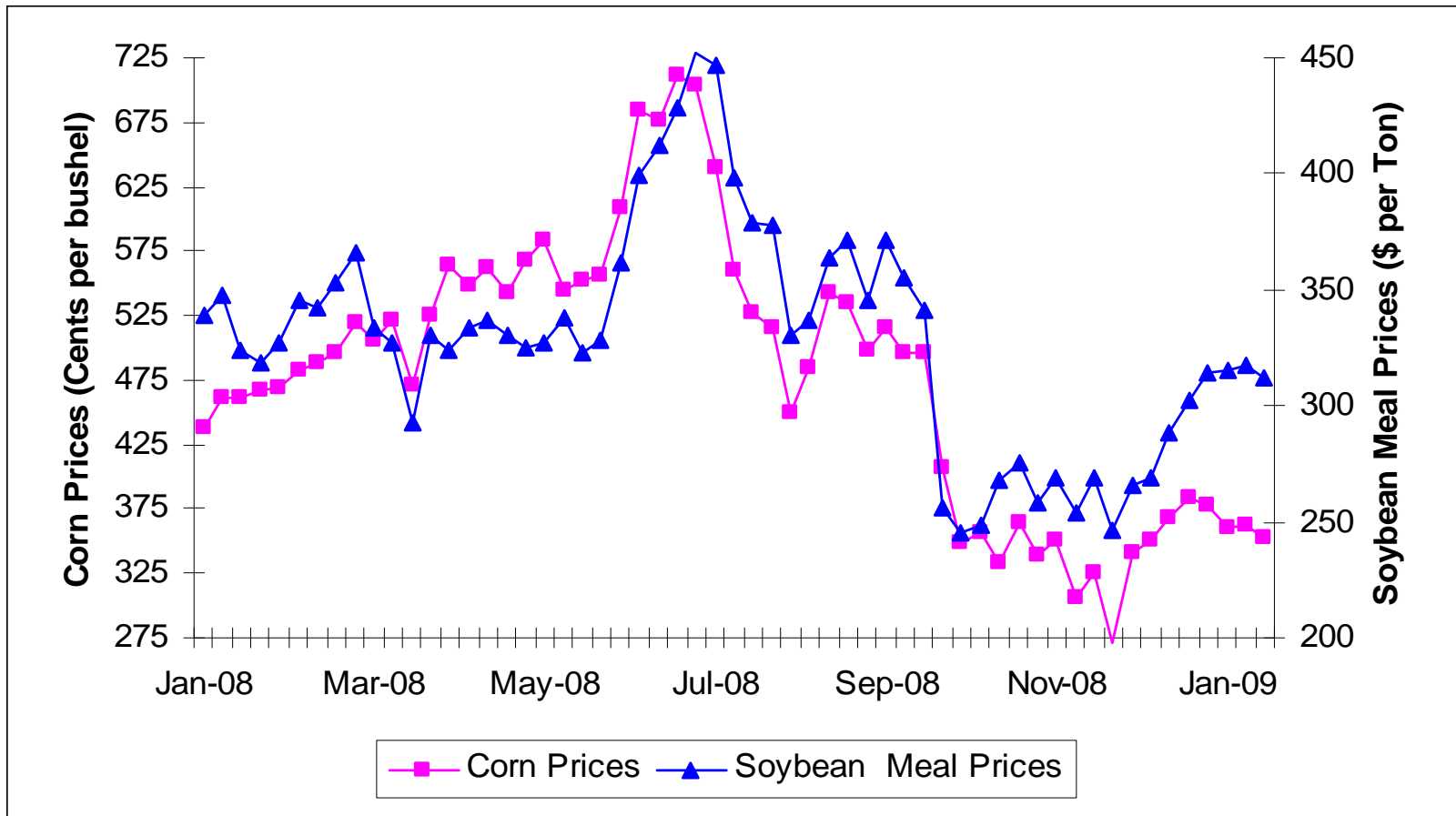
Hormel Foods Consensus Earnings Estimate Revisions



Source: Thomson Financial/First Call and Stephens Inc.

High Grain Costs Increased The Cost of Production

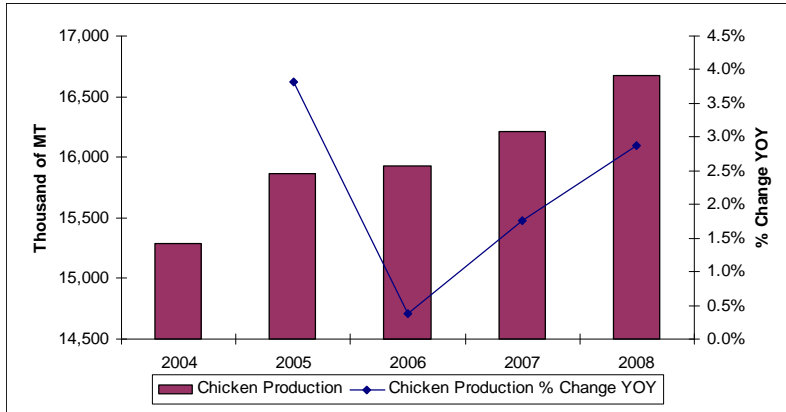
Corn and Soybean Meal prices Jan 2008- Feb 2009



Source: Wall Street Journal and Stephens Inc.

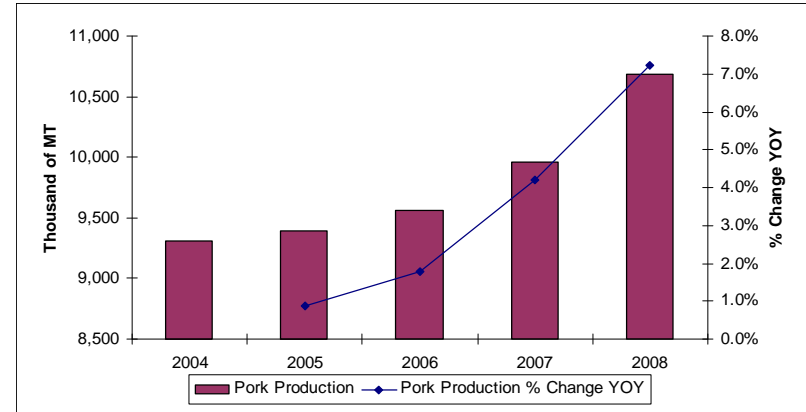
Livestock Producers Failed To Adequately Constrict Supply

Chicken Production



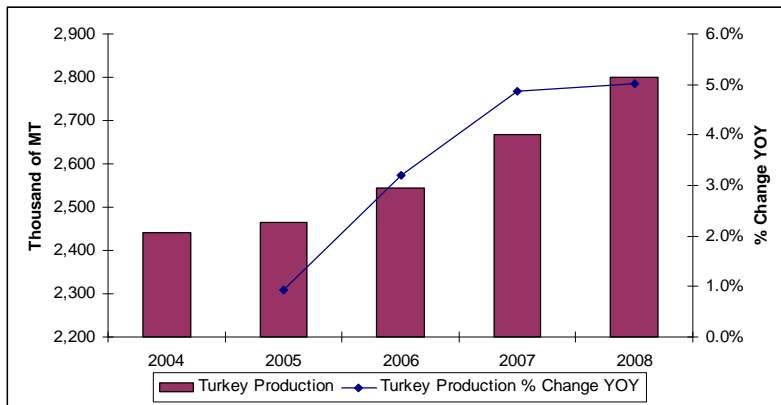
Source: USDA and Stephens Inc.

Pork Production



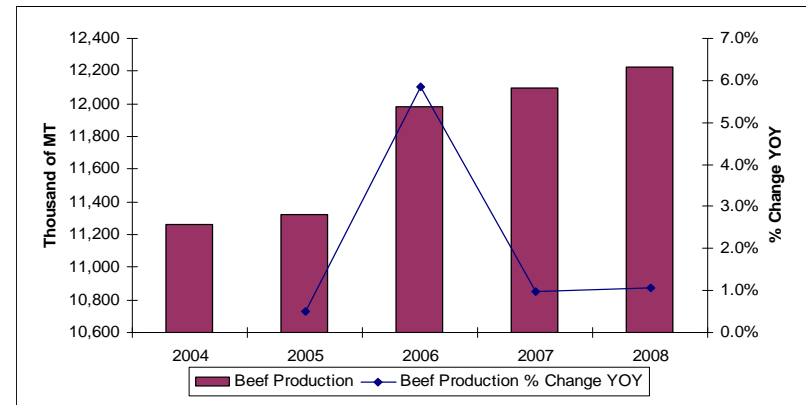
Source: USDA and Stephens Inc.

Turkey Production



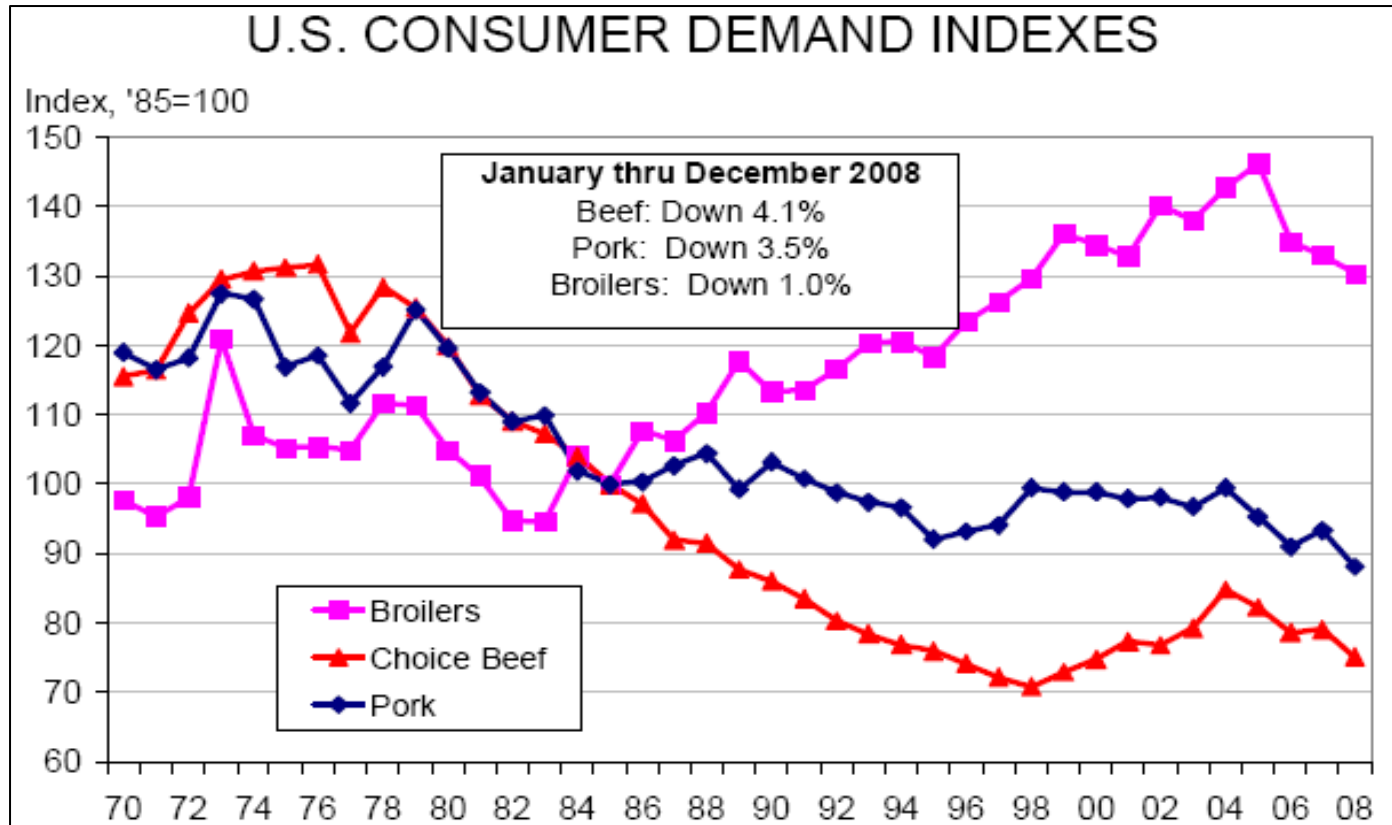
Source: USDA and Stephens Inc.

Beef Production



Source: USDA and Stephens Inc.

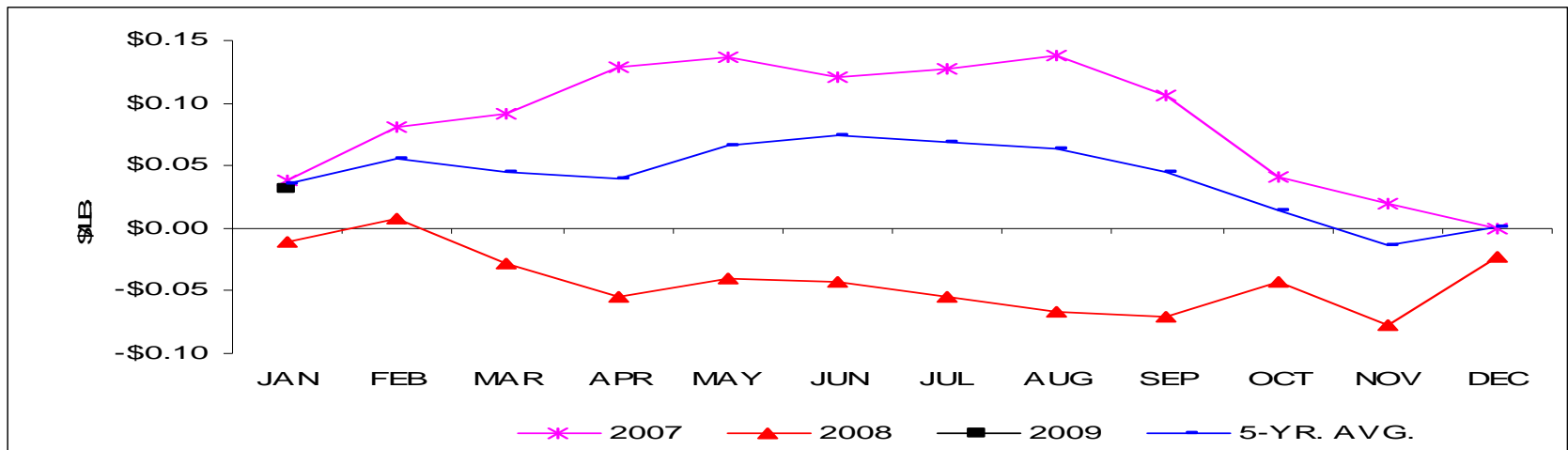
Protein Demand is Weak



Source: University of Missouri

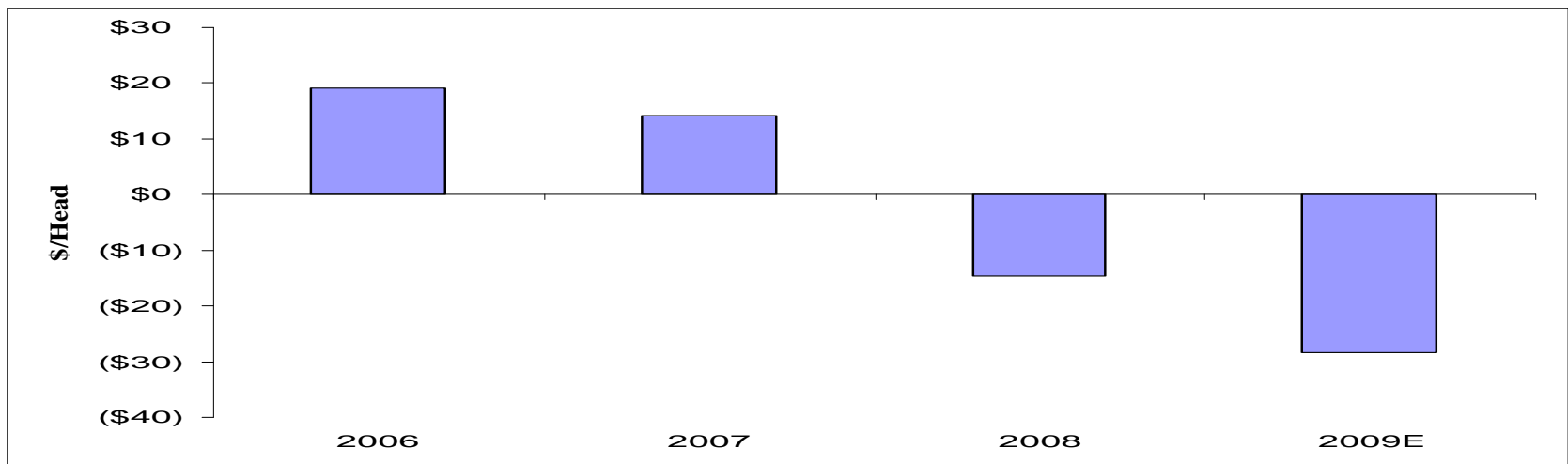
Lack of Production Discipline Resulted in Poor Profitability

Stephens Chicken Margin



Source: USDA, Wall Street Journal and Stephens Inc.

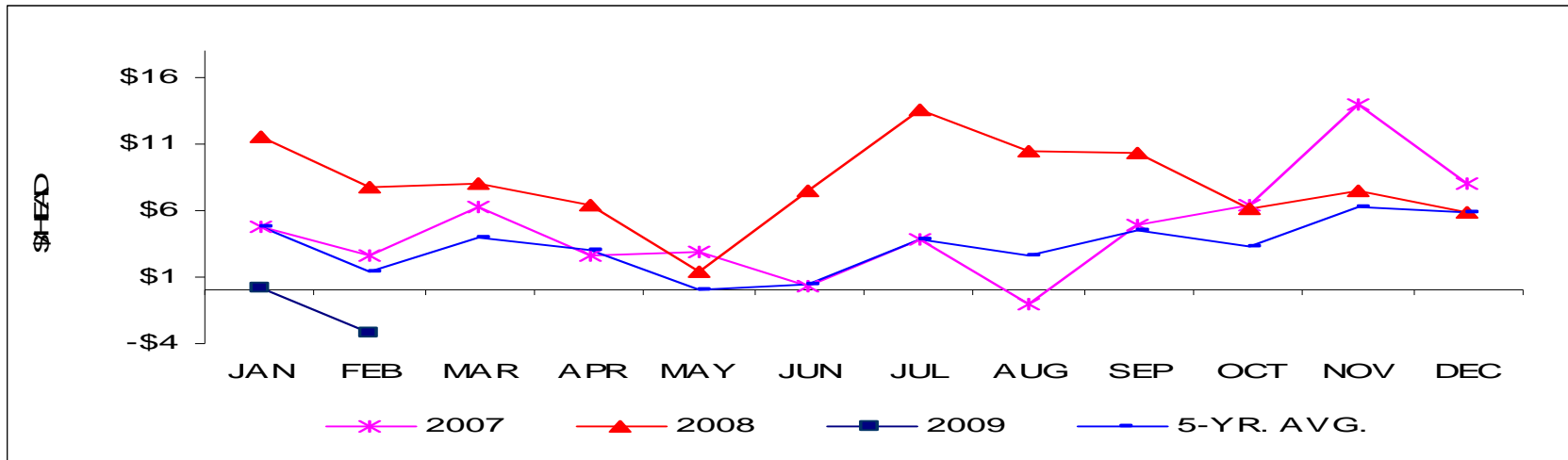
Stephens Estimate of Smithfield's Hog Profits



Source: USDA, Smithfield Company Reports and Stephens Inc.

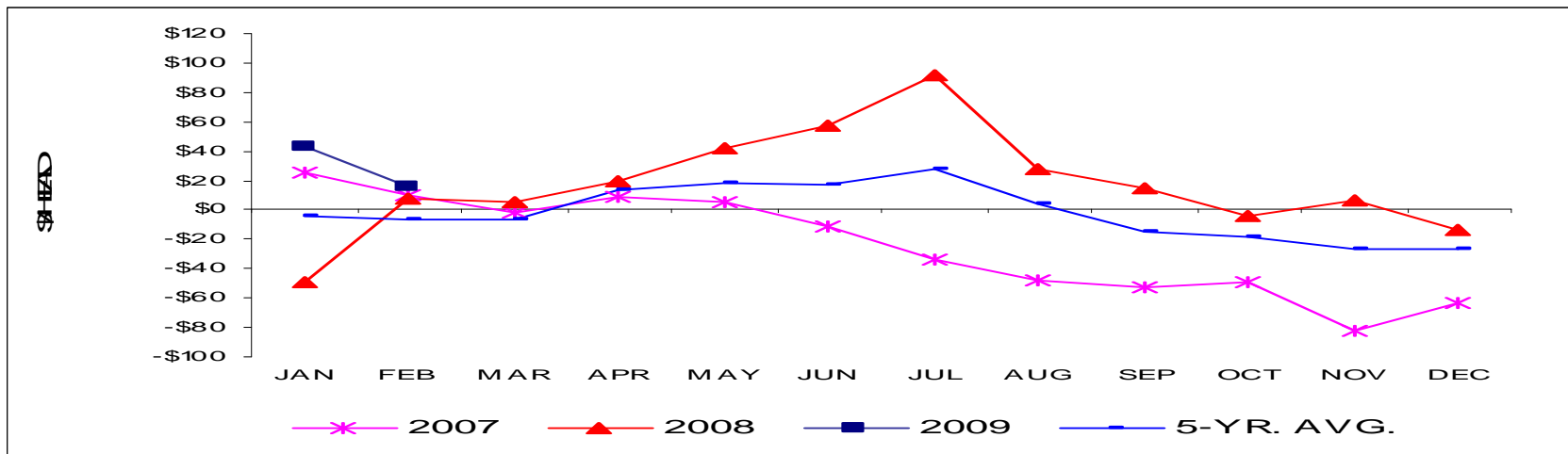
Processors Performed Better In 2008 Than Livestock Producers

Stephens Pork Margin



Source: USDA, Wall Street Journal and Stephens Inc.

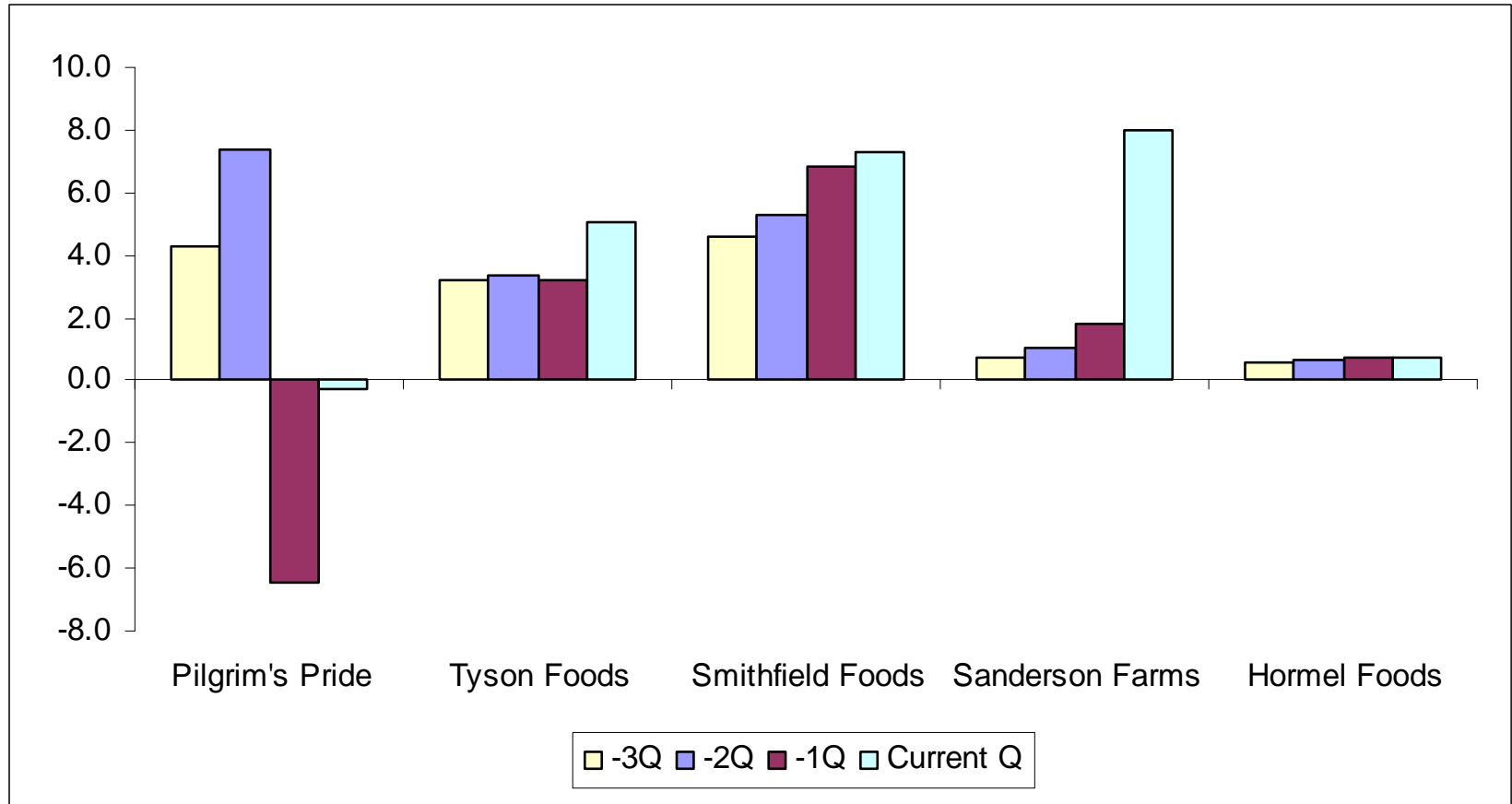
Stephens Beef Margin



Source: USDA, Wall Street Journal and Stephens Inc.

Profit Losses Damaged Financial Positions

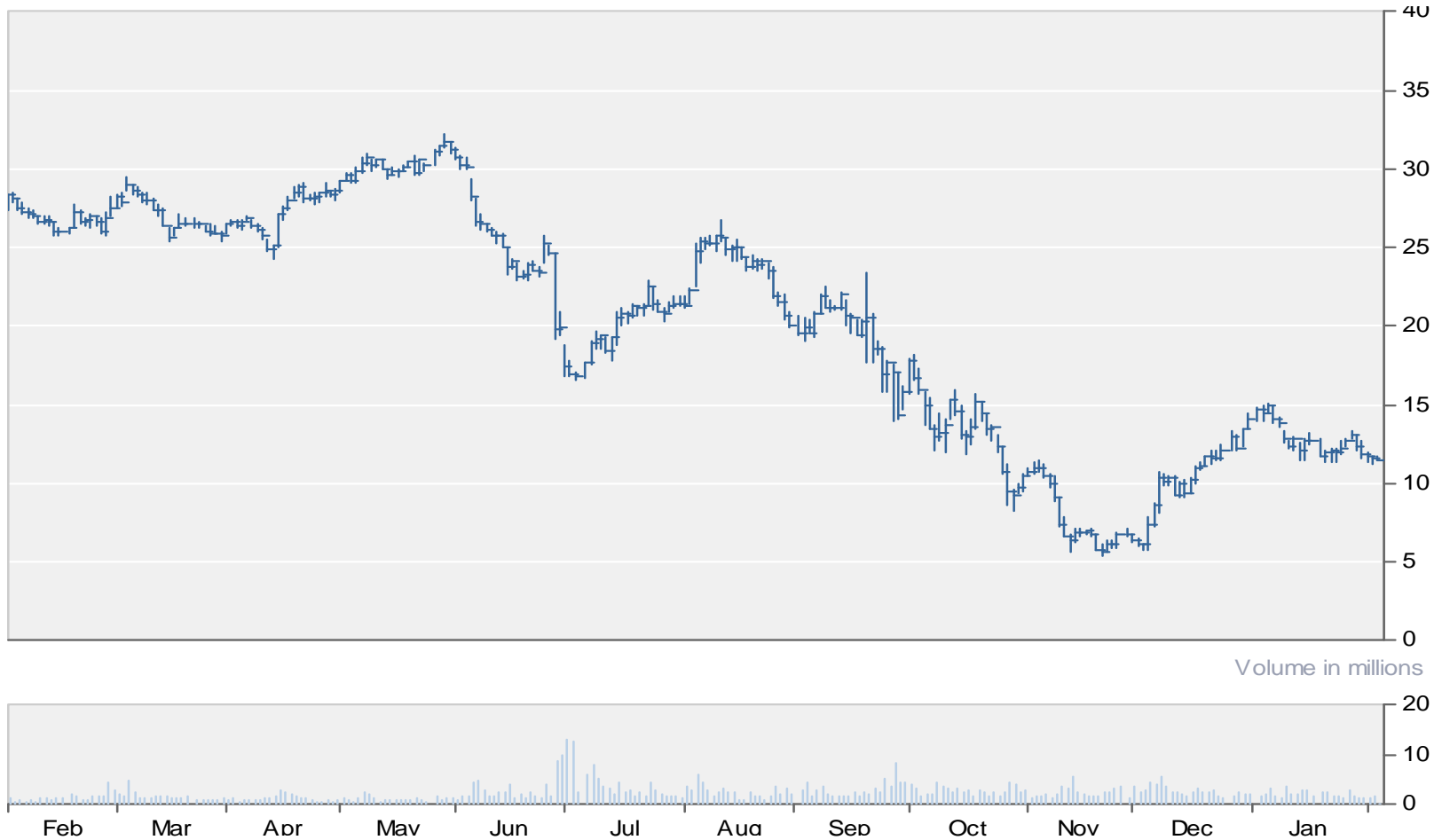
Debt to EBITDA For Protein Companies



Source: Company Reports and Stephens Inc.

Challenging Business Climate Caused Valuation Focus To Change

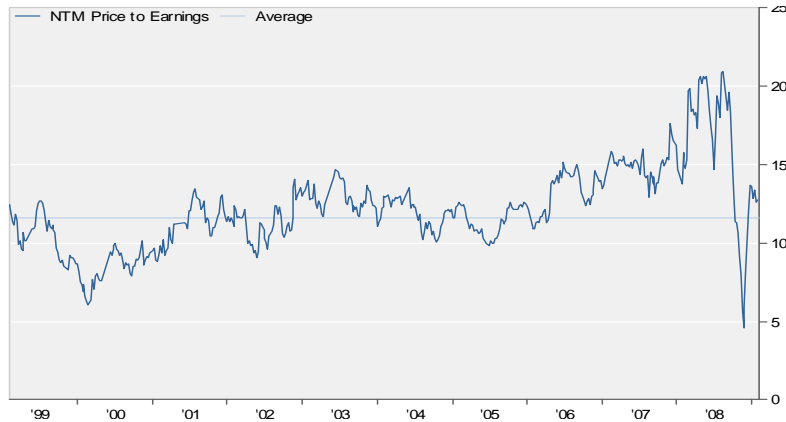
Smithfield Foods (SFD) Stock Price Chart



Source: FactSet Research Systems Inc. and Stephens Inc.

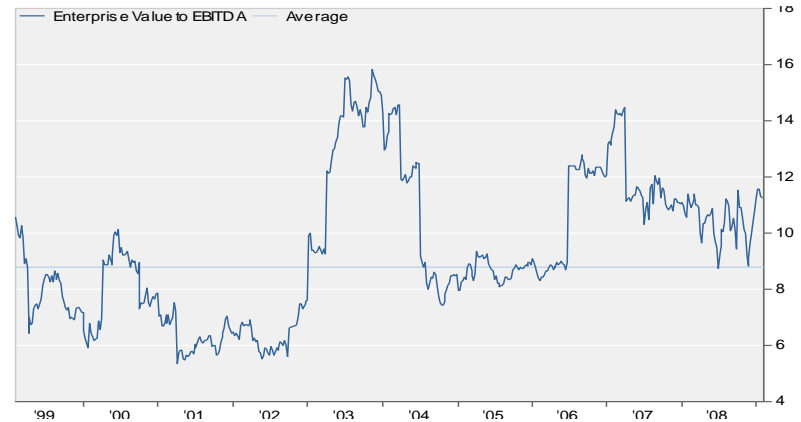
Challenging Business Climate Caused Valuation Focus To Change

Smithfield Foods (SFD) NTM P/E



Source: FactSet Research Systems Inc. and Stephens Inc.

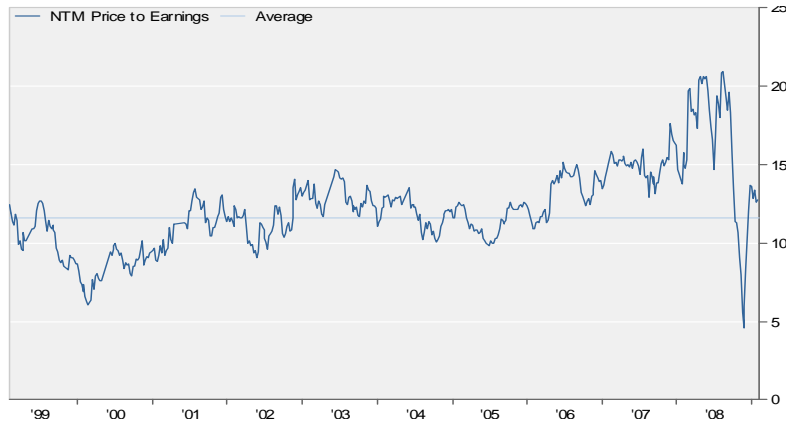
Smithfield Foods (SFD) EV/EBITDA



Source: FactSet Research Systems Inc. and Stephens Inc.

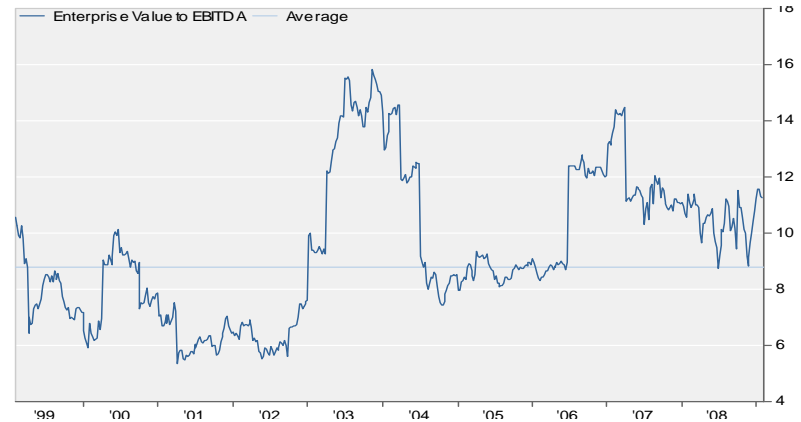
Challenging Business Climate Caused Valuation Focus To Change

Smithfield Foods (SFD) NTM P/E



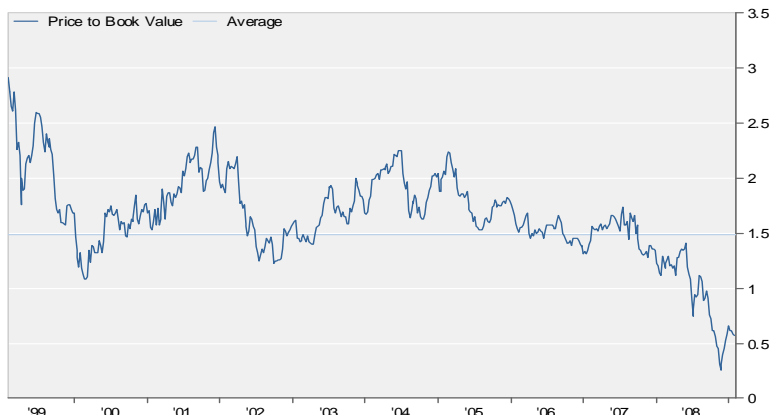
Source: FactSet Research Systems Inc. and Stephens Inc.

Smithfield Foods (SFD) EV/EBITDA



Source: FactSet Research Systems Inc. and Stephens Inc.

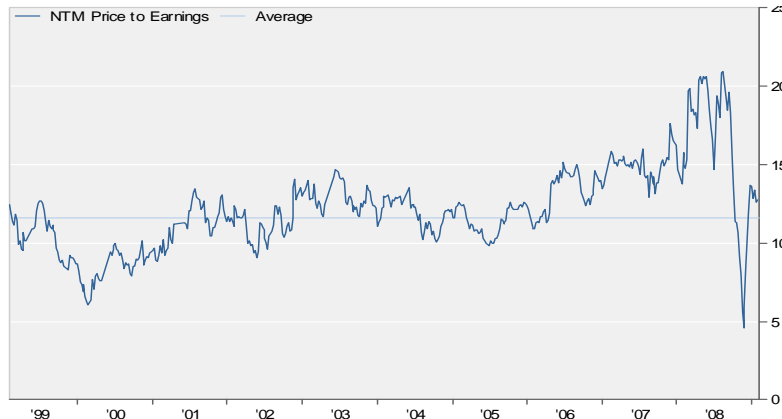
Smithfield Foods (SFD) Price/Book Value



Source: FactSet Research Systems Inc. and Stephens Inc.

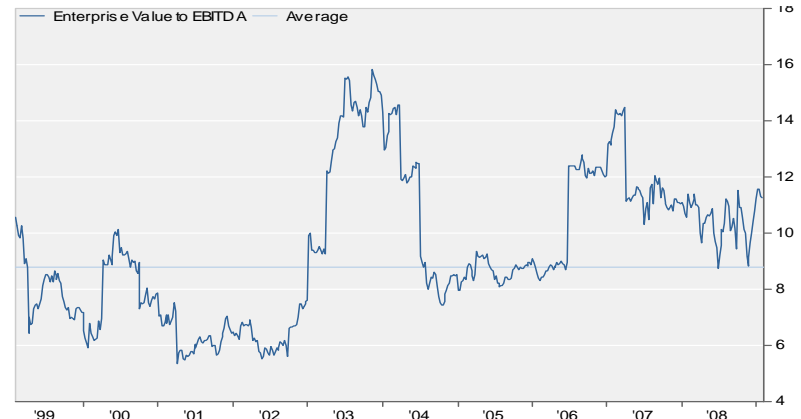
Challenging Business Climate Caused Valuation Focus To Change

Smithfield Foods (SFD) NTM P/E



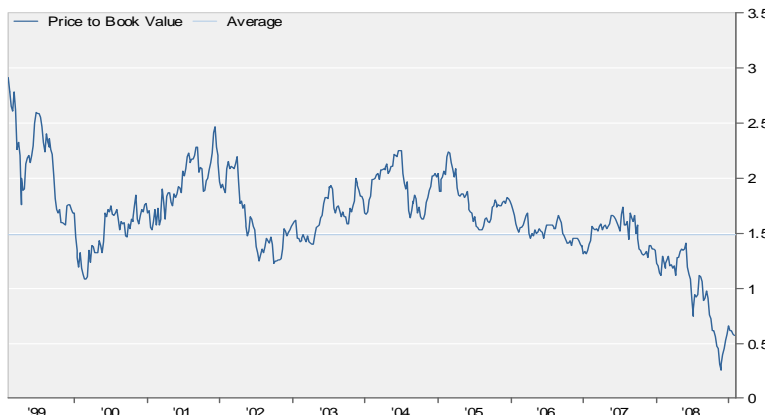
Source: FactSet Research Systems Inc. and Stephens Inc.

Smithfield Foods (SFD) EV/EBITDA



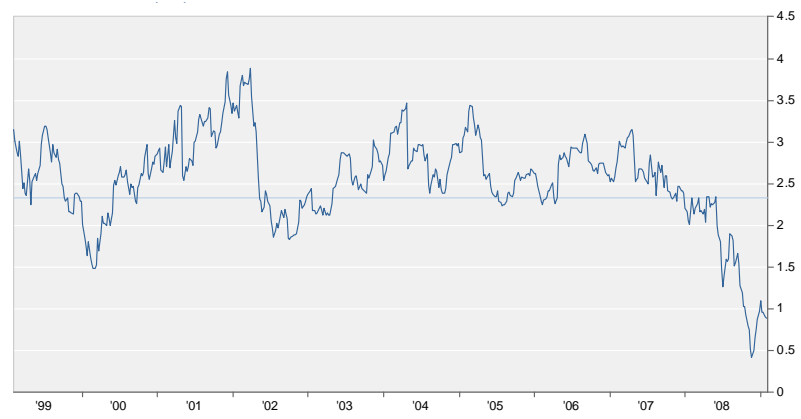
Source: FactSet Research Systems Inc. and Stephens Inc.

Smithfield Foods (SFD) Price/Book Value



Source: FactSet Research Systems Inc. and Stephens Inc.

Smithfield Foods (SFD) Price/Tangible Book Value



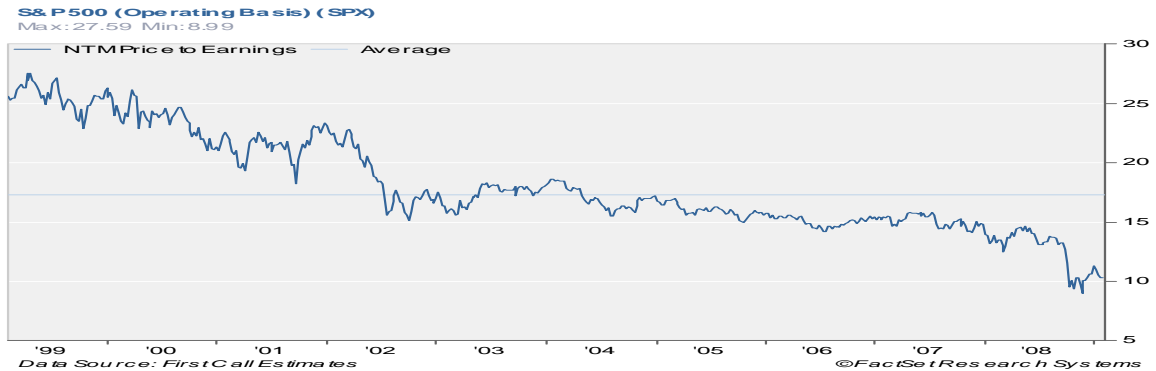
Source: FactSet Research Systems Inc. and Stephens Inc.

Protein Companies Sell at Discount Valuation

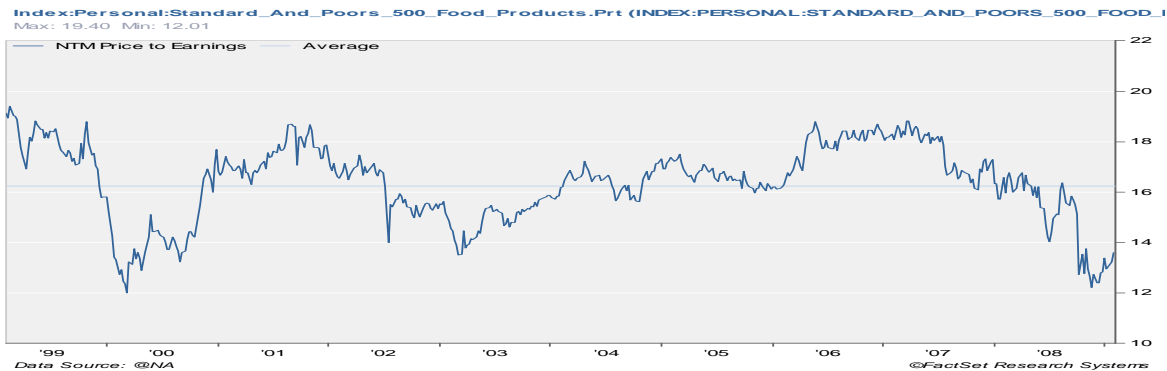
Stephens Protein Index



S&P 500



S&P 500 Food Products

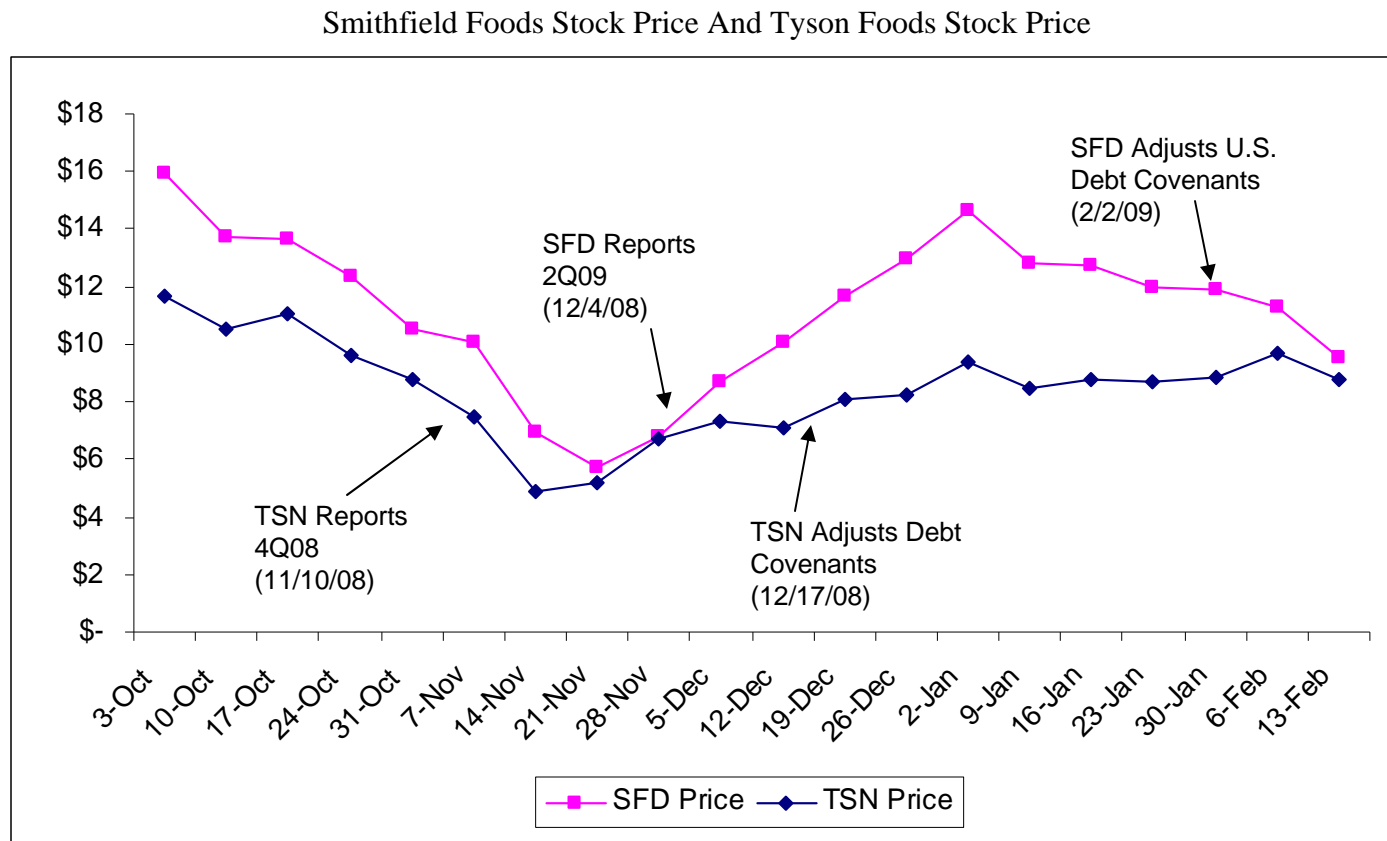


Investor Sentiment In Current Market Environment

- Decreased Appetite For Risk
- Shrinking Pool of Investment Capital
- Shorter Investment Time Horizons

What Is Driving Share Prices

- Balance Sheet Health Is Paramount

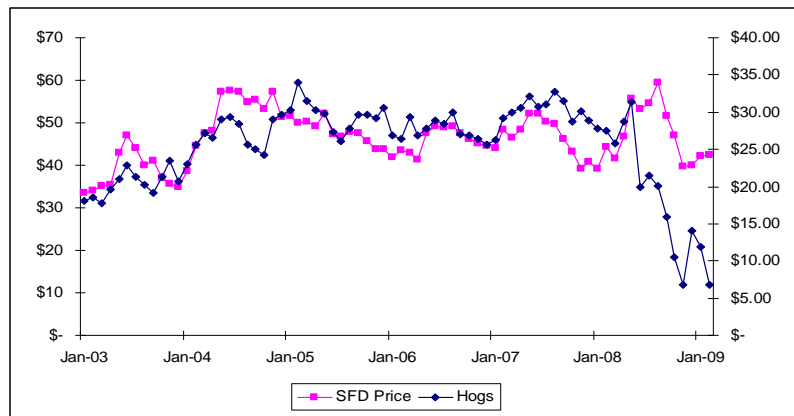


Source: Company Reports, FactSet Research Systems Inc. and Stephens Inc.

What Is Driving Share Prices

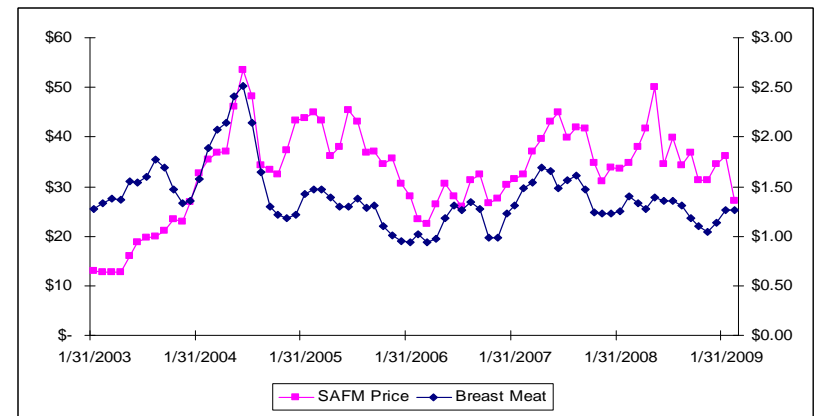
- Balance Sheet Health Is Paramount
- Trading Data Points

Smithfield Foods Stock Price Vs. Hog Prices



Source: USDA, FactSet Research Systems Inc. and Stephens Inc.

Sanderson Farms Stock Price Vs. Breast Meat Prices



Source: USDA, FactSet Research Systems Inc. and Stephens Inc.

What Is Driving Share Prices

- Balance Sheet Health Is Paramount
- Trading Data Points
- Management Credibility Critical

Companies Are Changing How They Do Business

- Financial Stability
- Risk Management
- Operational Improvement

Companies Are Changing How They Do Business

- Financial Stability

Companies Are Changing How They Do Business

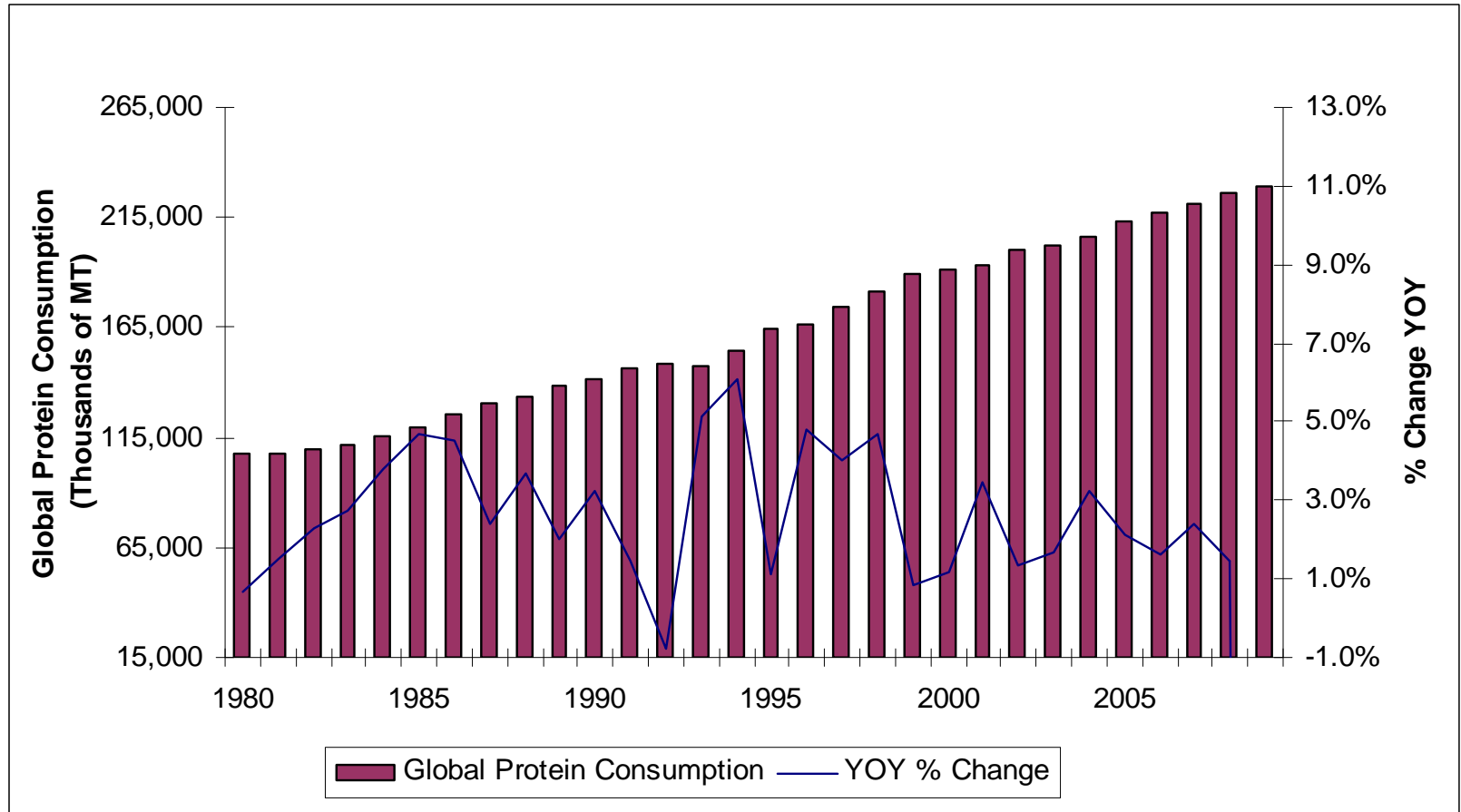
- Financial Stability
- Risk Management

Companies Are Changing How They Do Business

- Financial Stability
- Risk Management
- Operational Improvement

Global Protein Consumption Growth

Global Protein Consumption 1980-2009



Source: USDA and Stephens Inc.

Global Protein Consumption Growth

Questions?

Public companies mentioned in this report (price as of 02/20/09): Hormel Foods Corp. (HRL-\$31.98); Sanderson Farms, Inc. (SAFM-\$27.87); Smithfield Foods, Inc. (SFD-\$7.18); Tyson Foods, Inc. (TSN-\$7.75)

REQUIRED DISCLOSURES

The research analyst principally responsible for preparation of this report has received compensation that is based on the firm's overall revenue which includes investment banking revenue.

HORMEL FOODS CORPORATION

Stephens Inc. expects to receive or intends to seek compensation for investment banking services from Hormel Foods in the next three months. The research analyst principally responsible for the preparation of this report is a director of a privately held food processing and distribution company that is not affiliated with the subject company of the report.

Price Target/Rating Changes in the Past Three Years for Hormel Foods

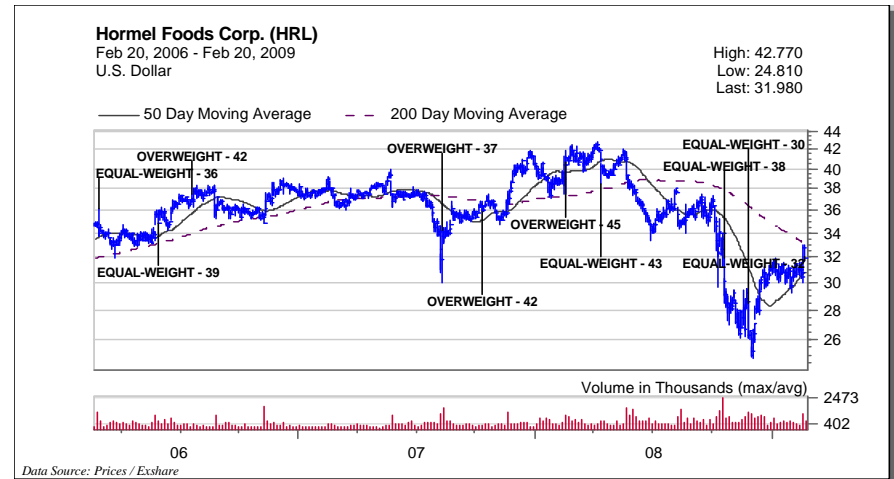
<u>DATE</u>	<u>RATING</u>	<u>PRICE TARGET</u>
02/20/2009	EQUAL-WEIGHT	\$32.00
11/26/2008	EQUAL-WEIGHT	\$30.00
10/20/2008	EQUAL-WEIGHT	\$38.00
04/14/2008	EQUAL-WEIGHT	\$43.00
02/19/2008	OVERWEIGHT	\$45.00
10/11/2007	OVERWEIGHT	\$42.00
08/10/2007	OVERWEIGHT	\$37.00
07/20/2006	OVERWEIGHT	\$42.00
05/30/2006	EQUAL-WEIGHT	\$39.00
02/27/2006	EQUAL-WEIGHT	\$36.00

Valuation Methodology for Hormel Foods

We used multiple valuation techniques, including P/E, EV/EBITDA, sum-of-the parts, and comparable company analyses to arrive at our price target for Hormel Foods.

Risks to Hormel Foods Reaching Our Price Target

1) Hormel Foods actively engages in acquisitions and divestitures, which could increase operational risks; 2) the Company's results from operations are cyclical and could be adversely affected by fluctuations in the hog and turkey commodity cycles; 3) any perceived or real health risks related to Hormel's products in particular or the food industry in general could adversely affect the Company's ability to sell its products; 4) environmental regulations and litigations could have an adverse impact on Hormel; 5) health risks involving livestock could adversely affect hog, cattle, and/or turkey supplies, which would adversely impact the Company's operations; and 6) Hormel has international sales and operations and is therefore subject to currency fluctuations and overseas political risks.

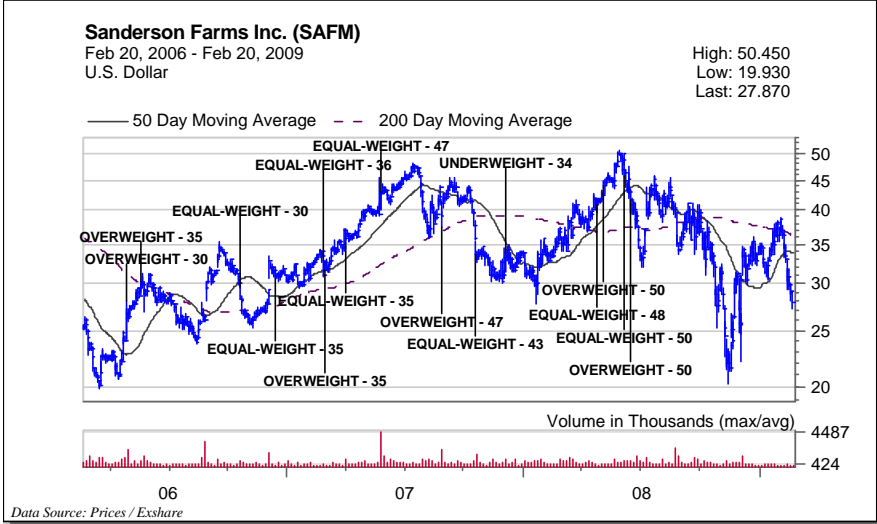


SANDERSON FARMS, INC.

Stephens Inc. maintains a market in the common stock of Sanderson Farms as of the date of this report and may act as principal in these transactions. Stephens Inc. expects to receive or intends to seek compensation for investment banking services from Sanderson Farms in the next three months. The research analyst principally responsible for the preparation of this report is a director of a privately held food processing and distribution company that is not affiliated with the subject company of the report.

Price Target/Rating Changes in the Past Three Years for Sanderson Farms

<u>DATE</u>	<u>RATING</u>	<u>PRICE TARGET</u>
06/17/2008	OVERWEIGHT	\$50.00
06/06/2008	EQUAL-WEIGHT	\$50.00
05/06/2008	OVERWEIGHT	\$50.00
04/25/2008	EQUAL-WEIGHT	\$48.00
02/27/2008	EQUAL-WEIGHT	\$36.00
12/05/2007	UNDERWEIGHT	\$34.00
10/19/2007	EQUAL-WEIGHT	\$43.00
08/28/2007	OVERWEIGHT	\$47.00
05/25/2007	EQUAL-WEIGHT	\$47.00
04/02/2007	EQUAL-WEIGHT	\$35.00
02/28/2007	OVERWEIGHT	\$35.00
12/13/2006	EQUAL-WEIGHT	\$35.00
10/20/2006	EQUAL-WEIGHT	\$30.00
05/19/2006	OVERWEIGHT	\$35.00
04/27/2006	OVERWEIGHT	\$30.00
01/09/2006	EQUAL-WEIGHT	\$25.00



Valuation Methodology for Sanderson Farms

We used multiple valuation techniques, including P/E, EV/EBITDA, price to book, comparable company analyses, normalized earnings, and replacement cost value to arrive at our price target for Sanderson Farms.

Risks to Sanderson Farms Reaching Our Price Target

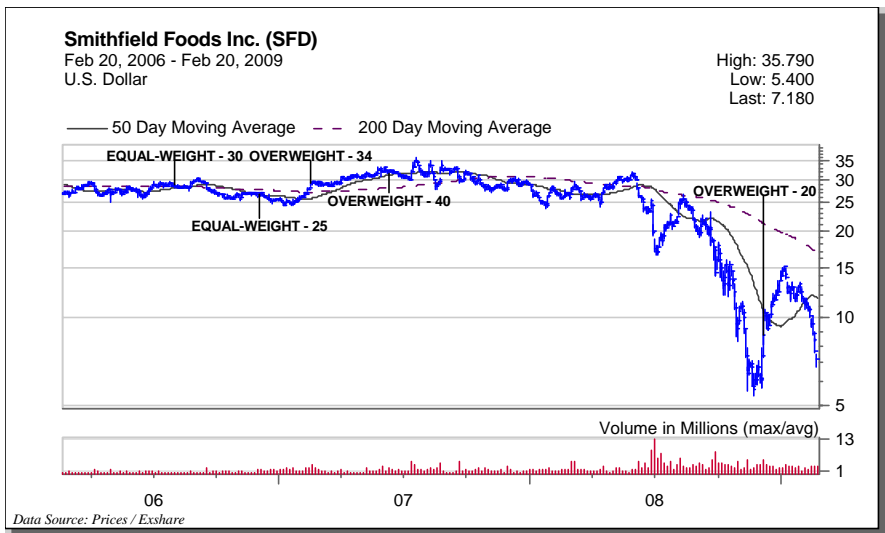
- 1) The Company's results from operations are cyclical and could be adversely affected by fluctuations in the poultry and grain commodity cycles;
- 2) any perceived or real health risks related to Sanderson Farms' products in particular or the food industry in general could adversely affect the Company's ability to sell its products;
- 3) environmental regulations and litigations could have an adverse impact on Sanderson Farms;
- and 4) health risks to livestock could adversely affect poultry supply, which would negatively impact the Company's operations.

SMITHFIELD FOODS, INC.

Stephens Inc. expects to receive or intends to seek compensation for investment banking services from Smithfield Foods, Inc. in the next three months. The research analyst principally responsible for the preparation of this report is a director of a privately held food processing and distribution company that is not affiliated with the subject company of the report.

Price Target/Rating Changes in the Past Three Years for Smithfield Foods

<u>DATE</u>	<u>RATING</u>	<u>PRICE TARGET</u>
12/05/2008	OVERWEIGHT	\$20.00
06/08/2007	OVERWEIGHT	\$40.00
02/15/2007	OVERWEIGHT	\$34.00
12/01/2006	EQUAL-WEIGHT	\$25.00
08/01/2006	EQUAL-WEIGHT	\$30.00
02/13/2006	EQUAL-WEIGHT	\$26.00



Valuation Methodology for Smithfield Foods

We used multiple valuation techniques, including P/E, EV/EBITDA, and comparable company analyses to arrive at our price target for Smithfield Foods.

Risks to Smithfield Foods Reaching Our Price Target

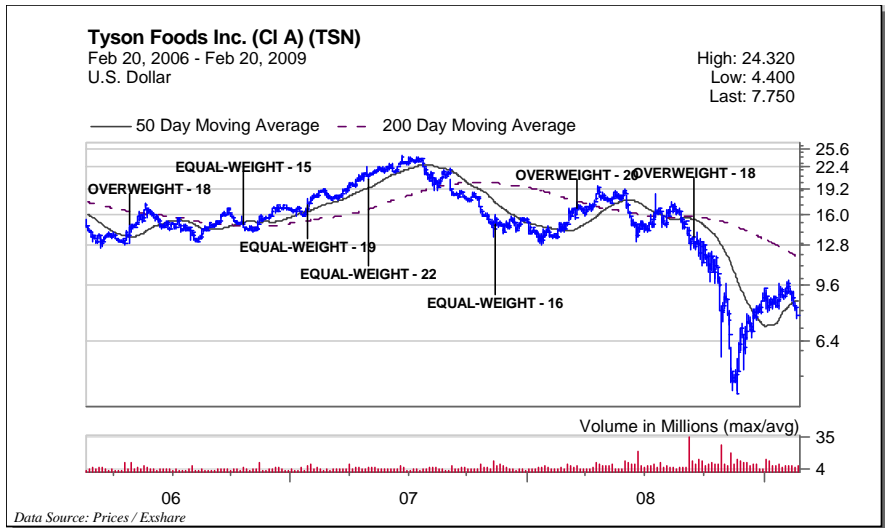
- 1) The Company actively engages in acquisitions and divestitures, which could increase operational risks;
- 2) the Company's results from operations are cyclical and could be adversely affected by fluctuations in the hog and cattle commodity cycle;
- 3) any perceived or real health risks related to Smithfield products in particular or the food industry in general could adversely affect the Company's ability to sell its products;
- 4) environmental regulations and litigations could have an adverse impact on the Company;
- 5) health risks to livestock could adversely affect hog, cattle, and turkey supplies, which would adversely impact the Company's operations;
- 6) governmental authorities may pass legislation prohibiting packers from owning livestock, as is the case in certain states, which while not imminent, could spread to other states; and
- 7) Smithfield has international sales and operations and is therefore subject to currency fluctuations and overseas political risks.

TYSON FOODS

Stephens Inc. expects to receive or intends to seek compensation for investment banking services from Tyson Foods in the next three months. Stephens Inc. has received compensation for products or services other than investment banking services from Tyson Foods in the past 12 months. Tyson Foods is or has been a client of Stephens Inc. for non-investment banking securities related services within the past 12 months. The research analyst principally responsible for the preparation of this report is a director of a privately held food processing and distribution company that is not affiliated with the subject company of the report.

Price Target/Rating Changes in the Past Three Years for Tyson Foods

<u>DATE</u>	<u>RATING</u>	<u>PRICE TARGET</u>
09/15/2008	OVERWEIGHT	\$18.00
03/18/2008	OVERWEIGHT	\$20.00
11/13/2007	EQUAL-WEIGHT	\$16.00
05/01/2007	EQUAL-WEIGHT	\$22.00
01/29/2007	EQUAL-WEIGHT	\$19.00
10/20/2006	EQUAL-WEIGHT	\$15.00
04/27/2006	OVERWEIGHT	\$18.00
01/30/2006	EQUAL-WEIGHT	\$14.00
01/26/2006	EQUAL-WEIGHT	\$16.00



Valuation Methodology for Tyson Foods

We used multiple valuation techniques, including P/E, EV/EBITDA, and comparable company analyses to arrive at our price target for Tyson Foods.

Risks to Tyson Reaching Our Price Target

- 1) Tyson Foods actively engages in acquisitions and divestitures, which could increase operational risks;
- 2) the Company's results from operations are cyclical and could be adversely affected by fluctuations in the hog and cattle commodity cycles;
- 3) any perceived or real health risks related to Tyson products in particular or the food industry in general could adversely affect the Company's ability to sell its products;
- 4) environmental regulations and litigations could have an adverse impact on Tyson;
- 5) health risks to livestock could adversely affect hog, cattle, and poultry supplies, which would adversely impact the Company's operations;
- 6) Tyson has international sales and operations and is therefore subject to currency fluctuations and overseas political risks; and
- 7) The Tyson family and related trusts have voting control of the Company.

Rating Definitions:

Company Stock Ratings: OVERWEIGHT (O) – The stock’s total return is expected to be greater than the total return of the company’s industry sector, on a risk-adjusted basis, over the next 12 months. EQUAL-WEIGHT (E) – The stock’s total return is expected to be equivalent to the total return of the company’s industry sector, on a risk-adjusted basis, over the next 12 months. UNDERWEIGHT (U) – The stock’s total return is expected to be less than the total return of the company’s industry sector, on a risk-adjusted basis, over the next 12 months. VOLATILE (V) – The stock’s price volatility is potentially higher than that of the company’s industry sector. The company stock ratings may reflect the analyst’s subjective assessment of risk factors that could impact the company’s business.

Distribution of Stephens Inc.'s Ratings (as of 12/31/08)

<u>Rating</u>	<u>%</u>	<u>% Investment Banking Clients</u> <u>(Past 12 Months)</u>
BUY	48	9
HOLD	51	4
SELL	1	0

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