

TER BEKE

ACCUMULATE

Unchanged



Date: 5 May 2004

Price: EUR 56.00

Reuters: TERB.BR

Bloomberg: TERB BB

(EUR - FY end: December)	2002	2003	2004e	2005e	2006e		
Sales (m)	178.9	190.2	206.0	217.9	226.1	Market cap. (m)	51.0
EBITDA (m)	19.9	21.5	22.9	24.3	25.2	No. of shares	911,094
EBITA (m)	8.0	9.9	10.8	12.2	13.1	Free float	22.9%
Net profit (m)	3.5	4.2	5.0	6.9	7.5	Avg. no. trad. sh. 12 mth	242
EPS adj.	5.24	5.91	6.90	6.03	6.43	Avg. trad. Vol. 12 mth	12,417
CFPS	16.68	17.39	20.18	14.91	15.28	Price high 12 mth	59.00
BVPS	20.40	24.37	55.79	40.18	43.11	Price low 12 mth	41.50
DPS	1.53	1.80	2.21	2.23	2.57	Abs. perf. 1 mth	-2.9%
Net Debt(+)/Cash(-) (m)	32.5	32.7	3.1	-3.7	-10.6	Abs. perf. 3 mth	0.3%
Interest coverage	8.4	10.3	14.6	-1635.4	-176.8	Abs. perf. 12 mth	36.6%
EV/EBITDA	3.5	3.5	2.4	3.0	2.6	Local index	No
EV/EBITA	8.7	7.6	5.0	5.9	5.0	DJ STOXX 50	No
P/E	7.7	7.9	8.1	9.3	8.7	EPS 2003-06 CAGR	2.9%
Dividend yield	3.8%	3.9%	3.9%	4.0%	4.6%		
ROCE	10.8%	12.3%	12.0%	13.2%	14.1%		

Main shareholders: Fam. Coopman & related 64.0% - Mercator 9.1% - VDK 2.0% - S.R.I.W. 2.0%

A fine recipe for meat and pasta

- Ter Beke published outstanding FY03 results. While net sales increased by 6.3% y-o-y to EUR 190.2m (EUR 196.8m exp.), net result jumped by 19.0% to EUR 4.2m (13.7% higher than our EUR 3.8m expectation). One third of the growth in FY03 is attributable to the acquisition of DiPasto, which was consolidated since July 1st, 2003, two thirds came from improvement in ready meals.
- An Automatic Convertible Debenture with maturity date December 29, 2004 will significantly dilute EPS in 2005. Taken into account this dilution our estimate of the fair value stands at EUR 60.51 per share (α of 0.6%) based on a risk premium on the Belgian market of 4.79%. Hence we confirm our recommendation on Ter Beke: Accumulate.

Note: Bank Degroof acts as liquidity provider for Ter Beke.

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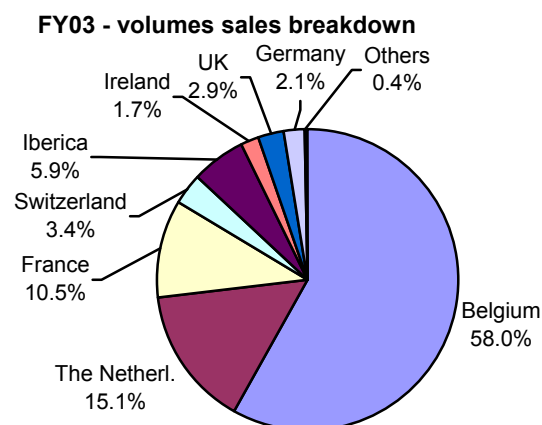
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1 Company profile

Ter Beke is a Waarschoot-Belgium headquartered Belgian fresh food producer that specialises in the development, production and sale of chilled ready meals and processed meat products. The product portfolio basically consists of salami, cooked ham, pâté, lasagne, pizzas and a range of ready-made pasta meals. Ter Beke has over 1100 employees and operates five production sites in Belgium (three meat product factories in Flanders and two sites in Wallonia producing fresh meals) and one in France, producing chilled ready meals, mainly pasta.

The processed meat division operates mainly in the Benelux. The chilled ready meal division markets its products throughout the European Union and Switzerland. Ter Beke uses for both divisions a differentiated, multi-channel approach based on private labels and consumer brands such as 'Come a Casa' (ready meals – pasta dishes), Vamos (lasagne), Pronto (pizza), 'L'Ardennaise', 'Les Nutons' and Daniel Coopman (processed meats) trademarks.

In Belgium, Ter Beke's most important competitors in meat products are Detry, Imperial Meat Products and Pluma. In the ready meal segment there is no 'all-round' competitor. Some other niche players are Mamma Lucia and Culinor.



Source: Company data

The larger part of sales is still in the Benelux but shrinking in favour of the rest of Europe

Ter Beke's most important export market is the Netherlands, which accounts for 36% of exported goods. Although no detailed figures are available we estimate that the larger part of the Benelux sales is composed of processed meat products. This contrasts with the turnover outside the Benelux that is mainly composed of ready meal products.

France and Germany are Ter Beke's oldest export markets with respectively 25% and 5% of exported goods. Sales are growing fast in France (Auchan, Carrefour...), Spain (Mercadona, Al Campo...), and the UK (Tesco, Safeway...). In 2003, Ter Beke took over the producer of chilled ready meals DiPasto in Alby-sur-Chéran, France, which is the home market of Fleury Michon, a French competitor also active in both processed meats products and fresh ready meals. For its further international expansion, Ter Beke is targetting France and Spain.

Transformation from a processed meat producer towards a producer of chilled ready meals

1.1 History

Ter Beke is a family-owned company which started its activities in 1948 as a processed meat producer. In 50 years, Ter Beke has grown from a small production unit for meat products into a leading international fresh food group, which enjoys a solid reputation for its high quality products and customer focus.

Major events

Year	Event
1948	Frans Coopman starts a local processed meats company
1986	Listing on the stock exchange
1987	Acquisition of Salaisons Ardennaises Heinen (Malmédy, B.)
1988	Acquisition of Reiners (Ruisselede, B.)
1991	Launch of the Coopman brand
1994	Diversification towards ready meals
1994	Acquisition of 74% of Vamos: Market leader chilled lasagne
1996	Acquisition of Pronto, L'Ardennaise, Heku and Europal
1996	Acquisition of the remaining 26% of Vamos
1996-1997	Pig fever, mad cow disease... : high raw material costs
1998	Acquisition of Zwan Salami from Hartog Union (Unilever)
1998-1999	Aurora-plan (restructuring plan) and dioxin crisis
1999	Emission of Automatic Convertible Debenture
2000	Start geographical expansion in Southern Europe
2003	Acquisition of DiPasto from the French group Agis
End 2004	Conversion of Automatic Convertible Debenture

Source: Company data, Degroof Research

Problems in the Belgian meat market, the zero growth in meat consumption in Western Europe and the growing importance of convenience food were the main drivers to review the strategic plans of Ter Beke and to diversify into chilled ready meals and pasta dishes. In 1994 Ter Beke acquired Vamos, a chilled lasagne producer, and its brand '**Come a Casa**'. The big breakthrough came in 1996 when the company acquired from Unilever its chilled food division as well as the pizza producer '**Pronto**' and the lasagne and fresh pâté producer '**Les Nutons**'.

Although the meat consumption started to stagnate in the nineties this sub-sector of the pre-sliced and pre-packaged sliced cold meat is still growing. To reinforce the processed meat division Ter Beke also acquired in 1996 '**Heku**' a slicer of processed meat. Ter Beke also acquired that year '**L'Ardennaise**' (dry sausages) and '**Europal**' a sale and distribution company.

In December 1998, stagnating demand, fierce competition and the rise of pork prices made the company adopt a restructuring program. This program consisted of scaling down capacity (disposal of 3 plants), focussing on the most profitable products and outsourcing non-core activities.

In 1999 Ter Beke faced a major crisis with the sudden and severe outbreak of the dioxin crisis. This crisis in combination with the restructuring plan resulted in a distressed balance sheet and a negative bottom line. To strengthen its financial position and finance the strategic conversion from a processed meat producer into a ready meal producer Ter Beke issued an Automatic Convertible Debenture (ACD).

From 2000 onwards Ter Beke focused mainly on the geographical expansion of its chilled ready meal segment.

The DiPasto deal

**July 1st, 2003:
DiPasto, a new-comer in the Ter Beke group**

The take-over of the Alby-sur-Chéran based (Haute Savoie – France) producer of chilled pasta meals DiPasto from the French food group Agis was Ter Beke's first acquisition abroad. This deal corresponded to strategically important objectives: the acquisition of a French identity, gaining access to all major retailers, the international spreading of the production risk and attainment of market leadership in France.

DiPasto's product portfolio mainly exists in various pasta dishes as tagliatelle ravioli, lasagne, and macaroni. DiPasto has branded and private label products (DiPasto named) but its turnover is mainly delivered in private labels. This contrasts with Ter Beke's lasagne line in Wanze where the bulk of the products are fabricated under the 'Come a Casa' label.

According to the company, one third of the growth in FY03 is attributable to this acquisition. The deal doubled Ter Beke's turnover in France to EUR 20m and makes the group market leader in chilled lasagne and pasta meals. Using the French basis, Ter Beke aims now at generating more easily new deals with the large French supermarkets.

1.2 Business description

1.2.1 The chilled ready meal division (65% of volume, 52% of sales)

Main products: lasagne, pizza, and pasta

The convenience market is growing

Current trends in food preparation demonstrate a move to more convenience. Chilled ready meals are related to 'convenience': the preparation of meals with little effort. Modern preservation methods and production techniques minimize the nutritional loss of precooked products and preparation can be done quickly while few cooking skills are needed. This implies that consumers are prepared to pay more for these value-added products. Convenience is the main growth factor for this division as the convenience food market is growing by 10 to 15% per annum.

Strong logistics

As chilled ready meals have to be fresh, they need to be delivered quickly to the distribution channel. Therefore Ter Beke has outsourced all the shipping and storage operations to logistic partners (a/o Christian Salvesen, Nagel). Hence there are almost no fixed transport costs. The company's 48-hour delivery principle implies that relatively low stock inventories in ready meals are needed. To do so the internal organisation must be flawless. When big retailers place an order with Ter Beke, the next day it is manufactured and cooled. On day 3 the

product is transported and delivered to the client via an integrated and uninterrupted cold store chain. Only few of Ter Beke competitors are able to manage the chilled supply chain needed to realise this.

Severe terms of food safety and hygiene

The company has also invested a lot of efforts in the traceability of its products and on the highest quality assurance of food production in its companies. The Hazard Analysis of Critical Control Point is an authoritative tool within the food industry of terms of food safety and hygiene. Through HACCP product safety is guaranteed in terms of supply, production and distribution. Although difficult to quantify, the logistic force and above-mentioned elements form an important asset of the company. On top of HACCP, Ter Beke has invested in having all its production plants certified conforming the very demanding BRC (British Retail Consortium) standards.

Geographic expansion and new products

The chilled ready meal division is active throughout Europe. The ready meals are manufactured in Belgium and strongly marketed in neighbouring countries. In recent years Ter Beke strongly expanded its market share in the Netherlands, Switzerland and more recently in Ireland and Spain. In France, the DiPasto acquisition should lead towards renewed growth. Ter Beke is now a market leader in chilled lasagne in the Benelux, France, Spain, Switzerland and Ireland. At this moment, the company is planning to expand in France and Spain, but also in other countries such as Portugal and Denmark where it is expected to demonstrate similar growth figures.

The assortment under the 'Come a Casa' brand was recently further expanded with the addition of new products as pizza, paella and couscous. This division is the growth driver of Ter Beke while the market for fresh pasta products grows by 7 to 10% per year. Future main drivers for this division may be consumers' interest in ethnic cuisine and growing demand for healthier foods.

1.2.2 The processed meat division (35% of volume, 48% of sales)

Main products: salami, ham, pâté and poultry

Stable cash flows

The processed meat division is Ter Beke oldest division and was the company's core business until the strategic conversion decided some 10 years ago. Although the processed meat sector operates in a competitive environment with consequently low gross margins, this division generates steady and stable cash flows. In recent years Ter Beke used these cash flows partly to build out the ready meal division.

Pork price is still an important cost driver in the processed meats division

Ter Beke uses between 350 and 400 ton of pork on a weekly basis. If we take into account the average pork price of the last three years (1.03 EUR/kg) we estimate pork to represent around 20% of Ter Beke's total raw material costs.

The major problems of this division are:

Stagnating meat consumption

- On the demand side: in the short term meat consumption is stable at best and in the long term even slightly declining. The consumption of veal, pork and combinations measured through units of volume has been stable over the last years.

Heavily dependent on evolution of pork prices

- The Belgian wholesale channel is under pricing pressure from the increasingly keen competition of supermarkets. Indeed 60% of all bought meat is distributed via the supermarkets in Belgium. The arrival of Carrefour on the Belgian market a few years ago leads to a fiercer fight for market shares and lower margins for suppliers.
- On the supply side, the price of pork is an important parameter for Ter Beke as cooked ham uses pork for almost 90% and salami for over 50%. For the processed meat division we estimate that pork accounts for more than 75% of the raw material cost.

Since food safety is key of a food processing company, Ter Beke is very selective with its pork and poultry suppliers. Suppliers have to undersign a charter, mainly stipulating severe requirements about quality. In order to guarantee the food quality, bought pork is for 90% processed the same day.

1.3 Strategy

Market leadership in ready meals and processed meat

Ter Beke aims to be an acknowledged market leader in

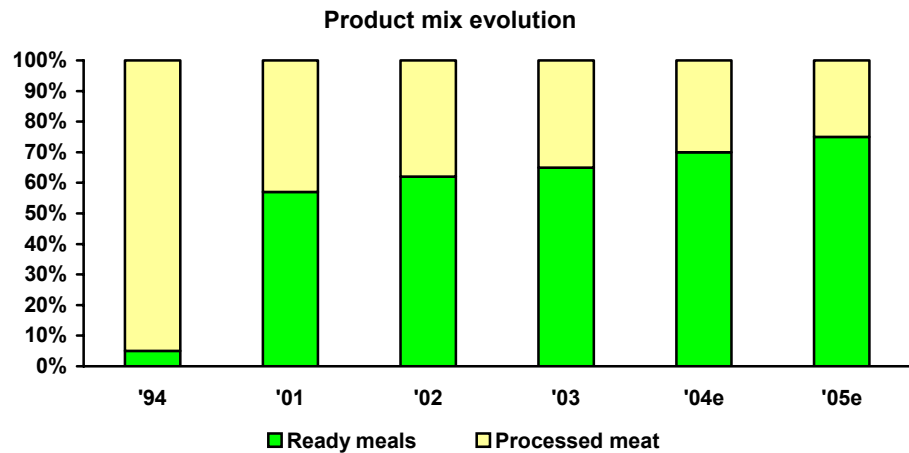
- chilled ready meals in Europe
- processed meat in the Benelux.

Changing consumer attitudes (the burgeoning interest in convenience food) and unfavourable market conditions were the triggers behind the shift from a pure processed meat producer into a chilled ready meal manufacturer:

- Margin pressure from the super- and hypermarkets with the traditional processed meat products. In contrast higher margins can be obtained in the fresh ready meals segment.
- A change in consumer attitude: the consumer buys less meat and more ready meals.
- The supply of meat is dependent on price disturbing factors as food crises. Also the pork price is a major determinant of Ter Beke's cost price. For commercial reasons it is not always possible to pass on higher raw material prices to the key customer accounts.

Enhanced product mix

Ter Beke executed its transformation by buying several ready meal companies. The acquisitions followed by a restructuring program resulted in an enhanced product mix. Ten years ago, in 1994, the ready meal segment accounted for only 5% of the group's total volume. In 2001, ready meals already accounted for 57% of total volume and in 2003 they represented approximately 65% of the sold volume compared with 62% in 2002. Since 1994 the group thus totally changed its product mix reducing considerably its exposure towards food crises. Further growth will be focused in the chilled ready meals business.



Source: Company data, Degroof Research

Well-known customers

For both lines of products the company focuses on a number of selected larger customers in the retail, specialist wholesalers and since 2003 also the out-of-home sector. To name a few of its customers: Delhaize, Colruyt, Albert Heijn, Carrefour, Tesco, Mercadona, El Corte Inglés...

Ter Beke aims at further developing *the ready meal division* through **product innovation, branding, and internal & external growth** while maintaining the steady cash flows of the processed meat division by enhancing the product segment.

Brandnew R&D center for the ready meal division

Product innovation

Adding new products will support the further expansion of the ready meal division. In the fall of 2003, the first stone was laid for a new Research & Development Centre in Marche-en-Famenne, which will do research on pasta and sauces. This will make it possible to concentrate all of the specialists and skills in one place and thus will optimise the efficiency of investments.

Branding

Ter Beke distinguishes three types of brands:

- Consumer brands
- Professional brands
- Private labels

Consumer Brands

Branding of consumer labels: Come a Casa L'Ardennaise

The Consumer brands are subdivided in ready meal and processed meat brands. Namely:

- Ready meal brand: '**Come a Casa**'

All branded ready meals are under this label. This leads to higher margins because the consumer is willing to pay more for a (perceived) quality product than for a private label and constitutes an entry barrier for potential

newcomers. Through the consumer familiarity with labels Ter Beke protects its product and its market.

However, branding of products requires considerable amounts of money. We expect the company to invest more in the near future in order to enhance its brand recognition.

In 2003, the 'Come a Casa' brand of chilled ready meals was coupled with large-scale promotional activities and television campaigns in Belgium and Ireland. Thus the 'Come a Casa' brand has conquered its place in the Belgian market. In 2004 Ter Beke will continue this strategy and will also build up a position in the French and Dutch markets. The 'DiPasto' label Ter Beke acquired in 2003 will be gradually replaced by 'Come a Casa'.

- Processed meat brand: '**L'Ardennaise**'

Through this label the company markets a range of pre-sliced processed meats for the distribution such as chicken strips and its variations, salami, pâté, ham, chicken and turkey filets.

Both 'L'Ardennaise' and 'Come a Casa' are mainly sold to the end customer through the retail channel (super- and hypermarkets).

Professional brands

**Branding of professional labels:
Daniel Coopman
Vamos**

Ter Beke professional brand names are branded through its labels '**Daniel Coopman**' (processed meat) and '**Vamos**' (processed ready meals). The targeted clientele is the over the counter market, mainly the butchers.

Besides these professional brands the company also markets its products via exclusivity labels and private labels.

Private labels

Ter Beke also produces private label products for retailers, for instance at Delhaize (Derby) and Aldi (Delicato). Overall, private labels account for more than 50% of total sales. The exclusivity label 'Les Nutons' is being used for pâté distribution for Albert Heijn. However, the pricing power through such a label is limited and the entry barrier is low, thus creating a window of opportunity for competitors. Ter Beke attempts to encounter this by building a long-term relationship with its private-label retailers through investments in a high quality supply chain and service level.

Out-of-Home consumption

In 2004: focus on the out-of-home market

Since the beginning of 2003 Ter Beke had been developing the market segment of out-of-home consumption, which was new for the company. The targeted group is the out-of-home specialised caterers such as the restaurants or hospitals, universities and international institutions. In 2004 Ter Beke will continue to develop this strategy and will invest further in this segment. Alongside the traditional channel, the so-called convenience shops (filling stations for example) will be used.

Further geographic expansion in the ready meal segment

Internal and external growth

Ter Beke will most likely continue with its geographic expansion in Southern Europe. In contrast with the Nordic countries, Southern Europe has a bigger population density, which reduces distribution costs considerably. The company is expected to expand further in France, Spain and in Portugal.

As the financial situation of the company improves drastically through the expiry of an automatic convertible debenture (see below), a new acquisition, most likely in the ready meal segment, may occur.

A further expansion of the Italian segment (pasta, pizza, etc) wherein Ter Beke currently operates is most likely since the company is most acquainted with this faster growing product group. Even an acquisition of a company in other segments of the ready meal markets as exotic meals or national dishes cannot be excluded as these market segments are fast growing.

2 A shareholder reshuffle to be expected

2.1 Expiring Automatic Convertible Debenture

December 1999: the issue of a subordinated automatic convertible debenture

In order to strengthen its financial position after the dioxin crisis and to finance the strategic conversion from processed meat producer into a ready meal producer, Ter Beke issued a subordinated Automatic Convertible Debenture (ACD) of EUR 25,6m at 6% with maturity date December 29, 2004. Another key element at the launch of the ACD was the financial commitment of the Ter Beke management by subscribing substantially in the operation. The investors of the ACD were:

Investor	# ACD	Value (EUR)	%
Mercator & Noordstar	300	7,500,000	29%
Compagnie du Bois Sauvage	200	5,000,000	19%
S.R.I.W.	150	3,750,000	15%
Seneca (Luc De Bruyckere)	130	3,250,000	13%
Family Coopman	100	2,500,000	10%
Pecunia (MT Ter Beke)	70	1,750,000	7%
Lessius	50	1,250,000	5%
Koceram	25	625,000	2%
Total	1025	25,625,000	100%

Source: company data, Degroof Research

The conversion price is equal to the mean market price during 6 months before conversion with a discount of 15% and with a minimum conversion price of EUR 56.84. Given that over the successive conversion periods the market price of Ter Beke was lower than the minimum conversion price of EUR 56.84, the earlier conversion options have not been exercised yet. Until maturity date the conversion option is exercisable in April and October 2004, linked to a sliding scale lock-up period of 12 months. Automatic conversion on expiry of the full term, linked to a sliding scale lock-up period of 6 months, will be exercised January 1st, 2005.

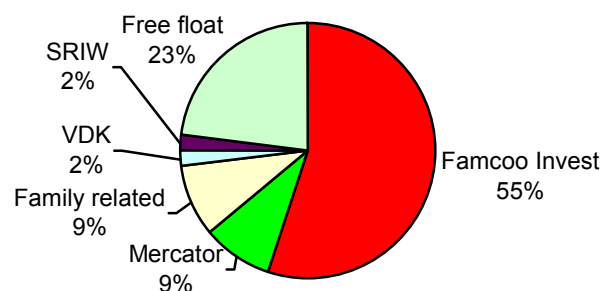
2.2 Dilution

As a result of the conversion, the share capital of the company will represent a maximum of 1,361,921 shares, namely the existing 911,094 shares with the 450,827 newly issued shares. Hence, the existing shareholders' stakes will be diluted by a maximum of 33.8%. This dilution will be softened if the stock market price is higher than the conversion price (EUR 56.84). In addition, in 1999, 2000, 2002 and 2003 stock options with a maturity of 5 years (extended by 3 years for the options of 1999, 2000 and 2002) have been granted to key employees. The number of new shares that can be created through the exercise of the options amounts to 35,950. Adding this to the 450,827 new shares that will be created as a result of the conversion of the ACD, the maximum total amount of shares stands at 1,397,871.

We doubt organic growth and better financial results (thanks to the lower financial debt) will fully compensate the creation of new shares. As a result, Ter Beke will have to use its renewed financial flexibility to proceed to new investments in the business.

2.3 Shareholder reshuffle

Shareholder structure (2003)



Source: Company data, Degroof Research

Higher free float

At this moment, Ter Beke's main shareholder is the Coopman family, but the shareholders structure will be reshuffled through the expiry of the ACD. All of the created shares will be listed on the stock exchange. This would allow an easy exit for some of the debt subscribers.

The Coopman family subscribed the ACD but agreed to give up the company control in 2005. Famcoo Invest (the holding of the Coopman family) will thus lose the majority in 2005. Although the absolute majority is lost, the family will still have a significant role to play since there is a gentlemen agreement between Famcoo Invest and Mercator. Through this agreement Mercator is bound to act in accordance with Famcoo.

The new shareholder structure will likely be modified further. Indeed some of the bondholders might sell part of the newly created shares for various reasons. Since the Coopman family loses anyway the full majority of the company it could make sense for them to further reduce their stake towards e.g. 25%.

The bankinsurer Mercator, the biggest underwriter of the ACD, might also reduce its stake. Mercator has been acquired by the Swiss group The Baloise and now its portfolio is being reshuffled.

Very recently the bankinsurer announced it would continue divestments and will outsource its venture capital business to Origo Management.

In the long term we think that also Pecunia (the holding of the management) might reduce part of its stake since management was heavily financially involved.

Although each of these factors might not happen at once, this reshuffle could drastically increase the free float.

The following table illustrates the current and future shareholder structure:

Shareholder	As of today	After expiry of ADC
Famcoo Invest + Family related	64.05%	46.08%
Mercator	9.10%	15.78%
Cie Bois Sauvage		6.46%
VDK	2.00%	1.34%
SRIW	1.96%	6.16%
Seneca		4.20%
Pecunia		2.26%
Lessius		1.61%
Koceram		0.81%
Free Float	22.9%	15.31%

Source: Company data, Degroof Research

2.4 Lower gearing

Declining net debt

In 2005 the financial charges will decline by EUR 1,54m or 6% to EUR 25.6m as a result of the ACD being converted into equity. Ceteris paribus a net cash position in 2005 is forecasted.

The solvability will thus increase considerably from 2005 onwards.

Since the ACD will be converted relatively soon the bond can be considered as 'quasi' equity. Belgian GAAP however does not allow the ACD to be booked as equity until effective conversion.

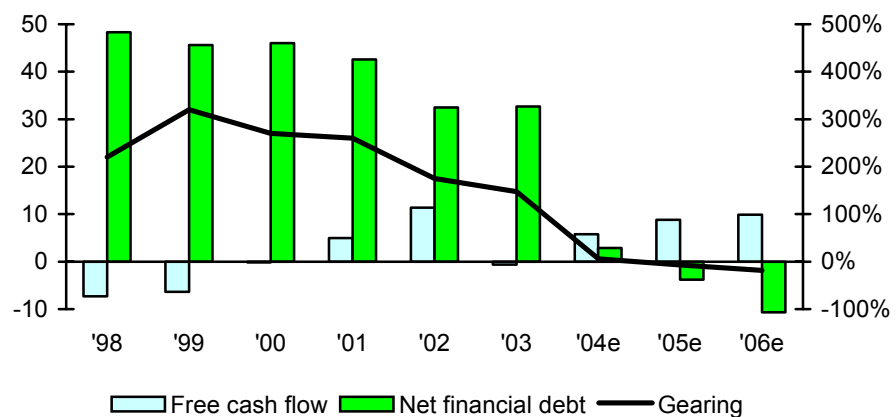
From a balance sheet point of view this will have radical consequences as illustrated through the table hereunder:

Net debt and debt ratios (EUR 'm)

	2003	2004e	2005e	2006e
Net Debt	32.7	2.9	-3.8	-10.7
Equity	22.2	51.0	54.9	58.9
Debt / Equity	147.3%	5.7%	-7.0%	-18.2%

Source: Company data, Degroof Research

Net debt and free cash flow evolution (EUR 'm)



Source: Company data, Degroof Research

3 Comments on FY03 results

Turnover and operating result

Results beyond expectations, thanks to the DiPasto acquisition

Ter Beke published results beyond expectations. Ter Beke's net sales increased by 6.3% y-o-y to EUR 190.2m. One third of the growth is attributable to the acquisition of DiPasto in France, which was included for 6 months in the 2003 consolidation circle. The remaining two thirds mainly result from the improvement in ready meals. The ready meal segment accounts now for 65% of the group's total volume (a 4.8% y-o-y increase) and for 52% of sales.

An increased turnover and relative calm on the raw material markets

The operating result improved y-o-y by an impressive 23.8% to EUR 9.9m (EUR 8.0m in 2002) The increase in turnover and the relative calm on the raw material markets accounted for almost EUR 1m of this growth.

The EBITDA of the company amounted to EUR 21.5m vs. EUR 19.35m expected. Net result came out 13.7% better than expected at EUR 4.2m.

As the basic hog price was declining slightly throughout 2003, EBITDA increased with 8.1% y-o-y. The EBITDA margin consequently reached 11.3% compared to 11.1% in 2002 and 8.2% in 2001.

Investments

In 2003 Ter Beke invested ca. EUR 12m in the expansion and modernisation of its production equipment. Around EUR 7.5m was implemented in 2003. More than EUR 1m was invested in the further development of a new integrated ERP system.

Automated lasagne line in Wanze

The new fully automated lasagne line at the Wanze site (Come a Case and Vamos) was Ter Beke's most important investment project in 2003. The extension doubles the production capacity for lasagne in consumer packaging and is necessary to respond to the growing demand in future years. In 2H03 the company also started the construction of a new shipping platform.

New R & D Center in Marche-en-Famenne

In Marche-en-Famenne, Ter Beke started the building of a new Research and Development Center, which will do research on pasta and sauces. The symbolic first stone for this EUR 800,000 investment was laid in the fall of 2003.

In continuation of Ter Beke's multi-annual plan for processed meats, the salami production facility in Waarschoot was modernised.

Financial Result & income taxes

Better interest coverage

The financial result improved for the second successive year by around EUR 0.5m in 2003. This is due to the net cash flow, which rose with EUR 0.5m to EUR 16.8m and made it possible to finance the DiPasto-acquisition and the investment programme. This also leads to a better interest coverage (EBITDA/ Net Financial Interest) of 10.3 compared to 8.4 in 2002.

Exceptional results had a negligible impact on overall results.

Higher tax rate

The EUR 6.66m result before tax combined with a tax rate of 36.9% resulted in a net profit of EUR 4.20 in 2002. (+19.0% - EUR 3.53 in 2002). The tax rate has almost doubled which is mainly explained by the fact that tax losses carried forward had been fully exhausted in 2002. The average tax burden lies around 2% above the average standard assessment rate, primarily because Ter Beke opts for a conservative valuation rule with regard to the booking of deferred tax assets and because of disallowed expenditures (e.g. environmental costs which in Belgium are no longer tax deductible from 2003).

Dividend

The Board of Directors proposes a gross dividend per share of EUR 1.80 (net: EUR 1.35), up 17% vs. 2002. Hence gross yield stands at 3.9%. The payout ratio amounts 30.5%.

4 Financial Outlook

Further sales growth expected

The company expects a sales growth between 7% and 8% in 2004. We consider this target achievable, but only if double-digit growth can be reached in chilled ready meals sales. As the market grows fast, an acquisition in this segment would be appropriate.

There are no important seasonal effects in the quarterly sales of Ter Beke but the company's results are very much dependent of the fluctuating pork prices. In the short term management does not expect any major fluctuations in raw material prices. Also we believe that the management can maintain its strict cost control. From 2004 until 2006 we expect the EBITDA margin to decline progressively to 11.1%. The 2004-2009 CAGR of EBITDA is calculated at 2.2%

Ter Beke plans to invest around EUR 12m in 2004. At the DiPasto-plant in Alby-sur-Chéran, the company will expand the capacity and increase the production standards of the plant. We expect the company to reduce its capex and calculated on average a capex of EUR 11m for the next four years. The declining capex leads to lower depreciation levels and has a positive impact on EBITA.

Decreasing financial debt

Financial debt will decrease strongly from 2005 onwards. The main driver behind this is the conversion of the automatic convertible debenture early in 2005 (see page 10-12 for more details). As a result, from 2005 onwards the company will no longer pay EUR 1.5m per year of interest charges (=6% interest on the EUR 25.6m loan).

Fully taxable

Furthermore we expect a normalised tax rate of 34% since the company can no longer carry forward losses.

An encouraging outlook and further international expansion

Ter Beke gave an encouraging outlook for 2004 as it expects further improvement in the result. No precise figures were given, but the company stated its aims at:

- further international expansion of the group and
- strengthening of its position on the domestic market.

This will be reached by extension of the brand Come a Casa, innovation in the product range and increased efficiency of the production infrastructure. Since Ter Beke is clearly focusing on expansion abroad, we expect management to compensate dilution by using its improved financial flexibility for acquisitions.

5 Valuation

Three methods have been used for the valuation of Ter Beke:

- A valuation based on the discounted free cash flows
- A valuation based on the dividend discount model
- A valuation using the economic profit of EVATM method

Given the current market parameters, these valuation models (see details below) lead to a fair value of EUR 60.51 per share. One should note that the risk pre-

mium determined by Degroof Research stands at 4.79%, which is significantly above the historical average of 3.15%. Should the risk premium return to its historical average, our model would lead to a fair value per diluted share of EUR 77.

5.1 DCF valuation

The DCF model leads to a value of EUR 60.51 per share

The DCF Valuation points to a theoretical value of equity of EUR 82.72m or EUR 60.51 per share. As mentioned above, the market risk premium stands at 4.79%. The risk free rate stands at 4.85% and the estimated beta of Ter Beke is 1.27. A long-term growth rate of 0,5% (from 2009 onwards) was applied in calculating the terminal value.

We have assumed that Ter Beke will invest each year EUR 11m on average over the next four years. A long term EBITDA margin of 10.8% was used in determining the residual value. Free cash flows in the final period were discounted at a weighted average cost of capital of 10.9%.

DCF model	2004	2005	2006	2007	2008	2009
- Market risk free	4.85%					
- Market risk premium	4.79%					
- Long term growth	0.50%					
- Beta (leveraged)	1.27	1.27	1.27	1.27	1.27	1.27
NOPLAT	7.35	8.19	8.67	9.12	10.05	10.13
+ Depreciation & other non cash	12.10	12.11	12.04	11.75	10.36	10.36
- Investment	-12.00	-11.40	-10.83	-10.29	-10.36	-10.36
- Investment in working capital	-0.80	-0.09	-0.06	-0.05	-0.04	-0.29
= Free cash flow	6.64	8.81	9.82	10.54	10.02	9.84
Discount factor	0.95	0.85	0.77	0.69	0.62	0.56
Present value of free cash flow	6.28	7.50	7.54	7.30	6.25	5.54
Cumulative present value of FCF	40.41					
+ Present value of terminal value	53.36					
= Enterprise value	93.76					
- Net Debt	-32.59					
- Provisions	-2.68					
- Minorities	0.00					
+ Value of peripheral assets	0.00					
= Theoretical value of equity	58.50					
Idem per share	64.21					
Current value of ACD	24.22					
= Value of equity after dilution	82.72					
Idem per fully diluted share	60.51					

Our DCF model is calculated on a fully diluted basis, adjusted with the current value of the Automatic Convertible Debenture (ACD). This is important since Ter Beke's ACD is maturing in December 2004 creating a maximum of 450,827 additional new shares.

This dilution will be reduced by any rise of the share price and thus the conversion price of the ACDs. An average quoted share price of Ter Beke of EUR 70 during the 6 months prior to conversion would bring the conversion price to EUR 59.5 (taken into account the 15% discount). This would lead to the creation of 430.672 additional new shares and would bring the estimated fair value of Ter Beke at EUR 61.41 per diluted share.

When we calculate the theoretical value of equity on a not diluted basis, our estimated fair value stands at EUR 64.21 per share.

5.2 Dividend discount model

The DDM valuation leads to a value of EUR 60.51 per share

The parameters used for valuing Ter Beke through the dividend discount model were the same than for the DCF-model (Cost of Equity: 10.9%). The long-term growth rate of dividends used in the Gordon-Shapiro formula was 3.69%.

Using these parameters, the dividend discount model leads to a value of EUR 60.51 per share.

5.3 Economic profit or EVA™ model

EVA™ leads to EUR 60.51 per share

The Economic Value Added model points to a theoretical value of EUR 82.72m, equivalent of EUR 60.51 per share. After 2009 we assume perpetual growth of 0.5%.

Economic profit model	2004	2005	2006	2007	2008	2009
- Market risk free	4.85%					
- Market risk premium	4.79%					
- Long term growth	0.50%					
- Beta (leveraged)	1.27	1.27	1.27	1.27	1.27	1.27
RoIC	12.0%	13.2%	14.1%	15.2%	17.1%	17.2%
WACC	9.0%	10.9%	10.9%	10.9%	10.9%	10.9%
Spread	3.0%	2.3%	3.2%	4.2%	6.2%	6.3%
Invested capital (at year start)	61.21	61.91	61.30	60.15	58.73	58.77
Economic profit	1.84	1.43	1.97	2.55	3.64	3.71
NOPLAT	7.35	8.19	8.67	9.12	10.05	10.13
Capital charges	-5.51	-6.77	-6.70	-6.57	-6.42	-6.42
Economic profit	1.84	1.43	1.97	2.55	3.64	3.71
Discount factor	0.95	0.85	0.77	0.69	0.62	0.56
Actualized economic profit	1.74	1.22	1.51	1.77	2.27	2.09
Cumulative PV of economic profit	10.59					
+ Present value of terminal value	20.12					
+ Capital invested	63.06					
= Value of operations	93.76					
- Value of Net debt &nd Provisions	-35.26					
- Minorities	0.00					
+ Value of peripheral assets	0.00					
= Theoretical value of equity	58.50					
Idem per share	64.21					
Current value of ACD	24.22					
= Value of equity after dilution	82.72					
Idem per fully diluted share	60.51					

6 Recommendation

Ter Beke published better than expected 2003 results. Moreover, we expect further improvement as DiPasto will be consolidated for 12 months in 2004 and as internal growth of the ready meal business will continue.

Moreover, the Automatic Convertible Debenture maturing in December 2004 will lead to creating sufficient financial room for acquisitions in the ready meal business in the near term.

As our valuation models lead to a fair value per share of EUR 60.51, the upside potential is 8.0%. Therefore we stick to our 'Accumulate' advice.

7 SWOT analysis & financial calendar

Strengths	Weaknesses
<ul style="list-style-type: none"> • Strong brand names + strong logistics (traceability, quality standards) constitute major entry barriers • Major European retailers as customer • Management is committed and financially involved 	<ul style="list-style-type: none"> • Low liquidity • Low visibility (no figures available per division) • Pork price is still a major determinant of cost price • Dilution of earnings • Negative image of food industry due to earlier food crises
Opportunities	Threats
<ul style="list-style-type: none"> • Geographic expansion of sales in Southern and Northern Europe • Product innovation • Internal and external growth in the ready meal segment 	<ul style="list-style-type: none"> • A major food crisis (hog fever ...) • Price pressure from super-markets and major retailers • Declining meat consumption

Financial calendar

27 May 2004

15 June 2004

9 September 2004

AGM

FY Dividend payment

1H results

PROFIT & LOSS (EUR m)	2002	2003	2004e	2005e	2006e	CAGR 03/06
Sales	178.9	190.2	206.0	217.9	226.1	5.9%
EBITDA	19.9	21.5	22.9	24.3	25.2	5.4%
Depreciation & Provisions	-11.9	-11.6	-12.1	-12.1	-12.0	
EBITA	8.0	9.9	10.8	12.2	13.1	9.8%
Goodwill Amortisation	-1.2	-1.2	-1.3	-1.3	-1.3	
EBIT	6.9	8.7	9.5	11.0	11.9	10.8%
Net Financial Interest	-2.4	-2.1	-1.6	0.0	0.1	
Other financials	-0.2	0.0	0.0	0.0	0.0	
Extraordinary Items	0.1	0.0	0.0	0.0	0.0	
Earning Before Tax (EBT)	4.4	6.7	8.0	11.0	12.0	
Tax	-0.8	-2.5	-3.0	-4.0	-4.5	
Tax rate	18.8%	36.9%	37.1%	36.8%	37.6%	
Associates	0.0	0.0	0.0	0.0	0.0	
Minorities	0.0	0.0	0.0	0.0	0.0	
Net Profit (reported)	3.5	4.2	5.0	6.9	7.5	21.2%
Net Profit (adj.)	4.8	5.4	6.3	8.2	8.8	17.6%
CASH FLOW (EUR m)						
Net Profit (reported) + Minorities	3.5	4.2	5.0	6.9	7.5	
Non cash items	11.7	11.6	13.4	13.4	13.3	
Cash Flow	15.2	15.8	18.4	20.3	20.8	9.5%
Change in Net Working Capital	8.0	-4.2	-0.8	-0.1	-0.1	
Capex	-11.8	-12.3	-12.0	-11.4	-10.8	
Operating Free Cash Flow (OpFCF)	11.4	-0.6	5.6	8.8	9.9	N.R.
Net Financial Investment	-0.4	0.0	0.0	0.0	0.0	
Dividends	-1.3	-1.5	-1.6	-2.0	-3.0	
Others (incl. Capital Increase)	0.5	1.9	25.6	0.0	0.0	
Change in net debt(-) / cash(+)	10.2	-0.2	29.6	6.8	6.9	
NOPLAT	6.8	6.8	7.4	8.2	8.7	
BALANCE SHEET (EUR m)						
Net Tangible Assets	41.8	41.8	41.7	41.0	39.8	
Net Intangible Assets (ex goodwill)	3.4	3.2	3.2	3.2	3.2	
Goodwill	11.1	11.7	10.5	9.2	7.9	
Net Financial Assets & Others	0.1	0.0	0.0	0.0	0.0	
Total Fixed Assets	56.4	56.8	55.4	53.4	50.9	-3.5%
Net Working Capital	-3.4	0.8	1.6	1.7	1.8	
Total Net Assets	53.1	57.6	57.0	55.1	52.7	
Shareholders Equity	18.6	22.2	50.8	54.7	58.7	38.3%
Minorities Equity	0.0	0.0	0.0	0.0	0.0	
Net Debt	32.5	32.7	3.1	-3.7	-10.6	N.R.
Provision (pension & others related to cost)	2.0	2.7	2.7	2.7	2.7	
Other liabilities	0.0	0.0	0.4	1.4	1.9	
OTHER ITEMS (EUR m)						
Cumulated Goodwill Amortisation	2.4	3.6	4.9	6.2	7.5	
Gross Capital Employed / Invested (CE)	62.8	55.5	61.2	61.9	61.3	
Market Cap (adj.)	36.9	42.5	51.0	76.3	76.3	
EV (adj.)	69.5	75.3	54.2	72.7	65.8	
MARGINS AND RATIOS						
Sales growth	7.4%	6.3%	8.3%	5.8%	3.8%	
EBITDA growth	45.4%	8.1%	6.5%	6.3%	3.4%	
EBIT growth	98.1%	26.9%	9.5%	14.9%	8.2%	
EBITDA margin	11.1%	11.3%	11.1%	11.2%	11.1%	
EBITA margin	4.5%	5.2%	5.2%	5.6%	5.8%	
EBIT margin	3.8%	4.6%	4.6%	5.0%	5.2%	
ROCE	10.8%	12.3%	12.0%	13.2%	14.1%	
WACC	5.5%	6.7%	9.0%	10.9%	10.9%	
Debt / Equity	174.8%	147.3%	6.1%	-6.7%	-18.0%	
Interest Cover	8.4	10.3	14.6	-1635.4	-176.8	
Payout Ratio	29.3%	30.5%	32.0%	37.0%	40.0%	
OpFCF / CE	18.1%	-1.1%	9.1%	14.2%	16.2%	
KEY MARKET RATIOS						
EV/Sales	0.4	0.4	0.3	0.3	0.3	
EV/EBITDA	3.5	3.5	2.4	3.0	2.6	
EV/EBITA	8.7	7.6	5.0	5.9	5.0	
EV/EBIT	10.1	8.6	5.7	6.6	5.5	
EV/CE	1.1	1.4	0.9	1.2	1.1	
ROCE/WACC	2.0	1.8	1.3	1.2	1.3	
P/E (adj.)	7.7	7.9	8.1	9.3	8.7	
P/CF	2.4	2.7	2.8	3.8	3.7	
P/BV	2.0	1.9	1.0	1.4	1.3	
Dividend Yield (Gross)	3.8%	3.9%	3.9%	4.0%	4.6%	
PER SHARE DATA (EUR)						
EPS (reported)	3.88	4.61	5.50	5.09	5.50	6.0%
EPS (adj.)	5.24	5.91	6.90	6.03	6.43	2.9%
CFPS	16.68	17.39	20.18	14.91	15.28	-4.2%
BVPS	20.40	24.37	55.79	40.18	43.11	20.9%
DPS	1.53	1.80	2.21	2.23	2.57	12.7%

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