Company

Global Markets Research

Deutsche Bank

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Industry Update

The Monthly Mouthful

From the field to the table

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Companies featured	
Archer-Daniels-Midland (ADM.N),USD30.53	Buy
Corn Products International (CPO.N),USD34.23	Hold
Hormel Foods (HRL.N),USD43.12	Sell
Sanderson Farms (SAFM.OQ),USD44.04	Hold
Smithfield Foods (SFD.N),USD16.32	Buy
Tyson Foods (TSN.N),USD16.61	Hold
Burger King (BKC.N),USD17.21	Buy
McDonald's (MCD.N),USD73.99	Buy
YUM Brands, Inc. (YUM.N),USD42.32	Hold
Texas Roadhouse (TXRH.OQ),USD13.62	Hold
Panera Bread Co (PNRA.OQ),USD79.81	Buy
Chipotle Mexican Grill, Inc (CMG.N),USD153.03	Buy
Ruth's Hospitality Grp. (RUTH.OQ),USD3.42	Buy

Highlights

In this monthly piece, our agribusiness/protein and restaurant teams take a collaborative approach to study the issues surrounding the supply of commodities and demand stemming from the restaurant sector.

State of ag and protein markets

The opportunity set for global, integrated agribusiness processors has markedly improved with the shortfall in FSU grain production. Though global stocks-to-use for wheat are adequate, the U.S. should gain a greater share of trade. Corn exports are also benefiting as a replacement for wheat in livestock rations. This should also aid soybean meal demand. New crop corn export orders have been strong, as customers wait for the better quality crop. At the same time, non-GMO corn is moving from Brazil to the EU. We expect both Archer-Daniels Midland (ADM, $30.55, Buy) and Bunge (BG, $52, Buy) to benefit from these trends. While higher and more volatile grain prices are typically negative for protein processors, we view the current dynamic as positive for Smithfield (SFD, $16.03, Buy). Specifically, prior commentary points to active hedging in grains, while the run-up in feed costs should deter hog producers from adding production. By contrast, the increase in chicken production is already visible, given the level of pullet placements since April.

Restaurants: commodity prices becoming more worrisome

Many key commodity costs (proteins, dairy, wheat) have been moving higher in recent weeks and some were already at elevated levels versus last year. Food costs in aggregate represent about 35% of the cost base for most restaurant chains. While we do not see much commodity-related risk to earnings forecasts in the near term, as most chains have already locked in major items for the balance of calendar 2010, we do see some risk to 2011 as prices for most major commodities are well above the levels seen in mid-to-late 2009, which is when many contracts were likely signed. Each 1% change in food costs impacts annual EPS by 2-3% for the avg. restaurant chain and margins by ~30bps. Restaurant companies expect ~1% food cost deflation in FY10. If this were to rise to just +2% in FY11, the earnings pressure could be 7-8% (before factoring in menu pricing). That said, initial 2011 food cost guidance, from companies that have offered color so far, are only up about 1% on avg. However, this could change as chains are just now entering the key period for food contract negotiations.

Valuation & Risks

We employ a variety of valuation methods for the restaurant, protein and agribusiness sectors, including multiples analysis (P/E, EV/EBITDA and EV/sales), DCF models, and sum-of-the-parts models. Key risks include volatility in grain and energy markets, weather, trade barriers/political tensions, declining consumer confidence/wealth, and changes in input costs, such as labor.

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Monthly highlights

Commodity highlights

* Focus in the corn and soybean markets is on yields. Market participants are beginning to lower their yield estimates for corn. Given the already low stocks-to-use ratio of 9.7% (based on the Aug WASDE) and likely better-than-expected export demand, a lower yield could send ending stocks below the 1 bil bu level, creating further upward pressure on corn prices. By contrast, a recent crop tour pegged the soybean yield above the USDA's latest estimate, but this may prove aggressive. Sudden Death Syndrome in Iowa/W. Illinois and dryness in the Eastern Corn Belt, which is hurting pod fill, notwithstanding a high number of pods for this time of year, may work to reduce expectations for USDA to raise its soybean yield projection.

* U.S. wheat export sales for 2010/2011 to date reached 480 mil bushels last week, up 57% YoY. This compares to USDA's current export assumption for the new crop year of +36%. Last week, the U.S. ag attaché estimated Russia's 2010E wheat production at 41 MMT, below USDA's latest 45 MMT estimate. Slow wheat winter planting in the country also places uncertainty around next year's production. Continued rains in Germany and dryness in Western Australia also put current global wheat supply projections in question.

* In mid-August, a judge banned the use of genetically modified sugar beets in the U.S. Sources indicate that Monsanto's beets make up 95% of the current sugar beet crop, which accounts for half of U.S. sugar production. No injunction has been issued and the USDA may appeal the decision. Further, the USDA's Animal and Plant Health Inspection Service has authority to approve GM seed planting with restrictions/special permits. However, if this decision limits GM beet planting, the bias to sugar prices will be up (likely seen in 2H11). We believe this could attract more Mexican sugar into the U.S., leaving a sweetener void in Mexico, to be possibly filled with HFCS. Though players indicate penetration of HFCS in Mexico is relatively full, USDA estimates Mexican consumption of HFCS is only about 21% of combined sugar and HFCS consumption in the country. Stay tuned.

* The pork cut-out value set a new record last week, peaking at $96.74/cwt on Tues, but then reversed course. This is in line with seasonality as Labor Day approaches with prices typically falling sequentially from Aug through Oct and then ticking up in Nov and Dec. Pork supplies are tight with only 391 million lbs in cold storage on July 31st, down 27.5% YoY and the lowest of any month since Oct 2001. Despite the tightness in the market, we are seeing both hog producers and processors turning profits. Since June 1st, hog slaughter has trailed expectations based on the USDA's June Hogs and Pigs report. It remains to be seen as to whether the report underestimated animals or delayed slaughter owing to weather-induced lighter weights will lead to a higher-than-expected rate of slaughter when cool weather moves in. At this point, evidence of expansion is minimal, limited by credit, as well as the recent move up in corn prices.

* Boneless breast meat prices have risen to $1.87/lb from the high $1.60 level post July 4th. Hot and humid weather has kept weights from reaching target levels. This combined with strong retail pull (due to a lower supply of competing meats) has aided prices. However, by mid-September, cooler temperatures and typical seasonal declines in demand post Labor Day should lead to a much more moderate breast meat environment. Projections call for record breast meat per capita availability next year, which combined with escalating feed costs should pressure margins. The back half of the bird should be supported by export demand with the Russia Veterinary Service adding four additional U.S. poultry slaughter plants to its list of approved facilities, bringing the total to 21 slaughter plants. Taking into

account the Russian premium, USDA bonus buy and other sources of demand, we assume leg quarters will average $0.45/lb in Sept and Oct and $0.40/lb next year.

* After weakening post Memorial Day, beef prices have rallied to the $165/cwt range on tight supplies, improved beef demand in domestic and export markets and low inventories of beef. Beef in cold storage on July 31st was 388 mil lbs., down 12.7% YoY and the lowest of any July since 2005. However, late last week, spot market beef prices started to ease, ahead of Labor Day. Seasonally, prices typically weaken from Sept into Oct and then strengthen again in Nov.

* Ethanol margins for dry mills are running about $0.20/gallon. This is stronger than we expected, given the slated increase in supply and blend wall issue. We believe ethanol exports combined with summer driving demand worked to tighten the ethanol market. As a result of the tight prompt supply, ethanol prices have been able to follow corn higher, thus leaving a margin for producers. However, ethanol prices have now reached parity or a premium relative to gasoline. The $0.45/gal tax credit allows for continued incentive to blend on a discretionary basis. In fact, the latest DOE data pointed to conventional gasoline blended with ethanol at 5.035 million b/d, the highest level on record, and up 18.4% YoY. We note this credit expires at the end of this year and a renewal is still uncertain, given budget/funding constraints. A revamped draft energy tax package was released by House Ways and Means Committee Chairman Sander Levin in July, which extends the tax credit, but reduces it $0.09/gal.

* There has been no major update about increased ethanol blending rates. The EPA is expected to grant E15 approval in September for 2007 and later model year vehicles and then later in the year for those vehicles that are 2001 and later. This partial waiver is not expected to have a major impact on use owing to liability concerns. There has been no update as to where the EPA stands on an E11 or E12 decision (as “substantially similar” to E10 and thus used in the whole vehicle fleet), since ADM provided test data about the viability of the blend.

Restaurant highlights

* Commodity prices becoming more worrisome: Many key commodity costs (proteins, dairy, wheat) have been moving higher in recent weeks and some were already at elevated levels versus last year. While we do not see much commodity-related risk to restaurant earnings forecasts in the near term, as most chains have already locked in major items for the balance of calendar 2010, we do see some risk to 2011 earnings forecasts as prices for most major commodities are well above the levels seen in mid-to-late 2009, which is when many contracts were likely signed. Within our coverage, the name with the most exposure to this issue is Texas Roadhouse (TXRH, $13.32, Hold), given favorable food contracts for 2010 and concentrated exposure in two key commodities (choice beef ~46% of COGS and pork ~9%) that have moved higher recently.

* July retail sales suggest 3Q off to good start: On 8/13, the US Census released retail sales for July. Sales for the "food service & drinking places" category, a proxy for restaurant sales, were +0.2% for July vs. flat in June. We prefer to look at the sales figures on a y/y, non-seasonally adj. basis, as this is more representative of how sales are reported by public cos. On this basis, sales for the "food service & drinking places" category were +4.4% in July vs. +2.3% in June and +1.3% in May. On a 2-year basis, sales growth accelerated to +5.8% in July from +3.8% in June and +2.8% in May. July trends also improved vs. the +2.6% in 2Q and +1.4% in 1Q. Since 2001, the US Census data has an ~84% correlation with restaurant industry SSS (70% R-squared). This suggests industry SSS are off to a good start in 3Q, trending above the prior two quarters. Based on our index of ~50 restaurant chains, 2Q10 (+1.0%) was the first positive SSS quarter since 4Q07 and if trends continue, 3Q should see further improvement.

* USDA updates inflation outlook: On 8/25, the USDA updated its food inflation outlook for 2010 and 2011. Inflation expectations for 2010 were lowered for both “food away from home” (i.e., restaurants) and “food at home” (i.e., grocery stores). The USDA now sees aggregate food inflation of +1.5% for “food away from home”, down from 3.0% earlier this year. “Food at home” inflation was lowered to +0.75% from +3.0%. For 2011, the USDA expects inflation for both categories to pick up modestly, with “food away from home” and “food at home” inflation both expected to be +2.0-3.0%. The USDA expects pork and dairy to be the most inflationary categories (both up 3.0-4.0%). So, in aggregate, the USDA expects about 100bps higher inflation in 2011 for restaurants vs. 2010 (+2.5% vs. +1.5%). We estimate that each 1% change in food inflation impacts EPS for the average restaurant by 2-3% and margins by ~30bps.

* CPI for "food away from home" remains soft: The consumer price index (CPI) for July was released on 8/13. CPI for "food away from home", a proxy for restaurant pricing, increased 1.06% y/y in July vs. +1.18% in June and +1.14% in May. This suggests pricing power remains a challenge for most restaurants given generally soft commodity prices, low grocery inflation and a promotional sales environment. However, in a positive sign, grocery pricing (the "food at home" category) rose sequentially for the eighth straight month in July, to +0.67%. So, still low, but picking up. Rising grocery prices can help improve the relative value proposition for restaurants.

* Assessing the wheat impact on Panera (PNRA, $78.74, Buy): Wheat prices have spiked to around $8/bushel in recent weeks (up from less than $5 in June) on supply concerns in Russia. PNRA has the most significant exposure to wheat in our coverage. However, PNRA has already locked in its wheat supply for the balance of 2010 at an all-in price of ~$8.25/bushel (including basis, transportation, etc.). As such, we are not likely to see any immediate impact from the wheat price increase. The company has also locked in about 45% of it 2011 needs at around $7.50/bushel, meaning wheat will be a benefit to EPS in 1H11. Wheat prices have recently settled to the $7/bushel level. If PNRA locked in its remaining

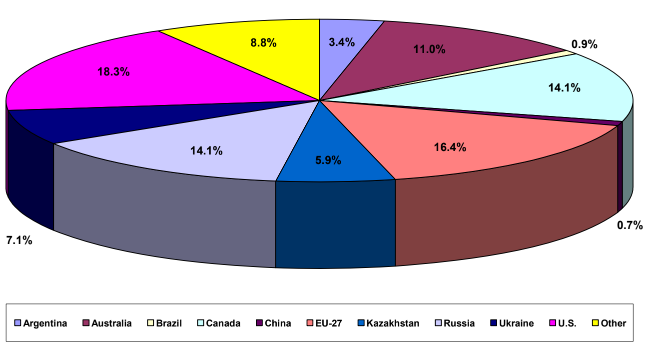
wheat supply (i.e., 2H11) at current prices, we estimate the all-in cost would be around \$8.25/bushel for 2H11. On a net basis, this would mean an approximately neutral impact from wheat on 2011 earnings, with a slight benefit in 1H11 (+2-3c) and flattish in 2H11. The basic rule of thumb is that each \$1/bushel move in wheat prices impacts PNRA's annual EPS by 6-7c. However, this impact would be about ½ this level for 2011 since about ½ the wheat supply is already contracted. Overall, we continue to view our forecast of flattish margins for PNRA in 2011 as intact.

* Positive data points out of China: Two public restaurant chains in China (Ajisen and Little Sheep) recently reported 1H10 results. On Aug 19, Ajisen (0538.HK; HKD11.14, not covered), a fastfood noodle chain with ~400 restaurants in mainland China (MLC), reported 1H10 SSS of +6.8% for its MLC business (incl. +2-3% pricing). Gross margin and labor costs were ~flat. Mgmt. also guided to better SSS and gross margins for 2H10 vs. 1H10. On Aug 25, Little Sheep (0968.HK; HKD4.64, Buy), a "hot pot" concept with ~300 restaurants in MLC (27%-owned by YUM), reported SSS of +6.9% for 1H10 (traffic +9.8%). LS indicated that 2H10 trends are similar to 1H10 so far. These chains have historically posted SSS trends that are similar to YUM's China business. YUM reported +4% SSS for its China segment for 1H10 (Jan 1-May 31 period). Results/outlooks from Ajisen and Little Sheep suggest traffic trends remain healthy into 2H10, consistent with our +4.5% SSS forecast for YUM China. Little Sheep is covered by DB analysts Anne Ling and Mabel Wong. Ajisen is not covered by DB.

Outlook – Agribiz & protein

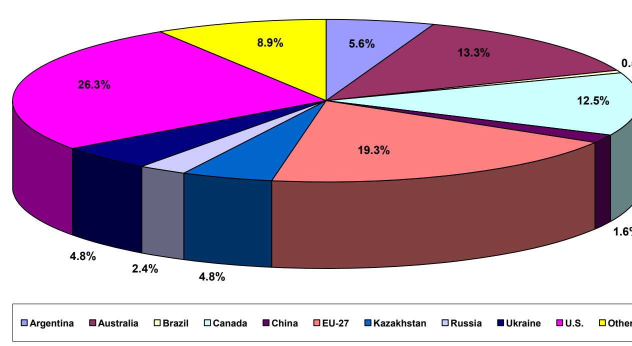
The opportunity set for global, integrated agribusiness processors has markedly improved with the shortfall in FSU grain production. Though global stocks-to-use for wheat is adequate at only 50 bps. below the historical average, the U.S. should gain a greater share of trade. As shown in Figures 1-2, the U.S. share of global wheat exports is expected to jump from 18.3% last crop year to 26.3% this crop year, as Russia, Kazakhstan, and the Ukraine reduce their contribution.

Figure 1: 2009/10 estimated global export share



Source: Deutsche Bank, USDA

Figure 2: 2010/11 estimated global export share



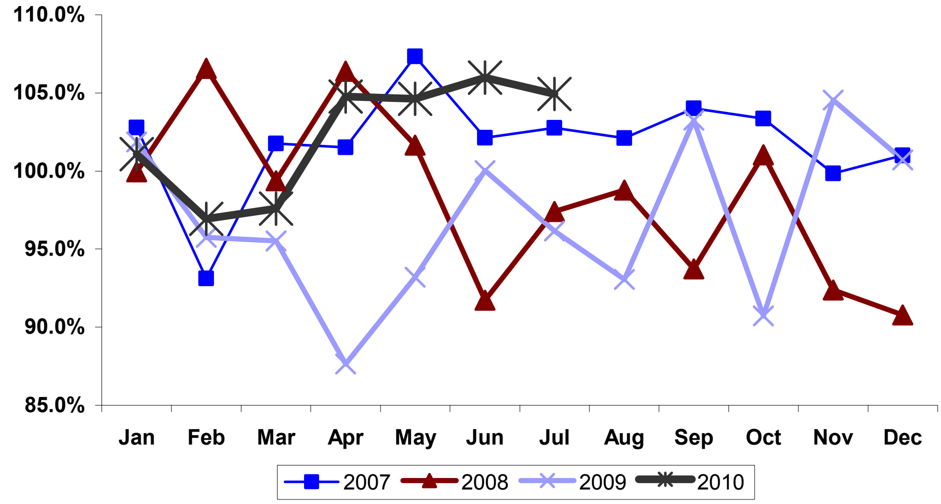
Source: Deutsche Bank, USDA

Corn exports are also benefiting as a replacement for wheat in livestock rations. This should also aid soybean meal demand, which provides the protein in the ration, when combined with corn. New crop corn exports have been strong, as customers wait for the better quality crop. At the same time, non-GMO corn is moving from Brazil to the EU. New crop corn from the U.S. should then fill the void in other markets that typically import Brazilian corn. We expect both Archer Daniels Midland and Bunge to benefit from these trends in three ways:

1. Dislocation in the supply and demand of feed grains should place more importance on the intermediary role;
2. There will be opportunities to blend poor quality, discounted old crop corn with new crop, higher-quality corn;
3. Storage revenues should move higher as new crop corn and soybeans come to harvest, given high supplies of U.S. wheat in storage;

While higher and more volatile grain prices are typically negative for protein processors, we view the current dynamic as positive for Smithfield. Specifically, prior commentary points to active hedging in grains, while the run-up in feed costs should deter hog producers from adding production. By contrast, the increase in chicken production is already visible, given the level of pullet placements since April.

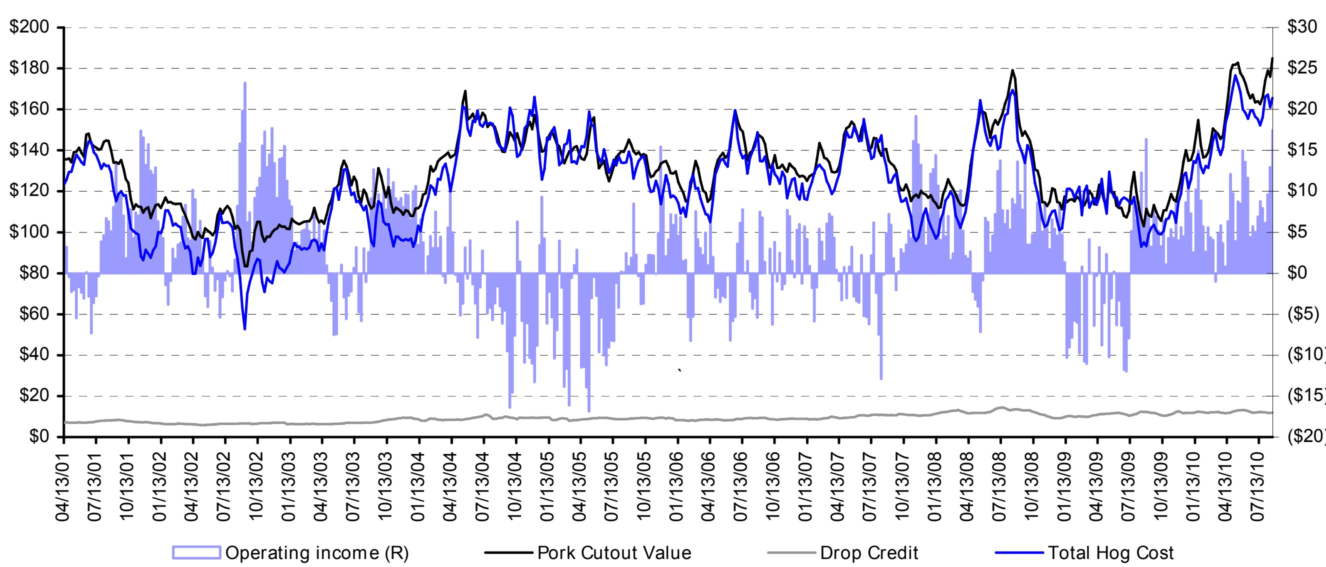
Figure 3: Broiler-type pullet chicks for hatchery supply flocks, YoY change



Source: Deutsche Bank, USDA

We believe upcoming catalysts for Smithfield include strong earnings driven by record packer margins for this time of year (see Figure 4). It is noteworthy that these strong processing margins are occurring during a time when hog raising margins are profitable. We believe the current strength in corn prices (along with continued tight credit) may work to deter producers who were possibly considering expansion or filling pens. This should keep supply at tight levels for longer than expected, with Smithfield also benefiting from hedged grain positions as articulated during prior presentations.

Figure 4: Pork processing margins ($/head)



Source: Deutsche Bank, USDA, Wall Street Journal

According to CME's Daily Livestock Report, hog futures prices are currently forecasting hog prices in 4Q11 to be about 8% lower than 4Q10, suggesting roughly 3-4% more pork on the market. In order to meet this expectation, DLR calculates that the sow herd would have to be 2% larger by December 1st, assuming continued growth in pigs/litter of 2%. In the current credit and feed cost environment, this level of expansion appears unlikely. Hence, there is potential for an upward shift in the hog futures curve.

Sector valuation

We are employing a variety of valuation methods, including:

Multiples analysis: We apply historical multiples to normalized EPS discounted back to today. We also look at historical multiples relative to book value to derive fair value.

- **DCF:** We also utilize our discounted cash flow valuation model (3% sales, 4-5% EBIT, 7-8% EPS growth, 9.5% WACC).
- **EV/Sales:** Finally, we look at EV/sales to derive where a stock typically bottoms and thus calculate downside risk.

Sector risks

Typical sector risks include:

- **A sudden increase in grain and energy prices:** An increase in grain and energy costs would increase the cost of production for protein processors, with the risk that higher production costs will not be fully passed through. For agribusiness processors, a weather-impacted crop would lead to lower availability of key inputs, lower capacity utilization and potentially tighter processing margins.
- **Trade barriers/political tensions limited export opportunities:** Exports are a significant outlet of U.S. protein and grain production. Trade barriers have the potential to significantly affect prices.
- **Declining consumer confidence/wealth:** This could lead to trade-down among meats and within cuts. The trade-down among meats would hurt beef and potentially pork, while chicken would likely benefit. Trade-down within cuts generally hurts the overall cutout value of the protein, thus hurting profitability. Should demand for protein continue to falter, production cuts would increase, thus further reducing demand for feed, a negative for agribusiness processors.

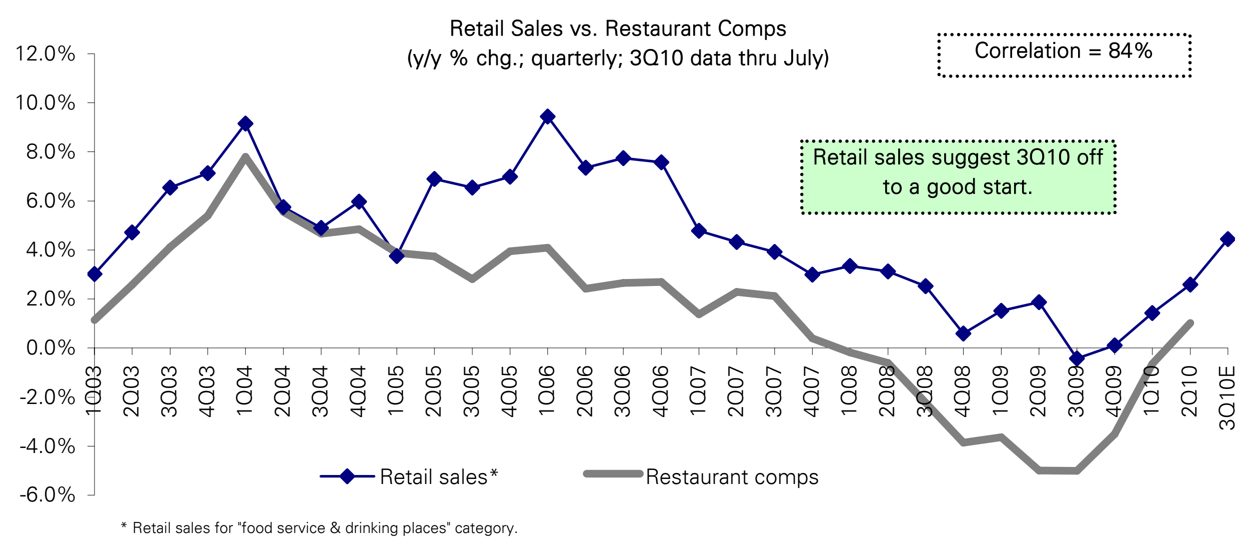
Outlook: Restaurants

Retail sales suggest 3Q off to a good start

On 8/13, the US Census released retail sales for July. Sales for the "food service & drinking places" category, a proxy for restaurant sales, were +0.2% for July vs. flat in June. We prefer to look at the sales figures on a y/y, non-seasonally adj. basis, as this is more representative of how sales are reported by public cos. On this basis, sales for the "food service & drinking places" category were +4.4% in July vs. +2.3% in June and +1.3% in May. On a 2-year basis, sales growth accelerated to +5.8% in July from +3.8% in June and +2.8% in May. July trends also improved vs. the +2.6% in 2Q and +1.4% in 1Q. Since 2001, the US Census data has an ~84% correlation with restaurant industry SSS (70% R-squared). This suggests industry SSS are off to a good start in 3Q, trending above the prior two quarters. Based on our index of ~50 restaurant chains, 2Q10 (+1.0%) was the first positive SSS quarter since 4Q07 and if trends continue, 3Q should see further improvement.

That said, we expect demand trends to vary by sub-segment and company. Also, given the uncertain state of the economy/consumer, we have low visibility on intermediate- to long-term demand trends.

Figure 5: Retail sales vs. restaurant comps (thru July '10)

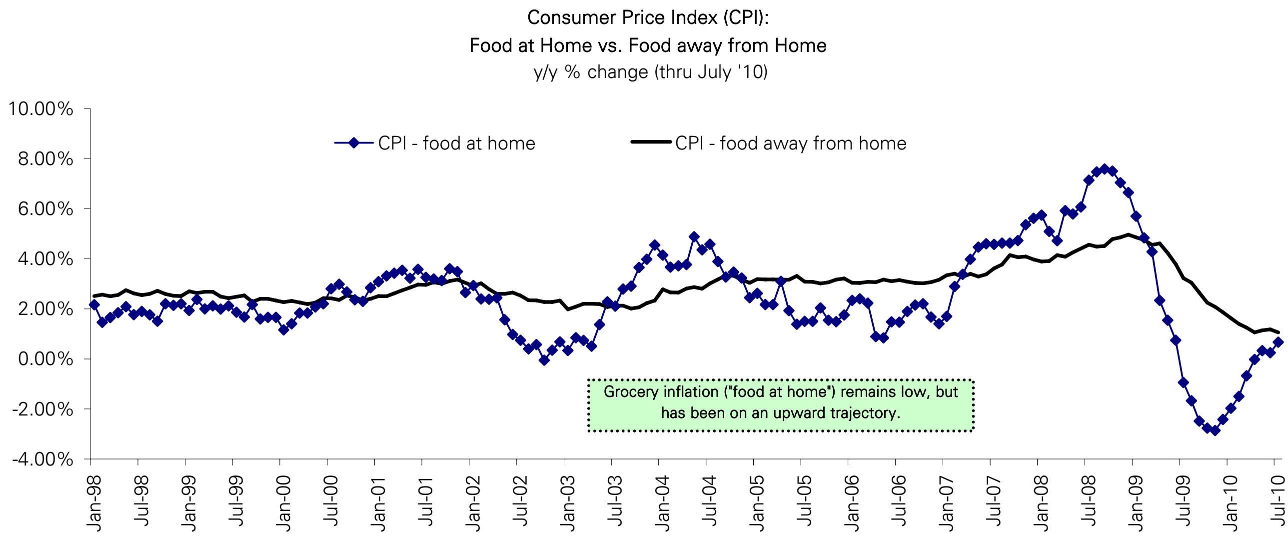


Source: Deutsche Bank estimates, company information, US Census

CPI suggests some stabilization in pricing power, at a low level

The consumer price index (CPI) for July was released on 8/13. CPI for "food away from home", a proxy for restaurant pricing, increased 1.06% y/y in July vs. +1.18% in June and +1.14% in May. This suggests pricing power remains a challenge for most restaurants given generally soft commodity prices, low grocery inflation and a promotional sales environment. However, in a positive sign, grocery pricing (the "food at home" category) rose sequentially for the eighth straight month in July, to +0.67%. So, still low, but picking up. Rising grocery prices can help improve the relative value proposition for restaurants. Plus, restaurant CPI is no longer falling at the rate seen throughout most of 2009 and early 2010.

Figure 6: CPI: restaurants vs. grocery stores



Source: Deutsche Bank estimates, company information, BLS

Commodity prices growing more worrisome

Many key commodity costs (proteins, dairy, wheat) have been moving higher in recent weeks and some were already at elevated levels versus last year. Food costs in aggregate represent about 35% of the cost base for most restaurant chains.

We do not see much commodity-related risk to restaurant earnings forecasts in the near term, as most chains have already locked in major items for the balance of calendar 2010.

Each 1% change in food costs impacts annual EPS by 2-3% for the average restaurant chain and margins by ~30bps.

Looking out a bit further, we do see some risk to 2011 earnings forecasts for the group as prices for most major commodities are well above the levels seen in mid-to-late 2009, which is when many contracts were likely signed. Each 1% change in food costs impacts annual EPS by 2-3% for the average restaurant chain and margins by ~30bps. Restaurant companies expect ~1% food cost deflation in FY10. If this were to rise to just +2% in FY11, the earnings pressure could be 7-8% (before factoring in menu pricing). That said, initial 2011 food cost guidance, from companies that have offered color so far, are only up about 1% on avg. However, this could change as chains are just now entering the key period for food contract negotiations.

In addition, we believe pricing power across the sector remains somewhat tenuous given a general oversupply of restaurants in certain segments of the industry (notably casual and upscale dining) and a still sluggish traffic environment. This raises the question of whether companies will be able to pass through higher commodity costs as easily as in the past.

Current consensus forecasts call for a 50-60bps improvement in industry-wide EBITDA margins in FY11, on top of +50bps in FY10 and +70bps in FY09. Consensus forecasts also assume an acceleration in industry-wide EPS growth to +18% in FY11 from +10% in FY10. With the backdrop of a sluggish consumer recovery, limited pricing power and rising commodity costs, these forecasts could be a bit optimistic.

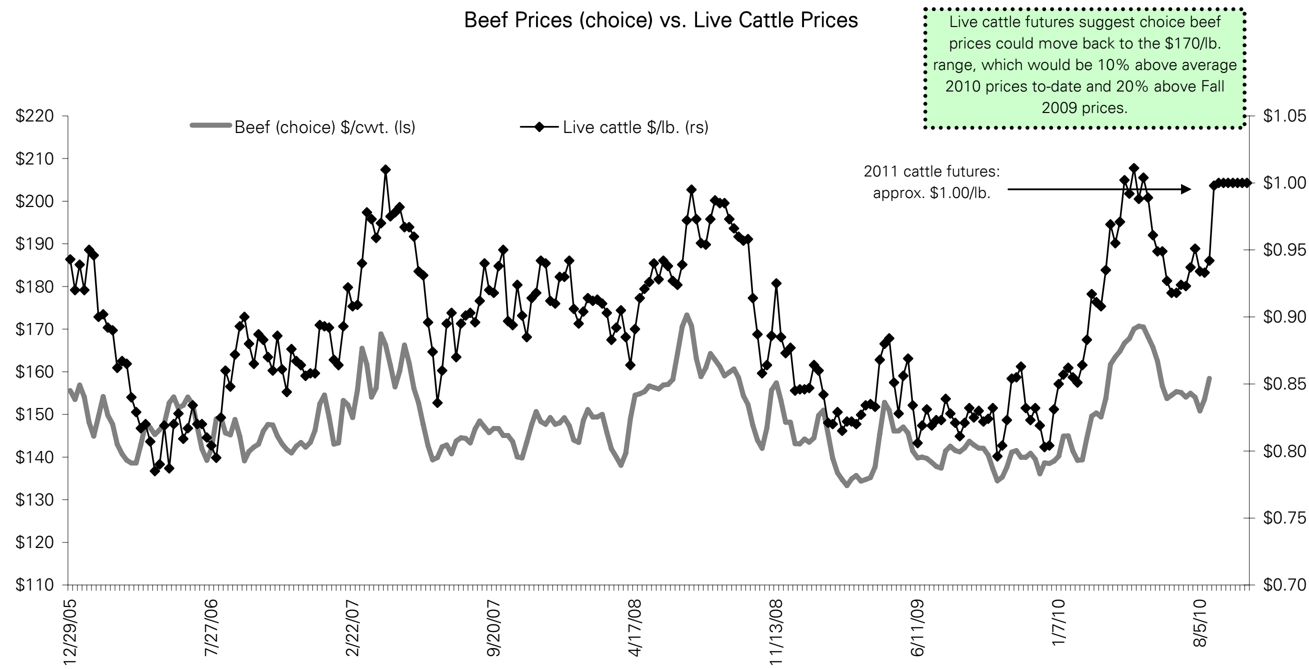
Chicken: Chicken breast prices moved up 6% sequentially in July (vs. historical seasonal move of +1%). Prices have risen another 2% sequentially in Aug (vs. historical seasonal move of -3%). Breast meat prices were about 20-25% above year-ago levels in Aug. While most companies have already secured 2010 breast meat supply under fixed contracts, this is an area to watch for 2011. On the positive side, dark meat chicken prices remain flattish y/y, while chicken wing prices are down 10-20%, depending on the quoting source.

Beef: Choice beef prices (often used at casual steakhouse chains) have been moving up recently, in tandem with live cattle prices. Choice beef prices have moved up to $158/cwt. at the end of Aug vs. $151 at the beginning of the month. Choice beef prices have been averaging about $155/cwt. in the last few months, up ~10% vs. year-ago levels. Live cattle futures have also been moving up, and are now near $1.00/lb. for near-in months, as well as 2011. The historical correlation between live cattle prices and choice beef prices suggest choice prices could move into the $170/cwt. range soon. The timing of this move is not ideal as many chains will likely be looking to negotiate purchase contracts for 2011 in coming weeks. Ground beef prices also remain elevated, with blended 50s/90s averaging about $1.35/lb., up 25% y/y. However, ground beef prices will begin to lap higher levels in early 2011, suggesting y/y inflation should moderate.

Pork: Prices for pork have moved sharply higher, with pork tenderloins up ~10% y/y currently, while bacon prices have jumped up 140% y/y.

Dairy: Dairy prices have been moving higher of late, with cheese now up 20% y/y and milk up about 40%. However, we note that dairy prices spiked in 4Q09, so y/y prices should begin to moderate soon.

Figure 7: Beef (choice) prices vs. live cattle prices



Source: Deutsche Bank estimates, company information

Figure 8 summarizes historical and forecast EBITDA margins for the restaurant group through FY11E. Current consensus expectations call for an ~50ps improvement in EBITDA margins in FY10 across the industry. With commodities still generally favorable for most companies this year and demand showing signs of improvement, we do not see significant risk to this outlook. However, FY11 consensus expectations call for a further 50-60bps improvement in industry margins. This outlook does appear to carry some risk if commodities remain at current levels or move higher.

What's the risk to earnings?: As noted earlier, aggregate expectations are for a 1% decline in food costs for FY10. If this swings to say +2% in FY11on higher protein/dairy/etc., that would imply ~90bps of incremental margin pressure across the group (or ~30bps for each 1% move in commodities), perhaps making the FY11 margin growth targets a challenge.

Looking at this from an earnings perspective, a 3% swing in food costs (i.e., from -1% in FY10 to +2% in FY11) could hurt earnings growth by 7-8% across the group in FY11 (or 2-3% for each 1% move in commodities). As shown in Figure 9, current consensus forecasts call for an acceleration in EPS growth in FY11, to ~18%, up from ~10% in FY10.

Figure 8: Restaurant industry EBITDA margin forecasts – rising food costs could pressure 2011 margins

	EBITDA MARGIN*								Y/Y CHANGE (IN BPS)						
Quick service	FY04	FY05	FY06	FY07	FY08	FY09	FY10E	FY11E	FY05	FY06	FY07	FY08	FY09	FY10E	FY11E
Burger King	10.8%	13.4%	16.9%	17.3%	18.3%	17.4%	17.8%	18.8%	252	354	43	101	-93	36	100
Jack in the Box	9.9%	9.7%	9.9%	10.9%	12.5%	11.0%	11.9%	12.6%	-14	18	101	156	-144	88	72
McDonald's	25.5%	26.4%	27.2%	29.7%	32.5%	35.4%	36.7%	37.7%	95	77	248	282	292	132	98
Sonic	26.0%	25.7%	24.9%	24.7%	24.2%	24.4%	23.3%	24.9%	-22	-85	-18	-50	16	-111	164
Wendy's	16.5%	16.3%	9.0%	12.5%	10.0%	11.9%	11.6%	12.7%	-14	-728	342	-245	186	-25	111
YUM! Brands	17.5%	17.3%	18.2%	18.2%	17.8%	19.8%	21.4%	22.2%	-15	89	3	-42	200	162	80
QSR avg.	**15.2%**	**15.6%**	**15.2%**	**16.2%**	**16.5%**	**17.1%**	**17.5%**	**18.4%**	**40**	**-39**	**103**	**29**	**65**	**40**	**89**
Quick casual															
Chipotle	5.9%	9.4%	11.7%	14.0%	13.3%	17.5%	18.7%	19.3%	347	229	229	-70	418	121	64
Panera Bread	18.1%	17.8%	16.3%	13.9%	14.2%	15.5%	16.7%	16.8%	-27	-152	-241	28	137	116	15
QC avg.	**12.0%**	**13.6%**	**14.0%**	**13.9%**	**13.7%**	**16.5%**	**17.7%**	**18.1%**	**160**	**38**	**-6**	**-21**	**277**	**119**	**40**
Casual dining															
BJ's Restaurants	9.0%	10.2%	9.6%	9.4%	9.0%	10.3%	11.0%	11.8%	120	-57	-16	-47	131	76	80
Buffalo Wild Wings	12.2%	12.7%	13.3%	12.9%	14.0%	14.3%	15.5%	15.7%	51	55	-38	104	31	125	16
Cheesecake Factory	13.7%	14.8%	12.2%	11.6%	10.1%	11.1%	12.2%	12.4%	108	-264	-58	-143	96	109	19
California Pizza Kitchen	12.6%	11.3%	10.8%	11.1%	9.7%	10.0%	9.4%	9.8%	-127	-45	24	-134	24	-61	43
Darden Restaurants	12.6%	13.0%	14.0%	13.9%	13.4%	13.0%	13.5%	13.9%	42	103	-11	-51	-44	51	47
Brinker International	13.5%	12.2%	12.9%	12.0%	11.0%	10.9%	11.2%	12.2%	-132	70	-86	-96	-15	28	106
P.F. Chang's	10.7%	12.1%	10.5%	9.9%	10.1%	11.4%	11.6%	11.9%	146	-166	-57	22	127	26	26
Red Robin	14.5%	14.8%	13.5%	13.1%	11.4%	10.7%	9.0%	9.6%	26	-131	-43	-164	-69	-174	59
Ruby Tuesday	22.3%	20.4%	17.7%	16.4%	11.4%	11.8%	11.5%	11.9%	-192	-267	-130	-502	42	-25	36
Texas Roadhouse	13.7%	13.5%	12.7%	13.0%	11.3%	12.5%	13.3%	13.5%	-20	-81	29	-165	116	85	13
Casual dining avg.	**13.5%**	**13.5%**	**12.7%**	**12.3%**	**11.1%**	**11.6%**	**11.8%**	**12.3%**	**2**	**-78**	**-39**	**-118**	**44**	**24**	**44**
Upscale dining															
McCormick & Schmick's	7.3%	9.4%	9.7%	7.8%	6.1%	6.5%	6.8%	7.4%	203	29	-183	-170	41	26	63
Morton's	9.0%	8.9%	9.5%	8.1%	5.9%	5.2%	7.2%	7.8%	-4	51	-132	-222	-76	204	63
Ruth's Hospitality Group	15.5%	16.4%	15.6%	13.1%	9.7%	10.3%	11.0%	10.8%	91	-81	-255	-340	69	65	-22
Upscale avg.	**10.6%**	**11.6%**	**11.6%**	**9.7%**	**7.2%**	**7.3%**	**8.3%**	**8.7%**	**97**	**0**	**-190**	**-244**	**11**	**98**	**34**
Industry avg.	**13.5%**	**13.9%**	**13.4%**	**13.3%**	**12.5%**	**13.2%**	**13.7%**	**14.3%**	**42**	**-45**	**-11**	**-79**	**68**	**48**	**57**

* All estimates from First Call except for DB covered companies. Excludes non-recurring items.

Forecasts assume steady margin recovery.

Source: Deutsche Bank estimates, company information, Cap IQ

Figure 9: Summary of restaurant industry growth expectations (based on DB and consensus forecasts)

		– SSS estimates* –			– Revenue Growth –			– EBITDA Y/Y growth –			– EPS est. –			– EPS Y/Y growth –		
QSR		FY09A	FY10E	FY11E	FY09A	FY10E	FY11E	FY09A	FY10E	FY11E	FY09A	FY10E	FY11E	FY09A	FY10E	FY11E
Burger King	BKC	1.2%	-2.3%	0.0%	3.4%	-1.4%	-6.1%	-1.9%	0.7%	-0.8%	$1.41	$1.36	$1.31	2.2%	-3.4%	-3.5%
Jack in the Box*	JACK	-1.2%	-9.0%	NA	-2.7%	-8.0%	-6.1%	-13.9%	-0.6%	-0.4%	$2.27	$1.70	$1.89	12.9%	-25.1%	11.2%
McDonald's	MCD	2.6%	4.5%	3.2%	-3.3%	3.8%	1.8%	5.4%	7.6%	4.6%	$3.98	$4.50	$4.76	8.4%	13.3%	5.6%
Sonic	SONC	-4.3%	-7.9%	NA	-10.7%	-23.6%	1.0%	-10.1%	-27.1%	8.2%	$0.72	$0.50	$0.62	-25.8%	-30.6%	24.0%
Wendy's /Arby's Group*	WEN	0.3%	0.2%	1.6%	-2.2%	-4.4%	1.3%	15.9%	-6.4%	11.0%	$0.18	$0.11	$0.17	28.6%	-41.1%	65.0%
YUM! Brands	YUM	-5.0%	0.8%	0.4%	-3.7%	3.2%	3.1%	7.1%	11.6%	6.9%	$2.17	$2.47	$2.73	13.3%	14.0%	10.4%
	AVG	-1.1%	-2.3%	1.3%	-3.2%	-5.1%	-0.8%	0.4%	-2.4%	4.9%				6.6%	-12.2%	18.8%
PIZZA																
Domino's	DPZ	0.5%	5.0%	NA	-1.5%	9.7%	2.2%	2.2%	17.1%	2.1%	$0.87	$1.29	$1.39	16.0%	48.3%	7.8%
Papa John's	PZZA	0.0%	0.3%	NA	-2.3%	0.7%	2.6%	2.4%	12.8%	8.6%	$1.50	$1.81	$2.09	-10.7%	20.7%	15.5%
	AVG	0.3%	NA	NA	-1.9%	5.2%	2.4%	2.3%	15.0%	5.3%				2.6%	34.5%	11.6%
QUICK CASUAL																
Chipotle Mexican Grill	CMG	2.2%	6.5%	3.5%	14.0%	18.0%	14.3%	49.9%	26.2%	18.2%	$3.95	$5.14	$6.23	67.5%	30.1%	21.2%
Panera Bread	PNRA	2.2%	7.6%	3.5%	4.2%	12.1%	11.8%	14.3%	20.5%	12.8%	$2.91	$3.57	$4.27	25.3%	22.8%	19.7%
	AVG	2.2%	7.1%	3.5%	9.1%	15.1%	13.0%	32.1%	23.4%	15.5%				46.4%	26.5%	20.4%
UPSCALE DINING																
Morton's	MRT	-19.5%	5.0%	NA	-20.7%	5.8%	7.2%	-30.9%	47.6%	16.5%	$0.10	$0.32	$0.43	-69.7%	NA	34.4%
McCormick & Schmick's	MSSR	-15.7%	NA	NA	-7.8%	-2.6%	5.2%	-1.7%	1.2%	14.9%	$0.32	$0.37	$0.52	-28.9%	15.6%	40.5%
Ruth's Hospitality Group*	RUTH	-19.3%	1.9%	4.3%	-12.5%	2.6%	5.0%	-6.2%	9.1%	2.9%	$0.42	$0.29	$0.26	20.1%	-30.5%	-12.4%
	AVG	-18.2%	3.5%	4.3%	-13.7%	1.9%	5.8%	-12.9%	19.3%	11.5%				-26.1%	-7.4%	20.9%
CASUAL DINING																
BJ's Restaurants	BJRI	-0.8%	2.0%	NA	14.1%	18.7%	16.1%	30.8%	27.5%	24.5%	$0.53	$0.73	$0.88	20.5%	37.7%	20.5%
Brinker International	EAT	-5.6%	-1.5%	NA	-22.6%	-12.8%	-1.4%	-23.7%	-10.5%	8.0%	$1.28	$1.18	$1.38	-9.2%	-7.8%	16.9%
Buffalo Wild Wings	BWLD	3.1%	0.5%	3.0%	27.6%	13.7%	17.8%	30.4%	23.6%	19.0%	$1.69	$2.07	$2.45	24.3%	22.4%	18.7%
California Pizza Kitchen	CPKI	-6.6%	-1.0%	NA	-1.8%	-3.3%	5.5%	0.6%	-9.1%	10.3%	$0.77	$0.61	$0.73	13.2%	-20.8%	19.7%
CBRL Group	CBRL	-1.7%	0.8%	NA	-0.7%	1.6%	3.4%	-3.4%	14.2%	6.1%	$2.89	$3.59	$4.01	2.5%	24.3%	11.7%
Cheesecake Factory	CAKE	-2.6%	1.3%	NA	-0.3%	3.1%	5.2%	9.2%	13.3%	6.8%	$1.07	$1.37	$1.58	27.4%	28.0%	15.3%
Darden Restaurants	DRI	-1.4%	-2.4%	1.7%	8.9%	-1.2%	5.3%	5.4%	2.7%	9.0%	$2.75	$2.93	$3.33	0.4%	6.5%	13.7%
DineEquity	DIN	-4.5%	-1.5%	NA	-12.4%	-4.5%	-9.4%	13.2%	-11.9%	-2.4%	$2.40	$3.49	$4.07	69.0%	45.4%	16.6%
P.F. Chang's*	PFCB	-6.7%	NA	NA	2.5%	1.3%	4.8%	15.4%	3.7%	7.2%	$1.87	$1.98	$2.27	29.0%	5.9%	14.6%
Red Robin	RRGB	-11.1%	0.0%	NA	-4.7%	4.2%	5.2%	-10.5%	-12.7%	12.1%	$1.38	$0.81	$1.08	-23.8%	-41.3%	33.3%
Ruby Tuesday	RT	-7.9%	-1.5%	NA	-8.2%	-4.3%	1.7%	-4.8%	-6.3%	4.8%	$0.53	$0.73	$0.85	3.9%	37.7%	16.4%
Texas Roadhouse	TXRH	-2.8%	2.0%	2.8%	7.0%	6.0%	8.9%	18.0%	13.2%	10.0%	$0.67	$0.81	$0.91	26.6%	21.5%	12.2%
	AVG	-4.1%	-0.1%	2.5%	0.8%	1.9%	5.3%	6.7%	4.0%	9.6%				15.3%	13.3%	17.5%
COFFEE																
Starbucks	SBUX	-5.3%	6.0%	4.7%	-5.9%	8.2%	4.7%	0.4%	34.7%	13.6%	$0.80	$1.22	$1.44	12.7%	52.5%	18.0%
Industry averages		-4.2%	0.5%	2.6%	-0.9%	1.8%	4.3%	5.8%	6.2%	8.7%				13.0%	9.8%	18.0%

Revenue, EBITDA and EPS estimates from Capital IQ except for DB covered companies. Excludes non-recurring items. Same store sales estimates for non-covered companies based on company guidance.

*JACK: Same stores sales for Jack in the Box brand only; WEN: Wendy's only; RUTH: Ruth's Chris only; PFCB: P.F. Chang's only

Source: Deutsche Bank estimates, company information, Cap IQ

Figure 10: Key cost inputs for restaurants: while prices have come in some recently, we continue to see elevated protein prices y/y

Key input prices (commodities, gasoline, labor)

									y/y % change										
Grains & oils	2008	2009	1Q10	2Q10	3Q10E*	4Q10E*	2010E*	2011E*	2009	1Q10	2Q10	3Q10E*	4Q10E*	2010E*	1Q11E*	2Q11E*	3Q11E*	4Q11E*	2011E*
Corn ($/bushel)	$4.94	$3.57	$3.44	$3.40	$3.71	$4.30	$3.71	$4.50	-28%	-5%	-14%	18%	21%	4%	29%	34%	21%	5%	21%
Wheat - Hard KC ($/bushel)	$8.62	$5.59	$4.83	$4.57	$6.43	$7.05	$5.72	$7.05	-35%	-21%	-27%	31%	38%	2%	47%	53%	9%	1%	23%
Soybeans ($/bushel)	$11.92	$10.23	$9.47	$9.51	$10.10	$10.05	$9.78	$10.11	-14%	2%	-15%	-5%	2%	-4%	7%	7%	0%	0%	3%
Soybean oil ($/lb.)	$0.50	$0.33	$0.35	$0.36	$0.36	$0.36	$0.36	$0.36	-33%	18%	3%	13%	2%	9%	2%	1%	0%	0%	1%
Rice ($/lb.)	$0.35	$0.26	$0.26	$0.24	$0.22	$0.22	$0.23	$0.22	-26%	-13%	-8%	-13%	-12%	-11%	-15%	-9%	0%	0%	-6%
Produce																			
Tomatoes ($/case)	$12.89	$12.46	$23.58	$18.54	$15.78	$9.00	$16.72	$13.00	-3%	186%	32%	72%	-51%	34%	-45%	-30%	-18%	44%	-22%
Potatoes ($/cwt.)	$6.32	$5.72	$5.20	$7.90	$8.20	$8.20	$7.38	$8.00	-10%	-22%	15%	68%	82%	29%	54%	1%	-2%	-2%	8%
Eggs (dozen, large)	$1.20	$0.95	$1.16	$0.84	$0.78	$0.90	$0.92	$0.89	-21%	12%	-3%	-6%	-16%	-3%	-14%	1%	9%	-6%	-4%
Avocados (Hass, 48 ct.)	$33.03	$32.70	$24.48	$28.23	$28.39	$23.06	$26.04	$26.04	-1%	-4%	-24%	-37%	0%	-20%	0%	0%	0%	0%	0%
Protein																			
Live cattle (steer; $/lb.)	$0.92	$0.83	$0.89	$0.97	$0.94	$1.00	$0.95	$1.00	-10%	7%	15%	14%	21%	14%	13%	3%	6%	0%	5%
Beef (choice cut-out, $/cwt.)	$154	$141	$146	$164	$157	$160	$157	$155	-9%	5%	14%	11%	15%	11%	6%	-6%	-1%	-3%	-1%
Ground beef (90s/50s blend; $/lb.)	$1.30	$1.15	$1.29	$1.42	$1.33	$1.24	$1.32	$1.32	-12%	7%	17%	20%	17%	15%	0%	0%	0%	0%	0%
Prime beef (avg of 3 cuts; $/lb.)	$8.88	$7.32	$7.37	$8.34	$8.53	$8.00	$8.06	$8.00	-18%	8%	19%	10%	4%	10%	9%	-4%	-6%	0%	-1%
Chicken breasts ($/lb.)	$1.33	$1.35	$1.39	$1.61	$1.72	$1.39	$1.53	$1.50	2%	5%	9%	24%	14%	13%	1%	-1%	-7%	1%	-2%
Chicken wings ($/lb.)	$1.09	$1.45	$1.68	$1.29	$1.24	$1.25	$1.37	$1.31	32%	16%	-7%	-10%	-20%	-5%	-14%	-2%	2%	1%	-4%
Chicken leg quarters ($/lb.)	$0.61	$0.55	$0.50	$0.50	$0.52	$0.46	$0.50	$0.50	-9%	-7%	-21%	-6%	-3%	-10%	0%	0%	0%	0%	0%
Pork belly (bacon) ($/1.25 lb.)	$0.79	$0.74	$0.90	$1.10	$1.29	$1.30	$1.15	$1.30	-6%	20%	46%	80%	79%	56%	44%	18%	0%	0%	13%
Pork tenderloin ($/lb.)	$2.42	$2.23	$2.21	$2.47	$2.60	$2.60	$2.47	$2.60	-8%	1%	8%	11%	23%	11%	18%	5%	0%	0%	5%
Shrimp (16/20 ct.)	$6.52	$5.10	$4.71	$5.66	$6.50	$6.50	$5.84	$6.50	-22%	-15%	7%	30%	43%	15%	38%	15%	0%	0%	11%
Salmon (10-12 lb.)	$3.26	$3.35	$3.38	$4.42	$3.98	$3.98	$3.94	$3.98	3%	11%	26%	8%	24%	17%	18%	-10%	0%	0%	1%
Snow crab legs (5-8 oz.)	$4.40	$3.48	$3.61	$3.99	$4.68	$4.68	$4.24	$4.68	-21%	-11%	19%	46%	42%	22%	30%	17%	0%	0%	10%
Dairy																			
Milk ($/cwt.)	$17.81	$11.54	$14.59	$14.19	$15.64	$14.50	$14.73	$14.65	-35%	23%	35%	48%	9%	28%	0%	3%	-6%	1%	-1%
Butter ($/lb.)	$1.46	$1.24	$1.40	$1.58	$1.86	$1.90	$1.68	$1.56	-15%	24%	29%	52%	37%	36%	25%	-5%	-19%	-21%	-7%
Cheese (40 lb. blocks; cents/lb.)	$186	$129	$140	$141	$157	$165	$151	$153	-31%	18%	21%	26%	6%	17%	14%	6%	-5%	-9%	1%
Gas + labor																			
Gasoline (US avg; $/gallon)	$3.22	$2.31	$2.68	$2.77	$2.69	$2.69	$2.71	$2.69	-28%	43%	20%	7%	5%	17%	0%	-3%	0%	0%	-1%
Diesel (US avg; $/gallon)	$3.80	$2.47	$2.85	$3.03	$2.90	$2.90	$2.92	$2.90	-35%	31%	29%	11%	6%	18%	2%	-4%	0%	0%	-1%
Fed. min. wage (annual avg.; $/hr.)	$6.20	$6.90	$7.25	$7.25	$7.25	$7.25	$7.25	$7.25	11%	11%	11%	0%	0%	5%	0%	0%	0%	0%	0%

USDA forecasts	2009	2010E*	2011E*
Food inflation – all food	1.8%	1.0%	2.5%
Food inflation – food away from home	3.5%	1.5%	2.5%
Food inflation – food at home	0.5%	1.0%	2.5%

* Forecasts based on a combination of futures prices, DB estimates and recent/historical trends.

Contracts are typically negotiated in the fall. Prices for proteins (including live cattle, beef, chicken breasts and bacon) are all higher y/y. This points to potential upward pressure on restaurant food costs in 2H10 and/or 2011, as contracts roll off and are renewed at higher

Source: Deutsche Bank estimates, company information, ARA, USDA, BLS, EIA, WSJ, Urner Barry

Key commodity exposures and earnings sensitivities

Figures 11-12 summarize major commodity exposures for the major restaurant chains, as well as the outlook for 2010 (and 2011 where available) with regard to inflation expectations and hedging status.

Figure 13 summarizes the earnings and margin sensitivity to a 1% change in food costs for our covered companies. Not surprisingly, the QSR names are least sensitive to changes in food costs given a higher mix of franchised revenues.

Figure 11: Key food cost exposures and outlook – summary of current food cost guidance by company

Company	Key commodities (% of COGS)*	Food cost guidance/outlook*	Contracts/hedging status	Company	Key commodities (% of COGS)*	Food cost guidance/outlook*	Contracts/hedging status
BJ's Restaurants	Chicken, beef, wheat, cheese	FY10: Food inflation of 1% in 2010. Cheese: +30% inflation. COGS of about 25% for 2H 2010.	FY10: 90% commodities locked for full year. FY11: All shrimp (from Asia) and pizza dough locked; tomatoes through 3Q11.	McDonald's	Ground beef (15%), Chicken (15%), Dairy (8%)	FY10: down 3-4% in US and down 1-2% in Europe	N/A
Brinker	Beef (16%), seafood (12%), chicken (11%), produce (11%)	Flat food costs w/ favorable 1H FY11; Anticipate modest increase in 2H FY11, driven by higher beef	64% of commodities contracted thru 1H11; Approx. 27% thru 2H11; new dairy contract favorable	Morton's	Beef (36%)	About +3% in beef and non-beef for FY10, with a slight fall in 4Q10	~20% of beef locked for 2010
Buffalo Wild Wings	Chicken (40-45%)	FY10: No inflation for chicken breast. Avg. wing price = $1.41 first 2 mos. 3Q10 vs. $1.67 last yr.	Chicken breasts contracted through March 2011. Wings purchased on spot market.	P.F. Chang's	Beef (15%), chicken (15%), pork (15%), produce (15%)	FY10: beef & rice: favorable; shrimp & poultry: flat; FY11: flat to up costs anticipated	FY10: protein & wok oil locked in; poultry locked 80% thru Sep-11; rice thru Sep-11; shrimp, most seafood thru CY11.
Burger King	Ground beef (20%), Chicken (11%), Dairy (8%)	FY11: flat; challenging 1H11 and favorable 2H11	Chicken contracted through Dec '10 (down 9%)	Panera	Chicken (15%), Wheat (10%), Dairy (8%)	FY10: down about 1%. FY11: up about 1%	FY10: Most major items hedged. FY11: 45% of wheat supply contracted at about $7.50/bushel
California Pizza Kitchen	Cheese, wheat, chicken	FY10: 1% food cost inflation.	Have contracted 90% of all commodities for 6 mos. or longer. Some cheese locked. Produce has collar agreements.	Papa John's	Cheese (38%)	Cheese costs are a bit lower at franchise level; flat at individual store level	FY10: Project cheese costs at ~$1.55-1.60 per lb.
CBRL Group	N/A	FY10: Food costs down 2.0-2.5%.	83% of commodity costs under contract for balance of FY10.	Red Robin	Chicken (14%), beef (12%), produce (12%), potatoes (11%)	Commodity cost deflation FY10: 0.3-0.5%	Fries contracted thru 9/2010, Chicken thru 2011. Produce thru 10/2010. Hamburger, cheese not contracted.
Cheesecake Factory	Dairy, chicken	FY10: Food cost inflation +0-1%. Expect flat COGS. FY11: Slightly higher than FY10.	Locked 60% of purchases for 2010. Protein lower, dairy/fish higher.	Ruby Tuesday	Seafood (16%), beef (13%), chicken (5%)	FY10: "Stable" food costs for FY10 and next 12 months.	95% of commodities typically contracted 6-12 mos.; Beef thru Dec-10; Seafood thru early Fall-10.
Chipotle	Chicken (15%), Beef (10%), Dairy (10%)	FY10: modest upward pressure for 2H10, primarily avocados and beef	FY10: Rice, soy, tortillas locked in; expect to use more in-season local produce.	Ruth's Hospitality Grp.	Beef (35-40%), Seafood (12%), Dairy/butter (8%)	FY10: Prime beef contracts are lower than FY09; tenderloin higher; seafood flattish	FY10: Shrimp 100% locked; 10% of tenderloin and 50% of prime beef locked
Darden	Seafood (30%), Beef (14%), Dairy/oil (11%), Pasta/bread (8%), Chicken (6%)	FY11: expect +0.25-0.50% food inflation; shrimp, crab flat thru FY11; lobster flat thru CY10, up in CY11; beef favorable in CY10	Pasta locked thru Sep. '10; shrimp, poultry, crab through FY11; lobster thru CY10; beef to Jan '11	Sonic	Dairy/cheese (12%), beef (11%), chicken (10%)	Commodities expected to rise slightly (50-75bps) in F4Q10	Most major items (except beef) locked in for FY10.
DinEquity	N/A	FY10: Food costs flat to slightly favorable.	N/A	Starbucks	Coffee (18%), Dairy (8%)	FY11: expect to absorb about $0.04/sh impact from higher coffee prices	Some contracts for dairy and coffee, but not full coverage.
Dominos	Cheese (28%), meat, boxes, wheat, sauce	FY10: Food basket likely up y/y in aggregate; Wheat, cheese up; meat, poultry, and sauce flat	Cheese prices expected in $1.60 per lb. range for 2H10. Wheat locked in through 1Q11.	Texas Roadhouse	Beef (46%), Produce (10%), Pork (9%)	FY10: overall -2.5-3%; beef, pork down; FY11: anticipate higher wheat.	FY10: +70% overall food locked in; 100% pork, 95% beef, 50% chicken; FY11: Some wheat, some proteins contracted.
Jack-in-the-Box	Beef (20%), pork (5%), chicken, shortening, bakery costs (together 23%)	FY10: Commodities -1% (+4% in F4Q); F4Q10: +15% beef, +30% pork; chicken, shortening, bakery costs (sum -7%)	50% of beef 90s contracted thru Oct. at $1.54/lb., additional coverage to Feb-'11. No coverage on beef 50s	Wendy's/Arby's Group	Beef (20%), chicken (15%), cheese (10%), wheat (8%)	FY10: Up 2-3% with 2H10 significantly higher	N/A
McCormick & Schmick's	Seafood, beef	FY10: Beef up 5-10%, Seafood flat-to-+1.5%; mgmt monitoring Gulf Oil spill effect	FY10: steak locked in	YUM! Brands	Chicken (25%), Beef (15%), Dairy/cheese (15%)	FY10: $30m cost deflation in 1H10; $15m inflation expected for 2H10, mostly in 4Q.	US: Chicken mostly hedged for '10

* Where available, based on a combination of company disclosures and DB estimates. YUM COGS data for US only.

Source: Deutsche Bank estimates, company information

Figure 12: Summary of food cost exposures (% of COGS), FY10 commodity inflation (deflation) outlook and company-operated restaurant mix

% of COGS	Chicken	Beef	Pork	Seafood	Dairy/ cheese	Wheat/ bread	Produce ex-potatoes	Potatoes	Rice	Cooking oil	Soft drinks	Alcohol/ wine	Coffee	Paper/ packing	Freight/ Other	FY10 Commodity inflation	FY11 Commodity inflation	Company-operated restaurant %
QSR																		
Burger King	11%	20%	2%	-	8%	5%	5%	5%	-	-	14%	-	2%	9%	-	0.0%	0.0%	12%
Jack-in-the-Box	11%	20%	2%	-	2%	-	2%	8%	-	-	-	-	-	-	-	-1.0%	NA	50%
McDonald's	15%	15%	1%	2%	8%	5%	5%	5%	-	-	15%	-	5%	10%	-	-2.0%	NA	19%
Sonic	10%	11%	-	-	12%	6%	-	-	-	-	-	-	-	-	-	-1.5%	NA	13%
Wendy's/Arby's Group	15%	20%	-	-	10%	8%	-	-	-	-	-	-	-	-	-	2.5%	NA	25%
YUM! Brands*	25%	13%	3%	3%	15%	13%	10%	3%	-	-	10%	-	-	11%	-	0.0%	NA	22%
Pizza																		
Dominos	-	-	-	-	28%	-	-	-	-	-	-	-	-	-	-	NA	NA	5%
Papa John's	-	-	-	-	38%	-	-	-	-	-	-	-	-	-	-	NA	NA	18%
Quick casual																		
Panera	15%	5%	-	-	8%	10%	5%	-	-	-	15%	-	3%	-	-	-1.0%	1.0%	42%
Chipotle	15%	10%	7%	-	10%	-	5%	-	3%	-	10%	2%	-	3%	-	0.5%	NA	100%
Upscale dining																		
Morton's	-	36%	-	-	-	-	-	-	-	-	-	27%	-	-	-	3.0%	NA	100%
McCormick & Schmick's	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	NA	NA	100%
Ruth's Hospitality Group*	-	38%	-	12%	8%	-	-	-	-	-	2%	23%	-	-	-	NA	NA	57%
Casual dining																		
BJ's Restaurants	-	-	-	-	8%	-	12%	2%	-	-	-	-	-	-	-	1.0%	NA	99%
Brinker	11%	16%	6%	12%	9%	-	11%	-	-	-	-	-	-	-	-	-1.0%	0.0%	61%
Buffalo Wild Wings	43%	-	-	-	-	-	-	-	-	-	-	24%	-	-	-	NA	NA	36%
California Pizza Kitchen	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1.0%	NA	81%
CBRL Group	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-2.3%	NA	100%
Cheesecake Factory	8%	5%	2%	5%	10%	5%	8%	2%	-	2%	-	-	-	-	-	0.5%	1.5%	100%
Darden	6%	14%	-	30%	7%	8%	-	-	4%	4%	-	-	-	-	-	-3.0%	0.4%	98%
DinEquity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-1.0%	NA	12%
P.F. Chang's	15%	15%	-	15%	-	-	15%	-	3%	5%	-	-	-	-	-	-1.0%	1.0%	100%
Red Robin	14%	13%	-	3%	10%	9%	12%	11%	-	-	-	-	-	-	-	-0.8%	NA	70%
Ruby Tuesday	5%	13%	-	16%	-	-	-	-	-	-	-	-	-	-	-	0.0%	0.0%	75%
Texas Roadhouse	4%	46%	9%	0%	6%	2%	8%	2%	-	-	10%		-	-	-	-2.5%	NA	79%
Coffee																		
Starbucks	-	-	-	-	8%	-	-	-	-	-	-	-	18%	-	37%	0.0%	UP	53%
Average	14%	18%	4%	10%	11%	7%	8%	5%	3%	3%	11%	19%	6%	9%	25%	-0.4%	0.6%	57%
Median	11%	15%	3%	9%	9%	6%	8%	5%	3%	4%	11%	24%	3%	10%	25%	-0.8%	0.4%	57%

* Where available, based on a combination of company disclosures and DB estimates. YUM COGS data for US only.

Source: Deutsche Bank estimates, company information

Figure 13: Impact to EPS and margins from 1% change in food costs

	Impact from 1% move in food costs on…			
	Annual EPS ($)	Annual EPS (%)	Food & paper cost	EBIT margin
Burger King	$0.03	1.9%	30bps	20bps
McDonald's	$0.03	0.9%	30bps	30bps
YUM! Brands	$0.05	2.3%	30bps	25bps
Starbucks	$0.01	1.0%	10bps	10bps
Chipotle	$0.09	1.8%	30bps	30bps
Panera	$0.07	2.4%	30bps	30bps
Darden	$0.11	4.1%	30bps	30bps
Buffalo Wild Wings	$0.07	3.4%	30bps	30bps
Texas Roadhouse	$0.03	3.6%	30bps	30bps
Ruth's Hospitality Group	$0.02	6.8%	30bps	30bps
Average		2.4%	29bps	28bps

Source: Deutsche Bank estimates, company information

Panera: price target and risks

$91 price target

Our price target assumes 24x our forward 12-months EPS forecast, a premium to the restaurant industry (15x) given above-average unit growth at PNRA, best-in-class same store sales, high new unit returns, solid cash flow/balance sheet (5% FCF yield; no debt) and potential upside to our earnings forecasts. We assume a modest discount to Chipotle (CMG: Buy), which trades at 25.1x NTM EPS, given a higher unit growth rate than PNRA. Our implied P/E on PNRA falls to 19x when factoring in the ~$10/share in cash on PNRA's balance sheet.

Risks

Our outlook for Panera assumes improving traffic, despite a challenging macro-economic environment. There is a risk that consumers could continue to cut back on discretionary restaurant spending, particularly if unemployment stays high, causing Panera to fall short of our sales expectations. As a bakery café concept, Panera faces significant exposure to commodity prices, particularly wheat, which have been volatile in recent years. In addition, a challenging commercial real estate market could make it difficult for Panera to achieve its store opening targets

Texas Roadhouse: price target and risks

$15 price target

Our PT assumes a multiple of 18x our forward-year EPS forecast. We have assumed a discount to TXRH's historical average multiple in the low-20s given uncertain prospects for unit growth in the intermediate term, still sluggish same store sales trends, a challenging competitive environment and some uncertainty around food costs.

Our price target is also supported by a discounted cash flow model using a 10-11% cost of capital (based on 7% cost of debt, 1.2x beta, 3% risk-free rate, 8% risk premium, 30% debt/capitalization), a 7x terminal EBITDA multiple (consistent with long-term industry averages), and a 10-year EBIT CAGR of ~8%.

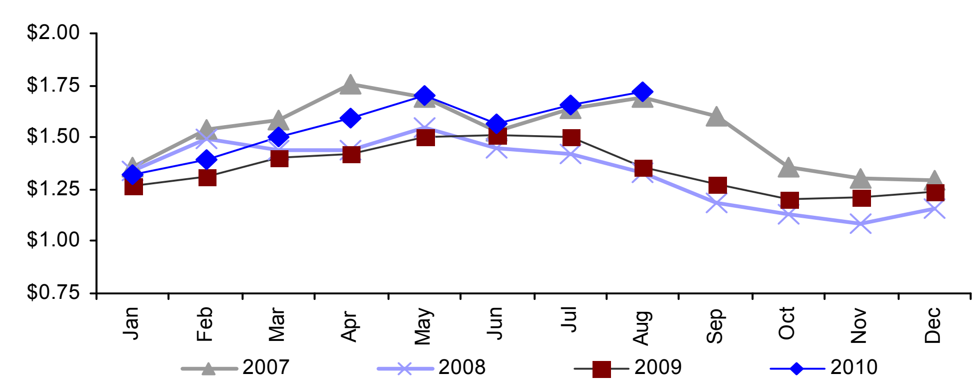
Risks

Key risks include consumer spending, competition, and input costs. We expect consumer spending to remain under pressure given higher oil prices and a weak housing market. Our model assumes modest same store sales for TXRH, but there could be downside risk to store growth and same store sales if consumer spending weakens further. In addition, weak same store sales in the casual dining sector may lead to heavy discounting by TXRH's competitors, putting pressure on traffic or margins. Input costs, including for food and labor, have been rising. Our model assumes TXRH can manage these costs via traffic growth, menu pricing, and oversight of controllable costs. However, costs could rise further than expected and damage margins and profitability. TXRH is particularly exposed to beef prices given its positioning as a steakhouse concept. Beef represents nearly 50% of TXRH's cost of goods sold.

Chicken

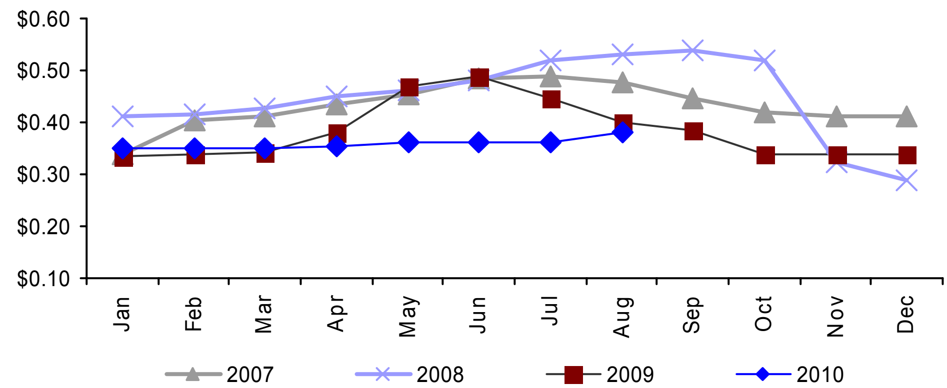
- Chicken prices quoted on Urner Barry were strong in Aug with all chicken parts posting sequential increase in prices. Boneless breast meat and tender prices were stronger as retailers focus on promotions ahead of Labor Day and back to school shopping, as well as due to lower bird weights. Leg quarters were also higher on active contracting from Russia.
- Operating profits (based on spot chicken prices and rolling spot feed costs) have been running at a record 12.5% level, or $0.095/lb. However, the recent increase in grain prices, uncertain export demand (Russia and China), increased domestic availability of chicken and still weak domestic foodservice demand are expected to pressure margins going forward
- In absolute terms, eggs set and chicks placed (see Figures 19-22) are running above 2009 levels. Pullet placements have been running above year ago levels since April. Specifically, placements were up 4.9% y-o-y in July.
- Figure 25 shows the y-o-y change in headcount and weights. In July, heads and weights were up 1.1% and 0.5% respectively. As a result, live pounds processed were up only 1.6% for the month. Higher temperature in some regions limited the gain in bird weight which has increased 1.3% YTD 2010.
- The latest Cold Storage data shown in Figure 27 points to lower inventory of chicken (down 1.3% y-o-y). However, it was up sequentially (+1.4%). However, leg quarter stocks increased sequentially as industry supplies remain in excess in anticipation of resumption of exports to Russia.
- On the demand side, exports (see Figure 26) were up 14.6% y-o-y in June, despite closure of the Russian market (largest export market with 26% share) and exports to China (10.4% of total exports) down 89.6% y-o-y. Exports to Mexico, Turkey, Cuba, Lithuania and Hong Kong were up significantly.

Figure 14: Boneless breast avg monthly price yr to yr comparisons ($/lb)



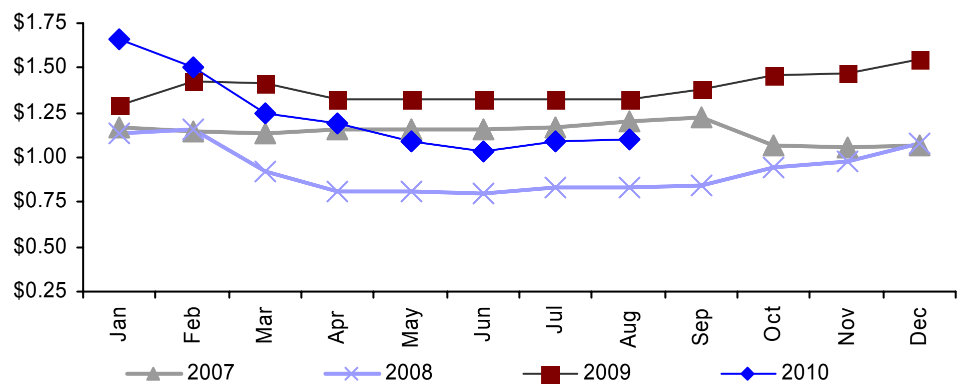
Source: Deutsche Bank, USDA

Figure 15: Leg quarters avg monthly price yr to yr comparisons ($/lb)



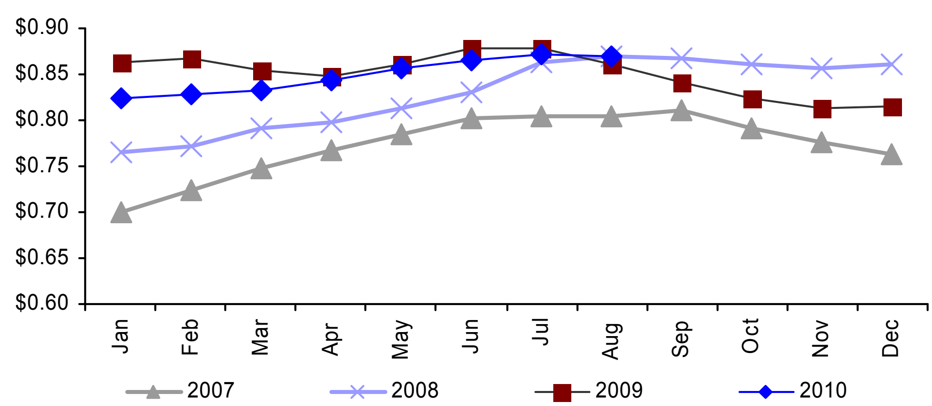
Source: Deutsche Bank, USDA

Figure 16: Wings avg monthly price yr to yr comparisons ($/lb)



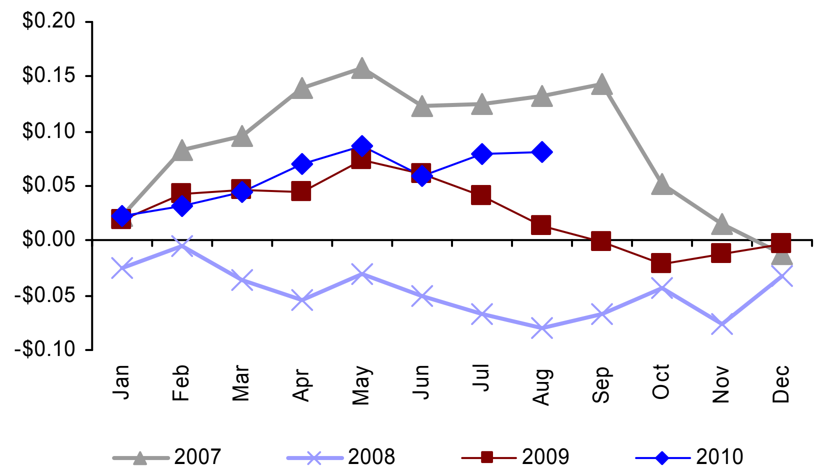
Source: Deutsche Bank, USDA

Figure 17: Georgia dock bird avg monthly price yr to yr comparisons ($/lb)



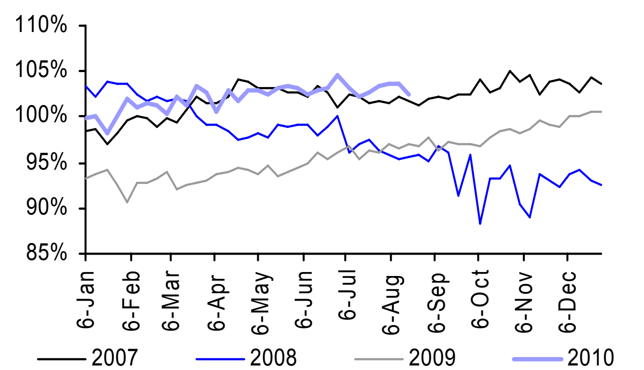
Source: Deutsche Bank, USDA

Figure 18: Chicken avg monthly operating profit yr to yr comparisons ($/lb)



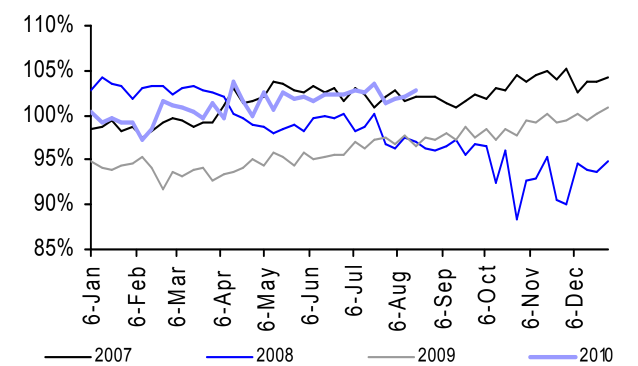
Source: Deutsche Bank, USDA

Figure 19: Weekly broiler-type eggs set, YoY change



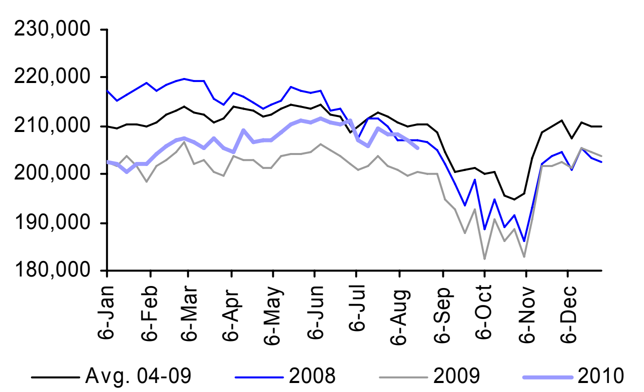
Source: Deutsche Bank, USDA

Figure 20: Weekly broiler chicks placed, YoY change



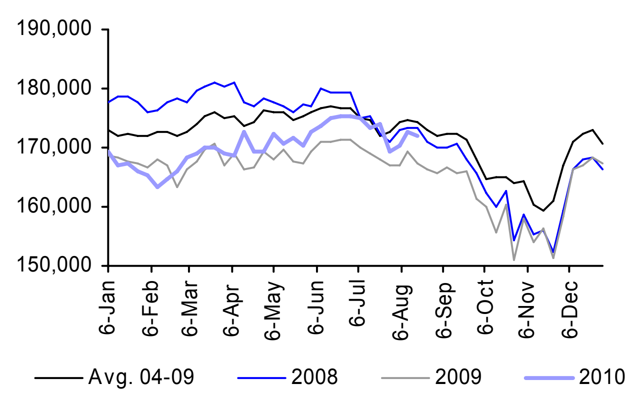
Source: Deutsche Bank, USDA

Figure 21: Weekly broiler-type eggs set, (000)



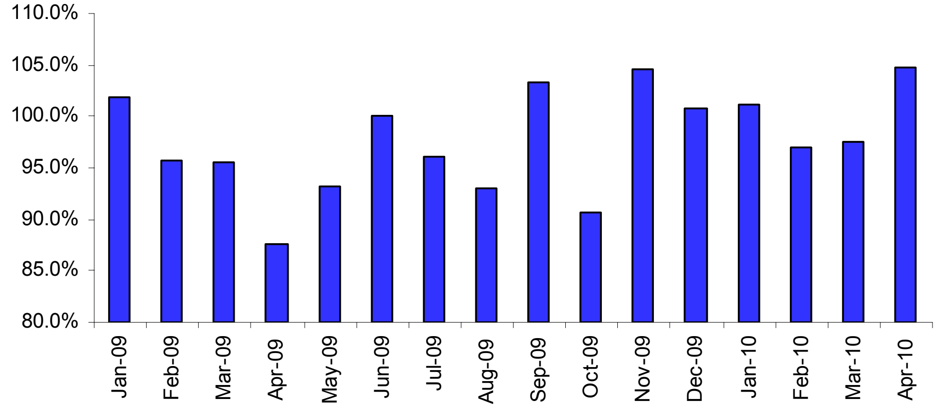
Source: Deutsche Bank, USDA

Figure 22: Weekly broiler chicks placed, (000)



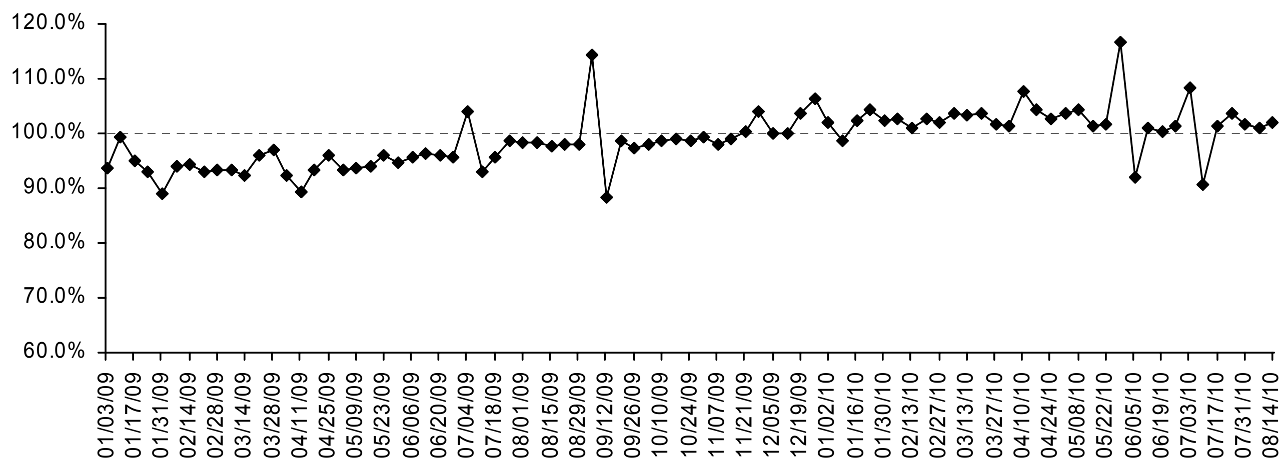
Source: Deutsche Bank, USDA

Figure 23: Broiler-type pullet chicks for hatchery supply flocks, YoY change



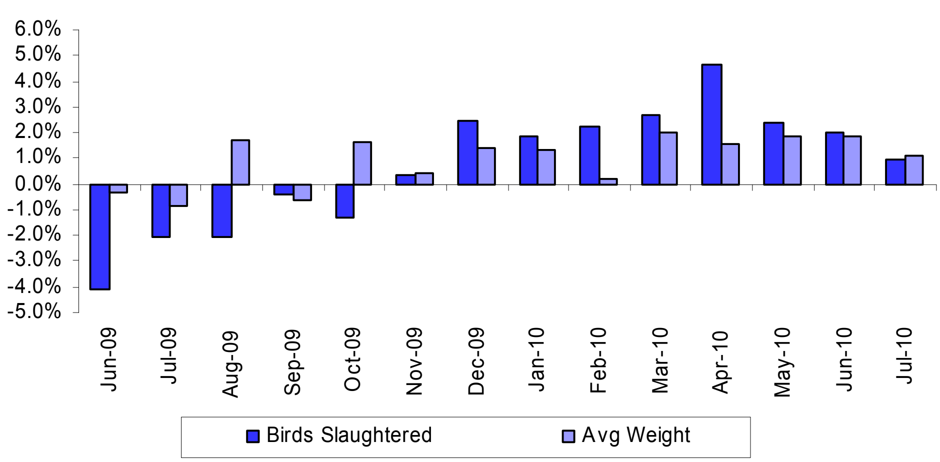
Source: Deutsche Bank, USDA

Figure 24: Weekly live pounds processed, YoY change



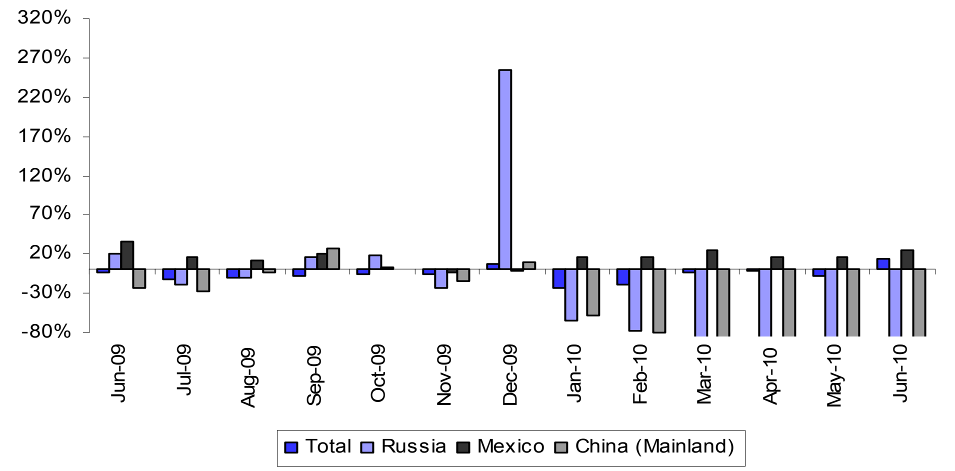
Source: Deutsche Bank, USDA

Figure 25: YoY change in heads slaughtered and average bird weight



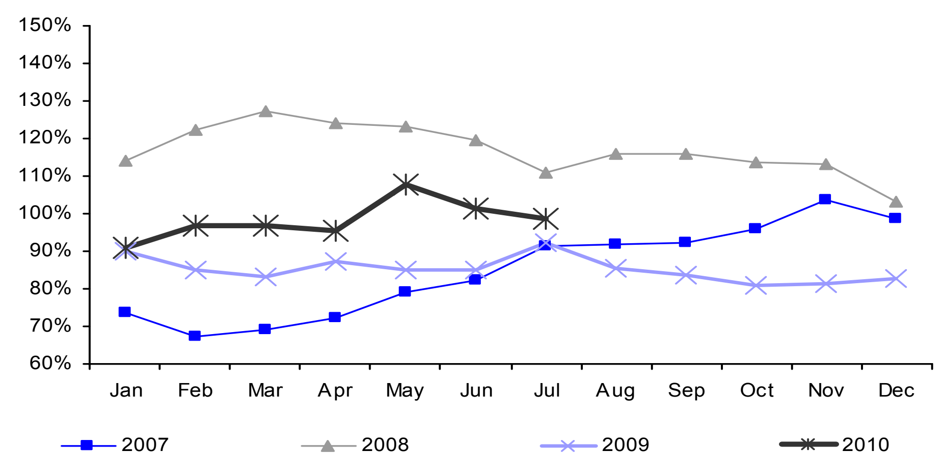
Source: Deutsche Bank, USDA

Figure 26: YoY change in monthly broiler exports ('000 lbs)



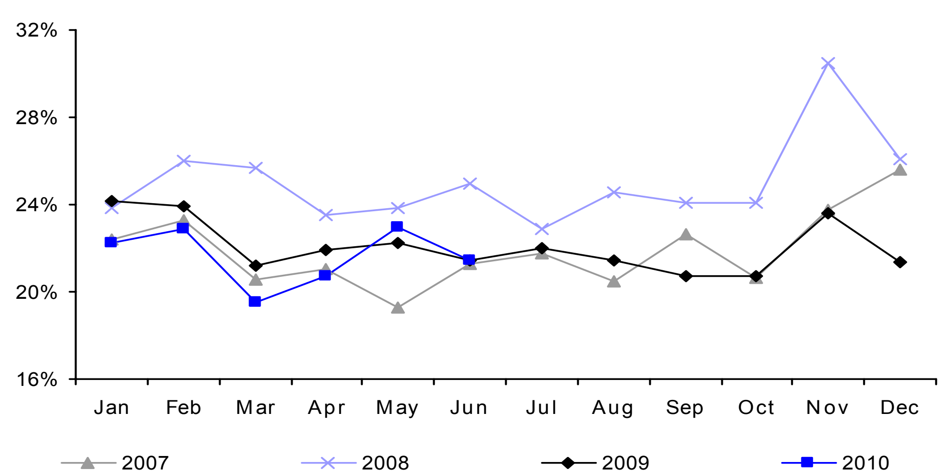
Source: Deutsche Bank, USDA

Figure 27: Monthly chicken cold storage inventory, YoY comparison



Source: Deutsche Bank, USDA

Figure 28: Chicken inventory as a % of monthly production

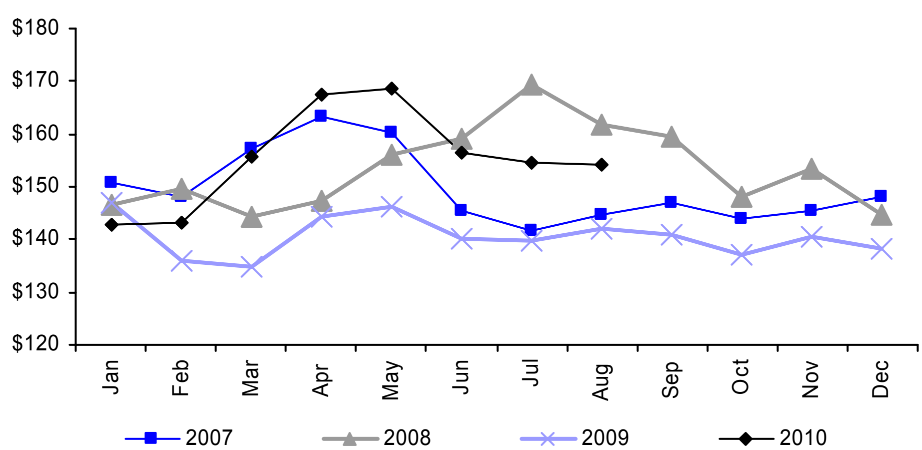


Source: Deutsche Bank, USDA

Beef

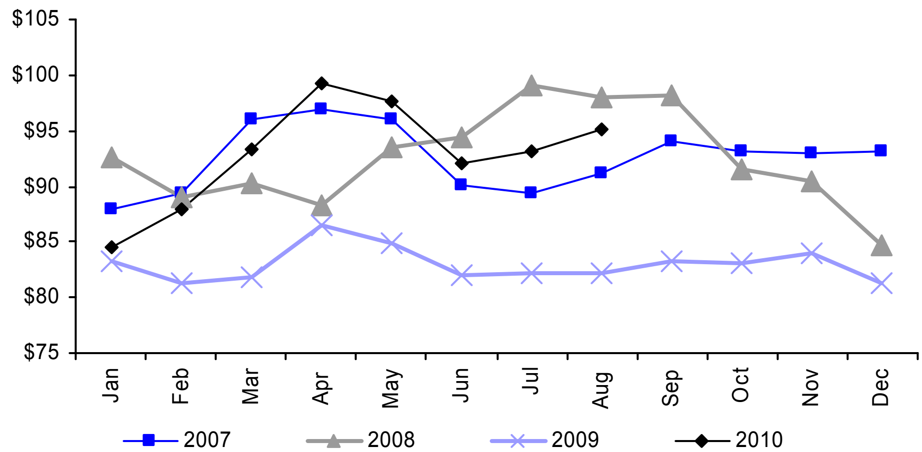
- Beef prices (graded choice) recovered from their lows of $136/cwt in Dec to $170 in early May on overall tight protein supplies, stronger export demand, recovery in pork prices and expectation of strong domestic demand. However, prices came down to the $150 levels for the week ending Aug 6th, finally recovering to $164/cwt for the latest week on strong demand ahead of Labor Day. We note cattle slaughter volumes are up 1.9% YTD in 2010. However, lower cattle weights have offset the impact of higher slaughter rates as we calculate beef production is running at the year ago levels.
- Beef processing margins (see Figure 41), based on spot calculations, were running at break-even levels in early Mar, peaked at $115/head in late Apr and are back to break-even levels in Aug, though have recently recovered. The drop credit prices continue to trade at a high rate, averaging $10.85/cwt for the week of Aug 20th.
- Figure 40- shows the monthly Cattle on Feed data. Feedlot inventories were up 2.4% y-o-y on Aug 1st with July placements down 5.9% and marketings down 1.7%. However, inventories are still running below 5 year average (2004-08) levels. Looking forward, placements are expected to remain below year ago levels due to the concern on the economic front. Additionally, higher feed cost is expected to result in increased production cost, resulting in tighter cattle supplies in C2011.
- Beef exports (see Figure 42) were up 17.5% y-o-y in June on higher shipments to Japan, Hong Kong, South Korea, Taiwan and Russia. Specifically, Russia saw the largest improvement in shipments vs. last year. Exports to Mexico were down 32.3% as its economy continues to struggle. Beef imports were up 2.2% y-o-y in June on higher shipments from Canada and New Zealand. While imports from Australia were down 13.6% y-o-y.

Figure 29: Beef avg monthly price yr to yr comparisons ($/cwt)



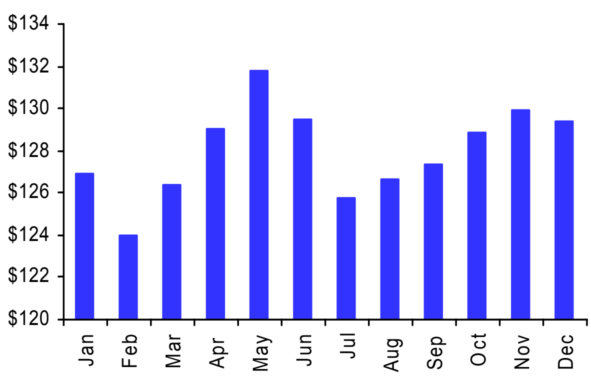
Source: Deutsche Bank, USDA

Figure 30: Cattle avg monthly price yr to yr comparisons ($/cwt)



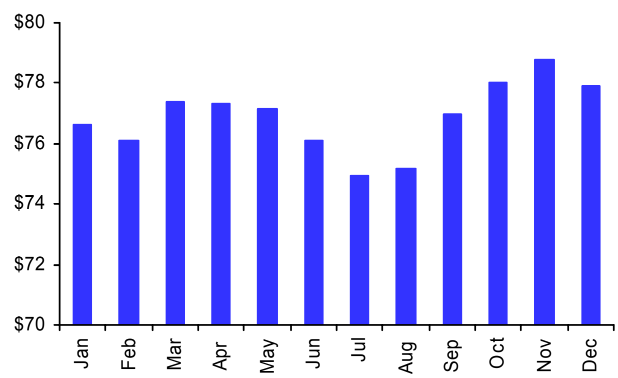
Source: Deutsche Bank, USDA

Figure 31: Choice beef prices, $/cwt (1996-2009)



Source: Deutsche Bank, USDA

Figure 32: Cattle prices, $/cwt (1996-2009)

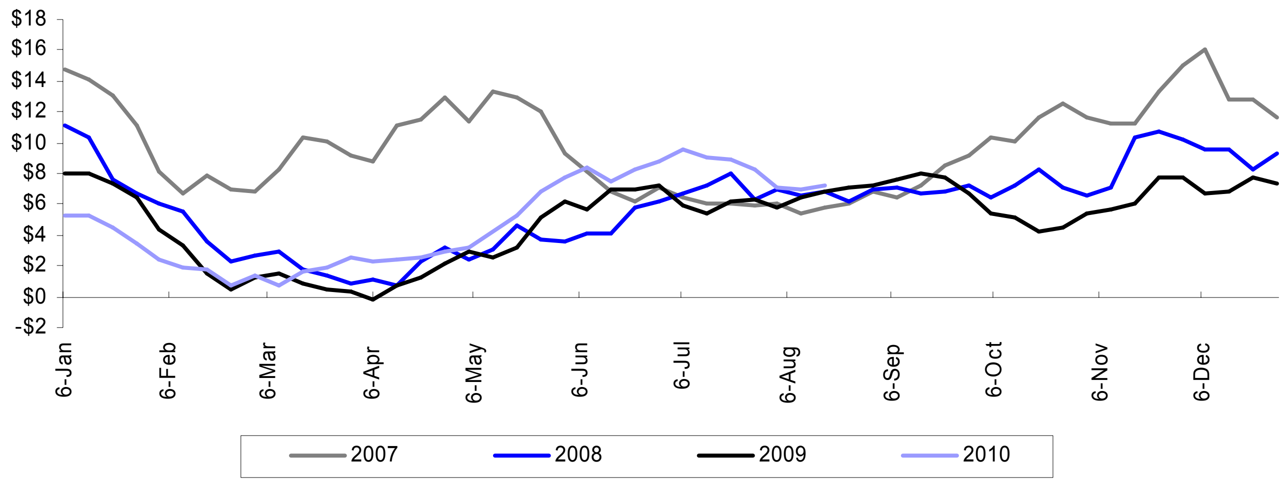


Source: Deutsche Bank, USDA

An indicator of demand elasticity, which generally reflects the casual dining sector is the spread between the choice cutout (wholesale price) and select cutout (wholesale price) values (see Figure 33). This price spread is the difference for two separate markets. For reference, there are eight quality grades for beef based on the amount of marbling, color and maturity. The top grade is prime, followed by choice, select, standard, commercial, utility, cutter, and canner.

A narrowing of this spread is indicative of (1) weak foodservice demand, (2) an overabundance of choice cattle, and/or (3) a signal retailers are switching promotional activity to feature cheaper priced cuts. From a seasonal perspective, this spread typically peaks in mid-spring, weakens during the summer and then rises again in the fall. As shown in the figure below, the choice-select spread was at historically narrow levels in Mar. This was due to more cattle grading choice owing to a longer time on feed and changes to the grading system, as well as continued soft foodservice demand. The spread has since widened and once again is running above historical levels.

Figure 33: Choice-select spread



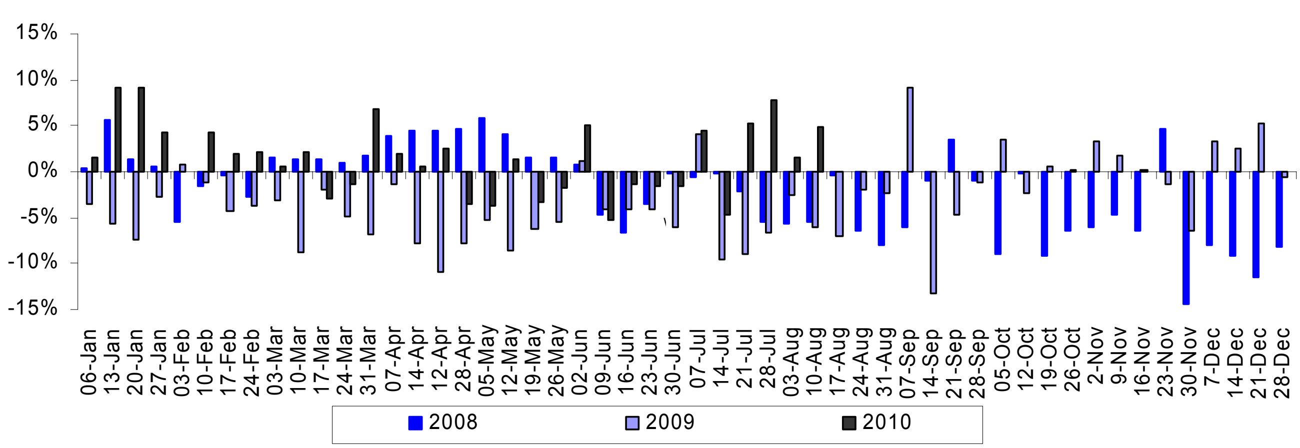
Source: Deutsche Bank, USDA

Figure 34: Total monthly beef production (mil lbs.)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	Total
Jan	1,981	1,949	2,121	2,205	1,828	1,848	1,895	2,359	2,009	16,185
Feb	1,963	1,936	1,768	1,741	1,799	1,928	1,914	1,954	1,927	15,003
Mar	2,395	2,381	1,814	1,762	1,901	2,369	2,456	1,917	2,375	16,995
Apr	1,967	1,914	1,725	2,190	2,401	1,900	2,029	1,910	1,935	16,036
May	2,096	2,625	2,502	1,959	2,081	2,055	2,640	2,540	2,040	18,499
Jun	2,690	2,269	1,935	1,928	2,124	2,612	2,134	2,061	1,998	17,753
Jul	2,100	2,111	2,349	2,428	2,593	2,035	2,050	2,459	2,499	18,125
Aug	2,741	2,699	1,939	2,007	2,104	2,116	2,629	2,035		18,272
Sep	2,071	2,093	1,884	1,957	2,543	2,565	2,042	2,001		17,157
Oct	2,173	1,909	2,459	2,411	2,002	2,103	2,018	2,564		17,639
Nov	2,535	2,211	1,737	1,861	2,009	2,002	2,414	1,892		16,660
Dec	1,902	1,720	1,772	2,301	2,406	2,456	1,777	2,242		16,577
Total	26,613	25,816	24,008	24,750	25,791	25,990	25,998	25,934		204,899

Source: Deutsche Bank, USDA

Figure 35: Weekly heifer and steer slaughter, YoY change



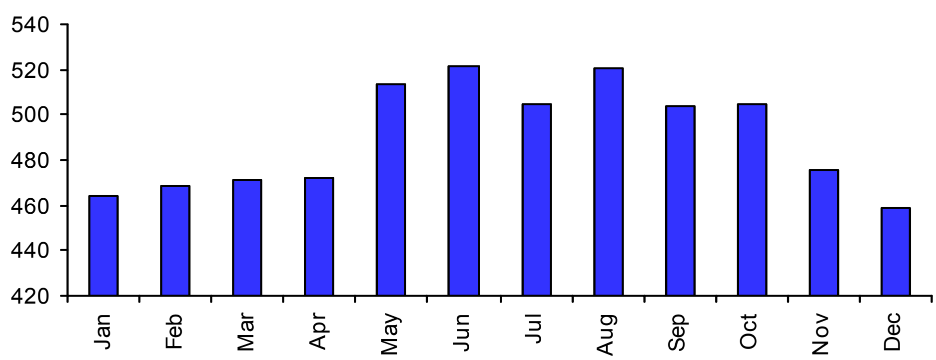
Source: Deutsche Bank, USDA

Figure 36: Average monthly dairy herd slaughter (000 heads)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	Average
Jan	53.6	58.7	49.3	50.4	46.5	50.1	51.8	63.1	57.1	52.9
Feb	50.2	55.6	51.5	46.6	42.8	50.0	50.1	60.9	55.7	50.9
Mar	48.3	59.0	48.5	43.4	44.7	52.0	51.2	55.0	55.9	50.3
Apr	47.5	54.5	41.6	40.8	42.6	51.5	50.5	49.4	53.8	47.3
May	45.6	50.4	41.2	39.3	41.3	43.2	44.1	49.4	51.3	44.3
Jun	45.2	47.2	40.1	35.9	39.6	39.9	43.5	59.1	47.5	43.8
Jul	46.5	48.5	41.6	38.0	41.4	41.1	44.8	49.9	50.1	44.0
Aug	49.6	52.6	45.5	42.4	46.5	46.2	52.4	56.2		48.9
Sep	50.7	56.6	45.2	42.6	48.8	49.0	51.2	55.0		49.9
Oct	52.9	60.6	46.4	47.3	50.3	54.0	51.8	50.7		51.7
Nov	54.2	56.7	43.7	47.7	49.4	50.0	50.6	50.5		50.3
Dec	50.9	54.2	49.8	46.5	50.0	48.0	48.5	47.7		49.4
Average	49.6	54.5	45.4	43.4	45.3	47.9	49.2	53.9	53.1	48.6

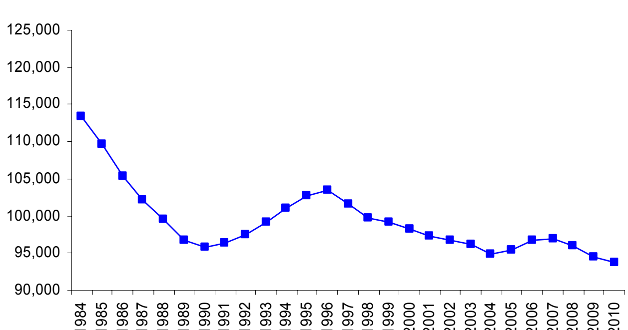
Source: Deutsche Bank, USDA

Figure 37: Average monthly beef production (mil lbs)



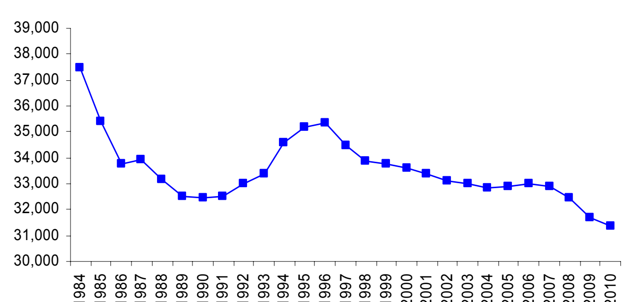
Source: Deutsche Bank, USDA

Figure 38: U.S. cattle inventory (000 head), Jan 1



Source: Deutsche Bank, USDA

Figure 39: U.S. beef cow inventory (000 head), Jan 1



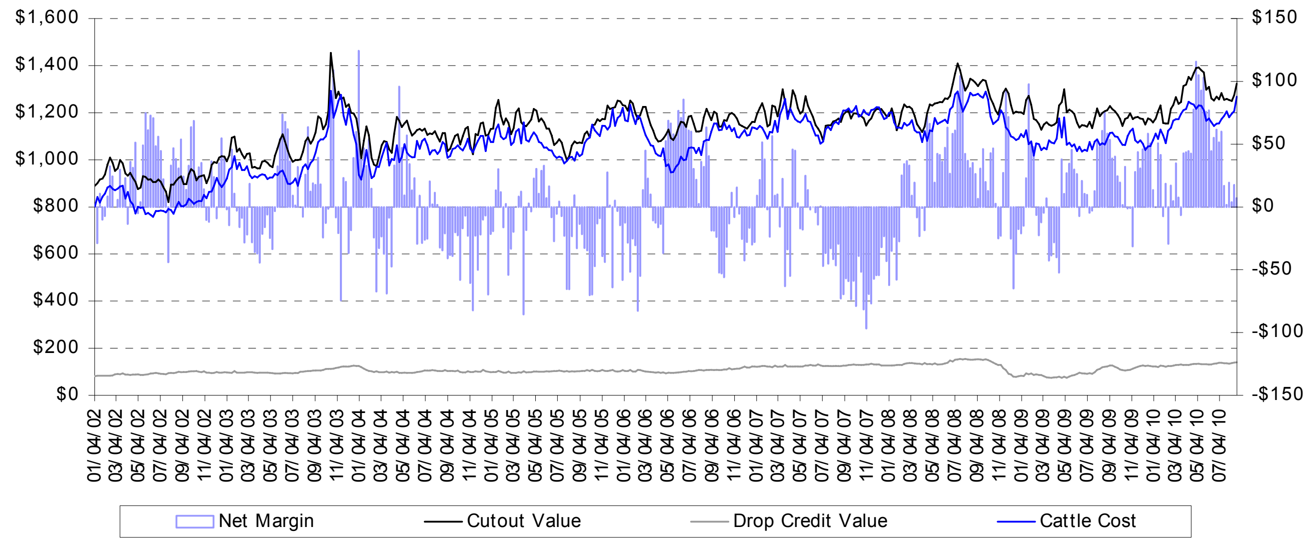
Source: Deutsche Bank, USDA

Figure 40: Cattle on feed (1000 head +)

Year	Month	Cattle On Feed - Start of Month	Placements	% of Previous Year	Marketings	% of Previous Year	Other Disappearanc e	Cattle On Feed - End of Month	% of Previous Year	% of 2 Years Ago
2006										
	Jan	11,804	2,199	116.5%	1,810	102.1%	83	12,110	106.8%	108.7%
	Feb	12,110	1,598	104.9%	1,612	98.7%	73	12,023	107.8%	109.4%
	Mar	12,023	1,837	105.0%	1,958	99.7%	90	11,812	108.6%	109.7%
	April	11,812	1,629	98.1%	1,795	99.7%	87	11,559	108.6%	111.4%
	May	11,559	1,913	86.1%	2,170	108.7%	115	11,187	103.9%	105.1%
	June	11,187	1,951	110.3%	2,203	105.8%	63	10,872	104.6%	107.3%
	July	10,872	1,963	116.9%	1,955	101.9%	58	10,822	107.2%	109.7%
	Aug	10,822	2,295	115.2%	2,072	102.0%	59	10,986	109.9%	110.0%
	Sep	10,986	2,232	94.8%	1,765	97.2%	68	11,385	108.6%	108.4%
	Oct	11,385	2,430	87.0%	1,765	101.2%	81	11,969	104.3%	105.6%
	Nov	11,969	1,884	92.1%	1,797	105.6%	83	11,973	102.1%	105.6%
	Dec	11,973	1,714	91.0%	1,625	94.8%	88	11,974	101.4%	106.0%
2007										
	Jan	11,974	1,690	76.9%	1,841	101.7%	97	11,726	96.8%	103.4%
	Feb	11,726	1,659	103.8%	1,711	106.1%	75	11,599	96.5%	104.0%
	Mar	11,599	1,960	106.7%	1,843	94.1%	72	11,644	98.6%	107.1%
	April	11,644	1,568	96.3%	1,816	101.2%	99	11,297	97.7%	106.2%
	May	11,297	2,159	112.9%	2,085	96.1%	99	11,272	100.8%	104.7%
	June	11,272	1,657	84.9%	2,140	97.1%	52	10,737	98.8%	103.3%
	July	10,737	1,622	82.6%	1,999	102.3%	61	10,299	95.2%	102.1%
	Aug	10,299	2,119	92.3%	2,066	99.7%	50	10,302	93.8%	103.0%
	Sep	10,302	2,420	108.4%	1,701	96.4%	54	10,967	96.3%	104.6%
	Oct	10,967	2,716	111.8%	1,876	106.3%	47	11,760	98.3%	102.5%
	Nov	11,760	2,134	113.3%	1,738	96.7%	57	12,099	101.1%	103.2%
	Dec	12,099	1,701	99.2%	1,650	101.5%	58	12,092	101.0%	102.4%
2008										
	Jan	12,092	1,787	105.7%	1,853	100.7%	60	11,966	102.0%	98.8%
	Feb	11,966	1,723	103.9%	1,776	103.8%	60	11,853	102.2%	98.6%
	Mar	11,853	1,736	88.6%	1,842	99.9%	63	11,684	100.3%	98.9%
	April	11,684	1,536	98.0%	2,010	110.7%	75	11,135	98.6%	96.3%
	May	11,135	1,900	88.0%	2,140	102.6%	80	10,815	95.9%	96.7%
	June	10,815	1,518	91.6%	1,978	92.4%	60	10,295	95.9%	94.7%
	July	10,295	1,656	102.1%	2,037	101.9%	45	9,869	95.8%	91.2%
	Aug	9,869	2,061	97.3%	1,884	91.2%	49	9,997	97.0%	91.0%
	Sep	9,997	2,281	94.3%	1,812	106.5%	51	10,415	95.0%	91.5%
	Oct	10,415	2,438	89.8%	1,814	96.7%	67	10,972	93.3%	91.7%
	Nov	10,972	2,016	94.5%	1,575	90.6%	67	11,346	93.8%	94.8%
	Dec	11,346	1,647	96.8%	1,683	102.0%	76	11,234	92.9%	93.8%
2009										
	Jan	11,234	1,858	104.0%	1,737	93.7%	67	11,288	94.3%	96.3%
	Feb	11,288	1,678	97.4%	1,682	94.7%	56	11,228	94.7%	96.8%
	Mar	11,228	1,808	104.1%	1,824	99.0%	50	11,162	95.5%	95.9%
	Apr	11,162	1,600	104.2%	1,871	93.1%	69	10,822	97.2%	95.8%
	May	10,822	1,638	86.2%	1,952	91.2%	101	10,407	96.2%	92.3%
	Jun	10,407	1,391	91.6%	1989	100.6%	57	9,752	94.7%	90.8%
	Jul	9,752	1,863	112.5%	1935	95.0%	43	9,637	97.6%	93.6%
	Aug	9,637	2,113	102.5%	1815	96.3%	56	9,879	98.8%	95.9%
	Sep	9,879	2,388	104.7%	1746	96.4%	47	10,474	100.6%	95.5%
	Oct	10,474	2,474	101.5%	1755	96.7%	59	11,134	101.5%	94.7%
	Nov	11,134	1,844	91.5%	1635	103.8%	66	11,277	99.4%	93.2%
	Dec	11,277	1,546	93.9%	1742	103.5%	72	11,009	98.0%	91.0%
2010										
	Jan	11,008	1,822	98.1%	1776	102.2%	70	10,984	97.3%	91.8%
	Feb	10,984	1,674	99.8%	1716	102.0%	68	10,874	96.8%	91.7%
	Mar	10,874	1,856	102.7%	1903	104.3%	60	10,767	96.5%	92.2%
	Apr	10,767	1,627	101.7%	1857	99.3%	94	10,443	96.5%	93.8%
	May	10,443	2,022	123.4%	1869	95.7%	102	10,494	100.8%	97.0%
	Jun	10,494	1,628	117.0%	1997	100.4%	55	10,070	103.3%	97.8%
	June	10,070	1,754	94.1%	1903	98.3%	48	9,873	102.4%	100.0%

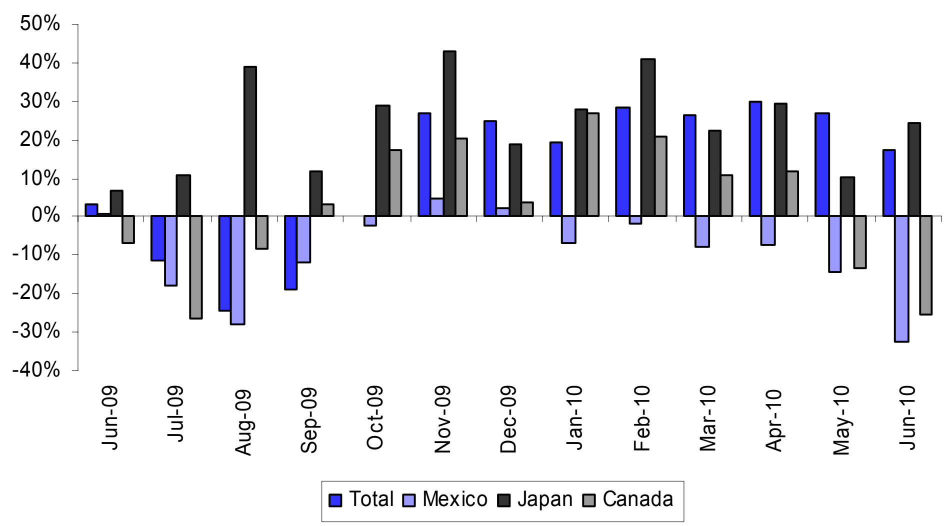
Source: Deutsche Bank, SUDA

Figure 41: Beef processing margin components



Source: Deutsche Bank, USDA
Net margins: $/head, cutout value: $/cwt, drop credit value: $/cwt, cattle cost: $/cwt.

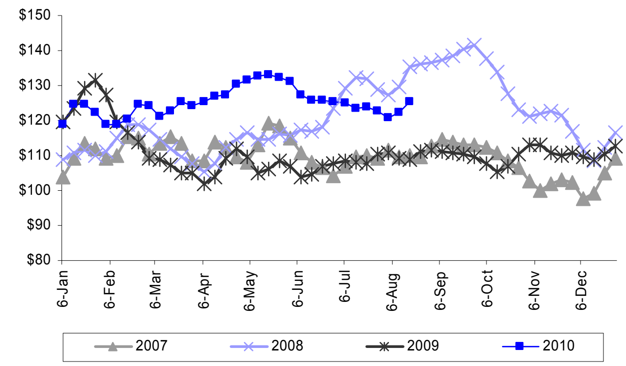
Figure 42: YoY change in monthly beef and veal exports ('000 lbs)



Source: Deutsche Bank, USDA

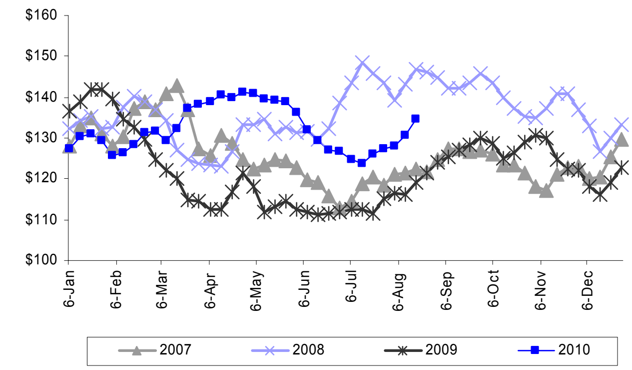
The figures below show the movement of the price of beef cuts typically consumed by the export market. Chuck and round prices are currently trading below 2009 levels, but up historically.

Figure 43: Chuck price ($/cwt)



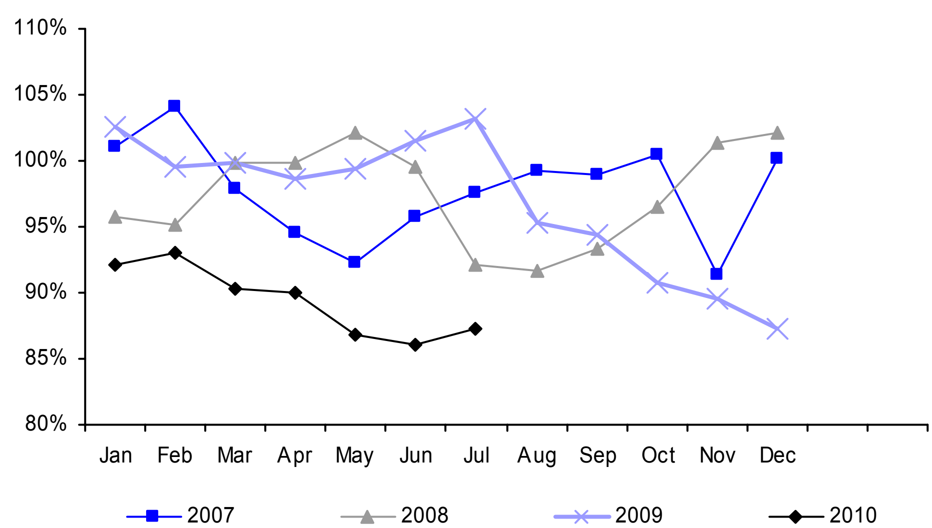
Source: Deutsche Bank, USDA

Figure 44: Round price ($/cwt)



Source: Deutsche Bank, USDA

Figure 45: Monthly beef cold storage inventory, YoY comparison

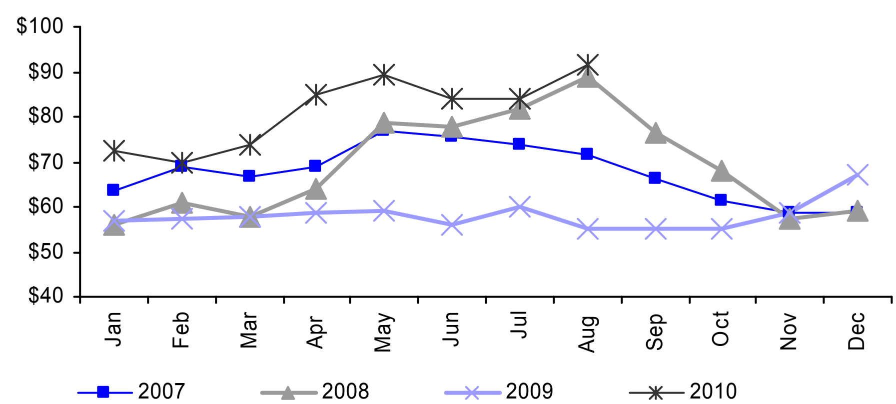


Source: Deutsche Bank, USDA

Pork

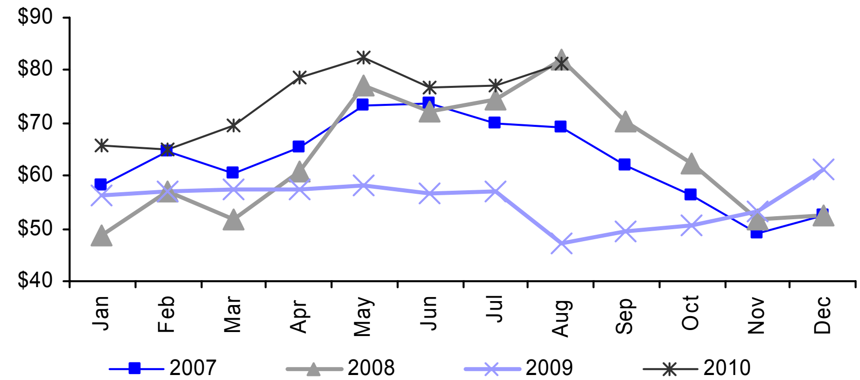
- Pork processing margins continue to run at record levels (about $17/head). Pork prices have further strengthened in the last week and are running at 2008 levels on strong export demand and solid domestic demand.
- By our calculations, spot hog raising margins are running at about $20/head vs. $10/head a month ago (see Figure 49). Margins have been strong on tight hog supplies and moderate feed cost (which are lagged to capture the time the animal is on feed). Looking forward, based on hog, corn and soybean meal futures, hog producers will be profitable in C2010. But, forward profitability has fallen due to the recent increase in grain prices.
- As shown in Figure 61, U.S. pork exports were up 21.8% y-o-y in Jun. Export shipment to Japan, South Korea, Australia and China (Mainland) were up significantly. Overall, the outlook for export demand in 2010 looks positive with the USDA projecting exports to increase about 5% in 2010, absorbing about 1% of the domestic supply, by our calculations.
- The latest Cold Storage data (see Figures 57 and 58) showed Jul inventories down 27.5% y-o-y and 5.3% sequentially. This was the lowest month since October 2001.

Figure 46: Pork avg monthly price yr to yr comparisons ($/cwt)



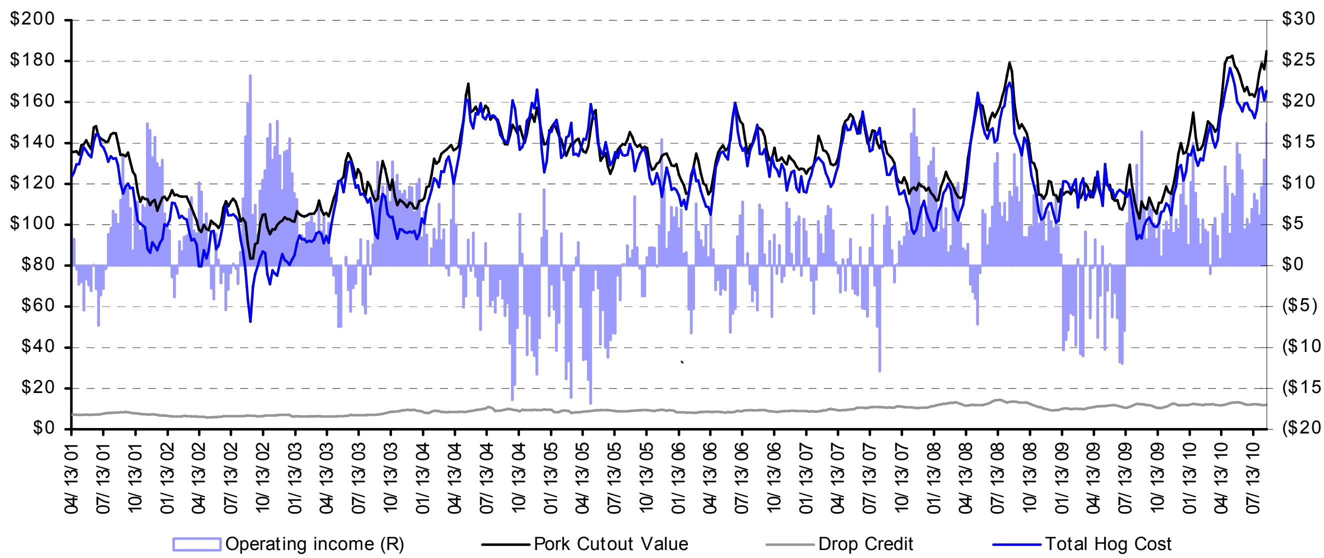
Source: Deutsche Bank, USDA

Figure 47: Hog avg monthly price yr to yr comparisons ($/cwt)



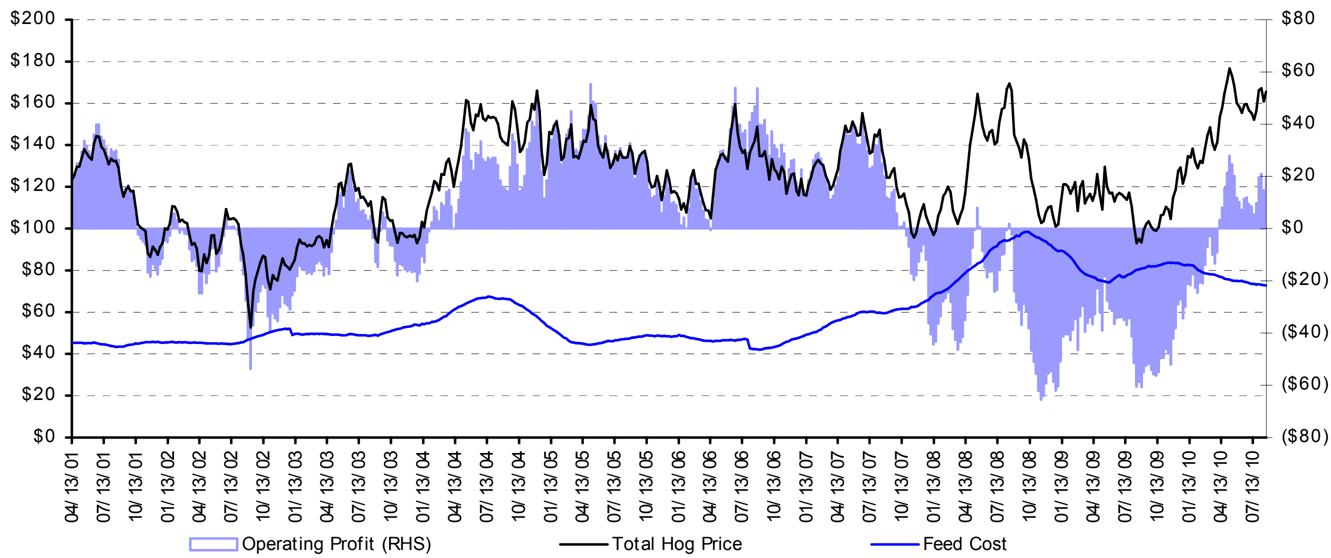
Source: Deutsche Bank, USDA

Figure 48: Pork packing margin components ($/head)



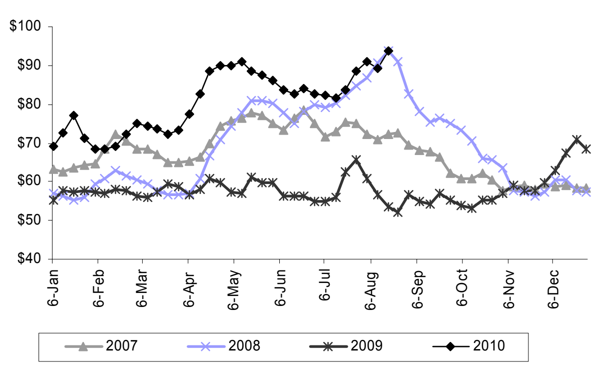
Source: Deutsche Bank, USDA, Iowan State University
Operating profit: $/head, cutout value: $/head, drop credit value: $/head, hog cost: $/head.

Figure 49: Hog raising margin ($/head)



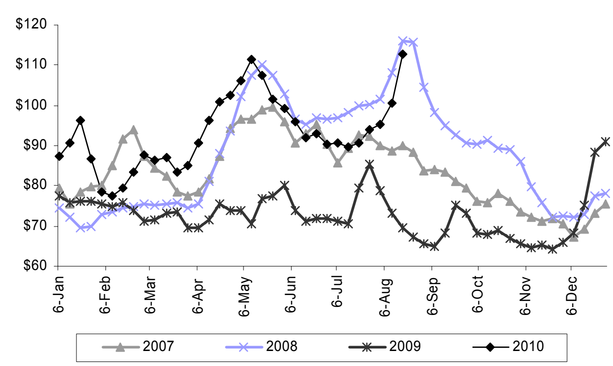
Source: Deutsche Bank, USDA, Iowa State University
Operating profit: $/head, total hog price, $/head, feed cost: $/head

Figure 50: Primal carcass price ($/cwt)



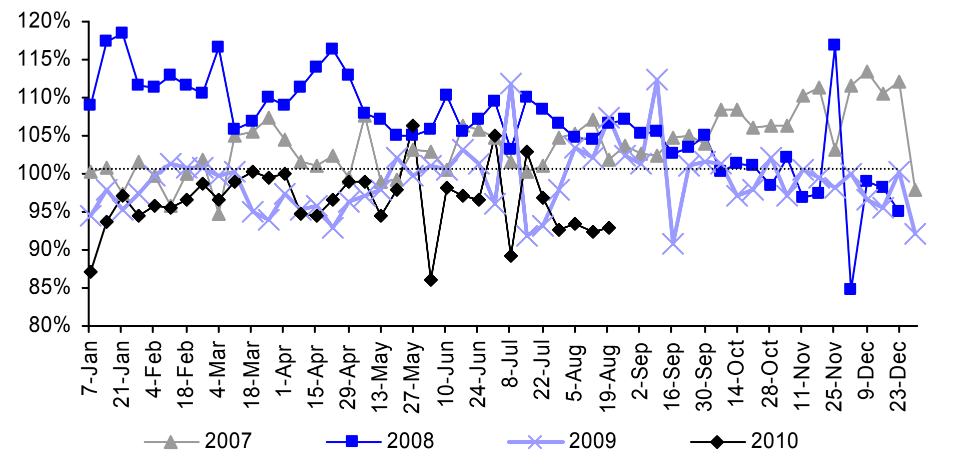
Source: Deutsche Bank, USDA

Figure 51: Primal loin price ($/cwt)



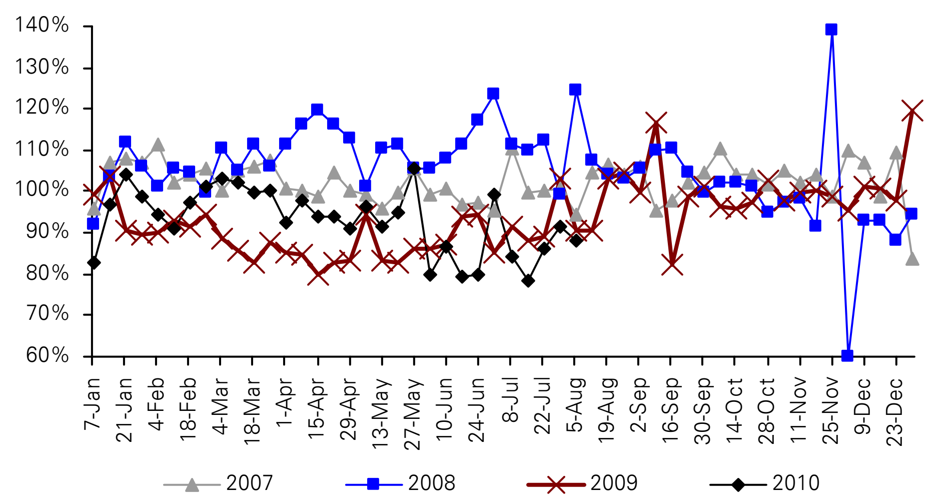
Source: Deutsche Bank, USDA

Figure 52: Weekly pork production YoY % change



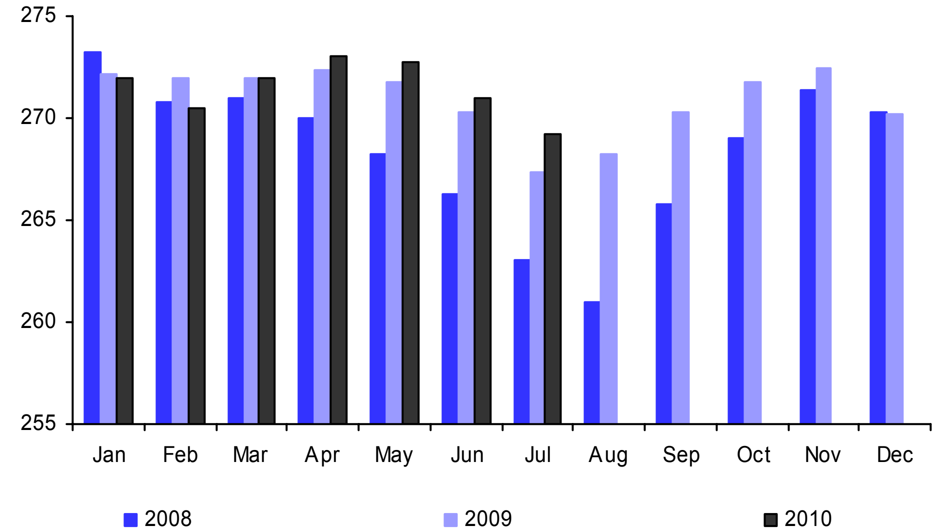
Source: Deutsche Bank, USDA

Figure 53: Weekly sow slaughter (YoY % Change)



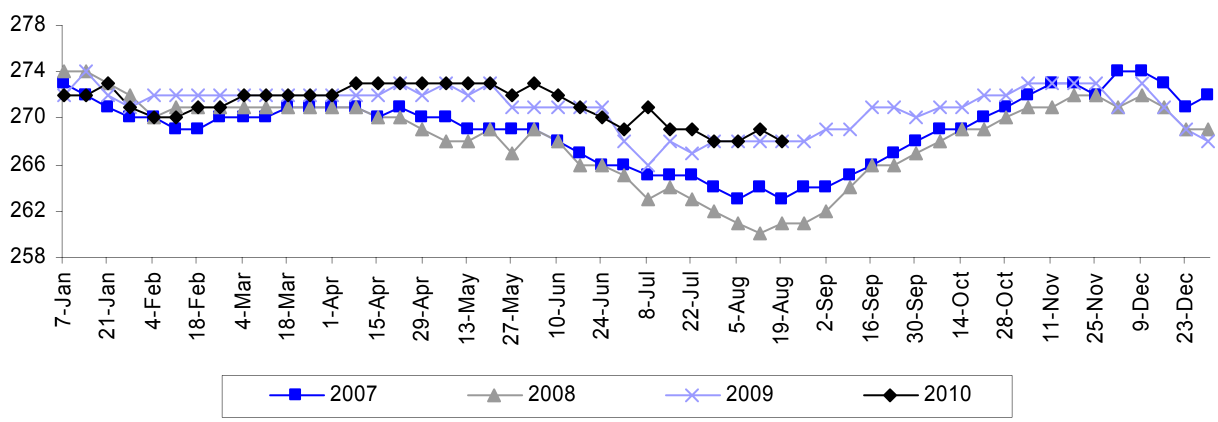
Source: Deutsche Bank, USDA

Figure 54: Monthly avg. live hog weight



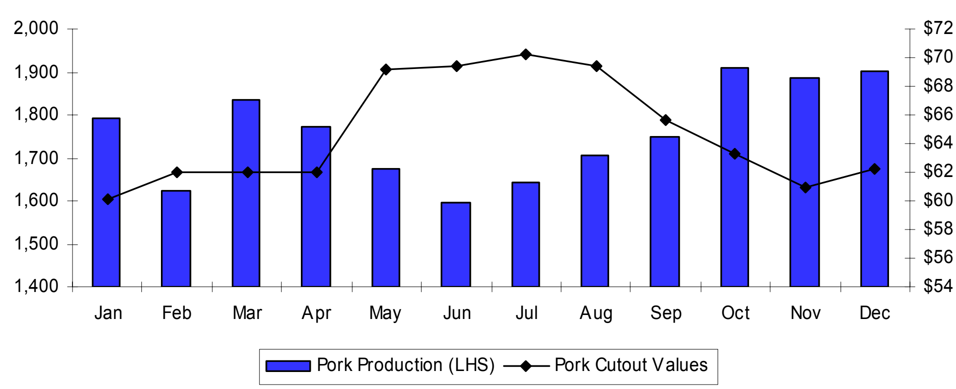
Source: Deutsche Bank, USDA

Figure 55: Weekly avg. live hog weight



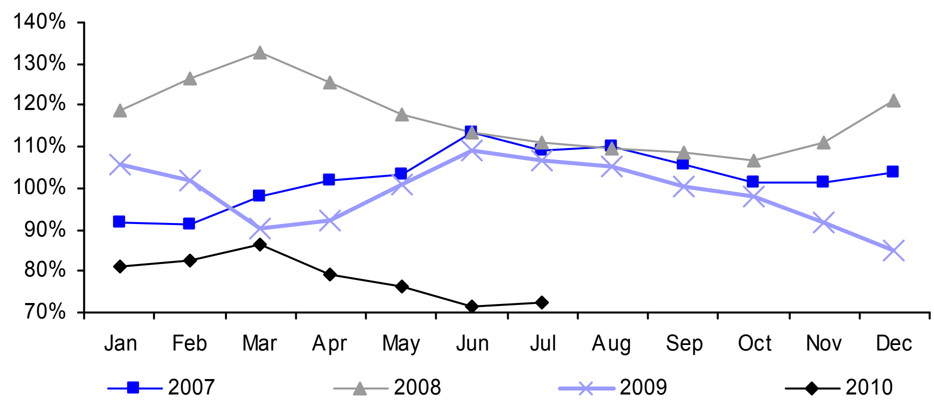
Source: Deutsche Bank, USDA

Figure 56: Average monthly pork production (m lbs) and cutout value ($/cwt)



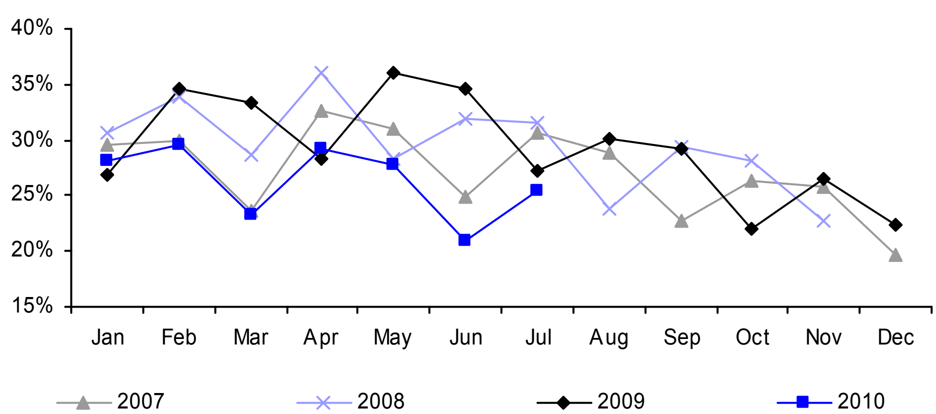
Source: Deutsche Bank, USDA

Figure 57: Monthly pork cold storage inventory, YoY comparison



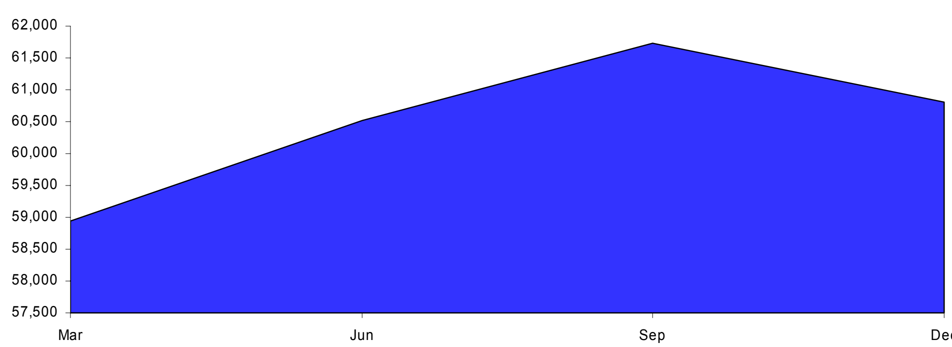
Source: Deutsche Bank, USDA

Figure 58: Monthly pork cold storage inventory as % of monthly production



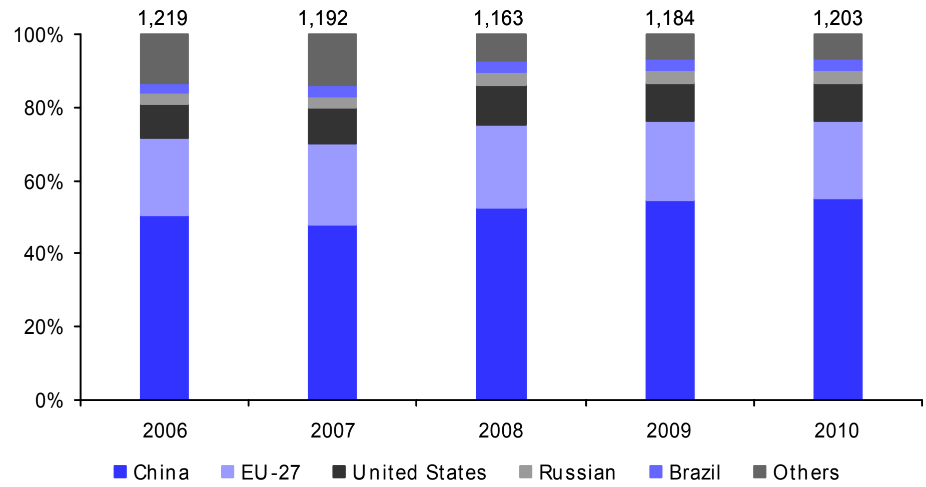
Source: Deutsche Bank, USDA

Figure 59: Average Hogs & pigs inventory (1991-2008)



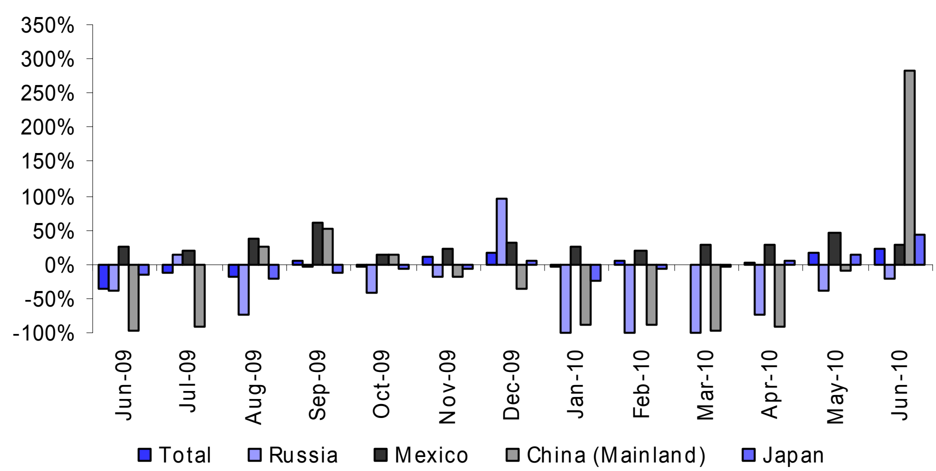
Source: Deutsche Bank, USDA

Figure 60: Swine consumption market share by countries(million heads)



Source: Deutsche Bank, USDA

Figure 61: YoY change in monthly pork exports

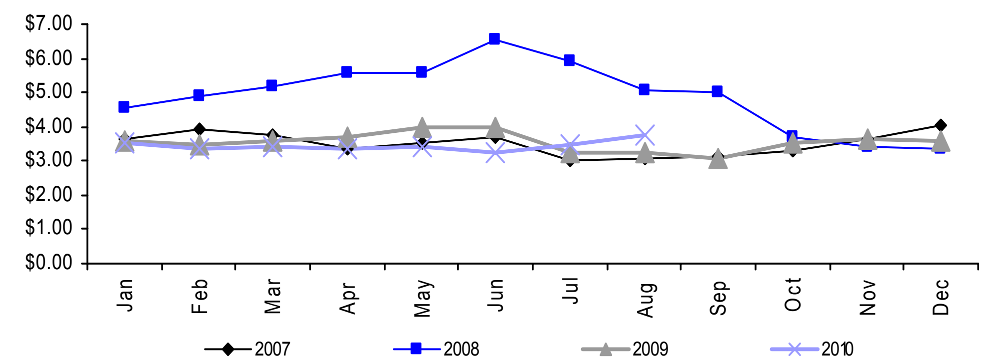


Source: Deutsche Bank, USDA

Corn

- Cash corn prices moved up on strong demand from China, demand as a substitute feed owing to the short grain crops in the FSU, and declining production estimates for the U.S. crop. USDA's Aug crop report put 2010/11 ending stocks in line with the trade expectations. Total usage was up on increased exports and higher food, seed and industrial demand. The stocks to use ratio fell 60 bps from the July estimate to 9.7%, below the historical avg. of 15%. Looking forward, focus will be on any revision in the crop yield estimate due to higher temperature in some regions and intensity of export demand.

Figure 62: Corn year-to-year comparisons ($/bushel)



Source: Deutsche Bank, USDA

Figure 63: U.S. Corn Supply & Use

										Projections As Of	
										July	Aug
	00/01A	**01/02A**	**02/03A**	**03/04A**	**04/05A**	**05/06A**	**06/07A**	**07/08A**	**08/09**	**09/10E**	**10/11F**	**10/11F**
Supply												
Planted Acres	79.6	75.8	78.9	78.6	80.9	81.8	78.3	93.5	86.0	86.5	87.9	87.9
Harvested Acres	72.4	68.8	69.3	70.9	73.6	75.1	70.6	86.5	78.6	79.6	81	81
Bu. Yield Per Acre	136.9	138.2	129.4	142.3	160.4	148.0	149.1	150.7	153.9	164.7	163.5	165
Bushels in Beg. Stocks	1,718	1,899	1,596	1,087	958	2,114	1,967	1,304	1,624	1,673	1478	1426
Bushels Produced	9,915	9,507	8,967	10,089	11,807	11,114	10,531	13,038	12,092	13,110	13245	13365
Imported Bushels	7	10	14	14	11	9	12	20	14	10	10	10
Total Supply	11,640	11,416	10,577	11,190	12,776	13,237	12,510	14,362	13,730	14,793	14,733	14,801
Demand												
Feed & Residual	5,842	5,868	5,563	5,795	6,162	6,141	5,591	5,913	5,205	5,525	5350	5350
Food, Seed, Industrial	1,957	2,046	2,340	2,537	2,686	2,981	3,490	4,387	4,993	5,865	6060	6090
Ethanol	**628**	**714**	**996**	**1,168**	**1,323**	**1,603**	**2,119**	**3,049**	**3,677**	**4,500**	4700	4700
Others	1,329	1,332	1,345	1,369	1,363	1,378	1,371	1,338	1,316	1,365	1,360	1,390
Total Domestic Use	7,799	7,914	7,903	8,332	8,848	9,122	9,081	10,300	10,198	11,390	11,410	11,440
Export Use	1,941	1,905	1,588	1,900	1,814	2,147	2,125	2,437	1,858	1,975	1950	2050
Total Use	9,740	9,819	9,491	10,232	10,662	11,269	11,207	12,737	12,056	13,365	13,360	13,490
Ending Stocks	1,900	1,597	1,086	958	2,114	1,968	1,303	1,625	1,674	1,428	1,373	1,311
Price												
Year Avg. or Proj. Range	$1.85	$1.97	$2.32	$2.42	$2.06	$2.00	$3.04	$4.20	$4.06	$3.50- 3.60	$3.45 - $4.05	$3.5 - $4.10
Analysis												
% Harvested of Planted	91%	90.8%	87.8%	90.2%	91.0%	91.8%	90.2%	92.5%	91.4%	92.0%	92.2%	92.2%
Domestic Use/Production	79%	83.2%	88.1%	82.6%	74.9%	82.1%	86.2%	79.0%	84.3%	86.9%	86.1%	85.6%
Stocks/Use Ratio	19.5%	16.3%	11.4%	9.4%	19.8%	17.5%	11.6%	12.8%	13.9%	10.7%	10.3%	9.7%
Non-Feed % of Total Use	20%	20.8%	24.7%	24.8%	25.2%	26.5%	31.1%	34.4%	41.4%	43.9%	45.4%	45.1%
Exports % of Total Use	20%	19.4%	16.7%	18.6%	17.0%	19.1%	19.0%	19.1%	15.4%	14.8%	14.6%	15.2%

Footnotes:
(1) The Marketing Year for Corn Starts in September
(2) The Most Recent Full Year Remains an Estimate Until One Full Year has Past
(3) Source: USDA.

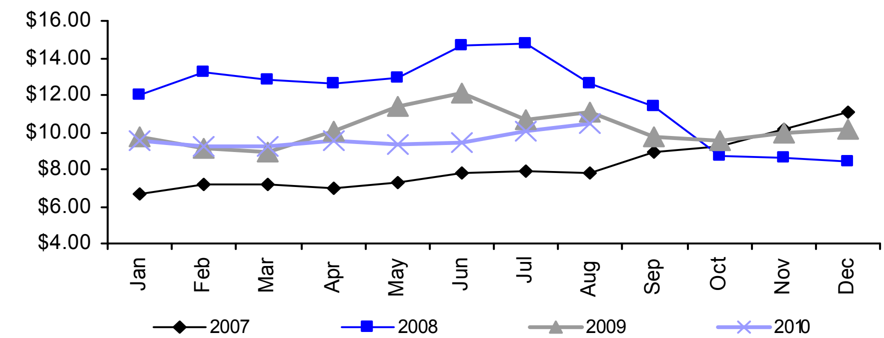
Average Stocks to Use '92/93-'08/09 15%

Source: Deutsche Bank, USDA

Soybeans

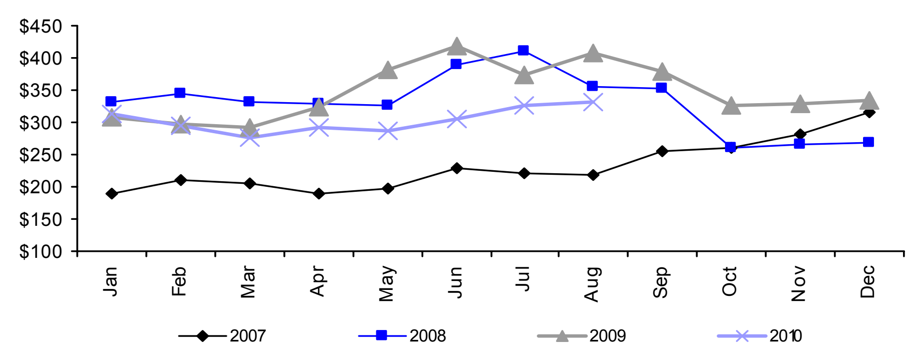
- Soybean prices were also strong (both spot and futures) with higher corn and wheat prices. However, movements in outside markets (weaker crude oil) took off some of the gains. Large South America crops, high world soybean stocks, increasing crop yield estimates and southern harvest activity in the U.S. are providing downward pressure.
- USDA's Aug crop report pegged 2010/11 U.S. ending stocks at 360 mil bu, above the avg. trade forecast of 334 mil bu. It bumped up soybean production on a higher yield, offset by an increase in export demand. Global soybean stocks are expected to decline from 67.76 million MT to 64.73 million on higher crush usage in China, despite increased production worldwide. On the demand front, U.S. soybean crush volumes of 124.2 million bushels were up 2.7% y-o-y in Jul.
- Figure 67 displays U.S. crush margins over time. Soybean crush margins came down sequentially in July. However, they have improved a bit so far in Aug on higher soybean meal prices. With the recovery in chicken production, demand for soybean meal (constituting 48% of U.S. soybean meal usage) should continue to provide some support to the soybean meal prices and, thus, crush margins.

Figure 64: Soybean year-to-year comparisons ($/bushel)



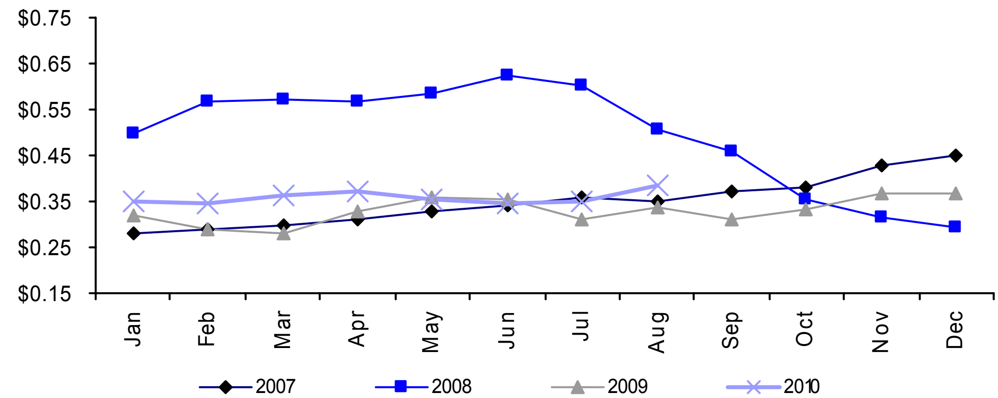
Source: Deutsche Bank, Wall Street Journal
March data through March 16th

Figure 65: Soybean meal year-to-year comparisons (cent/ton)



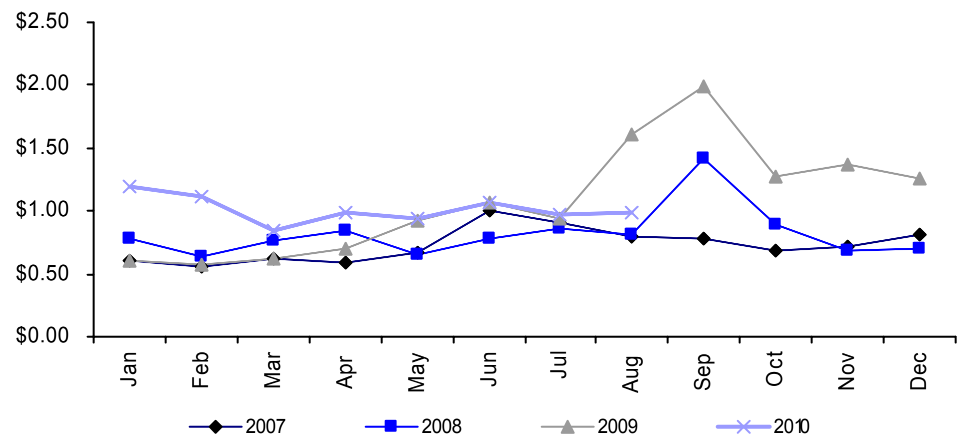
Source: Deutsche Bank, Wall Street Journal

Figure 66: Soybean oil year-to-year comparisons ($/lbs)



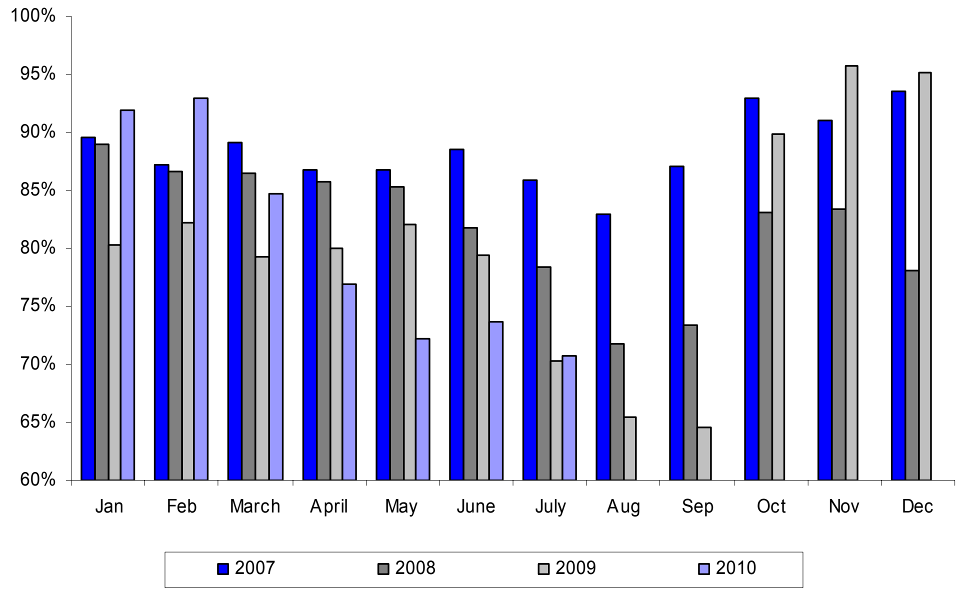
Source: Deutsche Bank, Wall Street Journal

Figure 67: Soybean processing margins



Source: Deutsche Bank, Wall Street Journal

Figure 68: U.S. soybean processing capacity utilization



Source: Deutsche Bank, National Oilseed Processors Association
Note: April capacity figure is estimated.

Figure 69: U.S. Soybean Supply & Use

											Projections As Of	
	00/01A	01/02A	02/03A	03/04A	04/05A	05/06A	06/07A	07/08A	08/09	09/10E	July 10/11F	Aug 10/11F
Supply												
Planted Acres	74.3	74.1	74.0	73.4	75.2	72.0	75.5	64.7	75.7	77.5	78.9	78.9
Harvested Acres	72.4	73.0	72.5	72.5	74.0	71.3	74.6	64.1	74.7	76.4	78	78
Bu. Yield Per Acre	38.1	39.6	38.0	33.8	42.2	43.0	42.9	41.7	39.7	44.0	42.9	44
Bushels in Beg. Stocks	290	248	208	178	112	256	449	574	205	138	175	160
Bushels Produced	2,758	2,891	2,756	2,454	3,124	3,063	3,197	2,677	2,967	3,359	3345	3433
Imported Bushels	4	2	5	6	6	3	9	10	13	15	10	10
Total Supply	3,052	3,141	2,969	2,638	3,242	3,322	3,655	3,261	3,185	3,512	3,530	3,603
Demand												
Crushings	1,641	1,700	1,615	1,530	1,696	1,739	1,808	1,803	1,662	1,750	1645	1650
Export	996	1,064	1,044	887	1,103	947	1,116	1,159	1,283	1,470	1370	1435
Seed	91	90	89	92	88	93	80	89	90	92	88	88
Residual	76	79	42	17	99	94	77	5	12	41	67	70
Total Use	2,804	2,933	2,790	2,526	2,986	2,873	3,081	3,056	3,047	3,353	3,170	3,243
Ending Stocks	248	208	179	112	256	449	574	205	138	160	360	360
Price (per bushel)												
Year Avg. or Proj. Range	$4.54	$4.38	$5.53	$7.34	$5.74	$5.66	$6.43	$10.10	$9.97	$9.60	$8.10-$9.60	$8.50-$10.0
Analysis												
% Harvested of Planted	97%	98.5%	98.0%	98.8%	98.4%	99.0%	98.8%	99.1%	98.7%	98.6%	98.9%	98.9%
Use/Production	102%	101.5%	101.2%	102.9%	95.6%	93.8%	96.4%	114.2%	102.7%	99.8%	94.8%	94.5%
Stocks/Use Ratio	8.8%	7.1%	6.4%	4.4%	8.6%	15.6%	18.6%	6.7%	4.5%	4.8%	11.4%	11.1%
Exports % of Total Use	36%	36.3%	37.4%	35.1%	36.9%	33.0%	36.2%	37.9%	42.1%	43.8%	43.2%	44.2%

Footnotes:
(1) The Marketing Year for Soybeans Starts in September
(2) The Most Recent Full Year Remains an Estimate Until One Full Year has Past
(3) Supply estimates and reported use through May, coupled with USDA's June 1 stocks estimate, indicate a below-average residual for 2007/08.
(4) Source: USDA

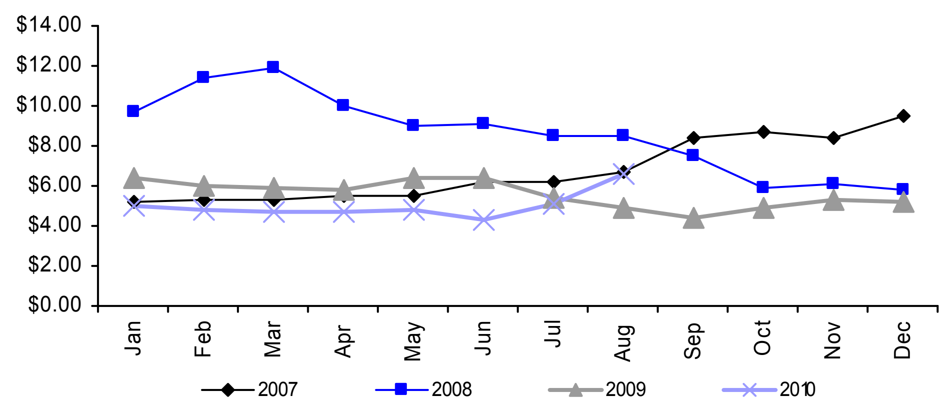
Average Stocks to Use 10%
'92/93-'08/09

Source: Deutsche Bank, USDA

Wheat

- At $6.87/bu, the wheat price is well above the year ago level of $4.81/bu and above the 10-year historical average of $4.38/bu Prices jumped up to $7.12/bu on concerns that global wheat supply is tightening. Notably, Russia (14% export share in 2009/10) banned exports of wheat to control prices in the domestic market and protect its livestock industry. Other exporting countries like Ukraine, Australia and Canada have also lowered their export forecasts due to bad weather conditions in their respective countries, endangering crop production. The USDA is projecting a 2010/11 global stocks to use ratio of 22.1%, 50 bps. below the historical average. For perspective, this compares to 17.9% in 2006/07.
- Demand for U.S. wheat has increased to make up for deficits left by other key exporting countries. In the Aug crop report, the USDA pegged ending stocks at a lower than expected level (952 million bushels vs. trade expectation of 982 million) due to higher export demand (up 200 million bushels from July report). This has helped in reducing the stocks-to-use ratio from 49.9% in July to 39.9% in Aug, still well above the historical average of 26.5%.

Figure 70: Wheat year-to-year comparisons ($/bushel)

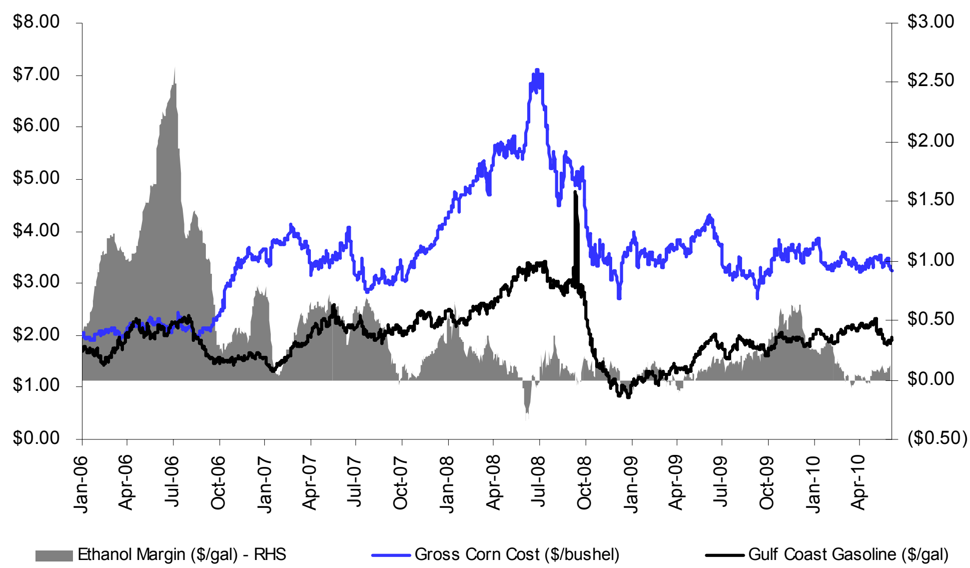


Source: Deutsche Bank, Wall Street Journal

Ethanol

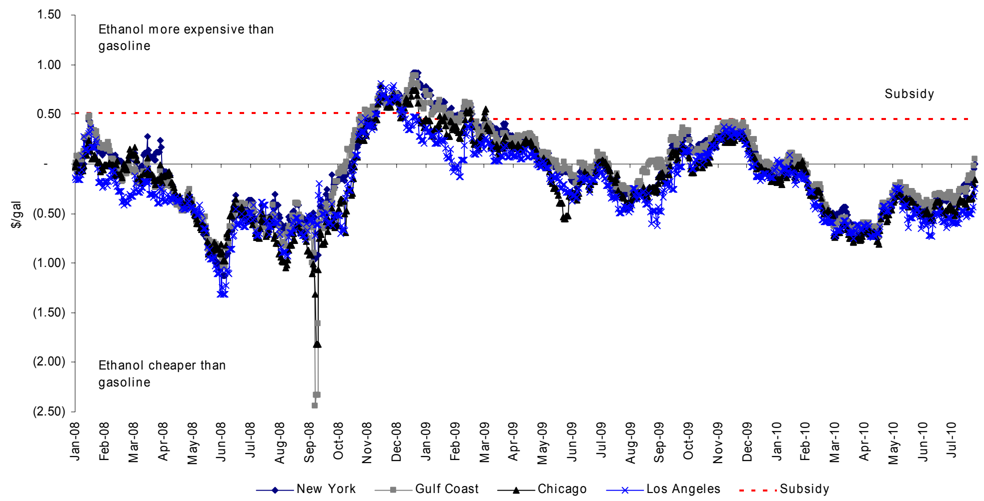
- Ethanol margins (gray area in Figure 71 below) have come up from break-even levels in early July and are running at a solid $0.23/gallon on improved ethanol prices, despite increased corn prices.
- Figure 72 shows the differential between the price of ethanol and gasoline in various regions. Ethanol is currently trading at a premium in all the markets, with the differential ranging from $0.01 to $0.18. Including the $0.45/gal tax incentive means that ethanol is still cheaper than unleaded gasoline to the tune of $0.27-$0.44/gal. This change in economics places that much more importance on the renewal of the tax incentive, which is slated to expire at year end.
- Figure 73 displays the amount of ethanol blended in gasoline in reformulated and conventional markets. The latter is a proxy for discretionary blending. As shown in the figure, blending in conventional markets continues to reach record levels with 5.04 million barrels per day blended with ethanol for the week of Aug 20th, representing an 18% YoY increase.

Figure 71: Ethanol dry milling margins ($/gallon)



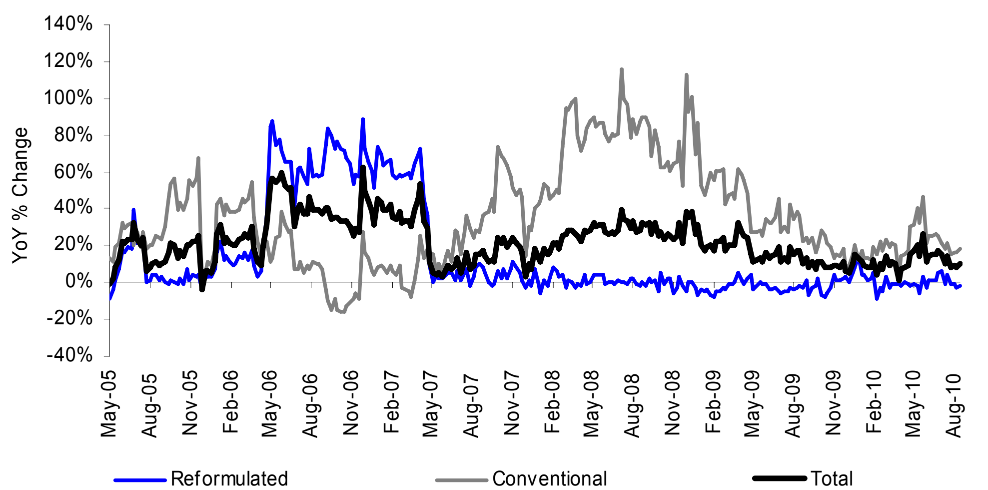
Source: Deutsche Bank, OPIS, Bloomberg Finance LP, Informa

Figure 72: Regional ethanol – Gasoline pricing differentials ($/gallon)



Source: Deutsche Bank, OPIC, Bloomberg Finance LP, Informa

Figure 73: Y-o-Y change in ethanol blending with gasoline



Source: Deutsche Bank, DOE

Figure 74: Upcoming events calendar

US Agribusiness, Protein and Restaurant Industries Upcoming Events						
Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Sunday
30-Aug	31-Aug	1-Sep	2-Sep	3-Sep	4-Sep	5-Sep
		Broiler Hatchery				
6-Sep	7-Sep	8-Sep	9-Sep	10-Sep	11-Sep	12-Sep
Holiday		1) SFD 1Q11 Earnings 2) Broiler Hatchery	MCD August sales	1) World Agricultural Supply and Demand Estimates (WASDE) 2) Latest Agriculture Trade data		
13-Sep	14-Sep	15-Sep	16-Sep	17-Sep	18-Sep	19-Sep
	Sugar and Sweeteners Outlook	1) Turkey Hatchery 2) Broiler Hatchery		1) Cattle on Feed 2) Livestock, Dairy and Poultry Outlook 3) Meat Price spreads		
20-Sep	21-Sep	22-Sep	23-Sep	24-Sep	25-Sep	26-Sep
	1) Chicken and eggs 2) YUM China investor day 3) DRI F1Q11 Earnings	1) Cold Storage 2) Broiler Hatchery 3) YUM China investor day	YUM China investor day	Quarterly Hogs and Pigs		
27-Sep	28-Sep	29-Sep	30-Sep	1-Oct	2-Oct	3-Oct
Poultry Slaughter		Broiler Hatchery	Grain Stocks			

Source: Deutsche Bank estimates, company information

Figure 75: Restaurant industry valuation comparables

Restaurant Industry Comparables

			8/30/2010 Stock	Price		Mkt	-- EPS estimates --			-- P/E --			LT		Rel.	-- EV-to-EBITDA--			Debt/	Adj Debt/	Total	Company-
QSR	Ticker	FYE	price	target	Rating	cap (mm)	FY09A	FY10E	FY11E	FY10E	FY11E	NTM*	growth	PEG	P/E	FY10E	FY11E	NTM*	'09 EBITDA	'09 EBITDAR	restaurants	operated %
Burger King	BKC	6	$16.77	$19.00	Buy	$2,301	$1.41	$1.36	$1.31	12.3x	12.8x	12.4x	13%	87%	104%	6.7x	6.8x	6.6x	1.9x	3.5x	11,925	12%
Jack in the Box	JACK	9	$20.25	NA	NR	$1,128	$2.27	$1.70	$1.89	11.9x	10.7x	10.8x	13%	82%	89%	5.4x	5.5x	5.5x	1.3x	4.2x	2,690	50%
McDonald's	MCD	12	$72.74	$79.00	Buy	$78,988	$3.98	$4.49	$4.74	16.2x	15.3x	15.6x	11%	141%	130%	10.1x	9.7x	9.8x	1.3x	2.4x	32,478	19%
Sonic	SONC	8	$7.84	NA	NR	$484	$0.72	$0.50	$0.62	15.7x	12.6x	12.6x	14%	93%	107%	8.3x	7.7x	7.7x	3.7x	4.0x	3,544	13%
Wendy's /Arby's Group	WEN	12	$3.99	$5.25	Buy	$1,702	$0.18	$0.11	$0.17	37.6x	22.8x	26.3x	18%	147%	227%	7.0x	6.3x	6.5x	3.7x	4.9x	10,259	25%
YUM! Brands	YUM	12	$41.70	$43.00	Hold	$20,225	$2.17	$2.47	$2.73	16.9x	15.3x	15.8x	11%	129%	132%	9.5x	8.9x	9.1x	1.5x	3.0x	37,080	22%
									avg	**18.4x**	**14.9x**	**15.6x**	**13%**	**113%**	**131%**	**7.8x**	**7.5x**	**7.5x**	**2.2x**	**3.7x**	**97,976**	**24%**
PIZZA																						
Domino's	DPZ	12	$12.79	NA	NR	$777	$0.87	$1.29	$1.39	9.9x	9.2x	9.4x	11%	88%	79%	9.0x	8.8x	8.9x	7.0x	7.2x	8,999	5%
Papa John's	PZZA	12	$23.87	NA	NR	$644	$1.50	$1.81	$2.09	13.2x	11.4x	12.0x	11%	109%	99%	5.9x	5.5x	5.6x	0.9x	2.3x	3,469	18%
									avg	**11.6x**	**10.3x**	**10.7x**	**11%**	**98%**	**89%**	**7.5x**	**7.1x**	**7.2x**	**4.0x**	**4.7x**	**12,468**	**11%**
QUICK CASUAL																						
Chipotle Mexican Grill	CMG	12	$148.84	$170.00	Buy	$4,733	$3.95	$5.14	$6.23	28.9x	23.9x	25.4x	20%	124%	209%	13.5x	11.5x	12.1x	0.0x	2.2x	956	100%
Panera Bread	PNRA	12	$79.47	$91.00	Buy	$2,504	$2.91	$3.57	$4.27	22.3x	18.6x	19.7x	17%	112%	162%	8.8x	7.8x	8.1x	0.0x	2.2x	1,380	42%
										25.6x	**21.2x**	**22.5x**	**19%**	**118%**	**186%**	**11.2x**	**9.6x**	**10.1x**	**0.0x**	**2.2x**	**2,336**	**71%**
UPSCALE DINING																						
Morton's	MRT	12	$4.35	NA	NR	$76	$0.10	$0.32	$0.43	13.6x	10.1x	11.1x	12%	90%	93%	6.9x	5.9x	6.2x	5.0x	6.8x	77	100%
McCormick & Schmick's	MSSR	12	$6.30	NA	NR	$94	$0.32	$0.37	$0.52	17.0x	12.1x	13.4x	16%	84%	111%	4.4x	3.8x	4.0x	0.7x	4.8x	94	100%
Ruth's Hospitality Group	RUTH	12	$3.29	$5.50	Buy	$141	$0.42	$0.29	$0.26	11.2x	12.7x	12.2x	15%	84%	99%	5.9x	5.7x	5.9x	2.6x	4.9x	151	57%
									avg	**13.9x**	**11.7x**	**12.2x**	**14%**	**86%**	**101%**	**5.7x**	**5.2x**	**5.4x**	**2.8x**	**5.5x**	**322**	**86%**
CASUAL DINING																						
BJ's Restaurants	BJRI	12	$24.36	NA	NR	$681	$0.53	$0.73	$0.88	33.4x	27.7x	29.3x	24%	93%	238%	11.8x	9.5x	10.1x	0.0x	2.6x	93	99%
Brinker International	EAT	6	$16.08	NA	NR	$1,653	$1.28	$1.18	$1.38	13.6x	11.7x	11.2x	12%	95%	92%	5.8x	5.4x	5.3x	1.5x	3.3x	1,689	61%
Buffalo Wild Wings	BWLD	12	$42.22	$52.00	Buy	$770	$1.69	$2.07	$2.45	20.4x	17.2x	18.2x	21%	84%	149%	7.4x	6.2x	6.5x	0.0x	2.1x	652	36%
California Pizza Kitchen	CPKI	12	$15.03	NA	NR	$379	$0.77	$0.61	$0.73	24.6x	20.6x	21.8x	14%	155%	183%	6.1x	5.6x	5.7x	0.0x	2.9x	252	81%
CBRL Group	CBRL	7	$44.39	NA	NR	$1,057	$2.89	$3.59	$4.01	12.4x	11.1x	11.0x	11%	100%	91%	6.8x	6.4x	6.4x	2.9x	3.7x	590	100%
Cheesecake Factory	CAKE	12	$22.52	NA	NR	$1,371	$1.07	$1.37	$1.58	16.4x	14.3x	14.9x	14%	102%	121%	6.7x	6.3x	6.4x	0.4x	3.2x	161	100%
Darden Restaurants	DRI	5	$41.38	$43.00	Hold	$5,959	$2.75	$2.93	$3.33	14.1x	12.4x	12.0x	10%	95%	98%	7.7x	7.1x	6.9x	1.8x	2.6x	1,803	98%
DineEquity	DIN	12	$32.58	NA	NR	$572	$2.40	$3.49	$4.07	9.3x	8.0x	8.4x	11%	72%	66%	7.4x	7.6x	7.6x	4.7x	5.3x	3,464	12%
P.F. Chang's	PFCB	12	$43.48	NA	NR	$1,012	$1.87	$1.98	$2.27	22.0x	19.2x	20.0x	15%	125%	158%	7.5x	7.0x	7.2x	0.8x	2.6x	363	100%
Red Robin	RRGB	12	$18.40	NA	NR	$288	$1.38	$0.81	$1.08	22.7x	17.0x	18.6x	13%	135%	149%	5.7x	5.1x	5.3x	1.8x	3.9x	439	70%
Ruby Tuesday	RT	5	$9.38	NA	NR	$580	$0.53	$0.73	$0.85	12.8x	11.0x	10.6x	11%	92%	88%	6.2x	6.0x	5.8x	2.0x	3.4x	901	75%
Texas Roadhouse	TXRH	12	$13.27	$15.00	Hold	$968	$0.67	$0.81	$0.91	16.4x	14.6x	15.5x	15%	103%	125%	7.4x	6.7x	6.9x	0.7x	1.8x	331	79%
									avg	**18.2x**	**15.4x**	**16.0x**	**14%**	**104%**	**130%**	**7.2x**	**6.6x**	**6.7x**	**1.4x**	**3.1x**	**10,738**	**76%**
COFFEE																						
Starbucks**	SBUX	9	$23.43	$31.00	Buy	$17,964	$0.80	$1.22	$1.44	19.2x	16.3x	16.5x	15%	102%	134%	8.7x	7.7x	7.7x	0.4x	2.9x	16,635	53%
						Restaurant industry				**17.9x**	**14.9x**	**15.6x**	**14%**	**105%**	**128%**	**7.6x**	**6.9x**	**7.1x**	**1.8x**	**3.6x**	**140,475**	**59%**
						S&P 500	**$58.47**	**$79.87**	**$92.02**	**13.1x**	**11.4x**	**12.3x**										

All estimates from Capital IQ consensus except for DB covered companies.

* NTM = next twelve months

** Marc Greenberg, CFA has lead coverage of Starbucks (SBUX)

Source: Deutsche Bank estimates, company information, FactSet, First Call

Deutsche Bank

Figure 76: U.S. agribusiness and protein industry valuation comparables

Deutsche Bank

US Agribusiness and Protein Valuations

Agribusiness & Protein Research
Christina McGlone
christina.mcglone@db.com
203-863-2283

8/30/2010

Company	FYE	Current Price	52-WK Range	Price Target	Curr Div Yield	Return vs. Price Target	Rating	US$ Market Cap (m)	US$ EV (m)
		Targets and Recommendations							
ARCHER DANIELS	Jun	$30.55	$33-24	$34	2.0%	11.3%	BUY	19,705	22,559
BUNGE	Dec	$52.00	$74-45	$58	1.6%	11.5%	BUY	7,464	10,441
CORN PRODUCTS	Dec	$34.33	$38-26	$36	1.6%	4.9%	HOLD	2,623	2,960
DOLE FOOD	Dec	$8.91	$13-9	$11	0.0%	23.5%	HOLD	779	2,241
HORMEL	Oct	$42.70	$44-35	$38	2.0%	-11.0%	SELL	5,789	5,734
SANDERSON FARMS	Oct	$43.14	$59-36	$52	1.4%	20.5%	HOLD	907	874
SMITHFIELD	Apr	$16.03	$21-12	$21	0.0%	31.0%	BUY	2,659	5,216
TYSON	Sep	$16.40	$21-12	$19	1.0%	15.9%	HOLD	6,199	8,366
US Agri. & Protein	-	**$29.29**			**1.5%**			**46,126**	**58,391**
S&P 500 Index	-	**$1,049**	**$1217-995**		**2.1%**				

Company	Free Float (%)	EPS 2009	EPS 2010E		EPS 2011E	Absolute 1 Month	Absolute 3 Months	Absolute YTD	Total Debt/ Capital	Current Dividend
		Fiscal Year EPS				**Performance**			**Other**	
ARCHER DANIELS	97.8	$3.04	$3.05	A	$2.83	2.7%	-10.4%	-18.6%	33.4%	$0.60
BUNGE	98.9	$1.69	$3.26	E	$5.14	2.4%	-18.4%	-22.0%	30.0%	$0.84
CORN PRODUCTS	99.0	$2.00	$2.74	E	$2.93	-10.4%	-16.8%	-1.0%	27.7%	$0.56
DOLE FOOD	40.5	$1.18	$1.05	E	$1.37	17.6%	-10.8%	-13.9%	66.2%	$0.00
HORMEL	51.4	$2.51	$2.91	E	$2.97	1.6%	-1.9%	7.0%	13.4%	$0.84
SANDERSON FARMS	86.2	$3.99	$5.70	E	$4.54	-4.2%	-5.6%	20.9%	9.7%	$0.60
SMITHFIELD	85.2	($1.41)	($0.48)	A	$1.72	-16.3%	-32.4%	-6.2%	52.2%	$0.00
TYSON	98.5	$0.26	$2.07	E	$2.01	-6.1%	-14.4%	33.9%	38.7%	$0.16
US Agri. & Protein		**$1.72**	**$2.42**		**$2.71**	-1.4%	-12.1%	-1.7%		**$0.45**
S&P 500 Index										**$22.43**

Company	P/E 2010E	P/E 2011E	EV/EBITDA 2010E	EV/EBITDA 2011E	EV/SALES 2010E	EV/SALES 2011E	Price/Book Value 2010E	Price/Book Value 2011E	Price/Tangible Book Value 2010E	Price/Tangible Book Value 2011E	ROIC 2009	ROIC 2010E	ROIC 2011E
	Calendar Year Multiples						**Fiscal Year Multiples & Yields**						
ARCHER DANIELS	11.3	10.1	7.2	6.7	0.3	0.3	1.3	1.2	1.4	1.3	9.4%	9.3%	8.2%
BUNGE	15.9	10.1	7.3	6.2	0.2	0.2	0.9	0.8	0.9	0.8	3.0%	5.7%	8.1%
CORN PRODUCTS	12.5	11.7	6.1	4.3	0.8	0.6	1.4	1.4	1.6	1.5	4.0%	3.9%	4.0%
DOLE FOOD	8.5	6.5	5.8	5.5	0.3	0.3	0.8	0.8	1.5	1.2	6.2%	5.6%	6.1%
HORMEL	15.1	14.4	7.7	7.6	0.8	0.8	2.9	3.0	4.7	5.1	11.5%	13.7%	14.2%
SANDERSON FARMS	7.9	8.6	3.7	4.0	0.5	0.4	1.4	1.3	1.4	1.3	14.5%	17.4%	12.5%
SMITHFIELD	9.4	10.6	6.1	6.6	0.4	0.5	0.9	0.9	1.7	1.5	-2.4%	1.6%	7.2%
TYSON	7.7	8.2	4.0	4.3	0.3	0.3	1.2	1.1	2.1	1.7	4.8%	8.7%	8.5%
US Agri. & Protein	**11.7**	**10.6**	**6.2**	**5.9**	**0.3**	**0.3**	**1.3**	**1.2**	**1.5**	**1.4**			
S&P 500 Index	**13.2**	**11.5**											

Calendar Year Forecasts

Company	Revenue 2009	Revenue 2010E	Revenue 2011E	EBITDA 2009	EBITDA 2010E	EBITDA 2011E	EBIT 2009	EBIT 2010E	EBIT 2011E
ARCHER DANIELS	62,208	65,511	69,944	2,441	3,140	3,387	1,633	2,164	2,345
BUNGE	41,926	44,812	45,295	299	1,435	1,672	(144)	960	1,192
CORN PRODUCTS	3,672	3,864	5,082	403	483	682	273	346	427
DOLE FOOD	6,779	6,881	7,025	417	388	409	284	260	294
HORMEL	6,572	7,141	7,323	702	743	755	575	619	627
SANDERSON FARMS	1,821	1,935	1,995	212	238	220	169	193	172
SMITHFIELD	11,143	12,285	10,942	220	859	786	(20)	626	548
TYSON	26,818	29,645	30,001	1,375	2,066	1,966	874	1,559	1,447
US Agri. & Protein	**160,938**	**172,074**	**177,607**	**6,070**	**9,350**	**9,877**	**3,645**	**6,727**	**7,052**

Company	EPS 2009	EPS 2010E	EPS 2011E	DPS 2009	DPS 2010E	DPS 2011E	Net Interest Cover 2009	Net Interest Cover 2010E	Net Interest Cover 2011E
ARCHER DANIELS	$2.17	$2.71	$3.02	$0.56	$0.60	$0.64	4.25	5.19	6.10
BUNGE	$1.69	$3.26	$5.14	$0.80	$0.70	$0.76	(0.72)	3.52	5.43
CORN PRODUCTS	$2.00	$2.74	$2.93	$0.60	$0.65	$0.67	7.26	13.37	6.55
DOLE FOOD	$1.18	$1.05	$1.37	$0.00	$0.00	$0.00	1.38	1.57	1.77
HORMEL	$2.73	$2.84	$2.97	$0.76	$0.82	$0.95	21.21	23.41	25.08
SANDERSON FARMS	$5.07	$5.47	$5.01	$0.57	$0.59	$0.61	24.39	94.73	60.42
SMITHFIELD	($1.19)	$1.70	$1.51	$0.00	$0.00	$0.00	0.87	3.22	3.44
TYSON	$0.98	$2.14	$2.00	$0.18	$0.19	$0.16	2.81	5.86	6.00
US Agri. & Protein	**$1.59**	**$2.50**	**$2.77**	**$0.43**	**$0.44**	**$0.47**			

Company	Revenue Growth 2009	Revenue Growth 2010E	Revenue Growth 2011E	EBITDA Growth 2009	EBITDA Growth 2010E	EBITDA Growth 2011E	EBIT Growth 2009	EBIT Growth 2010E	EBIT Growth 2011E
ARCHER DANIELS	-20.6%	5.3%	6.8%	-43.2%	28.6%	7.9%	-54.1%	32.5%	8.4%
BUNGE	-20.3%	6.9%	1.1%	-88.9%	380.1%	16.5%	-106.4%	-767.0%	24.1%
CORN PRODUCTS	-6.9%	5.2%	31.5%	-29.9%	19.8%	41.3%	-38.9%	26.7%	23.5%
DOLE FOOD	-11.0%	1.5%	2.1%	2.1%	-7.1%	5.5%	26.5%	-8.4%	12.8%
HORMEL	-3.7%	8.7%	2.5%	13.8%	5.8%	1.6%	17.2%	7.6%	1.3%
SANDERSON FARMS	4.0%	6.3%	3.1%	1938.1%	11.9%	-7.5%	NM	14.1%	-10.7%
SMITHFIELD	-10.9%	10.2%	-10.9%	-25.4%	290.1%	-8.4%	NM	NM	-12.3%
TYSON	-1.3%	10.5%	1.2%	128.0%	50.3%	-4.8%	634.5%	78.4%	-7.2%
US Agri. & Protein	**-15.6%**	**6.9%**	**3.2%**	**-36.1%**	**54.0%**	**5.6%**	**-48.5%**	**84.6%**	**4.8%**

Company	EPS Growth 2009	EPS Growth 2010E	EPS Growth 2011E	DPS Growth 2009	DPS Growth 2010E	DPS Growth 2011E	EBITDA Margin 2009	EBITDA Margin 2010E	EBITDA Margin 2011E
ARCHER DANIELS	-44.4%	24.9%	11.3%	8.7%	7.6%	6.2%	3.9%	4.8%	4.8%
BUNGE	-75.0%	92.9%	57.4%	11.1%	-12.4%	8.4%	0.7%	3.2%	3.7%
CORN PRODUCTS	-44.3%	36.7%	7.1%	16.9%	8.4%	3.5%	11.0%	12.5%	13.4%
DOLE FOOD	-53.9%	-10.9%	30.1%	0.0%	0.0%	0.0%	6.2%	5.6%	5.8%
HORMEL	33.8%	3.8%	4.8%	7.1%	8.6%	16.1%	10.7%	10.4%	10.3%
SANDERSON FARMS	-528.5%	7.9%	-8.4%	1.8%	3.0%	4.5%	11.7%	12.3%	11.0%
SMITHFIELD	55.9%	-242.9%	-11.2%	0.0%	0.0%	0.0%	2.0%	7.0%	7.2%
TYSON	NM	117.1%	-6.2%	9.4%	9.3%	-17.2%	5.1%	7.0%	6.6%
US Agri. & Protein	**-37.7%**	**56.8%**	**10.8%**	**9.0%**	**2.7%**	**6.9%**	**3.8%**	**5.4%**	**5.6%**

Fiscal Year Forecasts

Company	Net Income 2009	Net Income 2010E	Net Income 2011E	Dep. & Amort. 2009	Dep. & Amort. 2010E	Dep. & Amort. 2011E	Capital Exp. 2009	Capital Exp. 2010E	Capital Exp. 2011E
ARCHER DANIELS	1,707	1,967	1,807	743	912	987	1,898	1,607	1,036
BUNGE	335	513	797	443	475	480	940	800	768
CORN PRODUCTS	47	210	239	130	137	255	146	163	254
DOLE FOOD	88	96	123	120	115	117	51	115	126
HORMEL	343	393	399	127	124	128	92	95	103
SANDERSON FARMS	82	124	101	43	44	46	25	146	138
SMITHFIELD	(243)	(76)	285	271	237	232	175	183	232
TYSON	(537)	786	769	496	500	515	368	600	700
US Agri. & Protein	**1,822**	**4,013**	**4,519**						

Company	Working Capital 2009	Working Capital 2010E	Working Capital 2011E	FCF 2009	FCF 2010E	FCF 2011E	FCF Yield 2009	FCF Yield 2010E	FCF Yield 2011E
ARCHER DANIELS	3,082	836	(762)	3,454	1,989	878	17.6%	10.1%	4.5%
BUNGE	346	(299)	(86)	(382)	(111)	423	-5.8%	-1.4%	5.2%
CORN PRODUCTS	274	(25)	(133)	442	159	106	17.1%	6.1%	3.8%
DOLE FOOD	72	(34)	(50)	230	63	66	44.0%	8.0%	8.5%
HORMEL	168	(38)	(2)	546	384	421	9.4%	6.7%	7.4%
SANDERSON FARMS	16	(4)	(5)	132	41	22	14.8%	4.4%	2.3%
SMITHFIELD	262	196	29	22	175	315	1.0%	6.9%	11.8%
TYSON	432	(116)	(30)	(3)	545	527	-0.0%	8.7%	8.4%
US Agri. & Protein				**4,440**	**3,244**	**2,759**	**9.6%**	**6.7%**	**5.6%**

Miscellaneous data

Company	Total Debt	Total Cash	Net Debt	F2010E ROIC	F2010E WACC	EV Spread	Next Results	Release Date
ARCHER DANIELS	7,421	4,567	2,854	9.3%	9.4%	-0.1%	F1Q11	02 Nov
BUNGE	4,078	1,101	2,977	3.0%	11.3%	-8.2%	F2Q10	-
CORN PRODUCTS	658	321	337	4.0%	8.8%	-4.8%	F3Q10	
DOLE FOOD	1,681	219	1,462	5.6%	9.4%	-3.8%	F2Q10	-
HORMEL	350	405	-55	13.7%	9.6%	4.2%	F3Q10	-
SANDERSON FARMS	64	97	-33	17.4%	10.6%	6.7%	F3Q10	-
SMITHFIELD	3,008	451	2,557	1.6%	8.1%	-6.6%	F1Q11	08 Sep
TYSON	2,979	812	2,167	8.7%	12.1%	-3.4%	F3Q10	-
US Agri. & Protein				**8.6%**	**9.7%**	**-1.1%**		

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Source: Deutsche Bank, Company Reports, Factset

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Appendix 1

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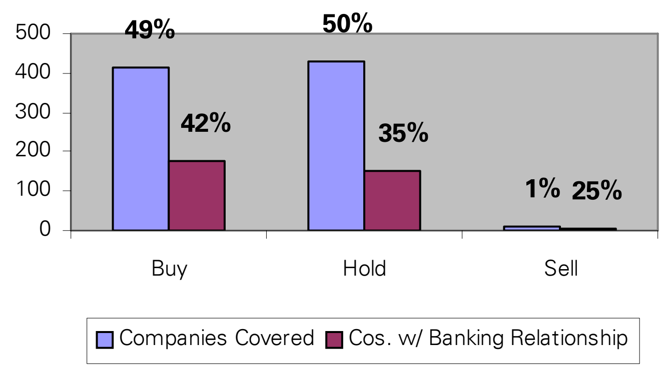

North American Universe

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