

# Private Label Food Performs in a Down Market

(RAH, THS, AIPC, KFT, GIS, SJM)

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Recent earnings results by Ralcorp (RAH) and AIPC (AIPC) have been met with a positive response from investors. Both companies delivered improved earnings growth with flat volume pulled lower by price deflation. Of course, it doesn't hurt that the stock market has gone negative and defensive stocks like food companies are by their nature more in favor during tough economic times.

Treehouse Foods( THS), Ralcorp and AIPC are the best pure plays in the food manufacturing sector that focus on private label manufacturing. Treehouse continues to add companies and categories (recent Sturm Foods purchase) and is positioning them as the top private label focused company. Ralcorp acquired Kraft Foods (KFT) Post cereal division and so far has struggled to deliver positive results. Ralcorp however has done a nice job improving the profitability of its private label cereal, snacks and frozen products. AIPC recently reported a strong improvement in earnings for their recent quarter. Sales were down due to price deflation in the pasta category but earnings jumped because commodity savings were greater. AIPC continues to benefit from strength in the pasta category driven by value conscious consumers looking for cheap at home meals like spaghetti.

With the VIX index increasing again and continued uncertainty in the economic recovery, defensive food companies provide a safe haven for investors. Food company stocks including branded players like Kraft, General Mills (GIS) and Smuckers (SJM) are at reasonable valuations given the markets uncertainty. Listed below are key market metrics for a sampling of food companies that we track and analyze.



	Market Cap	PE	RS	3 Year EPS
RAH	\$3.6 billion	12.5	36	26
AIPC	\$800 million	9.3	32	304
THS	\$1.2 billion	18.8	72	30
GIS	\$22.5 billion	14.2	60	12
KFT	\$41.8 billion	16.7	41	-4
SJM	\$7.1 billion	17.0	75	12

RS= IBD relative strength

While branded players provide the greater stability due to their size, private label companies have delivered stronger profit growth over the last 3 years. Valuations are also favorable for AIPC and RAH with Treehouse sporting a PE greater than its branded competitors.

Disclosure: no ownership of stocks listed

Shea Marketing is a leading marketing consulting firm for the supermarket industry. Their executives are former leaders for Kraft, Campbell Soup, Unilever, Malt-O-Meal and divisions of General Mills.

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