

**Chef America**

***A strategic acquisition in a high  
profit, high growth category***

***6th August 2002***

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# Agenda

- Nestlé USA Prepared Foods Division
- Chef America
- Sound Financial Rationale
- Conclusion



## Nestlé USA Prepared Foods

- 2001 sales of U.S. \$1.8 billion
- Key brands: Stouffer's®, Lean Cuisine®, Ortega® and Buitoni®
- Outstanding record of growth and profitability





## Nestlé USA Prepared Foods

- Leader in prepared frozen food category
- U.S. Prepared Foods Division has grown at approximately 10% annually for the last 5 years
- Driver for category growth



**Chef America**

The Makers of **HOT POCKETS** Brand Stuffed Sandwiches









## Chef America Overview

- Privately-owned company founded 1977, HQ in Denver, with over 1,650 employees
- Two highly automated manufacturing facilities in California and Kentucky
- Launched in 1983, Hot Pocket® created the frozen hand-held snack category
- 50% grocery channel share in the fast growing frozen hand-held category in which Nestlé does not participate
- Strong brand awareness
  - Hot Pockets®: 98%
  - Lean Pockets®: 90%
  - Croissant Pockets®: 65%
- Driver of category growth



## **Chef America Overview**

- **Products take advantage of key snack trends in the U.S.**
  - **Convenient**
  - **Portable**
  - **Consumed on-the-go**
- **Wide variety of flavours, well suited for morning, afternoon or evening eating occasions**



## **Chef America Financial Statistics**

- Last twelve months (LTM) ended 15 June, 2002 sales of \$669 million. \$722 million estimated for 2002
- Strong annual sales growth of 11% for past 5 years (+19% in Q2 2002)
- LTM ended 15 June, 2002 EBITDA of \$179 million. \$198 million in estimated 2002 EBITDA
- Historical EBITDA growth that has averaged an impressive 16% per annum since 1996

# Chef America Financial Statistics

*Impressive Sales Growth*  
(U.S.\$ millions)





## **Nestlé USA Prepared Foods Division and Chef America**

*Strengthens Nestlé's Frozen Foods Offerings  
With the Addition of a  
Market Leading, High-Growth Business*



## Stouffer's® and Chef America - Excellent Complementarity -

### Stouffer's®

- Strong in meals
- Older customer skew
- Strong in dinner usage occasions
- Strong in foodservice and convenience stores as well as grocery channels

### Chef America

- Strong in snacking
- Younger customer skew
- Strong in convenience and breakfast usage occasions
- Strong in grocery channel



## Nestlé Stouffer's® Business and Chef America

	<u>Stouffer's®</u>	<u>Chef America</u>
1. Frozen Entrées	<input checked="" type="checkbox"/>	
2. Frozen Snacks		<input checked="" type="checkbox"/>
3. Frozen Pizzas		

*Further Penetrating  
the "Three Pillars" of Frozen Food*



## **Achievable Annual Synergies: U.S. \$43 million by 2007**

- **Operating profit from incremental sales**      **\$9 mios.**
  - **Manufacturing operations**      **\$11 mios.**
  - **Administrative and general overheads**      **\$23 mios.**
- \$43 mios.**



## **Sound Financial Rationale**

- **Purchase price of U.S.\$2.6 billion before tax benefits**
- **Transaction structured as purchase of assets which allows goodwill to be fully-deductible for tax purposes over a period of 15 years**
- **Net present value (NPV) of the tax benefits, assuming 6% discount rate, is approximately U.S.\$600 million**
- **The purchase price net of this significant tax benefit is approximately U.S.\$2.0 billion**

## Sound Financial Rationale

- The key multiples are:

	<u>Gross Consideration</u>	<u>Consideration net of tax benefits</u>
2002E EBITDA	13.1x	<b>10.0x</b>







- Transaction accretive to Nestlé cash EPS in 2003
- ROIC exceeds WACC in 2004

## Conclusion

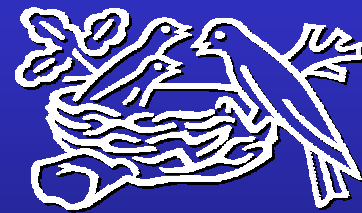
- An acquisition that
  - is economically attractive
  - strengthens Nestlé's position in the frozen foods category
  - increases Nestlé's top line sales growth
  - improves Nestlé's operating margins

***Strengthening leadership in  
a high growth market***

## Nestlé Acquisition Strategy

- To be category No.1 or strong No.2 
- Generate value for shareholders 
- Focused approach on value-added growth categories 
- Strong brands in leadership positions 
- RIG, cash flow and earnings enhancing 
- High degree of certainty of successful integration 

***Chef America meets these criteria***



Nestlé



**Chef America**