

North America United States

Consumer Food

31 January 2011

# The Monthly Mouthful

## From the field to the table

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**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**

Looking around the globe, we see strong opportunities for U.S. exports of pork and wheat. Specifically, (1) widening hog spreads between the U.S. and China, (2) the foot-and-mouth outbreak in S. Korea, (3) the German dioxin issue, and (4) potential resolution of the trucking issue with Mexico should lead to continued strong U.S. pork exports. In our view, these developments are most positive for Smithfield. In pork, to the extent the entire benefit does not accrue to the hog farmer and pork processing margins are maintained, Hormel and Tyson will also benefit. However, value-added refrigerated/prepared foods margins will be more challenged. On the wheat side, continued reductions in the Australian wheat crop and a shift in quality toward feed wheat are reducing an already-tight supply of milling-quality wheat globally. The U.S. is quickly becoming the best source of milling quality wheat as Europe's supplies are depleted. In our view, this is a positive for Archer Daniels Midland, with milling wheat likely in storage. Bunge may also be aided by the emergence of new trade patterns.

**Restaurants: commodity prices still riding high – where are the key risks?**

Many key commodity costs continue to remain at elevated levels as we have moved into the new year. (Although soft chicken markets are helping mitigate inflationary pressures.) Most restaurant companies have now given their initial commodity outlook for 2011 with the consensus being commodity inflation in the range of 2-3%. This level of inflation should be manageable, assuming companies can take some pricing and assuming companies are not being overly optimistic about unhedged items (see SBUX). In this report, we've provided detailed commodity pricing trends, as well as company-specific exposures and outlooks for all major restaurant chains. However, parsing through this data to determine which companies have the most worrisome commodity exposure is not easy. To summarize, among our coverage, the companies with the most significant commodity risk include DRI, CMG and WEN.

**Estimates, Valuation & Risks - We are changing estimates/targets**

We raise Corn Products 2011E EPS to \$4.08 from \$3.63 and increase our price target to \$51 from \$44 (see pg. 12). For Sanderson Farms, we reduce F2011E (end Oct) EPS to (\$2.61) from \$0.13. Our estimate does not assume any near-term production cuts in chicken. We retain our \$38 price target on SAFM. For Tyson, we raise F1Q11E (end Dec) EPS to \$0.63 from \$0.52 and F2011E (end Sep) to \$1.85 from \$1.77. We retain our \$18 price target on TSN. 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.

Deutsche Bank Securities Inc.

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**Forecast Change**
**Companies featured**

Archer-Daniels-Midland (ADM.N),USD32.76	Hold
Corn Products International (CPO.N),USD46.91	Hold
Hormel Foods (HRL.N),USD49.68	Sell
Sanderson Farms (SAFM.OQ),USD41.03	Hold
Smithfield Foods (SFD.N),USD19.98	Buy
Tyson Foods (TSN.N),USD16.55	Hold
McDonald's (MCD.N),USD73.28	Buy
YUM Brands, Inc. (YUM.N),USD46.40	Hold
Texas Roadhouse (TXRH.OQ),USD16.81	Hold
Panera Bread Co (PNRA.OQ),USD94.90	Buy
Chipotle Mexican Grill, Inc (CMG.N),USD219.43	Hold
Ruth's Hospitality Grp. (RUTH.OQ),USD4.70	Buy

**Key changes**

CPO Price Target	\$51	from	\$44
CPO F2011E EPS	\$4.08	from	\$3.63
SAFM F2011E EPS	(\$2.61)	from	\$0.13
TSN F1Q11E EPS	\$0.63	from	\$0.52
TSN F2011E EPS	\$1.85	from	\$1.77

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# Monthly highlights

## Commodity highlights

\* Focus in the corn and soybean markets is on securing adequate acres in the new crop year, as well as on demand rationalization. At the margin, it appears that hog producers have scaled back production plans (with farrowing intentions down in 1H11). However, chicken producers have not signaled any cuts. Ethanol production remains strong, but margins have narrowed in recent weeks. Corn exports have been mixed, possibly in response to higher prices, as well as a higher global supply of feed wheat. Argentina's corn crop has been hurt by drought from the La Nina weather pattern and is likely to trail the USDA's 23.5 MMT estimate. However, recent rains likely stabilized the corn crop (private estimates approximate 20 MMT), which has already pollinated, and likely improved the soybean crop. At the same time, Brazilian growing conditions point to a possible record soybean crop.

\* The pork cut-out value averaged over \$87/cwt last Thurs, the highest level since Oct 1<sup>st</sup>. Hog prices are also moving higher with packers bidding a bit more aggressively for live animals owing to a tighter supply and likely to fill strong export demand. Nov pork exports: +6.7% YoY and 19.7% sequentially, driven by China, Mexico and Japan. The potential for China to import pork over the next 12 mos has increased with relative hog spreads widening. S. Korea has potential near-term due to the foot-and-mouth outbreak (reported to have led to a 25% culling of its hog herd and leading to the temporary removal of its 25% tariff on pork imports). Exports typically served by the EU may re-direct demand to the U.S. owing to the German dioxin issue; potential resolution of the trucking issue with Mexico could lower/remove the duty on pork. USDA's 9% 2011E growth looks achievable and perhaps conservative.

\* Boneless breast meat prices moved up slightly to \$1.20/lb, after being quoted at \$1.18 in the latter half of December and into the New Year. We still hear of plenty of availability with boneless breast trading \$0.15-\$0.20 back of Urner Barry (slightly weaker than normal). Forward bookings on exports appeared to have strengthened somewhat, though wings are weaker. Data does not point to production cuts, despite the average producer losing \$0.13/lb, on a spot basis. At this point, it appears the industry is willing to hold out for seasonal strength as we head into spring/summer, given the extremely high price of competing meats.

\* Blended beef cutout prices have jumped 9% in the last four weeks to \$171.73 (as of Jan 21<sup>st</sup>). on the back of higher cattle prices which are up 5% in the last four weeks. The drop credit is running at a high of \$12.76/cwt. As a result, industry processing margins turned positive to 1.8% for the week ended Jan 21<sup>st</sup> and strengthened into the week ended Jan 28<sup>th</sup>. The Jan cattle on feed report showed December placements up 16.1%, thus pointing to solid availability of market ready cattle. This availability combined with strong export demand and higher carcass weights, should enable packers to maintain positive processing margins. The semi-annual Cattle Inventory report points to continuation of the decline in the U.S. cattle herd. Specifically, all cattle and calves as of Jan 1, 2011 are down 1.4% YoY and is the lowest since 1958.

\* Ethanol margins for dry mills are running slightly above break-even with prompt availability ample. Ethanol is currently trading at a slight discount or premium to gasoline depending on the market, with the differential ranging from a \$0.05 discount to a \$0.06 premium. The EPA recently cleared the use of E15 for use in 2001-2006 cars, light trucks and SUVs. The 2001-current vehicle fleet represents about 50% of the U.S. vehicle fleet and 65% of the gasoline pool. Though the decision is positive on the surface and for the longer term, we do not

expect short-term implementation. First, the decision on 2007-2010 vehicles is being challenged in U.S. court. Additionally, the EPA must still finalize a labeling rule to advise consumers that E15 is only for certain model year vehicles. Finally, as we have noted in the past, the expense of compliance (in terms of new pumps, underground storage, etc.), as well as potential liability issues suggest blending at a rate above 10% is not near at hand. We note potential anti-dumping duties by China on U.S. DDGs merits watching.

## Restaurant highlights

\* Commodity prices still riding high: Many key commodity costs continue to remain at elevated levels as we have moved into the new year. (Although soft chicken markets are helping mitigate inflationary pressures.) There was fear that higher y/y food costs would pose a significant headwind for restaurant margins and thus potentially profits. Most restaurant companies have now given their initial commodity outlook for 2011 with the consensus being commodity inflation in the range of 2-3%. This level of inflation should be manageable, assuming companies can take some pricing. However, there is some risk to the industry's 2-3% expectation as not all commodities have been contracted or hedged for 2011. Plus, in many cases companies are using internal forecasts for their unhedged commodity prices to set annual targets. These internal forecasts can sometimes prove optimistic (as was the case with SBUX). In this report, we have provided key commodity pricing trends, as well as company-specific exposures and outlooks. However, parsing through this data to determine which companies have the most worrisome commodity exposure is not easy. Among our coverage, the companies with the most worrisome commodity risk include DRI, CMG and WEN (discussed in more detail below).

\* 2011 Restaurants outlook - keeping a positive bias: On Jan 7, we published our 2011 outlook for the restaurant industry. Despite two consecutive years of strong stock performance, we recommend investors maintain a long bias towards restaurant stocks into 2011. While fundamentals are more mixed heading into this year, we believe the outlook remains weighted to the positive, underpinned by our assumption of a gradual economic recovery. We believe the most interesting opportunities may lie at the ends of the restaurant consumer spectrum in 2011. We suggest a "high-low" strategy to capitalize on two key themes for 2011: (1) healthy demand at the high end, and (2) a "catch-up" trade at the low end, as domestic fast food companies have yet to see the recovery in demand and stock prices. In our coverage PNRA and RUTH best fit the "high-end" strategy, with WEN and MCD our preferred ways to capitalize on improving fast food trends/sentiment.

\* Retail sales post best quarter of the year: On Jan 14, the US Census released Dec retail sales results. Sales for "food service and drinking places", a proxy for restaurant sales, were +0.2% (m/m, seasonally adj.), down from +0.5% in Nov. 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 companies. On this basis, "food service and drinking places" sales accelerated to +6.2% y/y in Dec vs. +4.9% in Nov and +4.1% in Oct. The 2-year trend also improved to +7.3% in Dec vs. +4.8% in Nov and +6.0% in Oct. For the full 4Q, restaurant sales were +5.1%, up from +3.7% in 3Q. This data suggest restaurant demand has continued to gain traction and bodes well for 4Q results. Since 2001, the US Census data has an approx. 83% correlation with restaurant industry same store sales (69% R-squared). However, we performance will vary by concept, and weather and holiday shifts are likely to pose a modest headwind to overall 4Q comps. Our aggregate industry SSS model calls for 4Q10 comps of +2.7%, up from +2.2% in 3Q10, +0.8% in 2Q10 and -0.6% in 1Q10.

\* CPI for "food away from home" outpaced by "food at home": CPI for Dec was released on Jan 14. CPI for "food away from home" (a proxy for restaurant pricing) was up 1.30% y/y in Dec vs. +1.28% in Nov. This series bottomed at +1.06% in July. CPI for "food at home" (a proxy for grocery pricing) was +1.68% in Dec. This is the 4th straight month grocery pricing has outpaced "food away from home" pricing, putting less pressure on restaurants to keep pricing low. At this time last year, restaurant pricing was 4% above grocery pricing. Separately, PPI for "food" came in at +3.50% y/y, down from +4.05% in Nov, +3.68% in Oct and the recent peak in Mar of +6.72%. The PPI data is consistent w/ restaurant industry expectations of low single digit food inflation in 2011. The combination of increasing CPI and decreasing PPI gives us higher confidence that restaurants can offset input inflation with pricing, helping maintain margins.

\* Key takeaways from ICR Conf.: On Jan 11-13, we attended the ICR consumer conf. in CA. Several restaurant companies presented, offering insight into current trends and updated thoughts on 2011 (and beyond). The tone from restaurant companies was generally upbeat (particularly relative to the prior two years). Many chains saw sales recover over the course of 2010 and comps return to positive territory in 2H10. This has driven improved ROI's and is beginning to encourage more investment in growth. As expected, food costs were a key focus, but the news here was surprisingly benign. Food inflation looks manageable for now, still in the low single-digits this year for most chains. Most companies plan to take some modest price increases to combat this, though some are taking a wait-and-see approach (CMG, RUTH). As a rule of thumb, restaurants typically need about 1% of pricing to offset each 3% of food inflation (to protect dollar profits). As expected, we heard the most upbeat presentations from companies that cater to higher-income and/or business customers. CMG, RUTH and MRT (not rated, \$6.48) were the most optimistic about recent sales trends, though casual dining chains TXRH, BJRI (not rated, \$35.07) and BBRG (not rated, \$16.31) were also generally pleased with recent consumer trends. Commentary from QSR concepts was more mixed. SONC (not rated: \$9.64) sounded so-so, TAST (not rated, \$6.95) was downbeat re: their Burger King stores, and DPZ (not rated, \$16.37) was positive.

# Outlook – Agribiz & protein

Looking around the globe, we see strong opportunities for U.S. exports of pork and wheat. In our view these developments are most positive for Smithfield and Archer Daniels, respectively. In pork, to the extent the entire benefit does not accrue to the hog farmer and pork processing margins are maintained, Hormel and Tyson will also benefit. However, value-added refrigerated/prepared foods margins will be more challenged. On the wheat side, Bunge should also benefit from dislocation and the emergence of new trade patterns.

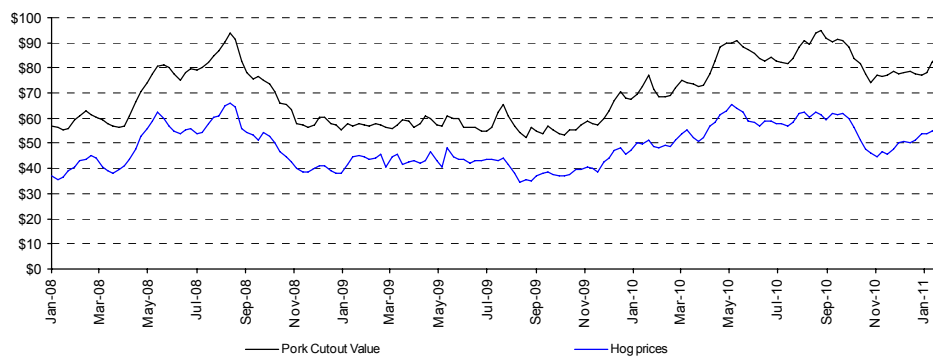
On the pork side, the following developments point to higher pork exports this year, perhaps even above the +9% currently projected by the USDA:

- (1) The potential for China to import pork over the next 12 mos has increased with relative hog spreads widening. Specifically, according to SVP and Chief Commodity Hedging Officer Dhamu Thamodaran at Smithfield's recent investor day, generally when the spread between hog prices in the U.S. and China exceed \$35/cwt, it triggers U.S. pork exports to China. After narrowing and even inverting briefly in the spring of 2010 (with U.S. hog prices above Chinese hog prices), the spread has widened to \$52/cwt (carcass value) with the U.S. cheaper;
- (2) S. Korea has potential due to (1) foot-and-mouth outbreak (reported to have led to a 15% culling of its hog herd), and the (2) free trade agreement (see discussion below);
- (3) Export demand typically served by the EU may re-direct demand to the U.S. owing to the German dioxin issue;
- (4) Potential resolution of the trucking issue with Mexico could lower/remove the duty on pork.

The biggest news driving pork/hog prices (see figure below) stems from a pick-up in exports late last year. November pork exports were strong: +6.7% YoY and 19.7% sequentially, driven by China, Mexico and Japan. Since the turn of the calendar, primary focus has been on South Korea.

Foot and mouth in South Korea has led to the culling of about 25% of the country's hog herd and over 15% of its sow herd. In response, the country said the current 25% tariff on frozen pork meats would be lowered to zero through June 2011. News sources indicate the reduction will cover 60,000 MT of pork, consisting of 10,000 MT of pork bellies and 50,000 MT of other pork (typically used in processed foods, according to Pro Farmer). Pro Farmer notes that South Korean pork imports increased over 30% in the first 21 days of January.

**Figure 1: Pork and live hog prices (\$/cwt)**

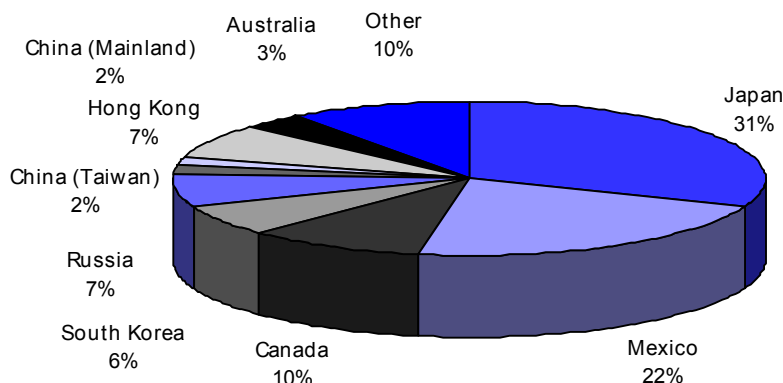


Source: Deutsche Bank

For perspective, South Korea is the #4 export market for the U.S., accounting for 6% of exports in 2009 (see Figure 2). From a longer-term perspective, the pending free trade agreement (FTA) with South Korea is positive. It was recently announced that the U.S and South Korea have agreed on changes to the FTA between the two countries, originally signed in 2007 but never implemented. We believe that the revised FTA, though less favorable than the 2007 language, is positive for the pork industry, assuming it finally wins congressional approval on both sides. The agreement is likely to be passed by Congress and take effect in mid-2011. We note that President Obama, in the 2011 State of the Union address, made passage of the FTA a priority.

Under the revised terms of the FTA, the South Korean export tariff will expire in its entirety on January 1, 2016, two years later than the original FTA called for, but still 6 months earlier than the EU tariff expires, providing U.S. pork companies with a head-start on would-be EU competitors in the South Korean market. U.S. pork companies will still be at a relative disadvantage to Chilean competitors, who enjoy a lower tariff under the Chile-South Korea FTA.

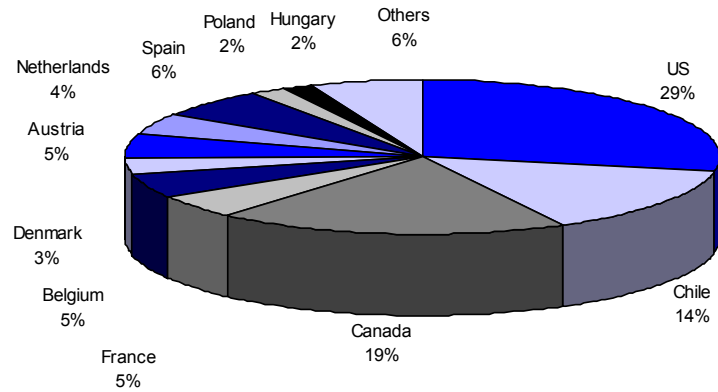
**Figure 2: U.S. pork exports, 2009**



Source: Deutsche Bank, USDA



**Figure 3: S. Korea pork imports by country, Jan-Jul 2010 (MT)**

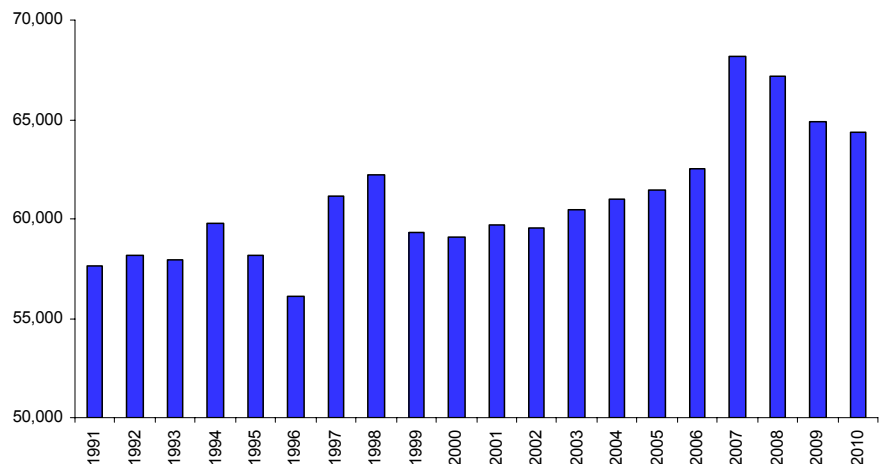


Source: Deutsche Bank

At the same time, pork export demand is picking up, producer intentions as laid out in the latest Hogs & Pigs report point to continued restraint in production. The report put the Dec 1<sup>st</sup> breeding herd at 5.778 million head, down 1.2% YoY and up only 0.1% since Sept 1<sup>st</sup>. For perspective, the December breeding herd was 6.9% lower than at the last cycle peak (Dec 2007), as shown in Figure 4.

The biggest takeaway from the Hogs & Pigs report was farrowing intentions. USDA said fall (Sept-Nov) farrowings were down 2.3% and indicated winter farrowings would be down 0.6% with spring 2011 farrowings expected to drop 2.3% YoY. These were both below trade forecasts. The only bearish number in the report (from the standpoint of hog futures) was pigs per litter, which was up 2% YoY. All in, Dr. Ron Plain from the University of Missouri looks for 1Q11 daily hog slaughter to be down 0.7% YoY, 2Q11 slaughter to fall 0.7%, 3Q11 slaughter to be up 0.5% and 4Q11 slaughter to be down about 1% on a daily basis (or down 2.7% due to one fewer slaughter day).

**Figure 4: All hogs and pigs, Dec 1st**



Source: Deutsche Bank, USDA

In the wheat complex, continued reductions in the Australian wheat crop and a shift in quality toward feed wheat are reducing an already tight supply of milling-quality wheat globally. For perspective, Brock notes that 38% of Australian wheat is reported to be feed quality, compared to a normal 12-14%.

A variety of buyers in North Africa and the Middle East are tendering for wheat, with the U.S. quickly becoming the best source of milling quality as Europe's supplies are being depleted. Across our universe, we find this most positive for ADM, with milling wheat likely in storage in the U.S.. To a lesser extent, a higher supply of feed wheat should displace some corn demand globally. As a net buyer of corn, ADM would benefit.

Essentially, while nations in North Africa and the Middle East are scrambling to secure milling wheat, the U.S. is quickly becoming the world's dominant supplier with ample stocks, as shown below. As a large originator and merchandiser of U.S. wheat, ADM should benefit from this demand. Prior to this year, we believe ADM was storing wheat owing to the carry in the market. If this assumption is correct, then the company should now be able to profitably merchandise this wheat by shipping to markets such as Algeria, Jordan, Tunisia, etc., as well as typical U.S. markets, such as Japan.

### Figure 5: U.S. wheat supply and demand estimates

LAST UPDATED 01-12-11

#### U.S. Wheat Supply & Use

	01/02A	02/03A	03/04A	04/05A	05/06A	06/07A	07/08A	08/09	09/10E	Projections As Of	
										Dec	Jan
										10/11F	10/11F
<b>Supply</b>											
Planted Acres	59.6	60.3	62.1	59.7	57.2	57.3	60.5	63.2	59.2	53.6	53.6
Harvested Acres	48.6	45.8	53.1	50.0	50.1	46.8	51.0	55.7	49.9	47.6	47.6
Bu. Yield Per Acre	40.3	35.1	44.2	43.2	42.0	38.6	40.2	44.9	44.5	46.4	46.4
Bushels in Beg. Stocks	876	777	491	546	540	571	456	306	657	976	976
Bushels Produced	1,957	1,606	2,345	2,158	2,105	1,808	2,051	2,499	2,218	2,208	2,208
Imported Bushels	<u>108</u>	<u>77</u>	<u>63</u>	<u>71</u>	<u>82</u>	<u>122</u>	<u>113</u>	<u>127</u>	<u>119</u>	<u>110</u>	<u>110</u>
Total Supply	2,941	2,460	2,899	2,775	2,727	2,501	2,620	2,932	2,994	3,294	3,294
<b>Demand</b>											
Food	926	919	912	905	914	938	948	927	917	930	930
Seed	84	84	80	78	78	82	88	78	69	76	76
Feed and Residual	<u>191</u>	<u>116</u>	<u>203</u>	<u>190</u>	<u>154</u>	<u>117</u>	<u>16</u>	<u>255</u>	<u>150</u>	<u>180</u>	<u>170</u>
Total Domestic Use	1,201	1,119	1,195	1,172	1,146	1,137	1,052	1,260	1,137	1,186	1,176
Export Use	962	850	1,158	1,063	1,009	908	1,263	1,015	881	1,250	1,300
Total Use	<u>2,163</u>	<u>1,969</u>	<u>2,353</u>	<u>2,235</u>	<u>2,155</u>	<u>2,045</u>	<u>2,315</u>	<u>2,275</u>	<u>2,018</u>	<u>2,436</u>	<u>2,476</u>
Ending Stocks	778	491	546	540	572	456	306	657	976	858	818
<b>Price</b>											
Year Avg. or Proj. Range	\$2.78	\$3.56	\$3.40	\$3.40	\$3.42	\$4.26	\$6.48	\$6.78	\$4.87	\$5.30-\$5.70	\$5.50-\$5.80
<b>Analysis</b>											
% Harvested of Planted	81.5%	76.0%	85.5%	83.8%	87.6%	81.7%	84.3%	88.1%	84.3%	88.8%	88.8%
Domestic Use/Production	61.4%	69.7%	51.0%	54.3%	54.4%	62.9%	51.3%	50.4%	51.3%	53.7%	53.3%
Stocks/Use Ratio	<u>36.0%</u>	<u>24.9%</u>	<u>23.2%</u>	<u>24.2%</u>	<u>26.5%</u>	<u>22.3%</u>	<u>13.2%</u>	<u>28.9%</u>	<u>48.4%</u>	<u>35.2%</u>	<u>33.0%</u>
Exports % of Total Use	44.5%	43.2%	49.2%	47.6%	46.8%	44.4%	54.6%	44.6%	43.7%	51.3%	52.5%

#### Footnotes

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

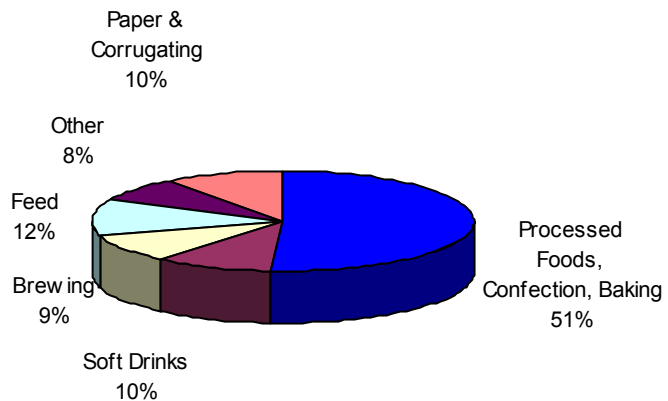
Average Stocks to Use 26.2%  
'92/93-'08/09

Source: Deutsche Bank, USDA

## Corn Products: In focus

With the acquisition of National Starch, Corn Products garners a broader portfolio of products that move it up the value-added stream. We believe a powerful part of the integration is the ability to shift the starch stream among a variety of products, thus keeping utilization tight across the stream.

**Figure 6: Sales by industry (post-acquisition)**



Source: Deutsche Bank, Company Reports

While sales to the brewing industry (a portion of which are HFCS/corn sugar) fall post-acquisition, we still believe the product is large enough from a volume/starch stream utilization perspective to closely track trends. To that end, we believe the environment continues to be positive for HFCS/corn sugar.

According to Milling & Baking News, shipments to Mexico remain robust. In 2010 HFCS made up about 25% of the sweetener market in Mexico (refined sugar + HFCS), up from 12% in 2009. The USDA believes penetration will increase to 28.5% in 2011. Importantly, the sugar supply in the U.S. has the potential to get even tighter. We have written in the past about the court decision in mid-August that 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. While it was initially expected the USDA's Animal and Plant Health Inspection Service would approve GM seed planting with restrictions/special permits, enough uncertainty exists that most growers are assuming they will have to return to conventional seed, according to Milling & Baking News.

If GMO sugarbeet plantings are banned or limited, then the USDA's assumption for a 5% increase in sugarbeet production in 2010/2011 may prove aggressive. In turn, sugar supplies would be tighter than expected, leaving an upward bias to U.S. prices. An announcement by U.S. agriculture official regarding biotech sugar beets is expected this week. Last week's deregulation of Roundup Ready alfalfa by the USDA may, however, point to higher availability of GMO sugarbeets.

Milling & Baking News notes that contracting of corn sweeteners was completed for 2011. Additionally, dextrose supplies continue to be tight, in part owing to higher use as a sugar substitute in select applications. We believe industry pricing was in the 30-35% range, but assume 25% for Corn Products, owing to multi-years and tolling. At current prices, co-products would average 30% higher in 2011 than 2010, with comparisons easier in the 1H11. We see foreign exchange contribution being more limited this year than in recent years.

Currently, we project a \$0.02 per share benefit in each of the 1Q and 2Q. However, given the change in country exposure with National Starch, our estimates are rough. We assume \$10 million in synergies from National Starch (unchanged), but note this could be low. Additionally, we see revenue synergies from the ability to cross-sell the company's "solutions" portfolio, as well as piggyback on National Starch's European salesforce. However, we are not building these in, at this time.

We retain our 2010E EPS of \$2.88 (slightly above management's guidance of \$2.75-\$2.85), but note this may prove conservative. We note this does not include any contribution for National Starch. Moving to 2011E, we hike our EPS estimate to \$4.08 from \$3.63 on better profitability in North America on pricing, co-products and cross selling opportunities.

We maintain our Hold rating, but raise our price target to \$51 from \$44. Our DCF metric, utilizing 3- 4% sales growth, 4-5% EBIT growth, 6-7% EPS growth and a 9% WACC suggests a valuation of \$63. Assuming Corn Products trades at 13x FY2011 (discounted from its average 13.5x times owing to market multiple contraction), we derive fair value at \$53 based on our new 2011E EPS estimate of \$4.08. Applying the historical multiple of 1.4x pro-forma book value (over the past five years to account for commodity cycle changes) results in fair value of \$38. Assuming equal weighting, we derive our \$51 price target.

If corn starts to move up materially and co-products follow, our estimates could prove conservative. If the U.S. dollar weakens vs. the Mexican peso, Canadian dollar, Brazilian real and South Korean won, our estimates may be too low. Another risk to our Hold rating is the possibility of Corn Products being acquired (we note there was a failed attempt in 2008). Downside risks include execution risk in integrating National Starch, strengthening in the U.S. dollar, lower corn costs as they relate to co-product valuation and a lack of recovery in the global economy, leading to volume weakness.

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### **Sanderson Farms: Moving to an FY loss**

The outlook remains relatively bleak for Sanderson Farms, absent any cutbacks in chicken industry production. While the issues of chicken oversupply and elevated feed costs facing the chicken industry have been discussed at great length, the impact of this dynamic will be fully evident in Sanderson's F2011E (end Oct) results, as we believe the company is unhedged in the grain market as of January.

We are now forecasting a loss of (\$2.61) for F2011E (end Oct), down from our previous estimate of \$0.13 in earnings. Our revised estimate is predicated upon higher corn costs (\$6.67/bu for the year vs. \$6.15 previously) and higher SBM cost (\$368/ton vs. \$340/ton previously). Our assumed blended sales prices of \$0.72/lb is unchanged. It is important to note that our model does not contemplate any cutbacks in production, and that if industry participants begin to cut, Sanderson's numbers for F2H11E could be significantly better. Based on our current assumptions, we estimate the company needs to borrow about \$14 million for general cash purposes, which we assume is repaid over F2012-F2013.

In addition to the commodity market pressure facing Sanderson, the company also faces the challenge of selling the new product from its Kinston, NC facility into the Northeast market. The company began processing chickens from the Kinston facility in January, with the intention of ramping up the facility over a 12-month period. However, Sanderson management noted on the company's F4Q10 conference call that it often takes up to two years to get a tray pack facility sold out.

While the near-term looks choppy for Sanderson, we believe that as a best-in-class operator with strong management, the company will weather the storm better than most peers and return to profitability in 2012. Still, we are content to remain on the sidelines until we get

more clarity on the potential for industry production cuts and the company's progress in selling incremental product from the Kinston facility.

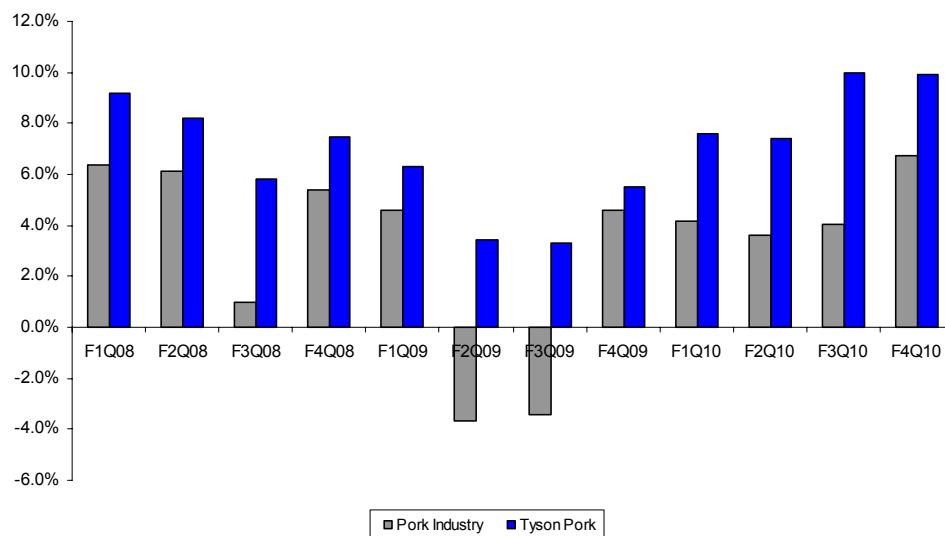
We retain our price target of \$38. Our traditional DCF methodology (assuming 3-4% sales growth, 5% EBIT growth, 6-7% EPS growth) suggests a valuation of \$39. We utilize a 9.5% WACC (0.9x beta, 4% risk free rate, 12% required return). Historically, Sanderson Farms has traded at a low of 1.3x book value, which we view as support in this environment. Applying this multiple to current book value suggests a stock price of \$37 per share. The historical period we observe for P/BV multiples begins in October 1995. Averaging these methods, we derive our price target of \$38.

Risks to the downside include a sudden and sharp rise in corn and soybean meal prices, a step down in domestic demand owing to economic weakness, and increased industry production. In addition, a stronger U.S. dollar and weaker international economies could limit export demand, thus further affecting chicken prices, particularly leg quarter values. We note imposition of Russian and Chinese policies to limit imports of U.S. chicken may have a negative impact on chicken prices. Upside risks include a sharp increase in chicken prices or a sudden and sharp fall in corn and soybean meal prices.

### Tyson: Raising estimates

We raise our F2011E (end Sep) EPS estimate for Tyson to \$1.85 from \$1.77, primarily on higher pork margins in F1Q11E (end Dec). Management previously commented that F1Q11E (end Dec) will be similar from an EPS perspective to F4Q10 (end Sep) EPS of \$0.64. As a result, we raise our F1Q11E EPS estimate to \$0.63 from \$0.52. Industry pork packer margins during the calendar fourth quarter averaged 12.9%. Given that Tyson typically outperforms the industry average, as shown below, especially during periods of high margins, we are now modeling Pork segment margins of 14% for Tyson's F1Q11E.

**Figure 7: Tyson vs. industry pork processing margins**



Source: Deutsche Bank, Company reports, USDA, WSJ

We maintain our \$18 price target and HOLD rating. Using our new C2011E EPS of \$1.85 and applying an 11x historical multiple, we derive \$20. Applying a historical ratio to book value of 1.3x, we derive \$17-\$18. Our DCF metric (3% sales growth, 4-5% EBIT growth, 7-8% EPS growth, 10.5% WACC) yields \$17. The historical period we observe for P/E and P/BV multiples begins in October 1995. We believe it is appropriate to use average multiples

because this period captures peaks, troughs and normalized earnings periods. Taking a simple average, we derive our price target of \$18.

Risks include trade barriers (particularly regarding Russian chicken and pork exports and Mexico regarding beef and pork), demand destruction owing to economic weakness, feed cost volatility, disease risk (H1N1, avian flu, BSE), and weather risk (as it relates to corn and soybean meal input costs). We also note that with nearly 100% ownership of Class B common stock (entitled to 10 votes per share), the Tyson Limited Partnership holds 60%+ of the aggregate vote. Upside risks include lower than expected feed costs, another round of chicken industry production cuts, and sooner than expected recovery in demand owing to macro factors.

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## 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.

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## Sector risks

Typical sector risks include:

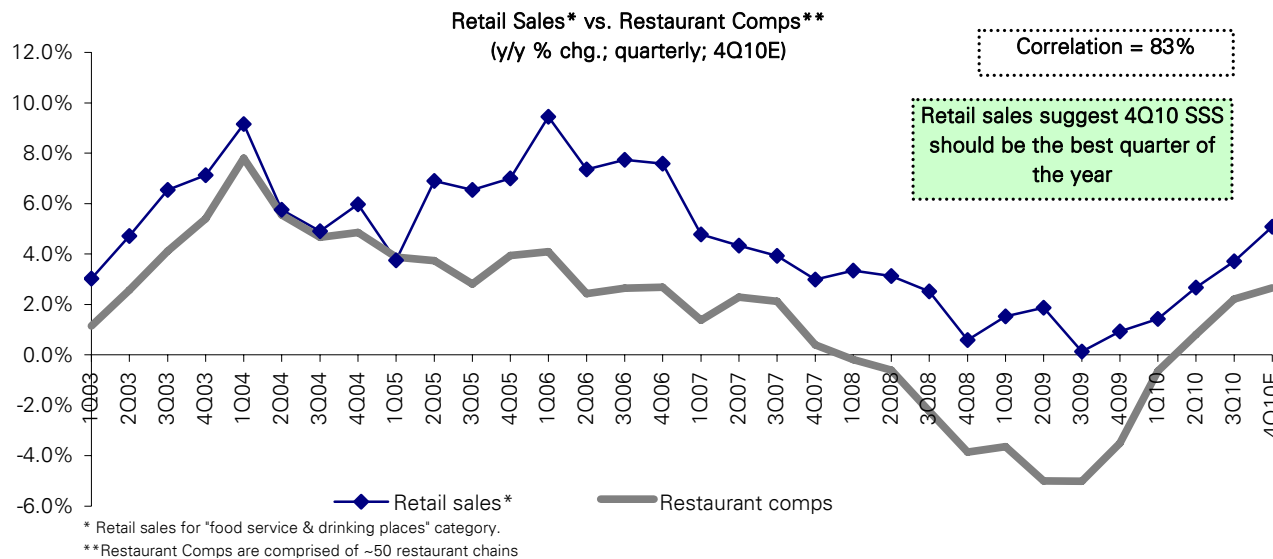
- **A sudden increase in grain and energy prices:** An increase in grain and energy costs would increase the cost of production for protein processors, with the risk that higher production costs will not be fully passed through. For agribusiness processors, a weather-impacted crop would lead to lower 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 healthy 4Q demand, despite headwinds

On Jan 14, the US Census released Dec retail sales results. Sales for "food service and drinking places", a proxy for restaurant sales, were +0.2% (m/m, seasonally adj.), down from +0.5% in Nov. 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 companies. On this basis, "food service and drinking places" sales accelerated to +6.2% y/y in Dec vs. +4.9% in Nov and +4.1% in Oct. The 2-year trend also improved to +7.3% in Dec vs. +4.8% in Nov and +6.0% in Oct. For the full 4Q, restaurant sales for this series were +5.1%, up from +3.7% in 3Q. This data suggest restaurant demand has continued to gain traction and bodes well for 4Q results. Since 2001, the US Census data has an approx. 83% correlation with restaurant industry same store sales (69% R-squared). However, performance will vary by concept, and weather and holiday shifts are likely to pose a modest headwind to overall 4Q comps. Our aggregate industry SSS model calls for 4Q10 comps of +2.7%, up from +2.2% in 3Q10, +0.8% in 2Q10 and -0.6% in 1Q10.

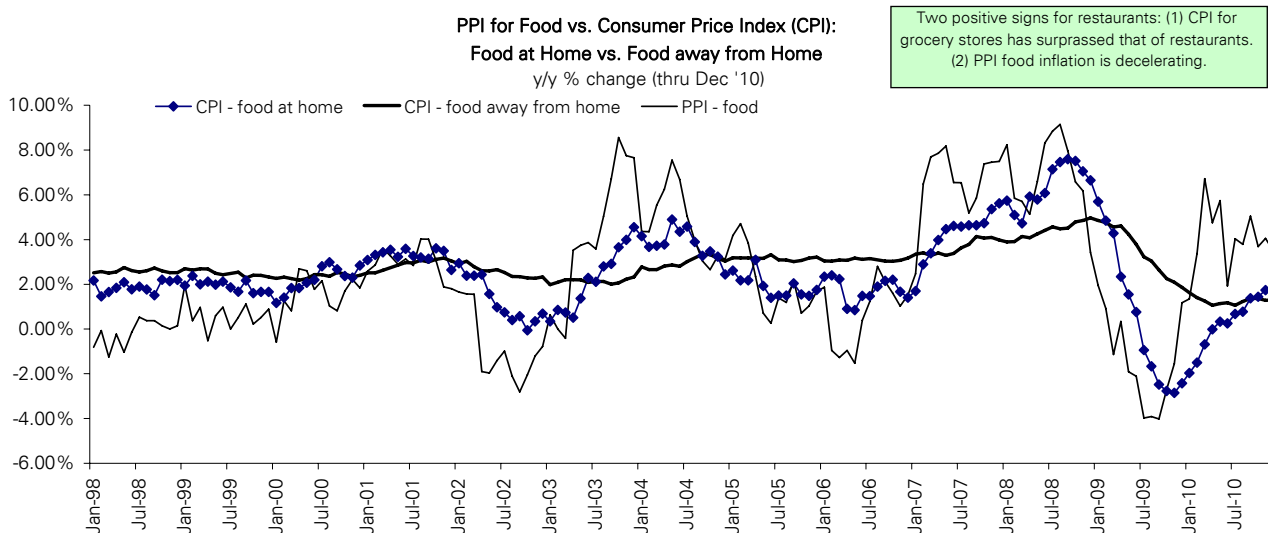
**Figure 8: Retail sales vs. restaurant comps (est. thru Dec '10)**



Source: Deutsche Bank estimates, company information, US Census

## CPI points to improving restaurant pricing power

CPI for Dec was released on Jan 14. CPI for "food away from home" (a proxy for restaurant pricing) was up 1.30% y/y in Dec vs. +1.28% in Nov. This series bottomed at +1.06% in July. CPI for "food at home" (a proxy for grocery pricing) was +1.68% in Dec. This is the 4th straight month grocery pricing has outpaced "food away from home", putting less pressure on restaurants to keep pricing low. At this time last year, restaurant pricing was 4% above grocery pricing. Separately, PPI "food" came in at +3.50% y/y, down from +4.05% in Nov, +3.68% in Oct and the recent peak in Mar of +6.72%. The PPI data is consistent w/ restaurant industry expectations of low single digit food inflation in 2011. The combination of increasing CPI and decreasing PPI gives us higher confidence that restaurants can offset input inflation with pricing, helping maintain margins.

**Figure 9: CPI: restaurants vs. grocery stores; PPI for food**

Source: Deutsche Bank estimates, company information, BLS

## Restaurants: key commodity exposures and earnings sensitivities

The figures below summarize pricing trends and forecasts for key commodities that impact restaurant chains, as well as key commodity exposures, and the latest guidance on food inflation, hedging and pricing. However, parsing through this data to determine which companies have the most worrisome commodity exposure is not easy. Below we summarize the companies under our coverage with the highest commodity-related risk for 2011.

### Covered companies with highest commodity risk in CY11

- **Darden (DRI: Hold):** DRI is mostly contracted on food costs through FY11 (May '11). The company has guided to +1.0-1.5% food inflation for 2H of FY11. However, beef prices (14% of COGS) are only 25% contracted and have moved up about 8% since DRI's F2Q11 conference call. Each 10% move in beef prices adds about 1.4% to DRI food inflation. We would also keep an eye on seafood prices for DRI, especially shrimp. Seafood represents about 30% of DRI's COGS, with shrimp at about 50% of seafood costs. DRI has locked in 100% of its shrimp needs through May 2011 at flat prices. Global shrimp prices have been rising in the past year. So far, DRI has avoided any significant inflation in shrimp given the company's strong buying power. However, this is an area to watch in the 2H of calendar 2011 as the current shrimp contract expires. We are currently modeling DRI's COGS flattish for FY12.
- **Chipotle (CMG: Hold):** CMG generally does not purchase proteins under long-term contracts, leaving the company exposed to market prices. We estimate that proteins represent 30-40% of CMG's COGS. The company has guided to low to mid-single digit total food inflation for 2011, though this could have some upside risk given lack of protein contracts. CMG also has a high valuation (over 30x 2011E EPS), leaving no room for disappointment on margins. However, the company likely has better pricing power than most given a more affluent customer base and high customer loyalty.
- **Wendy's/Arby's Group (WEN: Buy):** WEN recently provided 2011 food inflation guidance of +2-3%, which embeds a 10-15% increase in ground beef prices. Ground beef represents about 20% of WEN's COGS and can only be purchased under short-term agreements, leaving the company exposed to market moves. Ground beef prices were up 19% y/y in January. However, inflation should moderate over the course of the year as higher year-ago prices are lapped.



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 10: Key input prices for restaurants****Key input prices (commodities, gasoline, labor)**

	y/y % change										
	2008	2009	2010	2011E*	2009	2010	1Q11E*	2Q11E*	3Q11E*	4Q11E*	2011E*
<b>Grains &amp; oils</b>											
Corn (\$/bushel)	\$4.94	\$3.57	\$3.96	\$6.36	-28%	11%	86%	96%	71%	14%	61%
Wheat - Hard KC (\$/bushel)	\$8.62	\$5.59	\$5.71	\$8.86	-35%	2%	77%	91%	46%	26%	55%
Soybeans (\$/bushel)	\$11.92	\$10.23	\$10.34	\$13.84	-14%	1%	47%	49%	36%	11%	34%
Soybean oil (\$/lb.)	\$0.50	\$0.33	\$0.39	\$0.53	-33%	18%	50%	48%	43%	12%	36%
Rice (\$/lb.)	\$0.35	\$0.26	\$0.25	\$0.30	-26%	-7%	17%	25%	41%	9%	22%
<b>Produce</b>											
Tomatoes (\$/case)	\$12.89	\$12.46	\$15.71	\$13.00	-3%	26%	-45%	-30%	9%	47%	-17%
Potatoes (\$/cwt.)	\$6.32	\$5.72	\$6.93	\$7.60	-10%	21%	46%	-4%	-4%	14%	10%
Eggs (dozen, large)	\$1.20	\$0.95	\$0.99	\$1.03	-21%	4%	-5%	13%	10%	-1%	3%
Avocados (Hass, 48 ct.)	\$33.03	\$32.70	\$27.25	\$27.25	-1%	-17%	0%	0%	0%	0%	0%
<b>Protein</b>											
Live cattle (steer; \$/lb.)	\$0.92	\$0.83	\$0.95	\$1.13	-10%	14%	20%	15%	21%	16%	18%
Beef (choice cut-out, \$/cwt.)	\$154	\$141	\$157	\$169	-9%	11%	13%	6%	7%	5%	8%
Ground beef (90s/50s blend; \$/lb.)	\$1.30	\$1.15	\$1.32	\$1.45	-12%	15%	17%	9%	5%	8%	10%
Prime beef (avg of 3 cuts; \$/lb.)	\$8.88	\$7.32	\$8.54	\$9.40	-18%	17%	28%	13%	7%	-3%	10%
Chicken breasts (\$/lb.)	\$1.33	\$1.35	\$1.50	\$1.33	2%	11%	-14%	-19%	-18%	8%	-12%
Chicken wings (\$/lb.)	\$1.09	\$1.45	\$1.36	\$1.25	32%	-6%	-23%	-4%	0%	-1%	-8%
Chicken leg quarters (\$/lb.)	\$0.61	\$0.55	\$0.52	\$0.52	-9%	-6%	0%	0%	0%	0%	0%
Pork belly (bacon) (\$/1.25 lb.)	\$0.79	\$0.74	\$1.08	\$1.06	-6%	47%	24%	-4%	-25%	8%	-2%
Shrimp (16/20 ct.)	\$6.52	\$5.10	\$6.06	\$7.37	-22%	19%	56%	30%	13%	0%	21%
Salmon (10-12 lb.)	\$3.26	\$3.35	\$3.81	\$3.57	3%	13%	6%	-19%	-8%	0%	-6%
Snow crab legs (5-8 oz.)	\$4.40	\$3.48	\$4.49	\$5.48	-21%	29%	52%	37%	12%	0%	22%
<b>Dairy</b>											
Milk (\$/cwt.)	\$17.81	\$11.54	\$15.34	\$15.50	-35%	33%	6%	9%	-2%	-8%	1%
Butter (\$/lb.)	\$1.46	\$1.24	\$1.72	\$1.81	-15%	39%	42%	11%	-12%	-8%	6%
Cheese (40 lb. blocks; cents/lb.)	\$186	\$129	\$149	\$158	-31%	15%	7%	13%	-2%	6%	6%
<b>Gas + labor</b>											
Gasoline (US avg; \$/gallon)	\$3.22	\$2.31	\$2.74	\$3.07	-28%	18%	15%	11%	15%	9%	12%
Diesel (US avg; \$/gallon)	\$3.80	\$2.47	\$2.99	\$3.40	-35%	21%	19%	12%	16%	8%	14%
Fed. min. wage (annual avg.; \$/hr.)	\$6.20	\$6.90	\$7.25	\$7.25	11%	5%	0%	0%	0%	0%	0%
<b>USDA forecasts</b>					2009	2010E					2011E
Food inflation – all food					1.8%	0.8%					2.5%
Food inflation – food away from home					3.5%	1.3%					2.5%
Food inflation – food at home					0.5%	0.3%					2.5%

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

Source: Deutsche Bank

**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	4Q10: slight inflation, driven by higher cheese prices, some meats. FY11: +2-4% food inflation expected.	FY10: 90% commodities locked. Cheese locked in thru 4Q10. FY11: shrimp and pizza dough locked; tomatoes thru 3Q11.	McDonald's	Ground beef (15%), Chicken (15%), Dairy (8%)	FY11: US +2-2.5% commodity inflation; Europe at +3.5-4%. Beef prices expected to be volatile.	FY11: some commodities locked in
Brinker	Beef (16%), seafood (12%), chicken (11%), produce (11%)	slightly favorable-flat y/y in 3Q; slightly unfavorable in 4Q	2H FY11 71% contracted	Morton's	Beef (36%)	FY10: prime beef costs up 5% range; estimated to be in ~+10% range for FY11	Beef locked thru FY10
Buffalo Wild Wings	Chicken (40-45%); wings ~22%; boneless ~20%	Traditional wings down 15% y/y in 4Q10. Modest cost pressure in non-chicken areas rest of FY10 and FY11.	Chicken breasts purchased thru Mar '12 at flat prices. Traditional wings purchased on spot market, likely down in FY11.	P.F. Chang's	Beef (15%), chicken (15%), pork (15%), produce (15%)	FY10: beef & rice: favorable; shrimp & poultry: flat; FY11: anticipated to be slightly higher	FY10: protein & wok oil locked; poultry locked 80% thru Sep-11; some beef 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%)	FY11: commodity inflation 1.0-1.5%; wheat flat	FY10: Most major items hedged. FY11: 75% of wheat locked in.
Calif. Pizza Kitchen	Cheese, wheat, chicken	FY11: 2-3% inflation; FY10: produce/packaging up 2-3% yoy, grocery items up 1-2%, cheese up 13% in 3Q.	Negotiations for most of FY11 commodities ongoing. 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.
Cracker Barrel	N/A	FY11: mgmt forecasts commodity costs to rise 1.5-2.5%. Pork and butter up double digits	69% of commodity costs under contract for FY11.	Red Robin	Chicken (12%), beef (12%), produce (12%), potatoes (11%)	Commodity cost deflation FY10: 0.3-0.5%. FY11: slight inflation anticipated; ground beef to continue to rise thru 1Q11.	FY11: 25% locked in; Chicken, some seafood and other minor commodities thru late FY11.
Cheesecake Factory	Dairy, chicken	FY10: Food cost inflation +1.0-1.5%. FY11: 1.5-2.0%	Locked 60% of purchases for 2010. Protein lower, dairy/fish higher. FY11: most proteins locked in.	Ruby Tuesday	Seafood (16%), beef (13%), chicken (5%)	"Relatively stable" food costs in FY11; looking to invest in higher quality menu items and different food offerings	95% of commodities typically contracted 6-12 mos.
Chipotle	Chicken (15%), Beef (10%), Dairy (10%)	FY11: Low-to-mid single digit commodity increase; anticipate meat inflation	FY10: Rice, soy, tortillas locked in; FY11: most beans, most corn, rice	Ruth's Hospitality	Beef (35-40%), Seafood (12%), Dairy/butter (8%)	4Q10: tenderloin and prime beef +8-10%. FY11: aims for inflation at 5-6%	FY10: Shrimp 100% locked. 4Q10: 75% of tenderloin and 50% of prime beef locked. No beef locked for FY11.
Darden	Seafood (30%), Beef (14%), Dairy/oil (11%), Pasta/bread (8%), Chicken (6%)	2HFY11: expect 1.0-1.5% food inflation; shrimp, crab flat thru FY11; lobster flat thru CY10, up in CY11	Most items covered thru FY11, though beef is only 25% covered.	Sonic	Dairy/cheese (12%), beef (11%), chicken (10%)	FY11: Food costs were up 1-2% in F1Q. Expected to be up 1-2% balance of year.	FY11: Most commodities locked in or in contract negotiations to provide decent visibility on FY11. Beef still on spot
DinEquity	N/A	FY10: Food costs flat to slightly favorable.	*Significant* amount of commodities locked thru CY11	Starbucks	Coffee (18%), Dairy (8%)	FY11: expect to absorb 20c impact from higher commodity prices	Coffee essentially locked in for FY11
Dominos	Cheese (28%), meat, boxes, wheat, sauce	FY11: commodities up slightly FY10: Food basket likely up y/y in aggregate; Wheat, cheese up; meat, poultry, and sauce flat	Cheese expected to be \$1.60 per lb. range for 2H10. Wheat 100% locked thru 1Q11. 50% in 2Q/3Q11.	Texas Roadhouse	Beef (46%), Produce (10%), Pork (9%)	FY10: overall down 2.5-3.0%. FY11: +2-3%	FY11: overall 50-60% locked in; proteins at 80%; will go to the market for dairy and produce
Jack-in-the-Box	Beef (20%), pork (5%), chicken (11%), cheese (5%) bakery (9%), produce (5%), potatoes (8%)	FY11: Food costs +1-2%; +6-7% beef. +9% pork; -2% poultry; +7-8% cheese; -4% bakery; lower produce	100% of beef 90s locked thru Jan @ \$1.58/lb & 25% covered to Mar @ \$1.50. 100% of potatoes @ flat prices, 45% wheat thru Mar	Wendy's/Arby's	Beef (20%), chicken (20%), cheese (10%), wheat (8%), potatoes (8%)	FY11: Up 2-3% with beef up 10-15%, chicken flat, potatoes down y/y	Chicken contracted thru 3Q11 at flat prices; potatoes contracted for 2011 down y/y
McCormick & Schmick's	Seafood, beef	FY10: Beef up 5-10%, Seafood up slightly due to Gulf oil spill.	FY10: steak locked in	YUMI Brands	Chicken (25%), Beef (15%), Dairy/cheese (15%)	FY11: US +4%, YRI +3%, China +5%	US: Chicken mostly hedged for '10. FY11: limited hedging

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	— INFLATION —		— PRICING —		— CONTRACTED —	
															FY10E Commodity inflation	FY11E Commodity inflation	FY10E Menu Pricing	FY11E Menu Pricing	FY10E % Contracted	FY11E % Contracted
<b>QSR</b>																				
Jack-in-the-Box	11%	20%	5%	-	5%	-	2%	8%	-	-	-	-	-	-	-1.0%	1.5%	NA	NA	NA	50%
McDonald's	15%	15%	1%	2%	8%	5%	5%	5%	-	-	15%	-	5%	10%	-4.0%	2.3%	1.0%	1.0%	NA	NA
Sonic	10%	11%	-	-	12%	6%	-	-	-	-	15%	-	-	-	-1.5%	1.5%	1.3%	0.5%	50%	70%
Wendy's/Arby's Group	20%	20%	4%	-	3%	6%	-	8%	-	-	-	-	-	-	2.5%	2.5%	NA	1.0%	NA	60%
YUM! Brands*	25%	13%	3%	3%	15%	13%	10%	3%	-	-	10%	-	-	11%	0.0%	4.0%	2.0%	2.0%	NA	NA
<b>Pizza</b>																				
Dominos	-	-	-	-	28%	-	-	-	-	-	-	-	-	-	NA	1.0%	NA	NA	NA	10%
Papa John's	-	-	-	-	38%	-	-	-	-	-	-	-	-	-	NA	NA	NA	NA	NA	NA
<b>Quick casual</b>																				
Panera	15%	5%	-	-	8%	10%	5%	-	-	-	15%	-	3%	-	-1.0%	1.3%	2.0%	1.5%	63%	20%
Chipotle	15%	10%	7%	-	10%	-	8%	-	3%	-	10%	2%	-	3%	0.5%	4.0%	0.4%	0.5%	NA	NA
<b>Upscale dining</b>																				
Morton's	-	36%	-	-	-	-	-	-	-	-	-	27%	-	-	3.0%	7.5%	4.5%	2.0%	NA	0%
McCormick & Schmick's	-	-	-	-	-	-	-	-	-	-	-	-	-	-	NA	NA	NA	NA	NA	NA
Ruth's Hospitality Group*	-	38%	-	12%	8%	-	-	-	-	-	2%	23%	-	-	NA	5.5%	1.0%	1.0%	NA	0%
<b>Casual dining</b>																				
BJ's Restaurants	-	-	-	-	8%	-	12%	2%	-	-	-	-	-	-	1.0%	3.0%	3.0%	2.5%	90%	20%
Brinker	11%	16%	6%	12%	9%	-	11%	-	-	-	-	-	-	-	-1.0%	1.0%	1.0%	1.0%	75%	71%
Buffalo Wild Wings	43%	-	-	-	-	-	-	-	-	-	-	24%	-	-	NA	1.5%	1.9%	2.0%	80%	20%
California Pizza Kitchen	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1.0%	NA	NA	NA	90%	NA
Cracker Barrel	-	-	-	-	-	-	-	-	-	-	-	-	-	-	NA	2.0%	NA	1.7%	83%	69%
Cheesecake Factory	8%	5%	2%	5%	10%	5%	8%	2%	-	2%	-	-	-	-	1.3%	1.8%	1.3%	1.5%	60%	20%
Darden	6%	14%	-	30%	7%	8%	-	-	4%	4%	-	-	-	-	-3.0%	0.0%	1.8%	1.7%	100%	85%
DinEquity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-1.0%	NA	1.8%	2.0%	75%	50%
P.F. Chang's	15%	15%	-	15%	-	-	15%	-	3%	5%	-	-	-	-	-1.0%	1.0%	1.5%	1.5%	NA	50%
Red Robin	14%	13%	-	3%	10%	9%	12%	11%	-	-	-	-	-	-	-0.4%	NA	NA	NA	NA	25%
Ruby Tuesday	5%	13%	-	16%	-	-	-	-	-	-	-	-	-	-	0.0%	0.0%	NA	NA	95%	50%
Texas Roadhouse	4%	46%	9%	0%	6%	2%	8%	2%	-	-	10%	-	-	-	-2.5%	2.5%	0.0%	1.5%	70%	55%
<b>Coffee</b>																				
Starbucks	-	-	-	-	7%	-	-	-	-	-	-	-	17%	-	0.0%	13.0%	NA	2.0%	NA	80%
<b>Average</b>	<b>14%</b>	<b>18%</b>	<b>5%</b>	<b>10%</b>	<b>11%</b>	<b>7%</b>	<b>8%</b>	<b>6%</b>	<b>3%</b>	<b>3%</b>	<b>11%</b>	<b>19%</b>	<b>5%</b>	<b>9%</b>	<b>-0.4%</b>	<b>2.7%</b>	<b>1.6%</b>	<b>1.5%</b>	<b>71%</b>	<b>42%</b>
<b>Median</b>	<b>11%</b>	<b>15%</b>	<b>5%</b>	<b>9%</b>	<b>8%</b>	<b>6%</b>	<b>8%</b>	<b>5%</b>	<b>3%</b>	<b>4%</b>	<b>12%</b>	<b>24%</b>	<b>3%</b>	<b>10%</b>	<b>-0.2%</b>	<b>1.8%</b>	<b>1.5%</b>	<b>1.5%</b>	<b>75%</b>	<b>50%</b>

\* 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
*Wendy's	\$0.01	7.0%	30bps	30bps
McDonald's	\$0.03	1.0%	30bps	30bps
YUM! Brands	\$0.05	2.3%	30bps	25bps
Starbucks	\$0.01	1.0%	10bps	10bps
Chipotle	-\$0.11	-1.6%	30bps	30bps
Panera	\$0.07	1.7%	30bps	30bps
Darden	\$0.11	3.7%	30bps	30bps
Buffalo Wild Wings	\$0.06	2.8%	30bps	30bps
Texas Roadhouse	\$0.03	3.3%	32bps	32bps
Ruth's Hospitality Group	\$0.04	11.8%	40bps	50bps
<b>Average</b>		<b>2.4%</b>	<b>29bps</b>	<b>28bps</b>

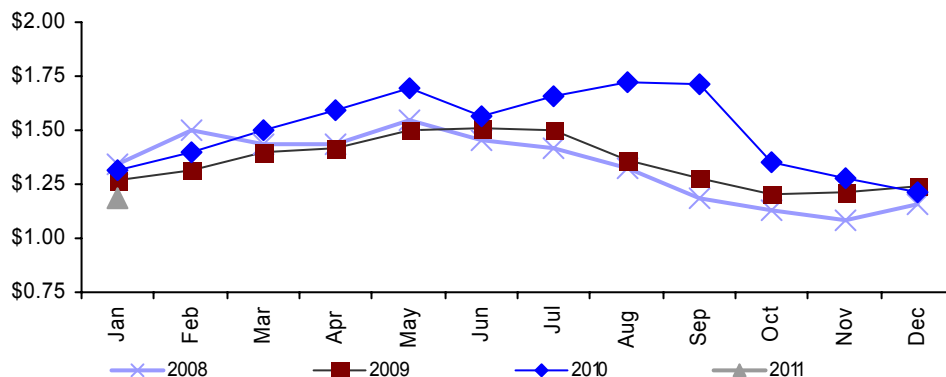
\*Wendy's brand only, excludes Arby's

Source: Deutsche Bank estimates, company information

# Chicken

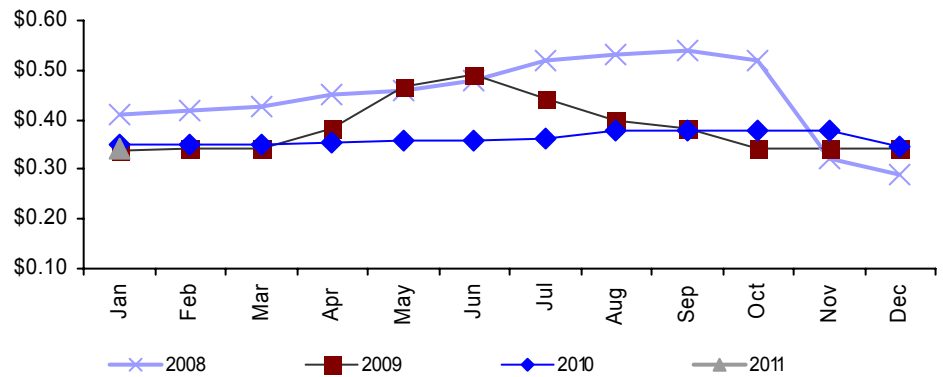
- Chicken prices quoted on Urner Barry have been declining since Sep due to seasonal weakness in prices, magnified by industry oversupply. Boneless breast meat and tender prices have been most impacted due to higher chicken slaughter and record weights. Leg quarter and wings prices have also declined, but to a lesser extent.
- Chicken industry operating margins (based on spot chicken prices and rolling spot feed costs) are currently running at a loss of 21.9% or \$0.13/lb due to seasonal decline in prices and sharp increase in feed cost. Higher chicken production and lower prices also have impacted margins. While, going forward the industry could get some support from 1) seasonal recovery in chicken prices, 2) strong export outlook and 3) improved foodservice demand, higher feed costs are expected to continue to constrain profitability, unless production cuts are made.
- Eggs set and chicks placed (see Figures 19-22) were running significantly above year ago levels until Oct 2010. However, they have come down recently to 100.5% and 101.0% of last yrs level, respectively, for the week ending 22<sup>nd</sup> Jan, but are still running at a high level, in absolute terms.
- Figure 25 shows the y-o-y change in headcount and weights. In Dec, heads and weights were up 5.3% and 2.7% respectively. As a result, live pounds processed were up a significant 8.0% for the month.
- The latest Cold Storage data shown in Figure 27 points to significantly higher chicken inventory (up 24.8% y-o-y) due to record production levels.
- On the demand side, exports (see Figure 26) are very strong, with a 25.0% y-o-y increase in Nov as Russia re-opened for U.S. poultry imports. Exports to Mexico, Cuba, and Hong Kong were up significantly. For 2011, Russia has reduced its export quota to 350,000 MT with no country-specific allocation. Assuming the share of U.S. in the export quota remains at the historical 75% level; exports would amount to approx 260,000 MT in 2011, roughly equal to the amount shipped in 2010. Restrictions on imports of whole birds within the export quota may shift some share from Brazil to the U.S., however..

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



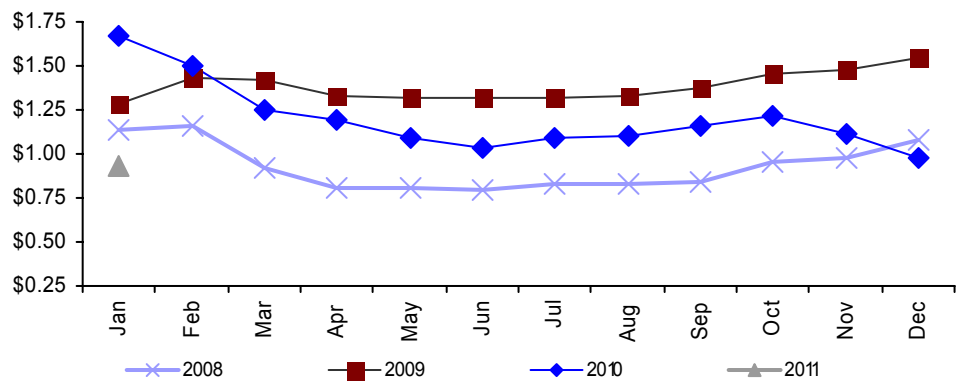
Source: Deutsche Bank, USDA

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



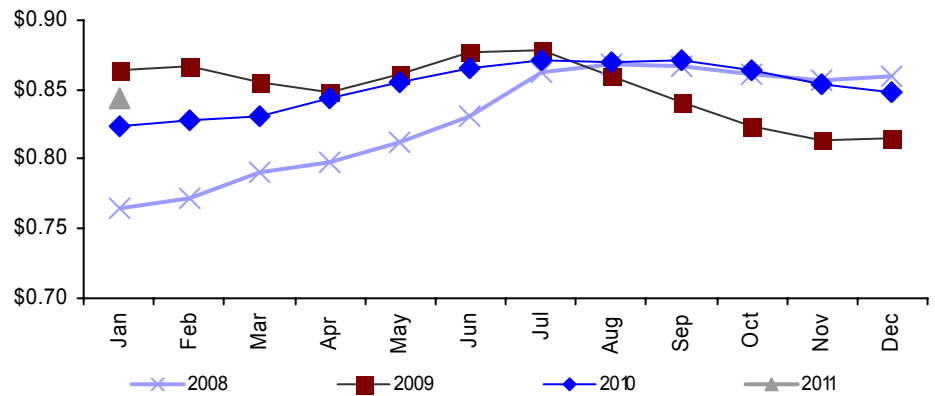
Source: Deutsche Bank, USDA

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



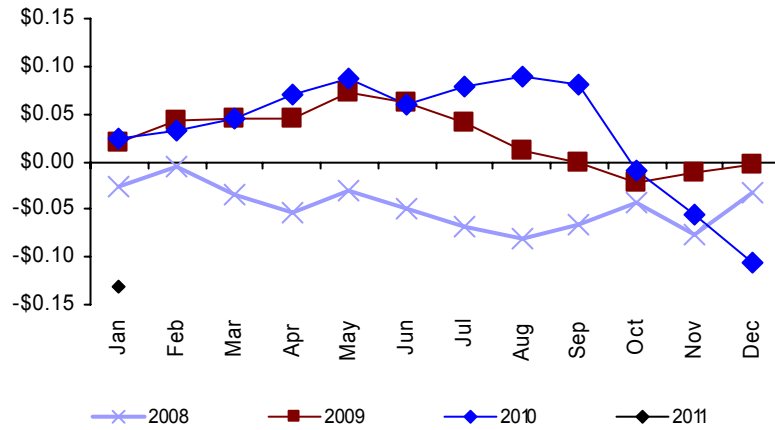
Source: Deutsche Bank, USDA

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



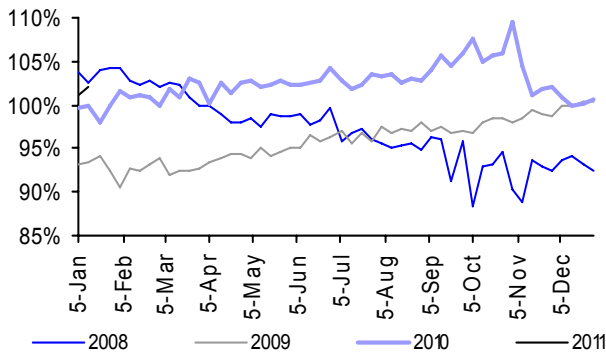
Source: Deutsche Bank, USDA

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



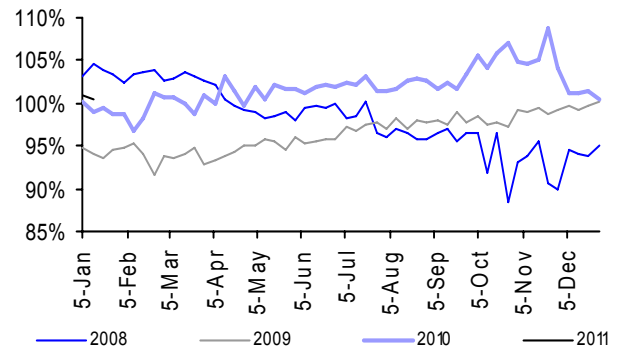
Source: Deutsche Bank, USDA

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



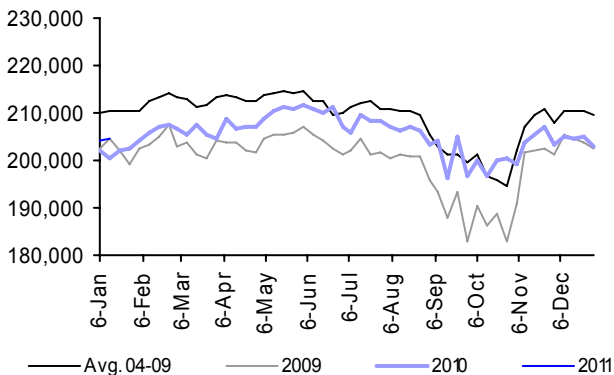
Source: Deutsche Bank, USDA

**Figure 20: Weekly broiler chicks placed, YoY change**



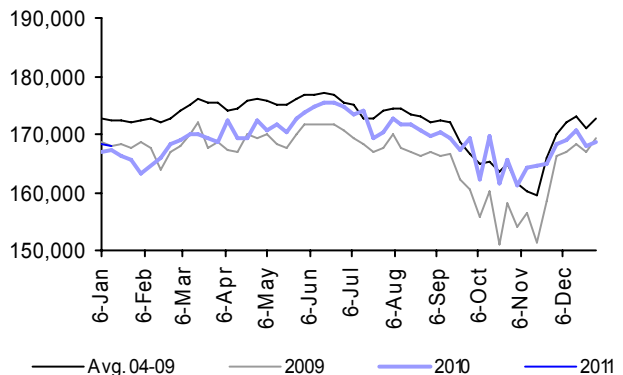
Source: Deutsche Bank, USDA

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



Source: Deutsche Bank, USDA

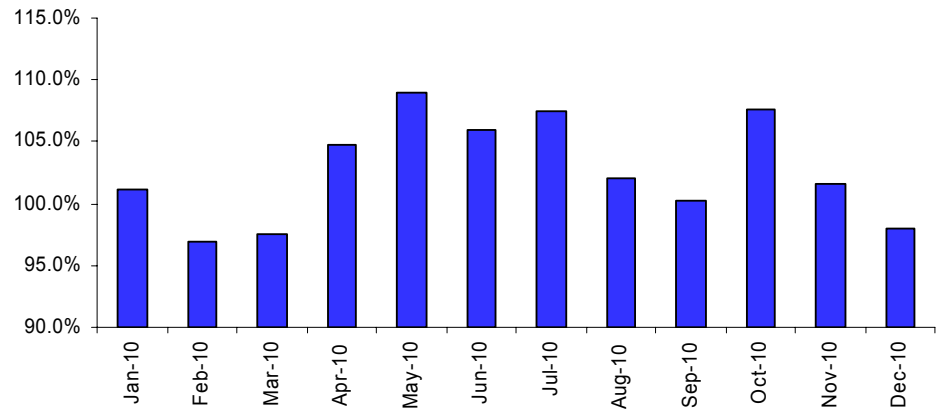
**Figure 22: Weekly broiler chicks placed, (000)**



Source: Deutsche Bank, USDA

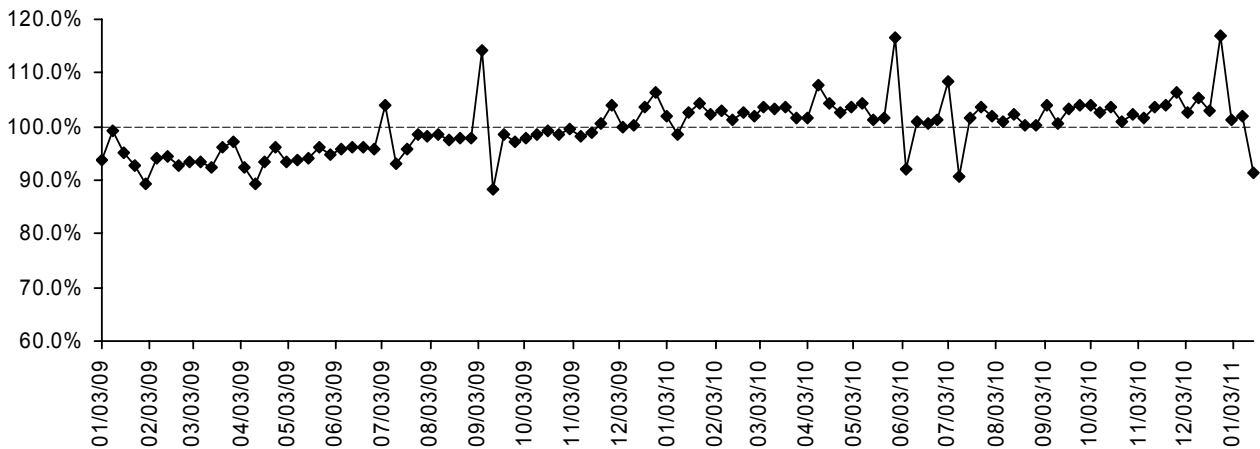


**Figure 23: Broiler-type pullet chicks for hatchery supply flocks, YoY change**



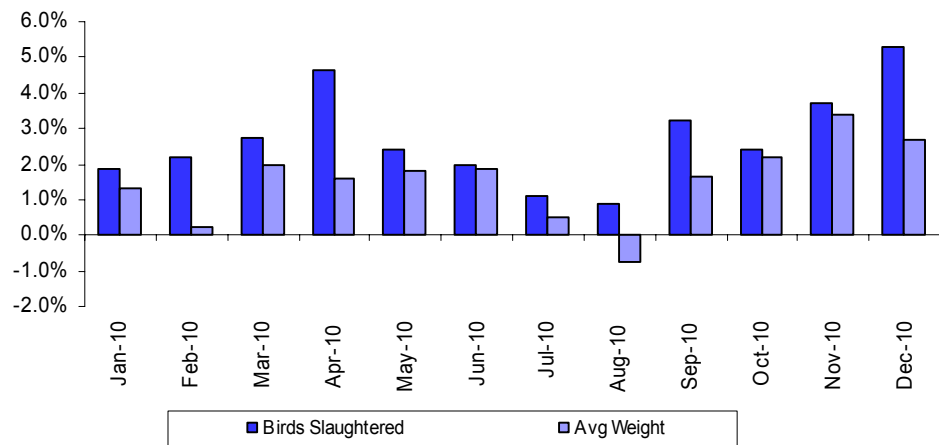
Source: Deutsche Bank, USDA

**Figure 24: Weekly live pounds processed, YoY change**



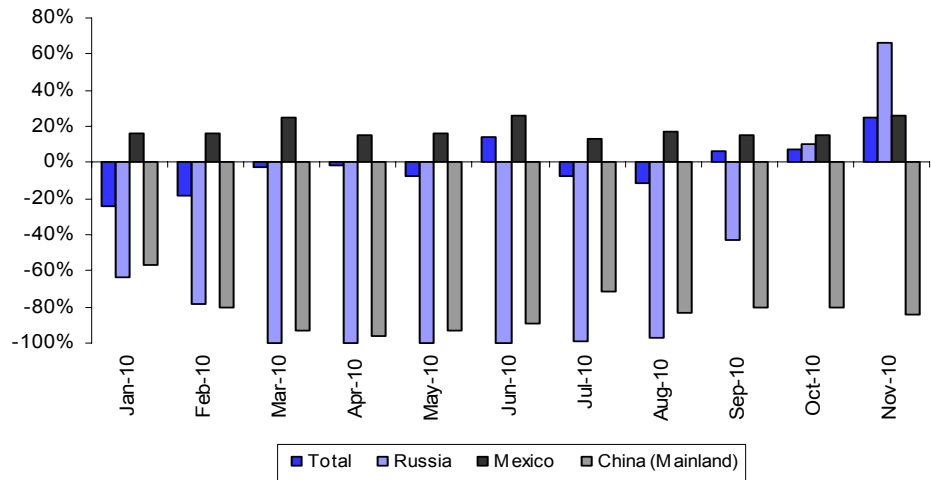
Source: Deutsche Bank, USDA

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



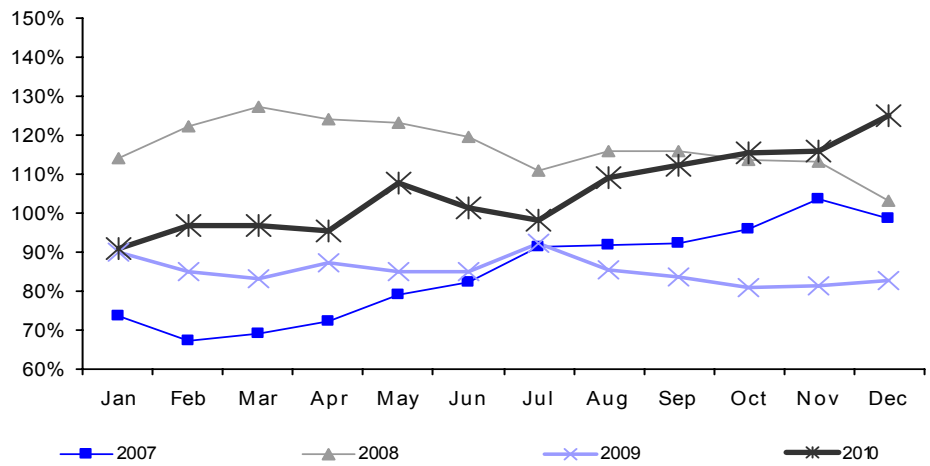
Source: Deutsche Bank, USDA

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



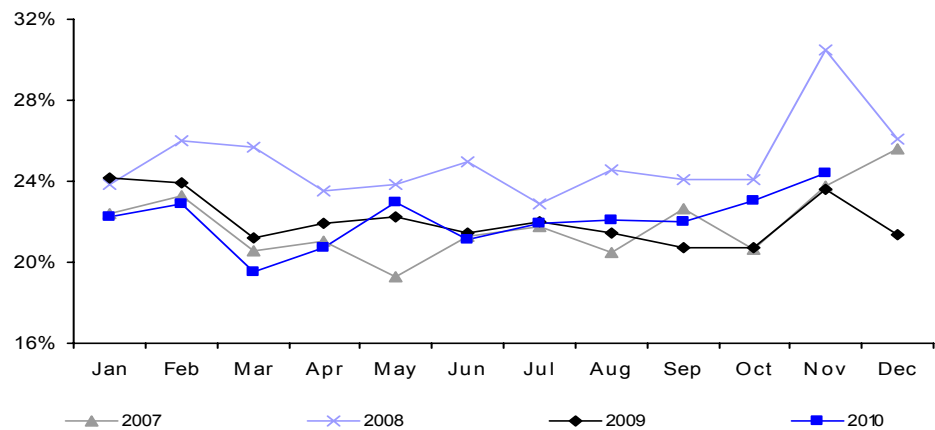
Source: Deutsche Bank, USDA

**Figure 27: Monthly chicken cold storage inventory, YoY comparison**



Source: Deutsche Bank, USDA

**Figure 28: Chicken inventory as a % of monthly production**

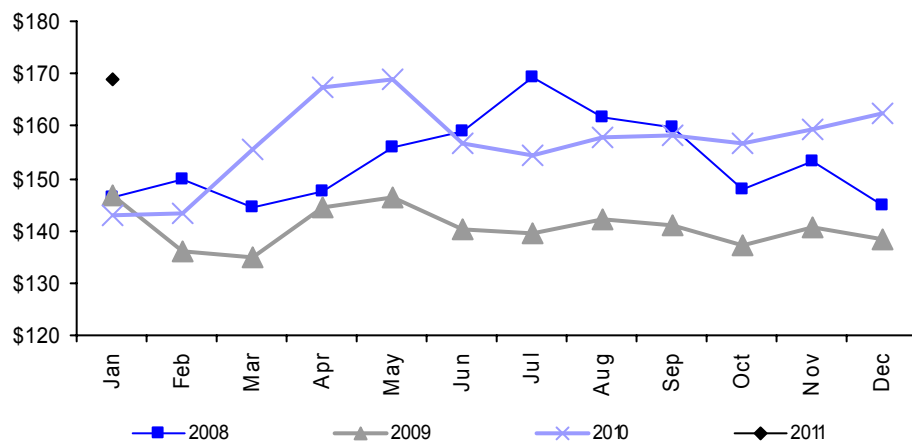


Source: Deutsche Bank, USDA

# Beef

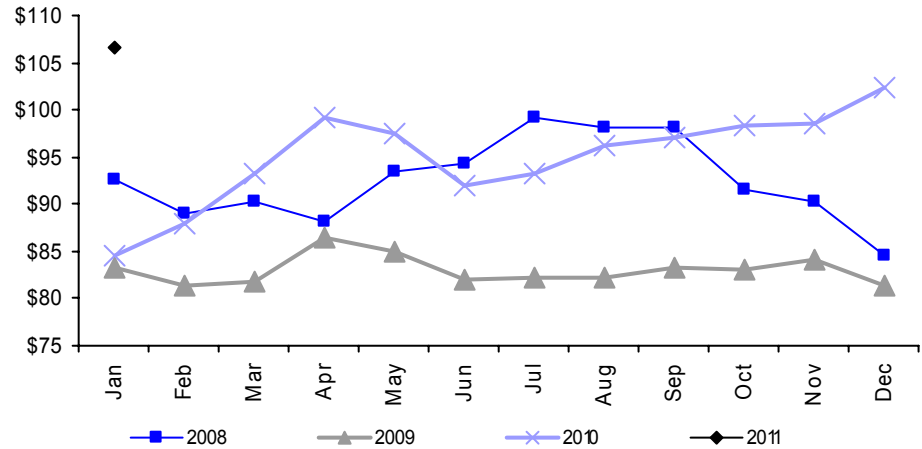
- Beef prices (graded choice) have been on upward trajectory since early Oct on improved consumer demand for beef products and stronger exports shipments. Prices jumped from \$152/cwt in Oct to \$173/cwt for the week ending Jan 21<sup>st</sup>. Tight supplies have also supported high beef prices, as imports from the top three U.S. import markets (Canada, Australia and New Zealand) have come down significantly due to bad weather conditions and weaker USD. While cattle slaughter volumes were up 6.2% in C4Q10, they have struggled to meet domestic and export demand, also affected by lower weights. In Jan, slaughter numbers have come down, with the data from the week ending Jan 15<sup>th</sup> indicating a decline of 3.7%. Higher cattle weights recently have offset the lower slaughter to some extent as we calculate beef production is running at 97.1% of the year ago levels.
- Beef processing margins (see Figure 41), based on spot calculations, have been volatile, averaging \$10/head profit in Nov and 3/head in Dec, though have recently recovered to \$29/head for the week ending Jan 21<sup>st</sup>. Cattle prices are trading at \$107/cwt vs. \$98/cwt in early Nov on support from higher beef prices and tight cattle supplies. Drop credit prices are running at a life time high of \$12.76/cwt for the week of Jan 21<sup>st</sup>.
- Figure 40- shows the monthly Cattle on Feed data. Feedlot inventories were up 4.6% y-o-y on Jan1st with Dec placements and marketings up 16.1% and 4.9% respectively. Placement numbers have been higher on the back of strong summer cattle futures. Still, feedlot inventories are expected to remain very tight as they struggle with significantly higher feed costs and a tight supply of feeder cattle.
- Beef exports (see Figure 42) were up 24.9% y-o-y in Nov on higher shipments to all major export partners (Mexico, Japan, Hong Kong, South Korea, Taiwan and Russia). Japan saw the largest improvement in shipments vs. last year. Beef imports were down 22.7% y-o-y in Nov on lower shipments from Australia (down 32.5% y-o-y) due to flood conditions and a weaker USD. Supplies from Canada and New Zealand were also down due to a weaker USD.

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



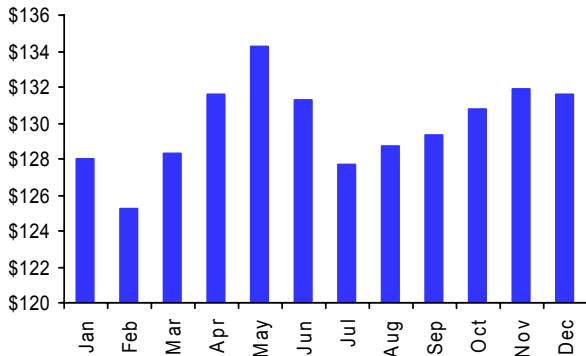
Source: Deutsche Bank, USDA

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



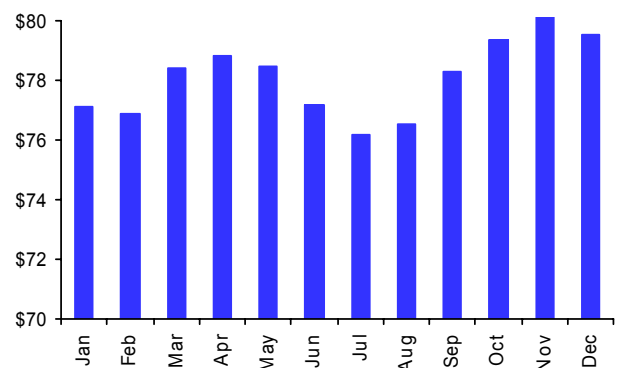
Source: Deutsche Bank, USDA

**Figure 31: Choice beef prices, \$/cwt (1996-2010)**



Source: Deutsche Bank, USDA

**Figure 32: Cattle prices, \$/cwt (1996-2010)**

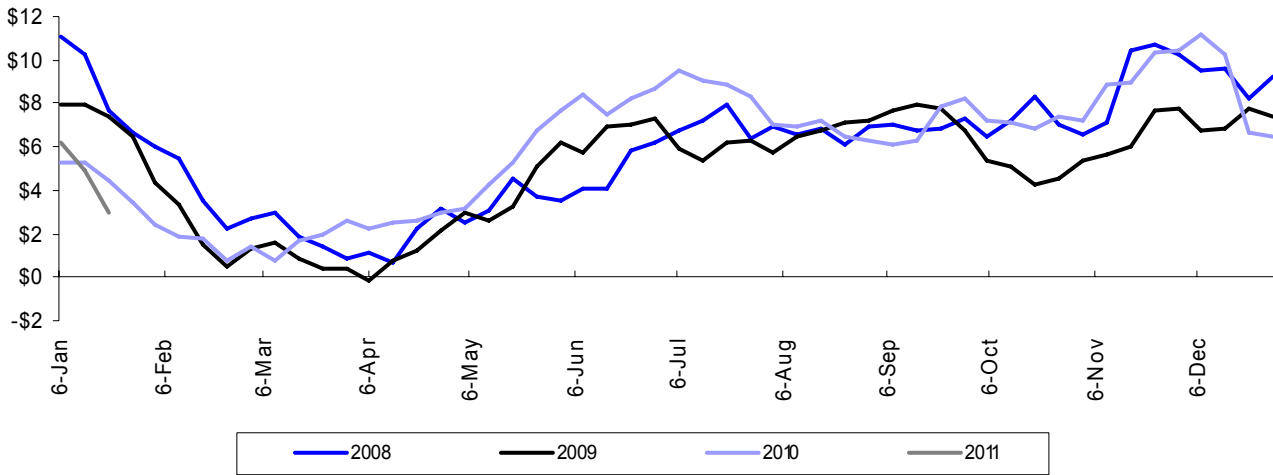


Source: Deutsche Bank, USDA

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 is at historically narrow levels in Jan. This is 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.

**Figure 33: Choice-select spread**



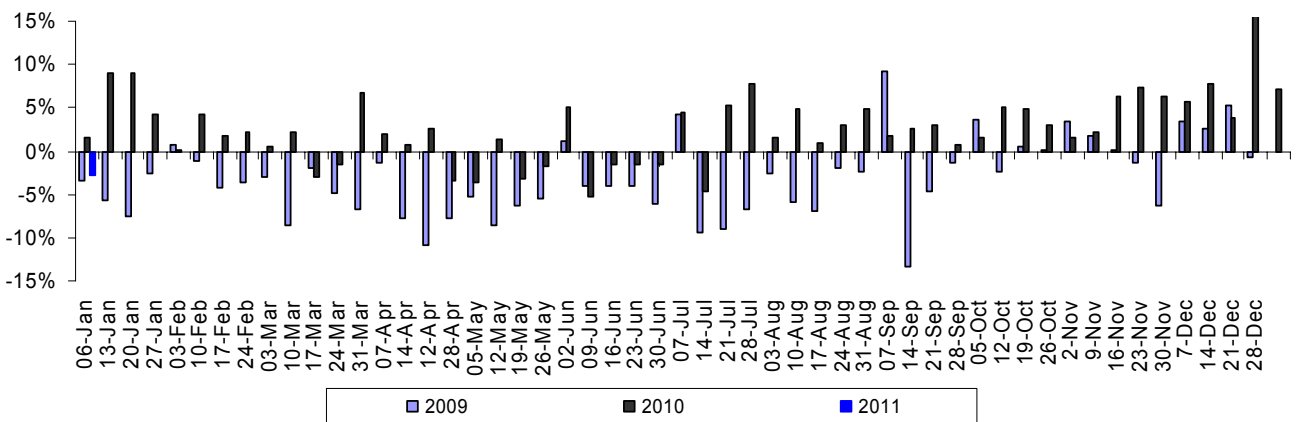
Source: Deutsche Bank, USDA

**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	2,058	18,272
Sep	2,071	2,093	1,884	1,957	2,543	2,565	2,042	2,001	2,534	17,157
Oct	2,173	1,909	2,459	2,411	2,002	2,103	2,018	2,564	2,088	17,639
Nov	2,535	2,211	1,737	1,861	2,009	2,002	2,414	1,892	2,006	16,660
Dec	1,902	1,720	1,772	2,301	2,406	2,456	1,777	2,242	2,441	16,577
Total	26,613	25,816	24,008	24,750	25,791	25,990	25,998	25,934	25,910	204,899

Source: Deutsche Bank, USDA

**Figure 35: Weekly heifer and steer slaughter, YoY change**



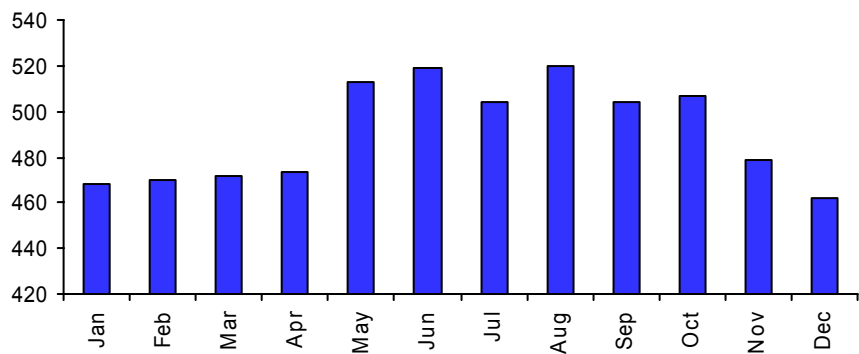
Source: Deutsche Bank, USDA

**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	53.0	48.9
Sep	50.7	56.6	45.2	42.6	48.8	49.0	51.2	55.0	55.3	49.9
Oct	52.9	60.6	46.4	47.3	50.3	54.0	51.8	50.7	54.4	51.7
Nov	54.2	56.7	43.7	47.7	49.4	50.0	50.6	50.5	55.4	50.3
Dec	50.9	54.2	49.8	46.5	50.0	48.0	48.5	47.7	56.8	49.4
Average	49.6	54.5	45.4	43.4	45.3	47.9	49.2	53.9	53.9	48.6

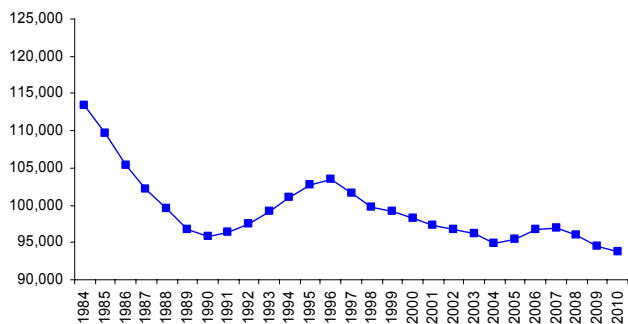
Source: Deutsche Bank, USDA

**Figure 37: Average monthly beef production (mil lbs)**



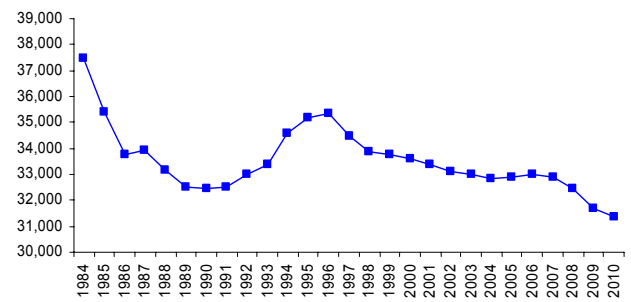
Source: Deutsche Bank, USDA

**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**



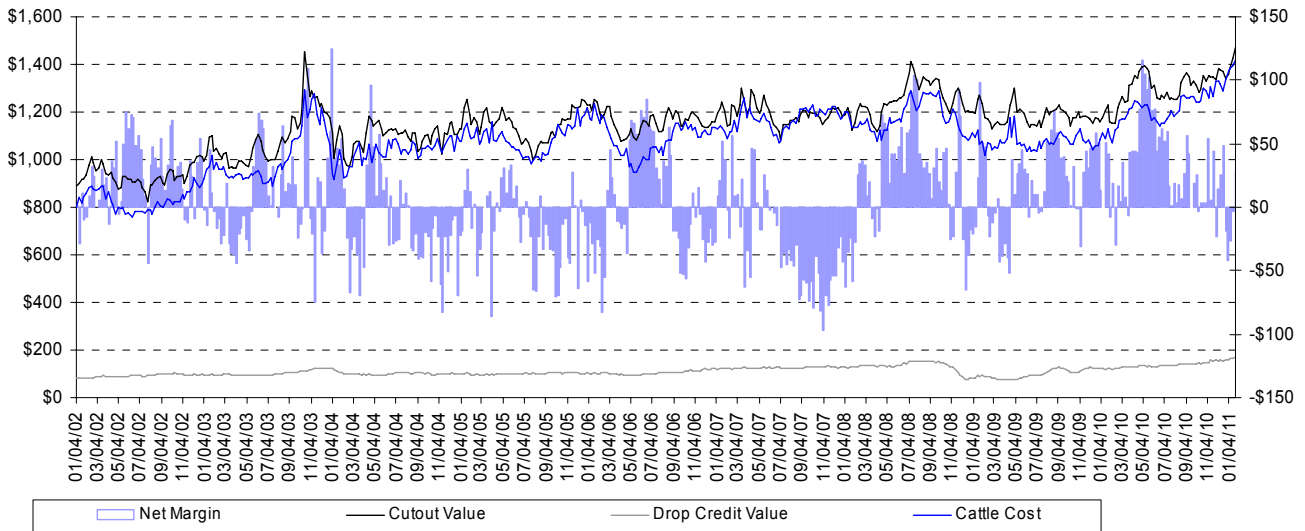
Source: Deutsche Bank, USDA

**Figure 40: Cattle on feed (1000 head +)**

Year	Month	Cattle On Feed - Start of Month	Placements	% of Previous Year	Marketings	% of Previous Year	Other Disappearance	Cattle On Feed - End of Month	% of Previous Year	% of 2 Years Ago
<b>2007</b>										
	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%
<b>2008</b>										
	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%
<b>2009</b>										
	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%	1,989	100.6%	57	9,752	94.7%	90.8%
	Jul	9,752	1,863	112.5%	1,935	95.0%	43	9,637	97.6%	93.6%
	Aug	9,637	2,119	102.8%	1,800	95.5%	56	9,900	99.0%	96.1%
	Sep	9,900	2,388	104.7%	1,767	97.5%	47	10,474	100.6%	95.5%
	Oct	10,474	2,474	101.5%	1,755	96.7%	59	11,134	101.5%	94.7%
	Nov	11,134	1,844	91.5%	1,635	103.8%	66	11,277	99.4%	93.2%
	Dec	11,277	1,546	93.9%	1,742	103.5%	72	11,009	98.0%	91.0%
<b>2010</b>										
	Jan	11,008	1,822	98.1%	1,776	102.2%	70	10,984	97.3%	91.8%
	Feb	10,984	1,674	99.8%	1,716	102.0%	68	10,874	96.8%	91.7%
	Mar	10,874	1,856	102.7%	1,903	104.3%	60	10,767	96.5%	92.2%
	Apr	10,767	1,627	101.7%	1,857	99.3%	94	10,443	96.5%	93.8%
	May	10,443	2,022	123.4%	1,869	95.7%	102	10,494	100.8%	97.0%
	Jun	10,494	1,628	117.0%	1,997	100.4%	55	10,070	103.3%	97.8%
	Jul	10,070	1,754	94.1%	1,903	98.3%	48	9,873	102.4%	100.0%
	Aug	9,873	2,270	107.1%	1,923	106.8%	47	10,173	102.8%	101.8%
	Sep	10,173	2,462	103.1%	1,802	102.0%	54	10,779	102.9%	103.5%
	Oct	10,779	2,504	101.2%	1,734	98.8%	62	11,487	103.2%	104.7%
	Nov	11,487	1,958	106.2%	1,769	108.2%	62	11,614	103.0%	102.4%
	Dec	11,614	1,795	116.1%	1,827	104.9%	65	11,517	104.6%	102.5%

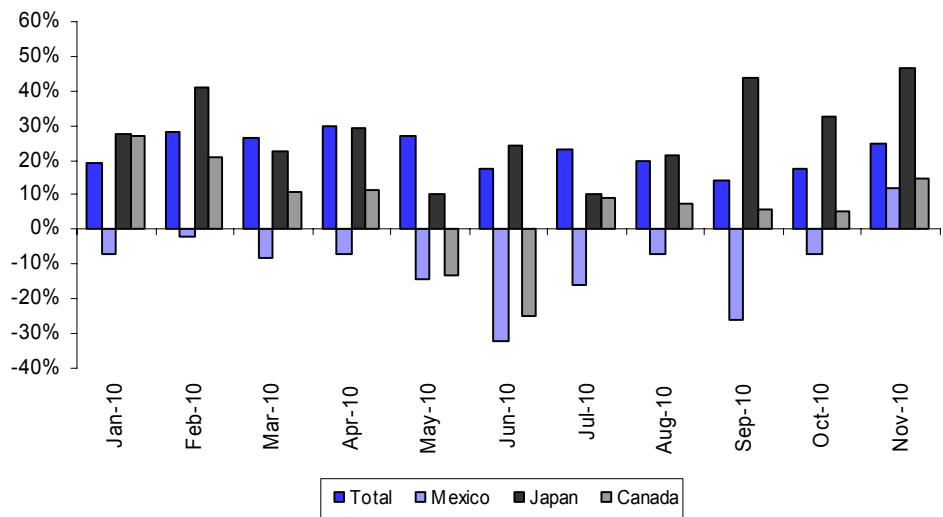
Source: Deutsche Bank, SUDA

**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)**

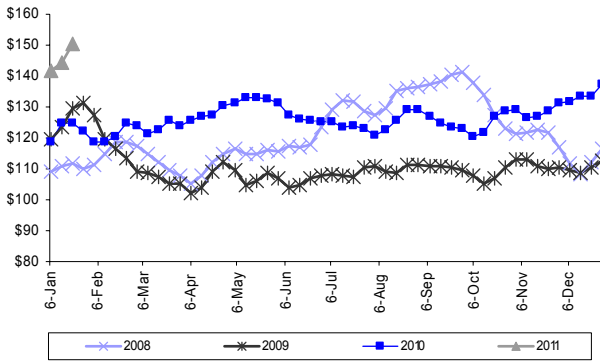


Source: Deutsche Bank, USDA

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 above 2010 levels.

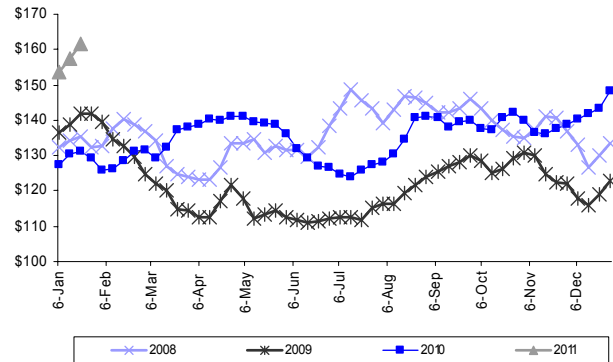


**Figure 43: Chuck price (\$/cwt)**



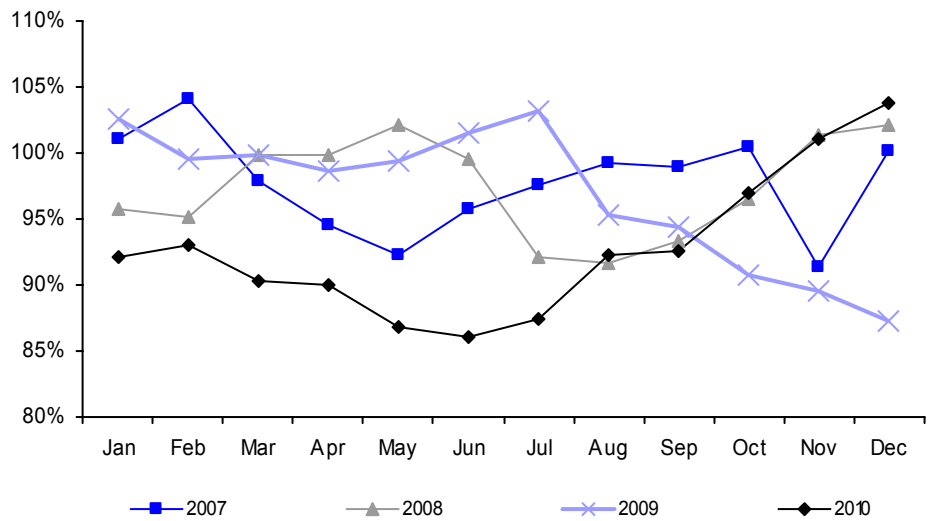
Source: Deutsche Bank, USDA

**Figure 44: Round price (\$/cwt)**



Source: Deutsche Bank, USDA

**Figure 45: Monthly beef cold storage inventory, YoY comparison**

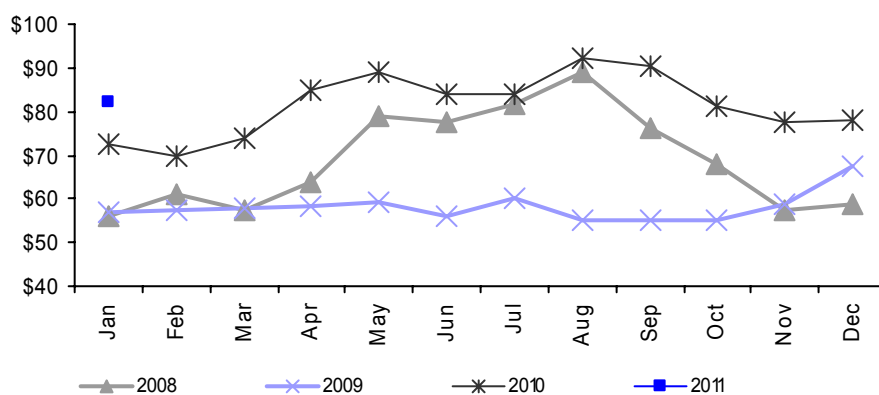


Source: Deutsche Bank, USDA

# Pork

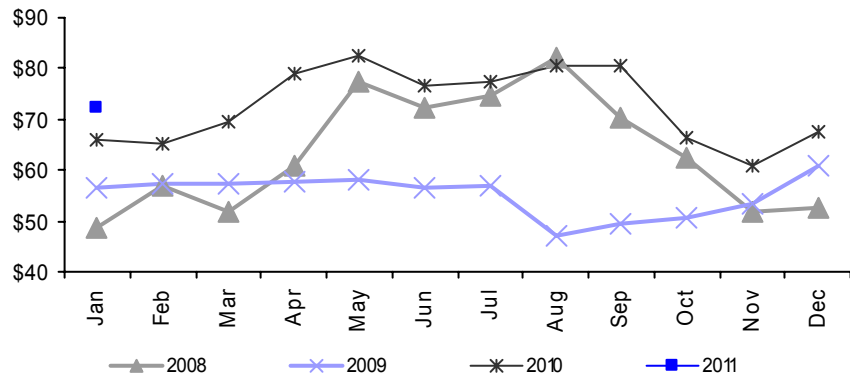
- Pork prices have been running at record levels due to strong domestic and export demand. Prices touched \$95/cwt in late Aug, came down to \$77/cwt in early Nov and are currently trading at \$86/cwt for the week ending Jan 21<sup>st</sup>. Processors have been enjoying strong margins (about \$20/head). Like beef, pork prices have also gained on a tight supply situation and recent strength in export demand.
- By our calculations, spot hog raising margins are running at a loss of \$8/head for the week ending Jan 21<sup>st</sup> vs. a loss of 20/head a month ago (see Figure 49). Industry margins have been running at losses for the last three months due to a hog price correction in Nov and burgeoning feed costs. Although hog prices have recovered substantially since then and are trading at \$56/cwt live weight vs. \$45/cwt in early Nov., lagged feed costs have gone up by \$10/head to \$90/head. As a result, industry raising margins are still in the red. However, futures market are showing brighter picture as tight hog supplies and strong export demand continue to aid hog prices. Despite corn and soybean meal futures indicating high feed cost, we expect hog producers will be profitable in C2011.
- As shown in Figure 61, U.S. pork exports were up 6.0% y-o-y and 19.7% sequentially in Nov. Export shipment to Japan, Mexico, Russia and Mainland China were up significantly. Overall, the outlook for export demand in 2011 looks positive with the USDA projecting exports to increase about 9.1%, absorbing an incremental 2% of the domestic supply, by our calculations. Recently, South Korea announced the removal of the existing 25% import tariff for first 60,000 tons of imported pork due to large scale culling of hogs from outbreak of foot and mouth disease (FMD). For perspective, we note that U.S. exported 117,200 MT of pork to South Korea in 2009, which accounted for approx. 5% of U.S. pork exports.
- The latest Cold Storage data (see Figures 57 and 58) showed Dec inventories up 1.0% y-o-y and 1.6% sequentially.

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



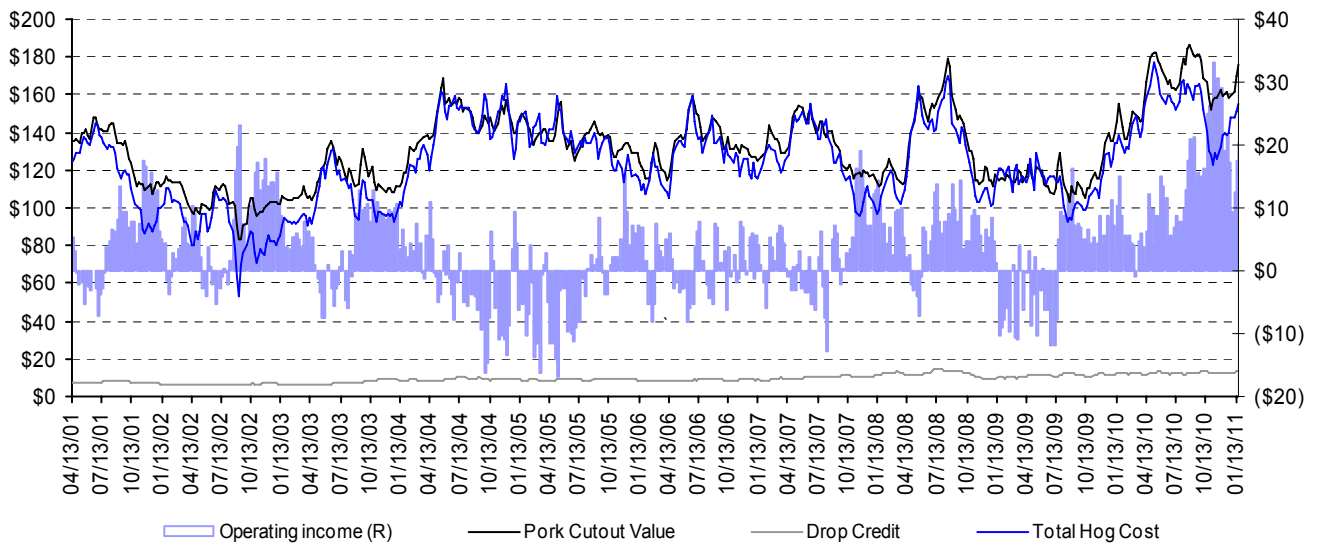
Source: Deutsche Bank, USDA

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



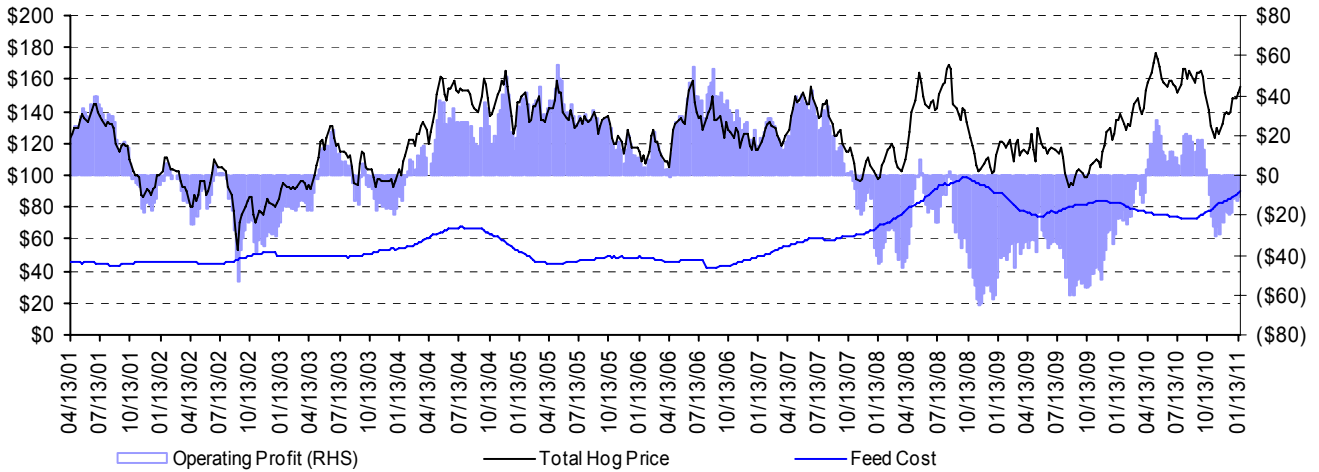
Source: Deutsche Bank, USDA

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



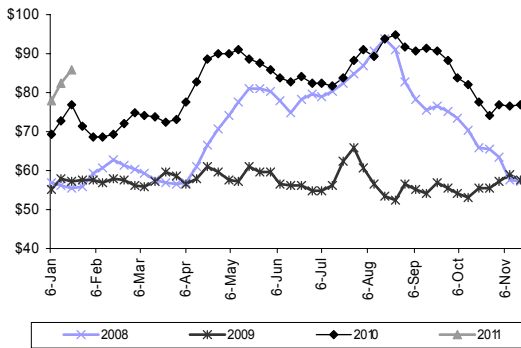
Source: Deutsche Bank, USDA, Iowan State University  
 Operating profit: \$/head, cutout value: \$/head, drop credit value: \$/head, hog cost: \$/head.

**Figure 49: Hog raising margin (\$/head)**



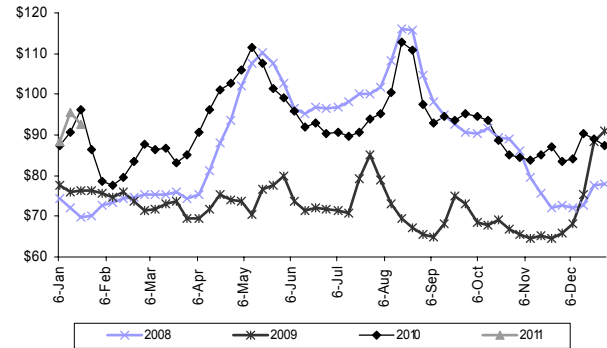
Source: Deutsche Bank, USDA, Iowa State University  
 Operating profit: \$/head, total hog price, \$/head, feed cost: \$/head

**Figure 50: Primal carcass price (\$/cwt)**



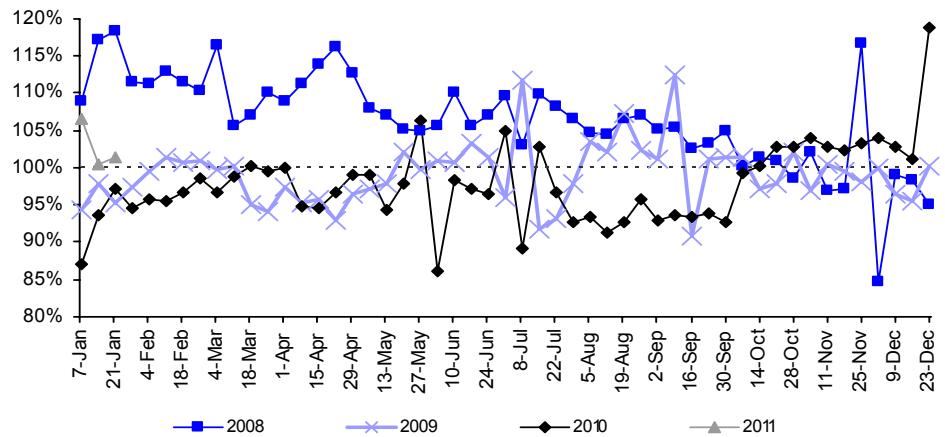
Source: Deutsche Bank, USDA

**Figure 51: Primal loin price (\$/cwt)**



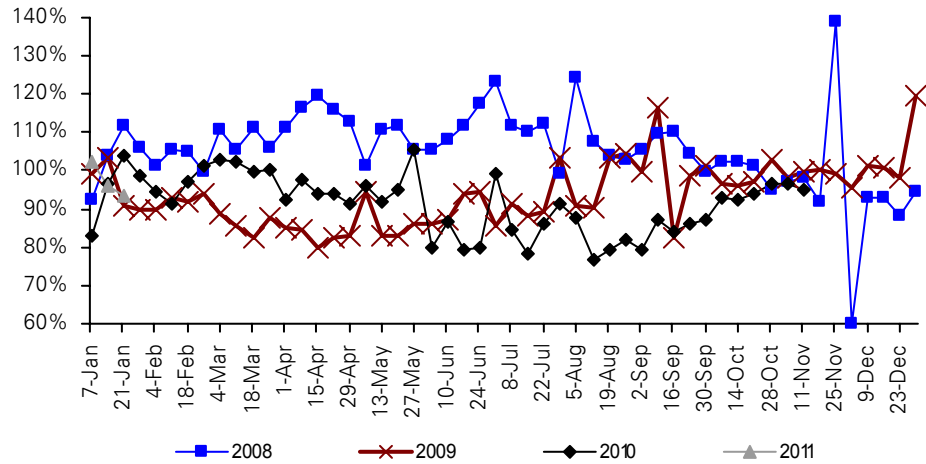
Source: Deutsche Bank, USDA

**Figure 52: Weekly pork production YoY % change**



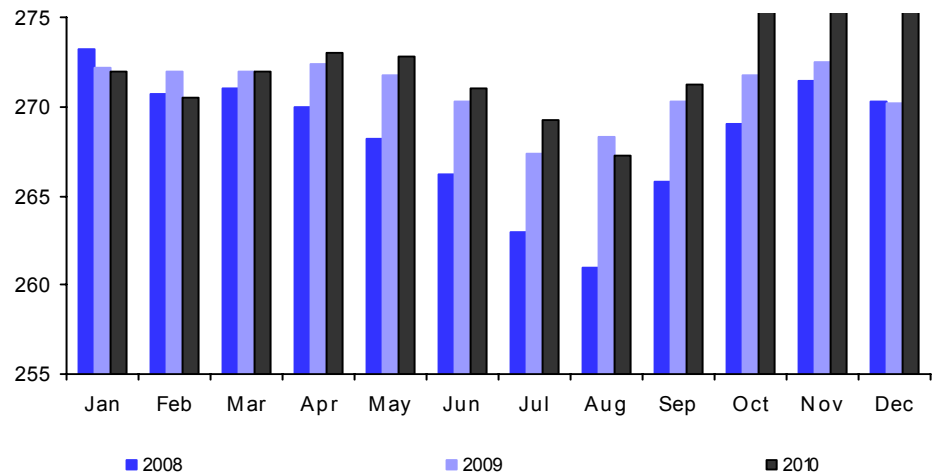
Source: Deutsche Bank, USDA

**Figure 53: Weekly sow slaughter (YoY % Change)**



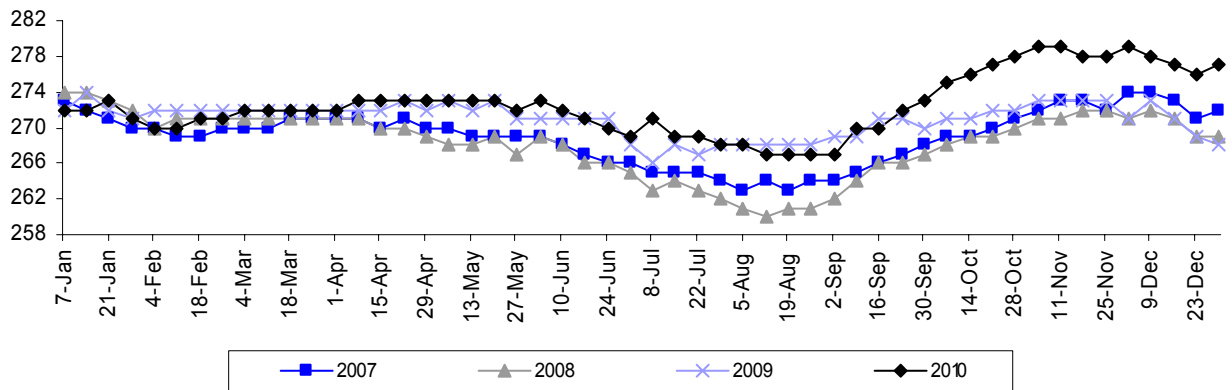
Source: Deutsche Bank, USDA

**Figure 54: Monthly avg. live hog weight**



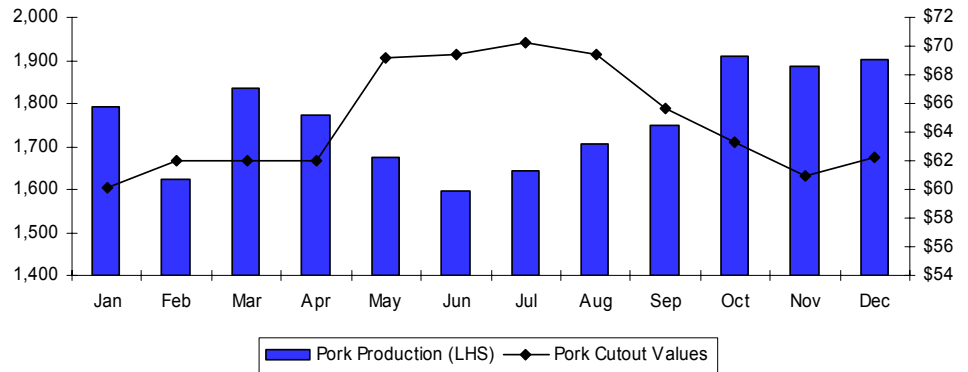
Source: Deutsche Bank, USDA

**Figure 55: Weekly avg. live hog weight**



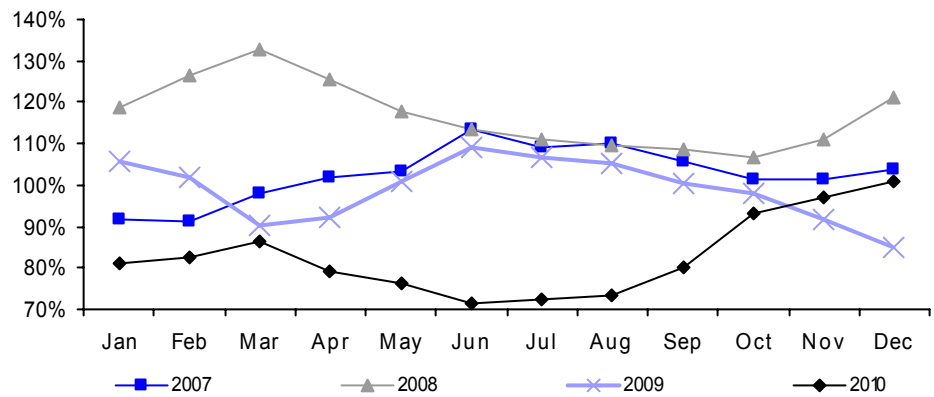
Source: Deutsche Bank, USDA

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



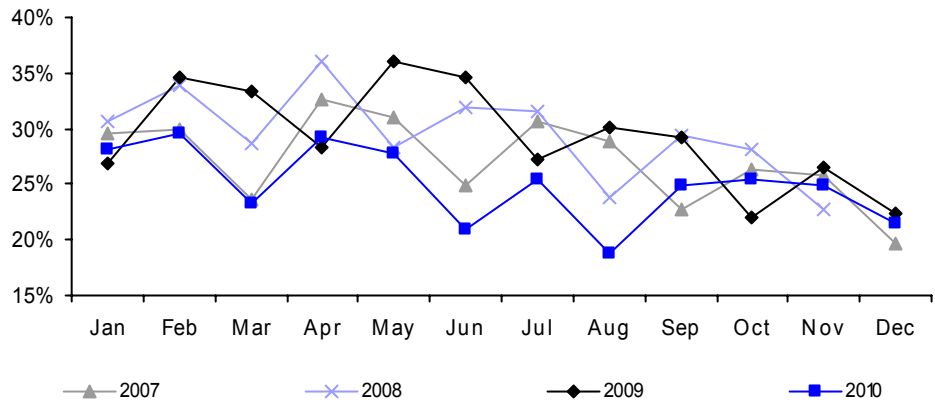
Source: Deutsche Bank, USDA

**Figure 57: Monthly pork cold storage inventory, YoY comparison**



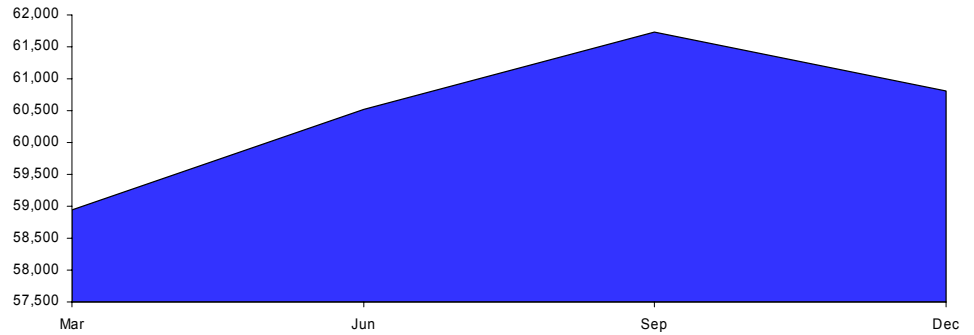
Source: Deutsche Bank, USDA

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



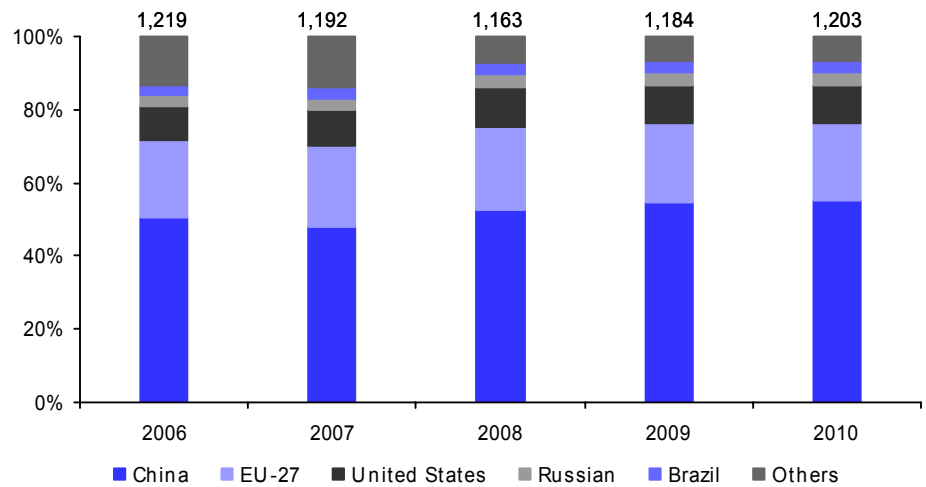
Source: Deutsche Bank, USDA

**Figure 59: Average Hogs & pigs inventory (1991-2009)**



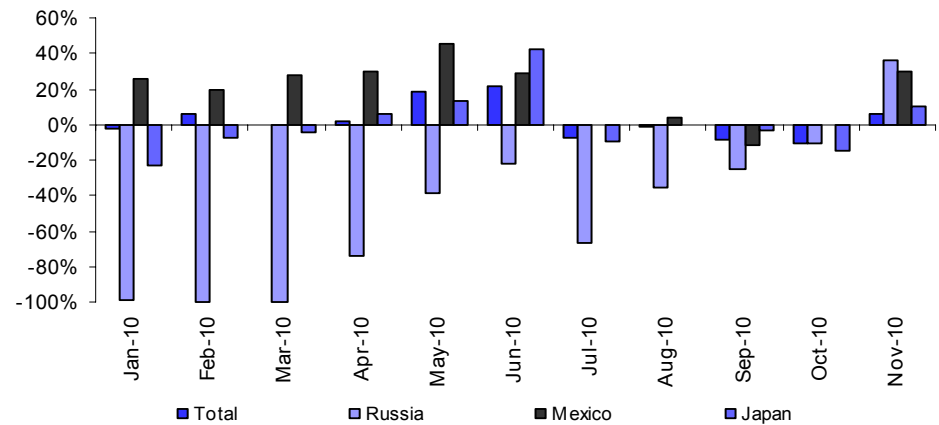
Source: Deutsche Bank, USDA

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



Source: Deutsche Bank, USDA

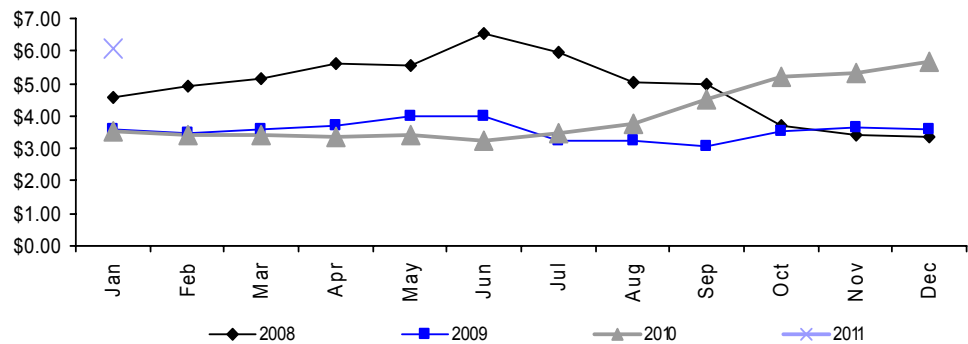
**Figure 61: YoY change in monthly pork exports**



Source: Deutsche Bank, USDA

# Corn

- Cash corn prices have moved up substantially on declining production estimates for the U.S. crop. USDA's Jan crop report pegged 2010/11 ending stocks below the trade expectations. While production was down on lower yields (152.8 bu/acre vs. expectation of 154.2), usage was up on higher food, seed and industrial demand. The stocks to use ratio fell 70 bps from the Dec estimate to 5.5% vs. the historical avg. of 15%. Looking forward, demand from the protein sector will be key to watch, as protein processors attempt to deal with higher feed costs.

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


Source: Deutsche Bank, USDA

**Figure 63: U.S. Corn Supply & Use**

	00/01A	01/02A	02/03A	03/04A	04/05A	05/06A	06/07A	07/08A	08/09	09/10E	Projections As Of	
											Dec	Jan
											10/11F	10/11F
<b>Supply</b>												
Planted Acres	79.6	75.8	78.9	78.6	80.9	81.8	78.3	93.5	86.0	86.4	88.2	88.2
Harvested Acres	72.4	68.8	69.3	70.9	73.6	75.1	70.6	86.5	78.6	79.6	81.3	81.4
Bu. Yield Per Acre	136.9	138.2	129.4	142.3	160.4	148.0	149.1	150.7	153.9	164.7	154.3	152.8
Bushels in Beg. Stocks	1,718	1,899	1,596	1,087	958	2,114	1,967	1,304	1,624	1,673	1,708	1,708
Bushels Produced	9,915	9,507	8,967	10,089	11,807	11,114	10,531	13,038	12,092	13,092	12,540	12,447
Imported Bushels	7	10	14	14	11	9	12	20	14	8	15	20
Total Supply	11,640	11,416	10,577	11,190	12,776	13,237	12,510	14,362	13,730	14,773	14,263	14,175
<b>Demand</b>												
Feed & Residual	5,842	5,868	5,563	5,795	6,162	6,141	5,591	5,913	5,182	5,140	5,300	5,200
Food, Seed, Industrial	1,957	2,046	2,340	2,537	2,686	2,981	3,490	4,387	5,025	5,939	6,180	6,280
Ethanol	628	714	996	1,168	1,323	1,603	2,119	3,049	3,709	4,568	4,800	4,900
Others	1,329	1,332	1,345	1,369	1,363	1,378	1,371	1,338	1,316	1,371	1,380	1,380
Total Domestic Use	7,799	7,914	7,903	8,332	8,848	9,122	9,081	10,300	10,207	11,079	11,480	11,480
Export Use	1,941	1,905	1,588	1,900	1,814	2,147	2,125	2,437	1,849	1,987	1,950	1,950
Total Use	9,740	9,819	9,491	10,232	10,662	11,269	11,207	12,737	12,056	13,066	13,430	13,430
Ending Stocks	1,900	1,597	1,086	958	2,114	1,968	1,303	1,625	1,674	1,707	833	745
<b>Price</b>												
Year Avg. or Proj. Range	\$1.85	\$1.97	\$2.32	\$2.42	\$2.06	\$2.00	\$3.04	\$4.20	\$4.06	\$3.55	\$4.80 - \$5.60 10 - \$5.70	
<b>Analysis</b>												
% Harvested of Planted	91%	90.8%	87.8%	90.2%	91.0%	91.8%	90.2%	92.5%	91.4%	92.1%	92.2%	92.3%
Domestic Use/Production	79%	83.2%	88.1%	82.6%	74.9%	82.1%	86.2%	79.0%	84.4%	84.6%	91.5%	92.2%
Stocks/Use Ratio	19.5%	16.3%	11.4%	9.4%	19.8%	17.5%	11.6%	12.8%	13.9%	13.1%	6.2%	5.5%
Non-Feed % of Total Use	20%	20.8%	24.7%	24.8%	25.2%	26.5%	31.1%	34.4%	41.7%	45.5%	46.0%	46.8%
Exports % of Total Use	20%	19.4%	16.7%	18.6%	17.0%	19.1%	19.0%	19.1%	15.3%	15.2%	14.5%	14.5%

## Footnotes:

- The Marketing Year for Corn Starts in September
- The Most Recent Full Year Remains an Estimate Until One Full Year has Past
- Source: USDA.

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

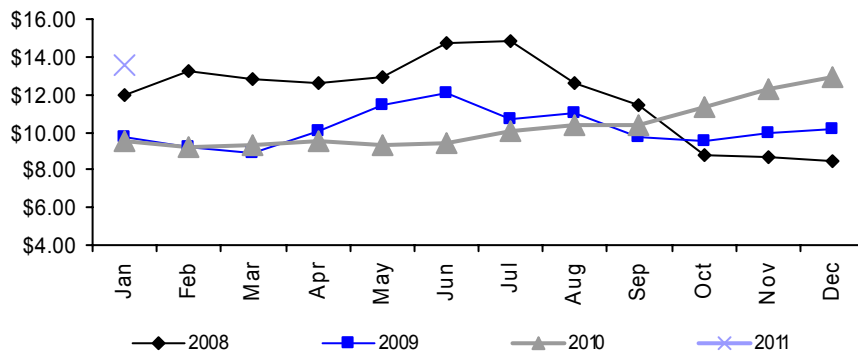
Source: Deutsche Bank, USDA



# Soybeans

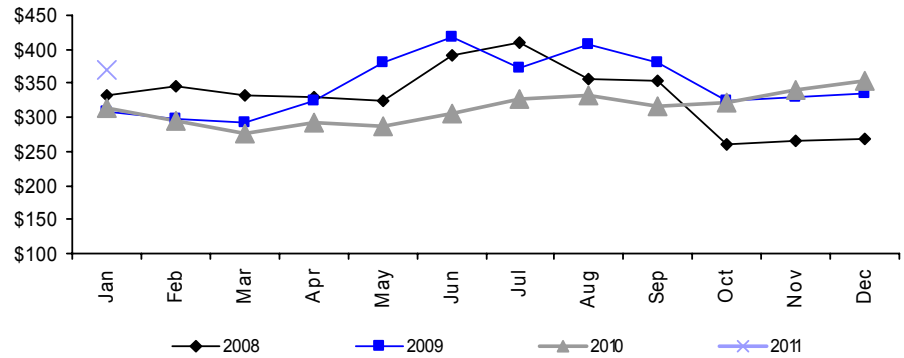
- Strong export demand and a tight U.S. crop are providing support to soybean prices, even at current high levels. However, prospects of a better South American crop are putting some downward pressure on prices. With better growing conditions in Argentina and the Brazilian harvest season approaching, supplies from Latin America may alleviate some pressure from tight U.S. production.
- USDA’s Jan crop report pegged 2010/11 U.S. ending stocks at 140 mil bu, below the avg. trade forecast of 156 mil bu. It reduced the soybean production on lower yields (43.5 bu/acre vs. trade expectation of 44.0). Global soybean stocks are expected to decline from 60.12 million MT to 58.28 million on lower production, slightly offset by decline in crush usage. On the demand front, U.S. soybean crush volumes of 145.5 million bushels were down 11.5% y-o-y in Dec.
- Figure 67 displays historical U.S. crush margins. Soybean crush margins came down sequentially in Nov but recovered a bit in Dec. However, they have come down heavily since then and are running at historical lows. Higher soybean prices due to short U.S. supplies have been the key reason for lower crush margins. Additionally, with chicken margins running into losses due to higher feed cost, demand for soybean meal (constituting 48% of U.S. soybean meal usage) may come down; any cutbacks in chicken production could put further pressure on soybean meal prices. However, as we have recently written, the recent court ruling in favor of the EPA’s implementation of the RFS2, as well as the renewal of the biodiesel tax credit, should support soybean oil prices and potentially strengthen crush margins.

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



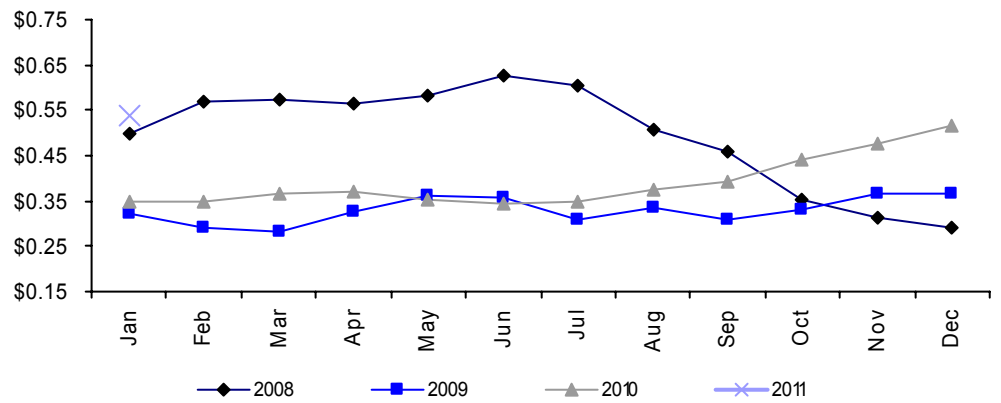
Source: Deutsche Bank, Wall Street Journal  
March data through March 16th

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



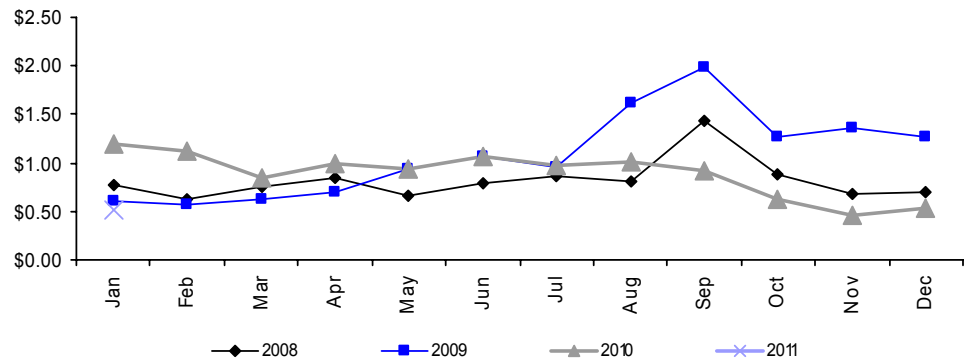
Source: Deutsche Bank, Wall Street Journal

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

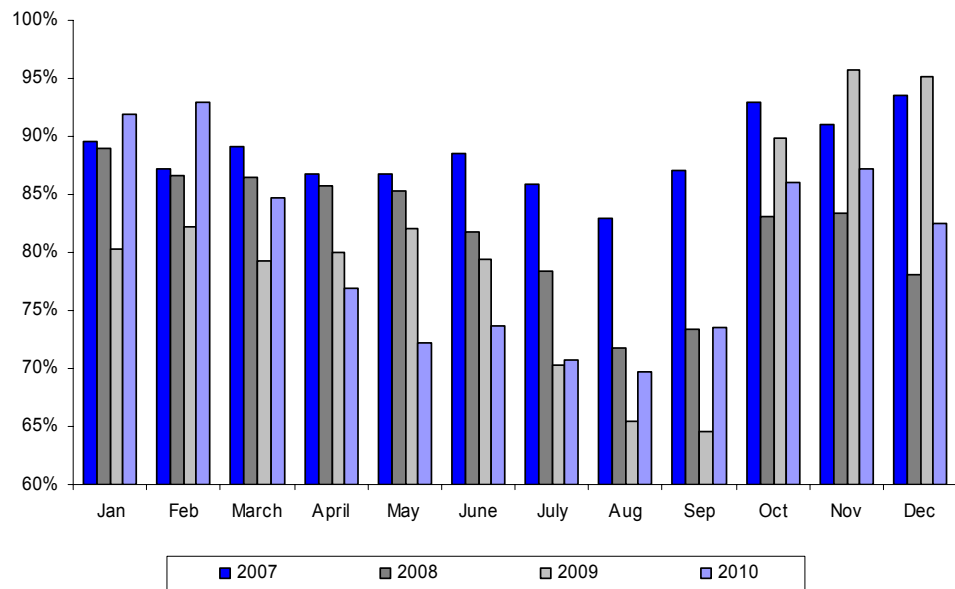


Source: Deutsche Bank, Wall Street Journal

**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**

	00/01A	01/02A	02/03A	03/04A	04/05A	05/06A	06/07A	07/08A	08/09	09/10E	Projections As Of			
											Dec	Jan		
											10/11F	10/11F		
<b>Supply</b>														
Planted Acres	74.3	74.1	74.0	73.4	75.2	72.0	75.5	64.7	75.7	77.5	77.7	77.4		
Harvested Acres	72.4	73.0	72.5	72.5	74.0	71.3	74.6	64.1	74.7	76.4	76.8	76.6		
Bu. Yield Per Acre	38.1	39.6	38.0	33.8	42.2	43.0	42.9	41.7	39.7	44.0	43.9	43.5		
Bushels in Beg. Stocks	290	248	208	178	112	256	449	574	205	138	151	151		
Bushels Produced	2,758	2,891	2,756	2,454	3,124	3,063	3,197	2,677	2,967	3,359	3,375	3,329		
Imported Bushels	4	2	5	6	6	3	9	10	13	15	10	15		
Total Supply	3,052	3,141	2,969	2,638	3,242	3,322	3,655	3,261	3,185	3,512	3,536	3,495		
<b>Demand</b>														
Crushings	1,641	1,700	1,615	1,530	1,696	1,739	1,808	1,803	1,662	1,752	1,665	1,655		
Export	996	1,064	1,044	887	1,103	947	1,116	1,159	1,283	1,501	1,590	1,590		
Seed	91	90	89	92	88	93	80	89	90	90	88	88		
Residual	76	79	42	17	99	94	77	5	12	18	29	22		
Total Use	2,804	2,933	2,790	2,526	2,986	2,873	3,081	3,056	3,047	3,361	3,372	3,355		
Ending Stocks	248	208	179	112	256	449	574	205	138	151	165	140		
<b>Price (per bushel)</b>														
Year Avg. or Proj. Range	\$4.54	\$4.38	\$5.53	\$7.34	\$5.74	\$5.66	\$6.43	\$10.10	\$9.97	\$9.59	\$10.70	\$12.20	\$11.20	\$12.20
<b>Analysis</b>														
% Harvested of Planted	97%	98.5%	98.0%	98.8%	98.4%	99.0%	98.8%	99.1%	98.7%	98.6%	98.8%	99.0%		
Use/Production	102%	101.5%	101.2%	102.9%	95.6%	93.8%	96.4%	114.2%	102.7%	100.1%	99.9%	100.8%		
Stocks/Use Ratio	8.8%	7.1%	6.4%	4.4%	8.6%	15.6%	18.6%	6.7%	4.5%	4.5%	4.9%	4.2%		
Exports % of Total Use	36%	36.3%	37.4%	35.1%	36.9%	33.0%	36.2%	37.9%	42.1%	44.7%	47.2%	47.4%		

**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

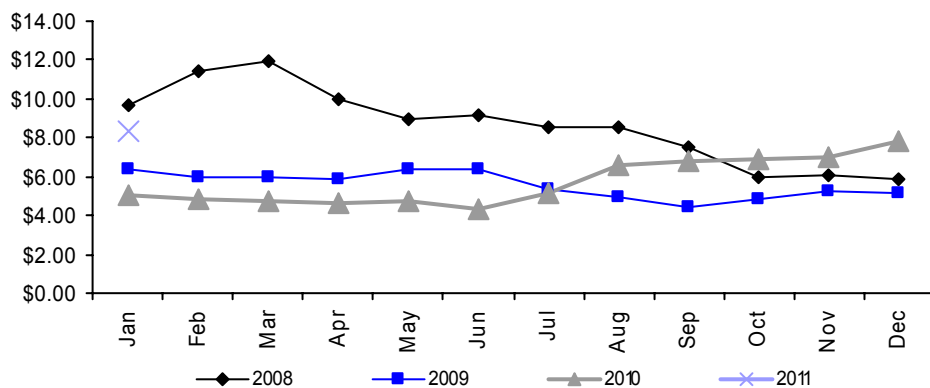
Average Stocks to Use 10%  
 '92/93-'08/09

Source: Deutsche Bank, USDA

# Wheat

- At \$8.87/bu, the wheat price is well above the year ago level of \$4.72/bu and above the 10-year historical average of \$5.08/bu. Wheat prices have been higher on tight global supplies and the rally in corn and soybean prices. Notably, Russia (14% export share in 2009/10) banned exports as its production was hit by a record drought in the Black Sea region. Additionally, with the flood conditions in Australia, net importers have turned to Europe and the U.S. for wheat supplies. However, with Europe running out of exportable wheat, U.S. has emerged as a major global supplier. On the demand side, North Africa has been a major buyer due to a shortage of food products and political unrest in some countries. The Middle East has also been buying wheat from the U.S.. The USDA is projecting a 2010/11 global stocks to use ratio of 22.6%, 50 bps. above the historical average. However, while total stocks of wheat are average, the supply of milling quality wheat is tighter than normal.
- In the Jan crop report, the USDA pegged ending stocks slightly below the trade expectation (818 million bushels vs. trade expectation of 849 million) due to higher export demand (up 50 million bushels from Dec report). This has further reduced the stocks-to-use ratio from 35.2% in Dec to 33.0% in Jan, still well above the historical average of 26.5%.

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

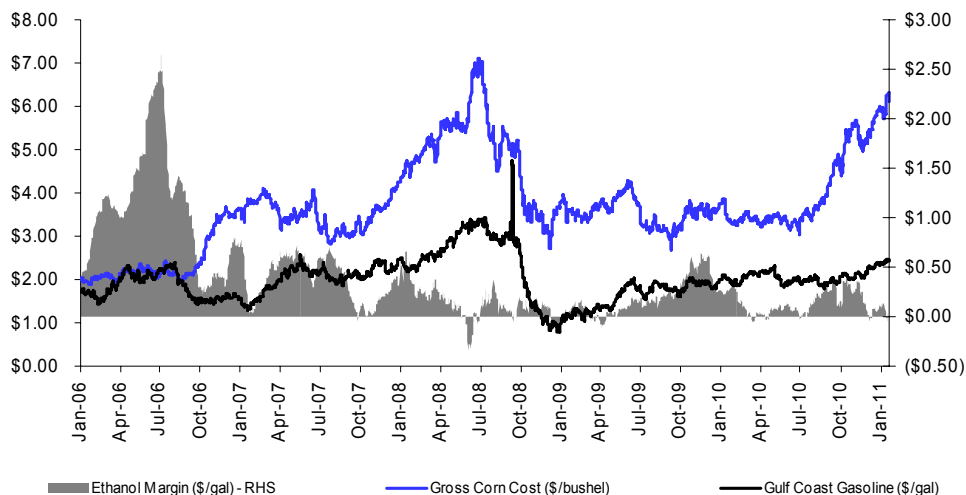


Source: Deutsche Bank, Wall Street Journal

# Ethanol

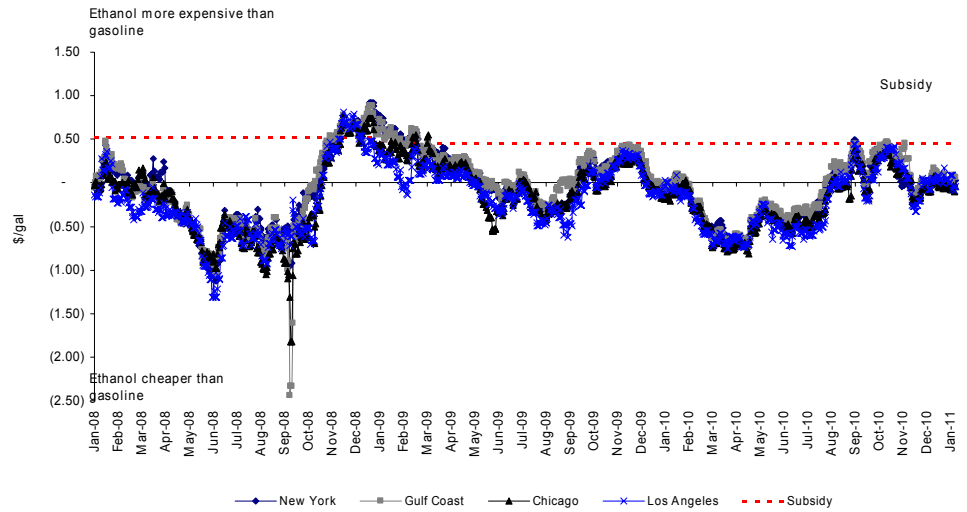
- Ethanol margins (gray area in Figure 71 below) showed strong performance in Oct-Nov period, averaging \$0.27/gal on higher ethanol prices. However, recently they have come down to break-even levels on declining ethanol prices due to a slowdown in demand and higher costs. Earlier in the month, EPA cleared the use of E15 for 2001-2006 cars, light trucks and SUVs. The 2001-current vehicle fleet represents about 50% of the U.S. vehicle fleet and 65% of the gasoline pool. Though the decision is positive on the surface and for the longer term, we do not expect short-term implementation as its earlier decision on 2007-2010 vehicles is being challenged in U.S. court. Additionally, the EPA must still finalize a labeling rule to advise consumers that E15 is only for certain model year vehicles. Finally, as we have noted in the past, the expense of compliance (in terms of new pumps, underground storage, etc.), as well as potential liability issues suggests blending at a rate above 10% is not near at hand.
- Figure 72 shows the differential between the price of ethanol and gasoline in various regions. Ethanol is currently trading at a slight discount or premium depending on the market, with the differential ranging from a \$0.05 discount to a \$0.06 premium. Including the \$0.45/gal tax incentive means that ethanol is cheaper than unleaded gasoline to the tune of \$0.39-\$0.50/gal. Importantly, this tax credit of \$0.45/gal has been extended by one year along with the \$0.54/gal import tariff. Both measures were slated to expire on Dec 31 2010.
- 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 has come down to 4.65 million barrels per day blended with ethanol for the week of Jan 21<sup>st</sup> due to softer demand for ethanol.

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



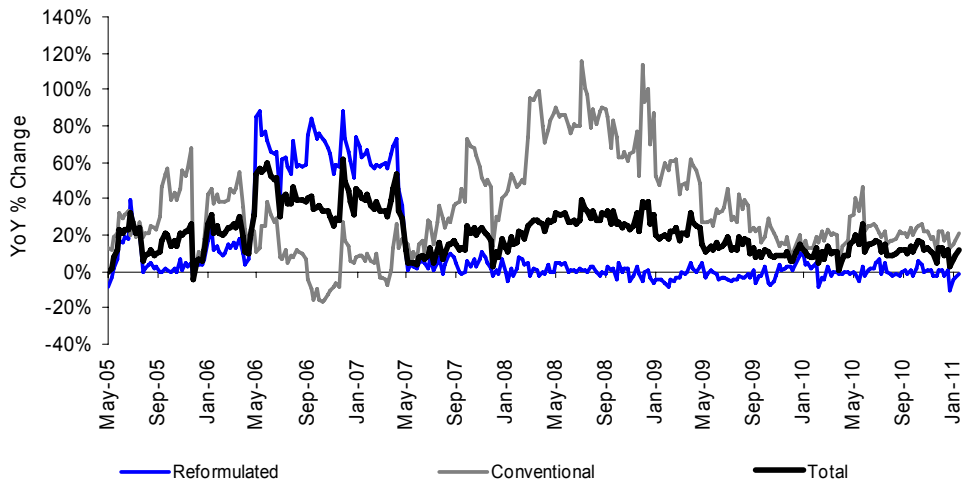
Source: Deutsche Bank, OPIIS, Bloomberg Finance LP, Informa

**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
31-Jan	1-Feb	2-Feb	3-Feb	4-Feb	5-Feb	6-Feb
DRI Analyst day	ADM 2Q11 Earnings	Broiler Hatchery YUM 4Q10 Earnings		TSN 1Q11 Earnings		
7-Feb	8-Feb	9-Feb	10-Feb	11-Feb	12-Feb	13-Feb
	BWLD 4Q10 Earnings	World Agricultural Supply and Demand Estimates (WASDE)	BG 4Q10 Earnings CMG 4Q10 Earnings PNRA 4Q10 Earnings	PPC 4Q10 Earnings		
14-Feb	15-Feb	16-Feb	17-Feb	18-Feb	19-Feb	20-Feb
		1) Latest Agriculture Trade data 2) Broiler Hatchery 3) Turkey Hatchery	1) CPO 4Q10 Earnings 2) SAFM Sharholders Meetings	Cattle on Feed RUTH 4Q10 Earnings		
21-Feb	22-Feb	23-Feb	24-Feb	25-Feb	26-Feb	27-Feb
Holiday	Cold Storage	Broiler Hatchery	HRL 1Q11 Earnings	Poultry Slaughter		
28-Feb	1-Mar	2-Mar	3-Mar	4-Mar	5-Mar	6-Mar
Chicken and Eggs		Broiler Hatchery				

Source: Deutsche Bank estimates, company information

**Figure 75: Restaurant industry valuation comparables**

OSR	Ticker	FYE	1/28/2011			Mkt cap (mm)	- EPS estimates -			- P/E -				LT growth	PEG	Rel. P/E	- EV-to-EBITDA-				Debt/ '10E EBITDA	Adj Debt/ '10E EBITDAR	Total restaurants	Company-operated %		
			Stock price	Price target	Rating		FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	NTM*				FY10E	FY11E	FY12E	NTM*						
<b>FAST CASUAL</b>																										
Jack in the Box	JACK	9	\$21.76	NA	NR	\$1,188	\$1.70	\$1.61	\$1.92	12.8x	13.5x	11.3x	12.7x	13%	100%	93%	6.9x	6.5x	6.0x	6.3x	1.6x	4.7x	2,722	49%		
McDonald's	MCD	12	\$73.28	\$89.00	Buy	\$78,322	\$4.60	\$5.01	\$5.46	15.9x	14.6x	13.4x	14.5x	10%	143%	106%	10.0x	9.3x	8.7x	9.2x	1.3x	2.3x	32,478	19%		
Sonic	SONC	8	\$9.64	NA	NR	\$595	\$0.48	\$0.53	\$0.63	20.1x	18.2x	15.4x	16.9x	16%	107%	123%	8.8x	8.8x	8.3x	8.6x	4.9x	5.2x	3,544	13%		
Wendy's / Arby's Group	WEN	12	\$4.73	\$5.50	Buy	\$1,977	\$0.14	\$0.15	\$0.24	NM	30.6x	20.0x	30.0x	18%	163%	219%	7.7x	7.3x	6.8x	7.2x	4.0x	5.2x	10,259	25%		
YUM! Brands	YUM	12	\$46.40	\$51.00	Hold	\$22,458	\$2.50	\$2.81	\$3.16	18.5x	16.5x	14.7x	16.3x	12%	132%	119%	10.4x	9.5x	8.8x	9.4x	1.5x	2.9x	37,080	22%		
									<b>avg</b>	<b>16.8x</b>	<b>18.7x</b>	<b>15.0x</b>	<b>18.1x</b>	<b>14%</b>	<b>129%</b>	<b>132%</b>	<b>8.8x</b>	<b>8.3x</b>	<b>7.7x</b>	<b>8.2x</b>	<b>2.7x</b>	<b>4.1x</b>	<b>96,063</b>	<b>26%</b>		
<b>PIZZA</b>																										
Domino's	DPZ	12	\$16.37	NA	NR	\$993	\$1.34	\$1.45	\$1.57	12.2x	11.3x	10.4x	11.2x	10%	115%	82%	9.5x	9.3x	9.2x	9.3x	5.8x	6.1x	8,999	5%		
Papa John's	PZZA	12	\$28.58	NA	NR	\$745	\$1.77	\$2.07	\$2.47	16.1x	13.8x	11.6x	13.6x	10%	138%	99%	7.4x	6.7x	6.0x	6.7x	0.9x	2.2x	3,469	18%		
									<b>avg</b>	<b>14.2x</b>	<b>12.5x</b>	<b>11.0x</b>	<b>12.4x</b>	<b>10%</b>	<b>126%</b>	<b>91%</b>	<b>8.4x</b>	<b>8.0x</b>	<b>7.6x</b>	<b>8.0x</b>	<b>3.3x</b>	<b>4.1x</b>	<b>12,468</b>	<b>11%</b>		
<b>QUICK CASUAL</b>																										
Chipotle Mexican Grill	CMG	12	\$219.43	\$195.00	Hold	\$6,963	\$5.46	\$6.71	\$7.94	40.2x	32.7x	27.6x	32.2x	21%	151%	235%	19.3x	16.0x	13.6x	15.7x	0.0x	1.8x	956	100%		
Panera Bread	PNRA	12	\$94.86	\$115.00	Buy	\$2,896	\$3.63	\$4.37	\$4.98	26.2x	21.7x	19.1x	21.5x	18%	122%	157%	10.7x	9.2x	8.2x	9.1x	0.0x	1.9x	1,380	42%		
									<b>avg</b>	<b>33.2x</b>	<b>27.2x</b>	<b>23.3x</b>	<b>26.8x</b>	<b>20%</b>	<b>136%</b>	<b>196%</b>	<b>15.0x</b>	<b>12.6x</b>	<b>10.9x</b>	<b>12.4x</b>	<b>0.0x</b>	<b>1.9x</b>	<b>2,338</b>	<b>71%</b>		
<b>UPSCALE DINING</b>																										
Morton's	MRT	12	\$6.48	NA	NR	\$104	\$0.30	\$0.42	\$0.46	21.9x	15.4x	14.1x	15.3x	12%	124%	112%	8.6x	7.4x	7.4x	7.4x	3.7x	5.9x	77	100%		
McCormick & Schmick's	MSSR	12	\$8.84	NA	NR	\$132	\$0.36	\$0.52	\$0.81	24.3x	17.0x	10.9x	16.2x	16%	103%	119%	5.9x	5.3x	4.5x	5.2x	0.6x	4.7x	94	100%		
Ruth's Hospitality Group	RUTH	12	\$4.70	\$6.00	Buy	\$201	\$0.30	\$0.34	\$0.39	15.6x	13.9x	12.2x	13.7x	14%	96%	100%	6.6x	6.1x	5.7x	6.0x	1.7x	4.2x	151	57%		
									<b>avg</b>	<b>20.8x</b>	<b>15.4x</b>	<b>12.4x</b>	<b>15.1x</b>	<b>14%</b>	<b>108%</b>	<b>110%</b>	<b>7.0x</b>	<b>6.2x</b>	<b>5.8x</b>	<b>6.2x</b>	<b>2.0x</b>	<b>4.9x</b>	<b>322</b>	<b>86%</b>		
<b>CASUAL DINING</b>																										
BJ's Restaurants	BJRI	12	\$35.07	NA	NR	\$986	\$0.80	\$0.98	\$1.16	43.6x	35.8x	30.2x	35.2x	23%	156%	259%	16.3x	13.3x	11.4x	13.1x	0.0x	2.1x	93	99%		
Brinker International	EAT	6	\$23.50	NA	NR	\$2,387	\$1.18	\$1.47	\$1.69	19.9x	16.0x	13.9x	14.7x	15%	99%	107%	8.1x	7.6x	7.1x	7.3x	1.7x	3.2x	1,689	61%		
Buffalo Wild Wings	BWLD	12	\$43.90	\$52.00	Buy	\$801	\$2.07	\$2.46	\$3.08	21.2x	17.9x	14.2x	17.5x	21%	83%	126%	7.7x	6.4x	5.2x	6.3x	0.0x	1.8x	652	36%		
California Pizza Kitchen	CPKI	12	\$15.75	NA	NR	\$387	\$0.59	\$0.72	\$0.85	26.6x	21.9x	18.5x	21.6x	15%	150%	160%	6.7x	6.0x	5.2x	5.9x	0.0x	3.2x	252	81%		
Cracker Barrel	CBRL	7	\$50.31	NA	NR	\$1,187	\$3.62	\$4.12	\$4.63	13.9x	12.2x	10.9x	11.5x	11%	111%	85%	7.6x	7.0x	6.6x	6.8x	2.5x	3.2x	590	100%		
Cheesecake Factory	CAKE	12	\$29.49	NA	NR	\$1,762	\$1.42	\$1.66	\$1.87	20.7x	17.8x	15.8x	17.6x	14%	127%	129%	8.6x	8.0x	7.4x	8.0x	0.2x	2.9x	161	100%		
Darden Restaurants	DRI	5	\$45.18	\$47.00	Hold	\$6,402	\$2.93	\$3.32	\$3.75	15.4x	13.6x	12.1x	12.5x	12%	102%	92%	8.2x	7.4x	6.9x	7.1x	1.6x	2.4x	1,803	98%		
DineEquity	DIN	12	\$50.52	NA	NR	\$888	\$3.56	\$3.75	\$4.02	14.2x	13.5x	12.6x	13.4x	11%	122%	98%	8.5x	8.9x	10.1x	8.9x	5.6x	6.1x	3,464	12%		
P.F. Chang's	PFCB	12	\$45.31	NA	NR	\$1,045	\$1.96	\$2.20	\$2.48	23.2x	20.6x	18.3x	20.4x	15%	138%	150%	7.0x	6.6x	6.2x	6.6x	0.0x	2.0x	363	100%		
Red Robin	RRGB	12	\$20.65	NA	NR	\$320	\$0.59	\$0.81	\$0.96	35.0x	25.5x	21.5x	25.1x	12%	204%	184%	6.5x	6.0x	5.7x	6.0x	2.2x	4.4x	439	70%		
Ruby Tuesday	RT	5	\$13.22	NA	NR	\$852	\$0.73	\$0.91	\$1.09	18.1x	14.5x	12.1x	12.8x	13%	100%	95%	8.2x	7.5x	6.7x	6.9x	2.1x	3.6x	901	75%		
Texas Roadhouse	TXRH	12	\$16.81	\$16.00	Hold	\$1,227	\$0.82	\$0.92	\$1.05	20.5x	18.3x	16.0x	18.1x	17%	106%	133%	9.2x	8.3x	7.5x	8.2x	0.5x	1.5x	331	79%		
									<b>avg</b>	<b>22.7x</b>	<b>19.0x</b>	<b>16.3x</b>	<b>18.4x</b>	<b>15%</b>	<b>125%</b>	<b>135%</b>	<b>8.5x</b>	<b>7.8x</b>	<b>7.2x</b>	<b>7.6x</b>	<b>1.4x</b>	<b>3.0x</b>	<b>10,738</b>	<b>76%</b>		
<b>COFFEE</b>																										
Starbucks**	SBUX	9	\$31.73	\$35.00	Buy	\$24,143	\$1.28	\$1.50	\$1.70	24.8x	21.2x	18.7x	20.3x	17%	123%	151%	11.7x	10.2x	9.2x	9.9x	0.3x	2.3x	16,635	53%		
									<b>Restaurant industry</b>	<b>21.7x</b>	<b>18.7x</b>	<b>15.8x</b>	<b>18.2x</b>	<b>15%</b>	<b>125%</b>	<b>133%</b>	<b>9.0x</b>	<b>8.2x</b>	<b>7.5x</b>	<b>8.0x</b>	<b>1.7x</b>	<b>3.4x</b>	<b>128,582</b>	<b>61%</b>		
									<b>S&amp;P 500</b>	<b>\$92.69</b>	<b>\$98.81</b>	<b>\$93.20</b>	<b>13.8x</b>	<b>12.9x</b>	<b>13.7x</b>	<b>14.9x</b>										

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



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

Deutsche Bank  US Agribusiness and Protein Valuations

Agribusiness & Protein Research  
Christina McGlone  
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Targets and Recommendations										Fiscal Year EPS			Performance			Other			
8/30/2010	Current	52-WK Range	Price Target	Curr Div Yield	Return vs. Price Target	Rating	US\$ Market Cap (m)	US\$ EV (m)	Free Float (%)	2009	2010E	2011E	Absolute			Total Debt/ Capital	Current Dividend		
Company	FYE	Price	Range	Target	Yield	Price Target	Cap (m)	EV (m)	(%)	2009	2010E	2011E	1 Month	3 Months	YTD	Total Debt/ Capital	Current Dividend		
ARCHER DANIELS	Jun	\$30.55	\$33-24	\$34	2.0%	11.3%	19,705	22,559	97.8	\$3.04	\$3.05	\$3.05	A	\$2.83	2.7%	-10.4%	-18.6%	33.4%	
BUNGE	Dec	\$52.00	\$74-45	\$58	1.6%	11.5%	7,464	10,441	98.9	\$1.69	\$3.26	\$5.14	E	\$5.14	2.4%	-18.4%	-22.0%	30.0%	
CORN PRODUCTS	Dec	\$34.33	\$38-26	\$36	1.6%	4.9%	2,623	2,960	99.0	\$2.00	\$2.74	\$2.93	E	\$2.93	-10.4%	-16.8%	-1.0%	27.7%	
DOLE FOOD	Dec	\$8.91	\$13-9	\$11	0.0%	23.5%	779	2,241	40.5	\$1.18	\$1.05	\$1.37	E	\$1.37	17.6%	-10.8%	-13.9%	66.2%	
HORMEL	Oct	\$42.70	\$44-35	\$38	2.0%	-11.0%	5,789	5,734	51.4	\$2.51	\$2.91	\$2.91	E	\$2.91	1.6%	-1.9%	7.0%	13.4%	
SANDERSON FARMS	Oct	\$43.14	\$59-36	\$52	1.4%	20.5%	907	874	86.2	\$3.99	\$5.70	\$4.54	A	\$4.54	-4.2%	-5.6%	20.9%	9.7%	
SMITHFIELD	Apr	\$16.03	\$21-12	\$21	0.0%	31.0%	2,659	5,216	85.2	(\$1.41)	(\$0.48)	\$1.72	E	\$1.72	-16.3%	-32.4%	-6.2%	52.2%	
TYSON	Sep	\$16.40	\$21-12	\$19	1.0%	15.9%	6,199	8,366	98.5	\$0.26	\$2.07	\$2.01	E	\$2.01	-6.1%	-14.4%	33.9%	38.7%	
US Agri. & Protein	-	\$29.29	\$1217-995	\$19	1.5%	-	46,126	58,391	-	\$1.72	\$2.42	\$2.71	-	\$2.71	-1.4%	-12.1%	-1.7%	\$0.45	
S&P 500 Index	-	\$1.049	\$1217-995	\$19	2.1%	-	-	-	-	-	-	-	-	-	-	-	-	-	\$22.43

Calendar Year Multiples										Fiscal Year Multiples & Yields					
Company	P/E		EV/EBITDA		EV/SALES		Price/Book Value		Price/Tangible Book Value		ROIC		2009	2010E	2011E
	2010E	2011E	2010E	2011E	2010E	2011E	2010E	2011E	2010E	2011E	2010E	2011E	2009	2010E	2011E
ARCHER DANIELS	11.3	10.1	7.2	6.7	0.3	0.3	1.3	1.2	1.4	1.3	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	1.0	0.9	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	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	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	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	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	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	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	1.5	1.4	-	-	-
S&P 500 Index	13.2	11.5	-	-	-	-	-	-	-	-	-	-	-	-	-

Calendar Year Forecasts																		
Company	Revenue			EBITDA			EBIT			EPS			DPS			Net Interest Cover		
	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E
ARCHER DANIELS	62,208	65,511	69,944	2,441	3,140	3,387	1,633	2,164	2,345	\$2.17	\$2.71	\$3.02	\$0.56	\$0.60	\$0.64	4.25	5.19	6.10
BUNGE	41,926	44,812	45,295	299	1,435	1,672	(144)	960	1,192	\$1.69	\$3.26	\$5.14	\$0.80	\$0.70	\$0.76	(0.72)	3.52	5.43
CORN PRODUCTS	3,672	3,864	5,082	403	483	682	273	346	427	\$2.00	\$2.74	\$2.93	\$0.60	\$0.65	\$0.67	7.26	13.37	6.95
DOLE FOOD	6,779	6,881	7,025	417	388	409	284	260	294	\$1.18	\$1.05	\$1.37	\$0.00	\$0.00	\$0.00	1.38	1.57	1.77
HORMEL	6,572	7,141	7,323	702	743	755	575	619	627	\$2.73	\$2.84	\$2.97	\$0.76	\$0.82	\$0.95	21.21	23.41	25.08
SANDERSON FARMS	1,821	1,935	1,995	212	238	220	169	193	172	\$5.07	\$5.47	\$5.01	\$0.57	\$0.59	\$0.61	24.39	94.73	60.42
SMITHFIELD	11,143	12,285	10,942	220	859	786	(20)	626	548	(\$1.19)	\$1.70	\$1.51	\$0.00	\$0.00	\$0.00	0.87	3.22	3.44
TYSON	26,818	29,645	30,001	1,375	2,066	1,966	874	1,559	1,447	\$0.98	\$2.14	\$2.00	\$0.18	\$0.19	\$0.16	2.81	5.86	6.00
US Agri. & Protein	160,938	172,074	177,607	6,070	9,350	9,877	3,645	6,727	7,052	\$1.59	\$2.50	\$2.77	\$0.43	\$0.44	\$0.47	-	-	-

Fiscal Year Forecasts																		
Company	Revenue Growth			EBITDA Growth			EBIT Growth			EPS Growth			DPS Growth			EBITDA Margin		
	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E
ARCHER DANIELS	-20.6%	5.3%	6.8%	-43.2%	28.6%	7.9%	-54.1%	32.5%	8.4%	-44.4%	24.9%	11.3%	8.7%	7.6%	6.2%	3.9%	4.8%	4.8%
BUNGE	-20.3%	6.9%	1.1%	-89.9%	380.1%	16.5%	-106.4%	-767.0%	24.1%	-75.0%	92.9%	57.4%	11.1%	-12.4%	8.4%	0.7%	3.2%	3.7%
CORN PRODUCTS	-6.9%	5.2%	31.5%	-29.9%	19.8%	41.3%	-38.9%	26.7%	23.5%	-44.3%	36.7%	7.1%	16.9%	8.4%	3.5%	11.0%	12.5%	13.4%
DOLE FOOD	-11.0%	1.5%	2.1%	2.1%	-7.1%	5.5%	26.5%	-8.4%	12.8%	-53.9%	-10.9%	30.1%	0.0%	0.0%	0.0%	6.2%	5.6%	5.8%
HORMEL	-3.7%	8.7%	2.5%	13.8%	5.8%	1.8%	17.2%	7.8%	1.3%	33.8%	3.8%	-4.8%	7.1%	8.6%	15.1%	10.7%	10.4%	10.3%
SANDERSON FARMS	4.0%	6.3%	3.1%	1938.1%	11.9%	-7.5%	NM	14.1%	-10.7%	-528.5%	7.9%	-8.4%	1.8%	3.0%	4.5%	11.7%	12.3%	11.0%
SMITHFIELD	-10.9%	10.2%	-10.9%	-25.4%	290.1%	-8.4%	NM	NM	-12.3%	55.9%	-242.9%	-11.2%	0.0%	0.0%	0.0%	2.0%	7.0%	7.2%
TYSON	-1.3%	10.5%	1.2%	128.0%	50.3%	-4.8%	634.5%	78.4%	-7.2%	NM	117.1%	-6.2%	9.4%	9.3%	-17.2%	5.1%	7.0%	6.6%
US Agri. & Protein	-15.6%	6.3%	3.2%	-36.1%	54.0%	5.6%	-48.5%	84.6%	4.8%	-37.7%	56.8%	10.8%	9.0%	2.7%	6.9%	3.8%	5.4%	5.6%

Miscellaneous data																		
Company	Total Debt	Total Cash	Net Debt	F2010E		EV Spread	Next Results Date	Release Date	Working Capital			FCF			FCF Yield			
	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E
ARCHER DANIELS	1,707	1,967	1,807	743	912	987	1,898	1,607	1,036	3,082	836	(762)	3,454	1,989	878	17.6%	10.1%	4.5%
BUNGE	335	513	797	443	475	480	940	800	768	346	(299)	(86)	(322)	(111)	423	-6.8%	-1.4%	5.2%
CORN PRODUCTS	47	210	239	130	137	255	146	163	254	274	(25)	(133)	442	159	106	17.1%	6.1%	3.8%
DOLE FOOD	88	96	123	120	115	117	51	115	126	72	(34)	(50)	230	63	66	44.0%	8.0%	8.5%
HORMEL	343	393	399	127	124	128	92	95	103	168	(38)	(2)	546	384	421	9.4%	6.7%	7.4%
SANDERSON FARMS	82	124	101	43	44	46	25	146	138	16	(4)	(5)	132	41	22	14.8%	4.4%	2.3%
SMITHFIELD	(243)	(76)	285	271	237	232	175	183	232	262	196	29	22	175	315	1.0%	6.9%	11.8%
TYSON	(537)	786	769	496	500	515	368	600	700	432	(116)	(30)	(8)	545	527	-0.0%	8.7%	8.4%
US Agri. & Protein	1,822	4,013	4,519	-	-	-	-	-	-	-	-	-	4,440	3,244	2,759	9.6%	6.7%	5.6%

Source: Deutsche Bank, Company Reports, Factset

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*The author of this report wishes to acknowledge the contribution made by Suresh Tantia, employee of Irevna, a third-party provider to Deutsche Bank of offshore research support services.*

# Appendix 1

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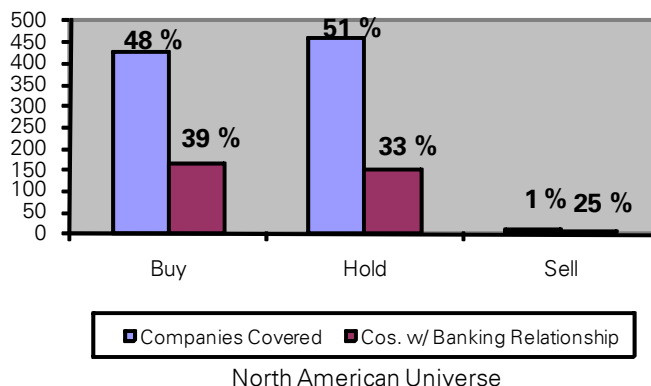
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