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Ms. Aslam joined Stephens Inc. in 2004 and leads the firm's food and agribusiness equity research coverage. Prior to joining Stephens, Ms. Aslam was part of Merrill Lynch's equity research effort since 1999 where she worked on such companies as Kellogg, Kraft Foods, and the J.M. Smucker Company. Ms. Aslam received her B.A. from the University of California in 1991 and an MBA in finance from Columbia University in 1996.

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In 2004 Farha Aslam joined Stephens, where she serves as Managing Director for the firm's food and agribusiness equity research coverage. Below she answers questions about consumer trends and M&A activity in the sector.

### What is driving the M&A activity in the food sector?

We cover three segments of the food industry: grain, packaged foods, and protein. All three have been very active in terms of M&A as companies seek growth via synergies and acquisitions and earnings stability. In addition to the current low interest rate environment, these companies tend to have very strong and stable cash flow which is allowing them to engage in M&A to the degree they are.

The volume growth for center of the store products – packaged foods, canned foods, pasta – has been very lackluster since the economic recovery. So food companies are seeking faster-growing categories and positive missed opportunities. Look at Hillshire Farms' acquisitions – before it was bought by Tyson -- of Aidells Sausage Company and Golden Island, which makes jerkies. They are the kind of niche specialty brands that companies see as providing new opportunity.

### What are the trends from the consumer side?

The key trends in food are fresh, better for you, and convenient, with many consumers willing to pay a premium for those items. From a food company's perspective, they ideally want to have offerings that meet all three of those consumer needs. That's why packaged food companies are seeking to improve product mix into premium and better for you items. Smuckers' purchase of Enray Foods – which makes organic and gluten-free foods - is emblematic of this trend.

We'll continue to see trends emerging around eating habits, but the goal toward healthier, better eating is very consistent. So companies try and position their portfolios not for short-term, very specific food trends, but for this longer-term, "better for you" trend.

The definition of "healthy" is very individual. As a food company the goal is to have products that fit into that category in a broader sense. There's a trend toward greater protein in our diet right now throughout the day, and you're seeing growth in consumers' interest in hot breakfasts. So companies are

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looking to trying to capitalize on that, resulting in Tyson's purchase of Hillshire, which includes the Jimmy Dean sausage brand. That's the key brand at breakfast.

### **How do companies respond to this trend beyond M&A?**

As consumers trend toward fresher foods, shopping the periphery of the store rather than the center, companies are looking to get their items into the produce, deli, and refrigerated-foods areas. So you are seeing a lot of innovation around food so they can get placement in these areas. That's where companies are hoping to increase their share, as that's where consumers are increasingly going.

### **Across the country, it has been a difficult year in terms of weather. Have food companies figured out how to benefit from better insight and predictability around weather?**

Weather is difficult to hedge around. However, Flower Foods, which is a bread company, has a very motivated distribution and sales network that does a terrific job around weather events. When there is adverse weather people stock up on bread. Flowers' sales and distribution networks work really well to ensure that consumers have the bread they want. I think this kind of strategy is one companies can emulate more.

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