

# Ter Beke

30 September 2004

## Diversification pays off

Food Producers & Processors

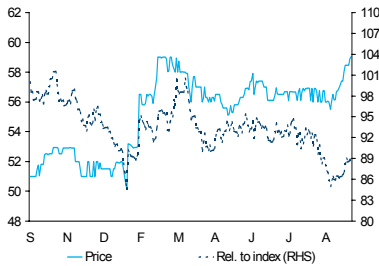
Belgium

Current price € 59.05

Target price € 70.00

**Outperform**

Initiating Coverage



Source: Thomson Financial Datastream

FY/e 31.12	2003	2004E	2005E	2006E
Sales (€ m)	190	205	213	222
EBITDA (€ m)	20.6	22.6	24.2	25.9
Pre-Tax* (€ m)	7.8	9.1	11.4	12.3
Adj EPS* (€)	5.95	6.89	5.45	5.89
EPS (€)	4.61	3.68	4.52	4.96
DPS (€)	1.80	2.00	2.30	2.65
P/E* (x)	9.9	8.6	10.8	10.0
Yield (%)	3.0	3.4	3.9	4.5
EV/EBITDA (x)	3.7	4.1	3.7	3.4

Source: KBC Securities

\*Adjusted for goodwill and exceptionals

Reuters TERB.BR  
Bloomberg TERB BB

[www.terbeke.com](http://www.terbeke.com)

Market Cap € 54m  
Shares outst. 0.9m  
Volume (daily) € 0.02m  
Free float 23%

Next corporate event

FY04 results: beginning of March 2005

Performance over	1m	3m	12m
Absolute	4%	5%	16%
Rel. BEL20	-1%	-4%	-11%
Rel. sector	8%	22%	20%
12-m Hi/Lo	€ 59.05/50.15		

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Ter Beke is specialized in chilled ready meals and processed meats. European market leader in chilled lasagne. Production: Belgium and France.

**Ter Beke is a Belgian food group specializing in the development, production and sale of chilled ready meals (Europe) and processed meats (mainly Benelux). We are initiating our coverage of Ter Beke with an 'Outperform' rating based on the following:**

- **Growth potential.** Ter Beke started out as a traditional processed meat producer, but made the right decision 10 years ago when it entered the fast growing chilled ready meals sector. European demand for chilled ready meals is expected to grow by 12.5% per annum over the next few years. Today, the group is pursuing growth through international expansion, the extension of its chilled ready meals product range and the development of new distribution channels like foodservice.
- **Strong balance sheet.** Following the automatic conversion of convertible bonds worth € 25.63m at the end of 2004, Ter Beke's financial gearing will fall to an estimated 20%. Market capitalization will increase by +/-50% following the conversion.
- **Robust 1H04 results.** Current net profits rose by 19.7% on the back of 12.9% sales growth, cost reductions and an improved product mix.
- **Significant investments.** The group has invested € 66.5m (6.3% of sales) during the last 6 years.
- **Attractive valuation.** Based on the 2005 EV/EBITDA multiple for the sector we arrive at a value per share of € 91. Our calculation takes into account the total number of outstanding shares following the conversion of the bonds. The DCF method generates a value of € 70 per share (= our target price).

## Business description

### History

- 1948: Frans Coopman sets up a small production unit for meat products.
- 1958: Daniël Coopman takes business over from his father.
- 1971: Luc De Bruyckere joins the group.
- 1980: Luc De Bruyckere becomes CEO.
- 1986: IPO.
- 1988: Acquisition of Reiners (poultry products in Belgium).
- 1993: Decision made to diversify into chilled ready meals.
- 1994: Acquisition of Vamos (Belgian market leader of lasagnas).
- 1996: Acquisition of Pronto (pizzas), Les Nutons (sauces and pâté), L'Ardennaise (meat products) from Unilever Belgium and Heku (Belgian market leader of pre-sliced meat).
- 1996-1997: Food scares (mad cow disease, pig fever).
- 1998: Falling pork prices due to overproduction.
- 1998: Acquisition of Zwan-Salami from Unilever.
- 1999: Belgian food sector hit by dioxin crisis. Issuance of automatically convertible bonds (€ 25.6m). Restructuring program is launched.
- 2002: Come a Casa brand was launched.
- 2003: Acquisition of Di Pasto in France (Haute-Savoie, annual sales: € 11m).

*Started out as a processed meat producer*

*Since 1994, diversification into chilled ready meals*

Ter Beke started in 1948 as a producer of meat products. Today, Ter Beke is a **food group** specializing in the development, production and sale of chilled ready meals like lasagne, pizzas and pasta and processed meats like salami, cooked ham and pâté. The company sells about 100 million meal portions per year. The group operates 5 production plants in Belgium and 1 in France. Only a small portion of the production is outsourced (e.g. soups). The headquarters are located in Waarschoot, close to Gent (Belgium).

#### Location Belgian factories



Source: Company

#### Location French factory



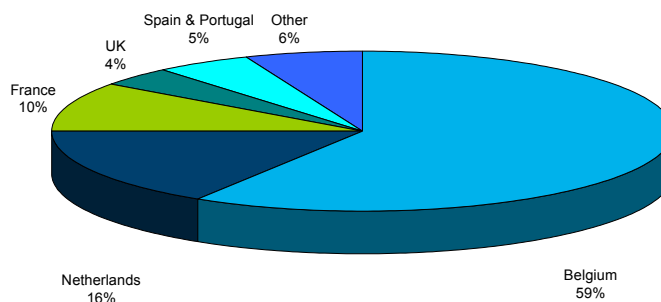
Source: Company

## Geographic spread

*Benelux: 75% of sales in 2003*

Ter Beke sells its products in Belgium, the Netherlands, France, Germany, the UK, Ireland, Switzerland, Spain, Austria, the Czech Republic, Portugal and Scandinavia.

### Geographic breakdown 2003 sales



Source: company

## Distribution

*Historically, distribution through wholesalers*

*Today, food retailers represent 2/3 of Ter Beke's sales*

In the past, Ter Beke sold 100% of its production through wholesalers. Today, the group opts for a multi-channel approach. Food retailers like Delhaize, Tesco, Albert Heijn, Carrefour, Coop Suisse, Aldi and El Corte Ingles represent 2/3 of Ter Beke's sales. The food retail channel offers international growth opportunities. Since the beginning of 2003, Ter Beke is also targeting the out-of-home and foodservice market (hospitals, company and school canteens) for which a dedicated commercial team has been set up in the Benelux.

## Brands

*Specific brands for retail and wholesale sector*

Ter Beke produces branded, private label (for example Derby for Delhaize) and unbranded products. Own brands generate +/-45% of group sales. The group has specific brands for each distribution channel. The group markets its processed meat products to the retail sector under the "L'Ardennaise" brand. The "Daniël Coopman" brand is destined for the wholesale segment. Ter Beke also sells non-branded meat products through the wholesale channel. Own brands represent about 50% of processed meat sales. This is a relatively high percentage because private labels share 90% of the Belgian market. The chilled ready meals are sold under the following brands: Pronto (pizza for retail channel), Vamos (chilled pasta meals for wholesale channel) and Come a Casa (chilled lasagne and pasta meals for retail). The Pronto brand will be phased out gradually and replaced by Come a Casa. The branded business makes up 40% of chilled ready meal sales. This percentage is on the rise.

## Distribution channels and brands

	Wholesale	Retail	Food service
Processed meats	Daniël Coopman	L'Ardennaise	L'Ardennaise
Chilled pizzas		Pronto	
Chilled pasta meals	Vamos	Come a Casa	Vamos

Source: company

## Chilled ready meals

*Expansion of product range broadens scope for growth*

Chilled ready meals represented 65% of Ter Beke's sales volumes in 2003. The company leads the European market for fresh lasagne and chilled pasta meals such as cannelloni, tagliatelle and ravioli. In Belgium the group has a market share of +/-67% in the lasagne segment. In France, it enjoys a 50% market share for chilled pasta meals. The latest additions to the group's product range include couscous, paella and soups ("Zuppa Fresca") which are also sold under the Come a Casa brand.



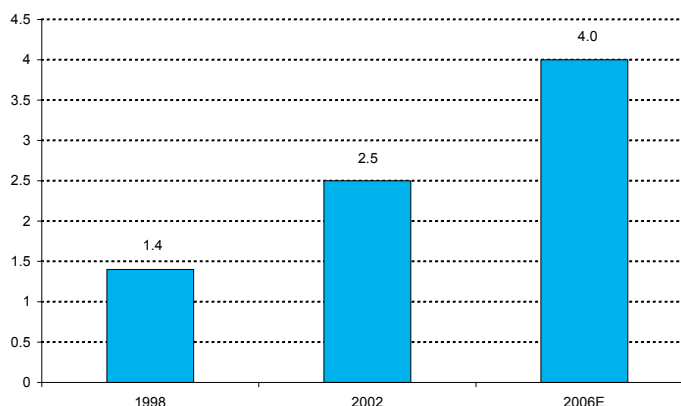
Demand for chilled ready meals is strong as a result of:

- Growing number of small households
- Increase in the number of working women
- Demand for healthy food
- Declining culinary skills and food preparation time
- Higher disposable income
- Cash rich, time poor economy
- Growth of international travel is boosting demand for different cuisines

*Demand in Europe:  
CAGR 12.5%*

European demand for chilled ready meals is expected to increase from € 2.5bn in 2002 to € 4.0bn in 2006 implying a CAGR of 12.5%. The chilled ready meals sector is still immature in countries like Spain. In Belgium annual consumption of chilled lasagne reaches 1.5kg per capita. This compares with 30 grams in Spain. The upside potential is therefore significant. Competition is very fragmented.

### European chilled ready meals market (€ bn)



Source: Leatherhead Food International Ltd

### Processed meats

This division is mainly active in the Benelux and to a lesser extent in Northern France and Germany. The 'over the counter' channel (mainly butchers) is facing strong competition from the food retail groups. This explains the growing share of pre-packaged consumer products. Ter Beke entered the pre-sliced and pre-packaged segment through the acquisition of Heku in 1996. The European processed meat market is highly influenced by regional tastes; consumers in Northern Europe care little for salami with garlic for example. Examples of pan-European products, like Herta's cooked ham, are therefore scarce. Ter Beke's main competitors include Herta, Sara Lee, Compaxo (NL) and Smithfield (USA). The latter has entered the European market through acquisitions (e.g. Campofrio in Spain and SBS in France).

### Strategy

Ter Beke aims to be a leader in chilled ready meals in Europe and in processed meats in the Benelux. Historically, the group was focused on processed meats in the Benelux. When meat consumption started to stagnate in Western Europe, the decision was made in 1993 to enter the fast growing chilled pasta meals market and to diversify internationally. Several acquisitions were made subsequent to this new strategy being adopted. The latest took place mid 2003, when Di Pasto (France) was acquired. Other M&A activities (e.g. in Spain) are likely to follow. The group has invested heavily in the Come a Casa brand during the last two years and the aided brand awareness now reaches 60%.

Ter Beke has been able to increase its market share in the mature processed meat market through product innovation, packaging and branding. For instance, the group's pâtés have been successfully introduced on the UK market thanks to packaging innovations.

*Pre-packaged products gaining market share from 'over the counter'*

*Regional markets: local taste dominates*

*Stagnating processed meat market*

*Diversification into the fast-growing chilled ready meals segment*

*Gaining market share in processed meat market through branding and product innovation*

*Pork estimated at 20% of COGS*

## Raw material prices

Most of the cost of goods sold (COGS) is concentrated in meat, packaging materials, cheese, and tomatoes. The group buys tomatoes through forward contracts. We estimate that pork represents about 20% of Ter Beke's COGS. The group uses 10 pork suppliers in Belgium and abroad but is too small to enter into forward contracts for meat. Pork prices are influenced by the supply of pigs, international trade (e.g. pork imports by Russia, China, Japan and South Korea), government intervention (e.g. subsidies, environmental regulations) and diseases (foot and mouth, swine fever). Commodity pork prices reflect changes in the supply of pork and competing proteins such as beef and poultry. The recent enlargement of the EU increases annual production by 20-25%. Of the new EU members, Poland is the main pig producer, although quality is inferior to Benelux standards. A large proportion of Polish pork is exported to Russia.

In the past, pork prices have fluctuated strongly on the back of food scares. Prices declined in 1999 as a result of the dioxin crisis in Belgium, while in 2000 the BSE crisis led to higher pork prices as consumers switched from beef to pork. Pork prices continued to climb in 2001 as a result of foot and mouth disease.

### Market prices pig meat (€/100kg)



Source: EU

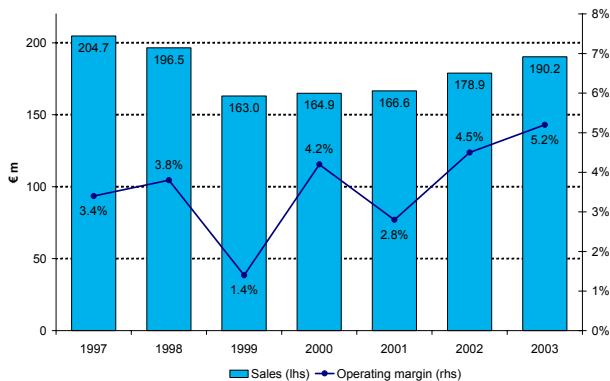
## Energy costs

*Rising energy costs have limited impact on margins*

Energy costs represent less than 2% of sales for Ter Beke. The impact of rising energy costs on margins is therefore limited.

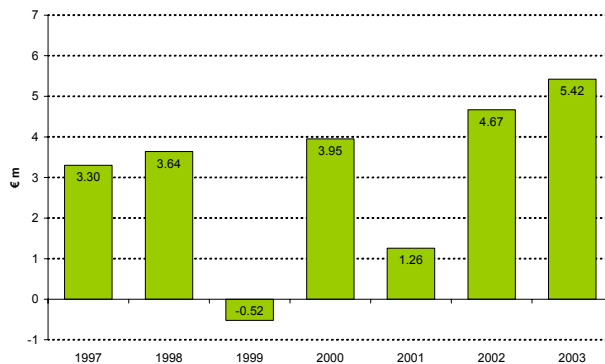
## Financial track record

### Sales and operating margin



Source: Company

### Current net profits



Source: Company

*Food scares have major impact on raw material prices and margins*

### Impact of food scares

In 1999, demand and Ter Beke's sales dropped a hefty 17% as a result of the dioxin crisis. Raw material prices also fell, leading to a higher gross margin. The operating margin collapsed however as a result of low capacity utilisation. The BSE crisis (2000) led to a hike in pork prices as consumers switched from beef to pork. The same happened in 2001 when the fowl pest scare boosted demand for pork. But higher pork prices could not be passed on to Ter Beke's customers immediately, hence the lower operating margin in 2001.

*Ter Beke's margins remain relatively stable when input prices increase gradually*

Ter Beke is able to preserve its margins when input prices increase gradually. When pork prices rise suddenly and sharply, Ter Beke's margins are hurt because of the time lag between the rise in raw material prices and the adjustment of its sales prices.

*Relatively stable raw material prices since 2001*

### 2002-2003

No food scares have occurred since 2001. The group has been able to strengthen margins thanks to investment in productivity improvements (e.g. fully automated lasagne line in Wanze), increased focus on own brands (e.g. Come a Casa) and product range optimisation. Pork prices have risen during the last twelve months but this didn't hurt Ter Beke's margins because the increase was gradual.

## 1H04 results

Current net profits +19.7%

The group reported excellent 1H04 results on 10 September 2004. Net sales increased by 12.9%. Gross sales rose by 12% and comparable sales growth (excluding Di Pasto in France<sup>1</sup>) reached 7%. Sales of chilled ready meals remained strong in all countries where Ter Beke is active. Sales of Come a Casa benefited from brand investment, which continues undiminished in 2H04. For a second year in a row Ter Beke achieved modest sales growth in processed meats, thereby outperforming the market. The operating margin improved from 5.0% in 1H03 to 5.2% in 1H04 thanks to cost controls and an improved product mix. Current net profits rose by 19.7%.

Half year results (€ m)				
	1H03	2H03	2003	1H04
<b>Sales</b>	<b>90.91</b>	<b>99.30</b>	<b>190.21</b>	<b>102.67</b>
% change (y-o-y)	6.9%	5.9%	6.3%	12.9%
<b>Operating profit</b>	<b>4.51</b>	<b>5.41</b>	<b>9.92</b>	<b>5.36</b>
% change (y-o-y)	9.3%	39.1%	23.8%	18.9%
Operating margin	5.0%	5.5%	5.2%	5.2%
<b>Financial result including GW</b>	<b>-1.75</b>	<b>-1.55</b>	<b>-3.30</b>	<b>-1.70</b>
<b>Current pretax profits</b>	<b>2.76</b>	<b>3.86</b>	<b>6.62</b>	<b>3.66</b>
% change (y-o-y)	28.4%	80.1%	54.2%	32.8%
<b>Exceptionals</b>	<b>0.01</b>	<b>0.04</b>	<b>0.05</b>	<b>0.01</b>
<b>Pretax profits</b>	<b>2.77</b>	<b>3.90</b>	<b>6.67</b>	<b>3.67</b>
<b>Taxes</b>	<b>-0.86</b>	<b>-1.61</b>	<b>-2.46</b>	<b>-1.33</b>
Taxes as % of pretax profits	30.9%	41.2%	36.9%	36.2%
<b>Net profits</b>	<b>1.91</b>	<b>2.29</b>	<b>4.20</b>	<b>2.35</b>
% change (y-o-y)	21.8%	16.8%	19.0%	22.7%
<b>Current net profits</b>	<b>2.50</b>	<b>2.91</b>	<b>5.42</b>	<b>3.00</b>
% change (y-o-y)	16.1%	15.8%	15.9%	19.7%

Source: Company

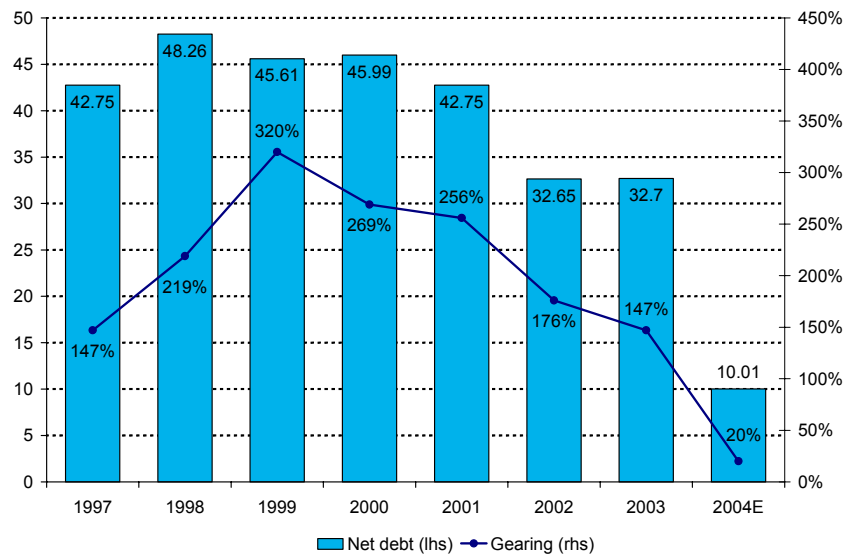
<sup>1</sup> Consolidated since 1 July 2003

## Financial structure

*Gearing level expected to fall from 147% at the end of 2003 to +/-20% at the end of 2004*

The group's financial structure deteriorated during the dioxin crisis. This led to the issuance of Automatically Convertible Debentures (ACDs). The following chart shows the evolution of net debt including the ACDs. These debentures will be converted automatically into equity at the end of this year. The gearing level is expected to fall from 147% at the end of 2003 to +/-20% (our estimate) at the end of this year.

**Financial gearing (%) and net debt (€ m)**



Source: Company and KBC Securities

## Outlook

### Solid sales growth

*Strong demand for chilled ready meals should boost growth*

Ter Beke is well placed to realize solid sales growth in the coming years thanks to its strong position in the chilled ready pasta meals sector. Come a Casa's sales will continue to be underpinned by marketing campaigns and product innovations like pasta for kids and Mediterranean soups. New packaging will be launched for Come a Casa next year.

### FY04 forecasts

*+/- 20% current net profit growth*

Current net profits rose by 19.6% in 1H04. We are forecasting 15.8% growth for the full year on the back of 7.7% sales growth and an operating margin improvement from 5.2% in 2003 to 5.4% in 2004.

### Dilutive effect in FY05

*Current net profits: +18%  
Current EPS: -21%*

Net profits are expected to rise sharply in 2005 thanks to the conversion of the ACDs at the end of 2004. The annual pre-tax interest related to the ACDs equals € 1.6m or +/- € 1.0m after tax. Sales will benefit from the introduction of new products like Come a Casa's soups and marketing campaigns. Current net profits are expected to rise by 18% next year but current EPS will be diluted by the conversion of the ACDs and should fall by 21%.

### Investments

*High capex of 7-8% of sales in 2004*

Ter Beke is planning to invest € 16m (7-8% of sales) this year. Investment projects include a new shipping platform following last year's doubling of the lasagne production capacity in Wanze. The capacity of the Marche-en-Famenne factory (chilled ready meals) will increase by +/-100% in 2004 through the construction of a new production line. Two new slicing/packaging lines will be set up at the Veurne plant. The group is completing a new R&D centre in Marche-en-Famenne (Belgium) following the decision to centralize its R&D activities related to chilled ready meals. The total construction cost of the R&D centre is estimated at € 0.8m. The French site is undergoing a major overhaul, including significant investment in upgrading the production process for chilled ready meals.

### Adoption of IFRS

*From 1H05 onwards*

The FY2005 accounts will be prepared under IFRS with pro forma data for 2004. In the past, Ter Beke did not provide divisional information like operating margins, but from 2005 onwards a breakdown of sales and operating profits will be given for processed meat and chilled ready meals.

## Equity

*Free float limited to 23%*

Ter Beke's IPO took place in 1986. The number of outstanding shares equals 911,594 which are all listed (double fixing) on Euronext Brussels. The following table shows the current shareholders' structure. The number of own shares reached 160 at the end of 2003. The composition will change however at the end of this year upon the automatic conversion of the debentures.

<b>Shareholders' structure (31/12/2003)</b>	
	<b>% of shares</b>
Coopman Family (Famcoo Invest NV: 51.15%)	55.1%
Mercator Verzekeringen N.V. (La Baloise)	9.1%
Investors acting in consultation with Coopman family	8.9%
VDK (bank in Gent region)	2.0%
SRIW (Wallonia Region)	2.0%
Free float	22.9%
<b>Total</b>	<b>100.0%</b>

*Source: Ter Beke*

## Automatically convertible debentures

*Number of shares to increase by 49.5% at the end of 2004*

At the end of 1999, the group issued Subordinated Automatic Convertible Debentures (ACDs) for € 26.62m with a coupon of 6% (payable annually) and maturing on 29 December 2004. The conversion price equals the average share price during the last 6 months minus a 15% discount with a minimum conversion price of € 56.84. The terms and conditions foresee a degressive 6-month lock-up<sup>2</sup> following the automatic conversion on the expiry date. In the event of early optional conversion in October 2004 the degressive lock-up period will be extended to 12 months. Conversion on the expiry date will lead to the creation of no more than 450,827 new shares.

<b>Investors Automatic Convertible Debentures</b>	
<b>€ '000s</b>	<b>Invested amount</b>
Mercator & Noordstar N.V. (Baloise)	7,500
Bois Sauvage (parent company of Banque Degroof)	5,000
Société Régionale d'Investissement Wallonne	3,750
Seneca (L. De Bruyckere- Chairman)	3,250
Coopman family	2,500
Pecunia (management of Ter Beke)	1,750
Lessius	1,250
Koceram (C. Dumolin)	625
<b>Total</b>	<b>25,625</b>

*Source: Ter Beke*

<sup>2</sup> 1/6<sup>th</sup> of the shares becoming tradable per month following the conversion

### Shareholders' structure post conversion ACOs

	% of shares
Coopman Family (Famcoo Invest NV: 34.2%)	33.5%
Mercator Verzekeringen N.V. (La Baloise)	15.8%
Investors acting in consultation with Coopman family	12.4%
Seneca (L. De Bruyckere- Chairman)	4.2%
SRIW (Wallonia Region)	6.2%
Bois Sauvage (parent company of Banque Degroof)	6.5%
Pecunia (management of Ter Beke)	2.3%
Lessius	1.6%
VDK (bank in Gent region)	1.3%
Koceram (C. Dumolin)	0.8%
Free float	15.3%
<b>Total</b>	<b>100.0%</b>

Source: Ter Beke

We anticipate a reshuffle in the shareholder structure following the conversion of the ACOs.

### Stock option plan

The table below gives an overview of the outstanding stock options. If all the options are exercised, the number of shares increases by 3.946%.

#### Stock option plan

Issued (year)	# outstanding warrants	Exercise price	Expiry
1999	6,800	59.00	2007
1999	4,300	40.57	2007
2000	8,650	31.30	2008
2002	11,050	42.13	2010
2003	5,150	42.78	2008
<b>Total</b>			

Source: Ter Beke

### Share price evolution



Source: Thomson Financial Datastream

## SWOT analysis

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>Chilled lasagne meals: market leader in Benelux, Spain (growth market), Ireland, France and Germany</li> <li>Leadership position in processed meat in Benelux</li> <li>Strong balance sheet following conversion ACDs</li> <li>Strong brands (e.g. Come a Casa)</li> <li>Clients include Carrefour, Casino, Auchan, Leclerc, Tesco, Albert Heijn, Coop Suisse, El Corte Ingles</li> <li>Attractive product range for retailers: private label products and strong brands</li> <li>Adopted product assortment for discounters</li> <li>No foreign exchange risk (close to 100% of sales are euro-denominated)</li> </ul>	<ul style="list-style-type: none"> <li>Stagnating demand for processed meats</li> <li>Lack of share liquidity</li> <li>Top 5 clients (food retail groups) represent 1/3 of group turnover</li> <li>Earnings dilution following the conversion of the automatically convertible debentures: number of shares to increase by 49.5% at the end of 2004</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>Growth opportunities in markets where penetration of chilled ready meals is still low (e.g. Portugal, Spain)</li> <li>Additional distribution channels (e.g. food service; out-of-home segment)</li> <li>Strong demand for convenience food and chilled ready meals (CAGR &gt; 10%)</li> <li>Food retailers are returning to town centers with convenience stores which rely heavily on convenience food</li> <li>Further expansion product range (e.g. couscous, paella)</li> <li>Further acquisitions abroad</li> </ul>	<ul style="list-style-type: none"> <li>Dispute with fiscal authorities (worst case scenario is for a potential cash outflow of € 8.6m): no provision has been booked</li> <li>Food scares (e.g. dioxin crisis in 1999) and sharp increases in pork prices</li> <li>Food retail sector: increased price pressure on suppliers Retailers might also require more lenient payment terms (higher working capital requirement for Ter Beke)</li> <li>Increasing competition in the chilled ready meals sector as large groups like Unilever expand their product range</li> <li>Evolving consumer preferences could represent a threat but might also offer opportunities</li> </ul>

### Food scares

*Focus on ready chilled pasta meals: Ter Beke's margin becoming less sensitive to pork price fluctuations*

During the last 10 years, the company has been hit by several food scares. Direct and indirect costs related to the dioxin crisis in 1999 amounted to € 10m including the effect of lost sales. Even though the company does not process beef, Ter Beke's results were also hit by the BSE scare because rising pork prices could not be passed on fully. However, the group's results have become less sensitive to changes in pork prices thanks to the growing share of ready chilled meals in the product mix. The content of meat in ready chilled pasta meals is lower than 20%.

*Dispute related to tax deductibility of insurance premiums*

*Total potential income tax charges: € 8.6m*

*Differentiation through product quality, supply chain management and reliability*

## Tax claim

Ter Beke has been disputing supplementary income tax charges totalling € 3.7m for 1997 and € 4.9m for 1998-2003. The dispute relates to the tax deductibility of insurance premiums paid to a Belgian insurance company. The latter reinsures part of the risk through a Luxembourg reinsurance company which belongs to the Ter Beke group. Ter Beke lodged a notice of objection with the relevant authorities. The full amount of the tax charge is accounted for on the balance sheet under "Accounts payable within one year – Taxes". The contested part is included under "Other receivables". No provisions have been booked.

## Price pressure from retailers

It is no secret that food retailers have been increasing price pressure on suppliers but so far, Ter Beke has been able to stand out from its rivals through excellent product quality, packaging, supply chain management (e.g. prompt deliveries) and reliability. For instance, Ter Beke's expertise in slicing processed meat has allowed it to obtain a major contract. The fact that Ter Beke can supply both private label and branded products is also a competitive advantage. The group's pâtés are a proven success on the UK market (Tesco) thanks to innovative packaging.

In addition to lower prices, food retailers might also require more lenient payment conditions. Uniq and Northern Foods, two chilled ready meal producers, reported a rise in debtor days as a result of increased pressure from retailers.

## Valuation

### DCF

€ 70 per share

The DCF method generates a target price of € 70. We have assumed 4% sales growth for 2006-2011, a beta of 1<sup>3</sup>, a risk free rate of 5%, a risk premium of 4% and 1% terminal growth. For the terminal year, we used an operating margin of 5.55%, depreciation/sales of 3.6% and capex/sales of 4% (industry average = 3.6%). Net debt and the number of outstanding shares reflect our forecast for the end of 2004 following the conversion of the ACDs.

DCF valuation					
€ m	Operating C/F	Capex	Working Cap	Free C/F	PV Free C/F
2004	19.0	-16.0	-3.1	-0.1	-0.1
2005	20.4	-15.0	-0.2	5.2	4.7
2005	21.8	-15.0	-0.2	6.6	5.5
2007	21.8	-14.5	-0.2	7.0	5.4
2008	21.6	-13.9	-0.3	7.4	5.3
2009	21.3	-13.2	-0.3	7.8	5.1
2010	21.0	-12.4	-0.3	8.3	5.0
2011	20.6	-11.6	-0.3	8.7	4.9
Residual value (LT growth = 1%)					69.4
<b>Total value (€ m)</b>					<b>105.1</b>
Net debt (31.12.04)					10.0
<b>Value of Equity</b>					<b>95.1</b>
Number of shares (m)					<b>1.36</b>
Equity value per share (€)					<b>69.8</b>

Source: KBC Securities estimates

### Peer group

*Fleury Michon and Orion Food  
best comparables: former  
processed meat producers that  
diversified into chilled ready  
meals*

We have retained 7 peers: Sardus (Sweden), Greencore (Ireland), Uniq (UK), Smithfield (US), Orior (Switzerland), Northern Foods (UK) and Fleury Michon (France). Fleury Michon and Orion Food (not listed) are the best comparables based on their business mix and exposure to Continental Europe. Like Ter Beke, they used to be processed meat producers that entered the chilled ready meals sector in pursuit of growth.

*100% owned by Pargesa*

**Orior Food**, a Swiss peer, is 100% owned by Pargesa (NPM/CNP). Orior Food's product range is similar to Ter Beke's: cured meat products such as salami and ham, chilled and frozen meals and fresh pasta. 98% of turnover is generated in Switzerland. Rising raw material costs led to a decline in operating margins in 2003 (4.2% versus 5.8% in 2002). Note that Ter Beke realized an operating margin of 5.2% in 2003. Meat products represent 48% of Orior's sales and 31% of EBIT. In 2000, Pargesa paid a P/E (based on EPS 2000) of 11.4 when it acquired the shares from the minority shareholders. If we apply this P/E to Ter Beke's EPS for 2005, we arrive at a value of € 62.

*P/E of 11.4 paid to buy minority  
stake*

<sup>3</sup> Adjusted monthly beta over last 5 years equals 0.70

The intrinsic value is higher however because Ter Beke's EPS is negatively affected by the group's conservative accounting standards, which put depreciation of tangible assets at 23.3%.

*French listed company:  
processed meats and chilled  
ready meals*

**Fleury Michon's** history is also similar to Ter Beke's. This French rival started out as a meat processing company before diversifying into the chilled ready meals sector from 1974 onwards - 20 years before Ter Beke. The company was floated on the stock exchange in 2000. The group generated € 603m in sales in 2003 of which 98% in France. Processed meat represents 56% of turnover and the group reported an operating margin of 3.25%. In terms of traditional French meals, Fleury Michon has a strong brand in France but it is less known for chilled pasta meals.

*Pan-European chilled  
convenience group*

**Uniq plc** is a pan-European chilled convenience food group with production facilities in the UK, France, Spain, Germany, Poland, the Netherlands, Belgium and Denmark. Products include sandwiches, salads, ready meals and desserts. The group has a strong position in the French chilled ready meals market with the "Marie" and "Luang" brands. Uniq has recently launched a range of Italian pasta dishes. Main clients include Marks & Spencer, Asda, EMC, Carrefour, Aldi and Sainsbury's. The group generates about 40% of its sales in the UK, 26% in France, 5% in Spain and the remainder in Northern Europe. Since 2000, Uniq has sold a variety of non-core businesses, including Unigate (milk), Malton (pig-meat) and St Ivel (spreads and yogurt).

*Swedish producer of processed  
meat*

**Sardus** (Sweden) is a producer of processed meat (pâté, ham, smoked sausages, ham, black pudding) and frozen foods (fish, meat, chicken). The group is a local player (Sweden and Denmark).

*Leading UK producer of chilled  
foods*

**Northern Foods** is a leading UK producer of chilled foods. Clients include the leading retailers.

*US processed meat group*

**Smithfield Foods** is the world's largest pork processor and hog producer. This American player entered the European market through acquisitions. Earlier this year, the group bought Jean Caby, a branded processed meats company in France and a 15% stake in Campofrio, a major Spanish processed meats producer. The company also set up a venture in Romania with an Italian partner to produce hogs and process meat. The group derives 35% of its revenues from processed meats, 24% from beef and 35% from fresh pork. It is currently benefiting from the popularity of low-carbohydrate diets in the US.

*Entering Europe through  
acquisitions*

*Higher EBITDA margin than its  
peers but lower EBIT margin  
due to more aggressive  
depreciation*

Ter Beke reported an EBITDA/sales margin of 10.8% in 2003. This compares with an average of 8.9% for its peers. The operating margin is 5.2%. This is lower than the sector average of 6.0% due to the company's conservative depreciation policy.

*EV/EBITDA more relevant than  
P/E*

Ter Beke's depreciation charges represent 23.3% of tangible assets. This compares with 11.7% for its peers. We therefore prefer to use EV/EBITDA multiples in our valuation instead of P/E multiples. In 2004, Ter Beke's investments will reach 7.8% of sales. This compares with a sector average of 3.6%.

### Key financial parameters

Company	Mkt cap € m	Sales € m	2003 EBITDA margin	2003 operating margin	Financial gearing	5 yr sales CAGR	2003 Capex sales
Fleury Michon	221	603	6.5%	3.3%	-18%	13.4%	4.8%
Greencore	532	1,473	9.8%	7.0%	144%	14.0%	3.5%
Uniq	259	1,394	7.1%	4.4%	6%	-17.3%	2.6%
Northern Foods	1,084	2,264	11.2%	7.5%	92%	2.1%	5.0%
Sardus AB	119	194	13.0%	9.9%	203%	17.4%	3.9%
Smithfield Foods	2,246	7,596	5.9%	4.0%	106%	21.2%	1.6%
<b>Average</b>	<b>743</b>	<b>2,254</b>	<b>8.9%</b>	<b>6.0%</b>	<b>89%</b>	<b>8.5%</b>	<b>3.6%</b>
<b>Ter Beke</b>	<b>54<sup>4</sup></b>	<b>190</b>	<b>10.8%</b>	<b>5.2%</b>	<b>20%<sup>5</sup></b>	<b>-0.7%</b>	<b>5.1%</b>

Source: Companies, Bloomberg, JCF, KBC Securities

### Valuation multiples and depreciation/tangible assets

Company	P/E 2003	P/E 2004	P/E 2005	EV <sup>6</sup> /EBITDA 2003	EV/EBITDA 2004	EV/EBITDA 2005	Deprec. as % of tangible assets
Fleury Michon	17.6	16.0	14.2	3.7	4.6	4.2	17.5%
Greencore	9.1	8.6	8.3	6.7	6.3	6.1	8.3%
Uniq	9.2	8.7	7.2	4.6	4.1	3.8	15.4%
Northern Foods	10.9	10.2	10.2	6.0	5.9	5.9	9.8%
Sardus AB	10.5	9.6	9.3	6.6	7.1	6.9	9.9%
Smithfield Food	16.7	11.1	10.1	7.5	6.8	6.3	9.5%
<b>Average</b>	<b>12.3</b>	<b>10.7</b>	<b>9.9</b>	<b>5.8</b>	<b>5.8</b>	<b>5.5</b>	<b>11.7%</b>
Ter Beke	10.0	8.6	10.9	3.7	4.1	3.7	23.3%

Source: Companies, Bloomberg, JCF, KBC Securities

EV/EBITDA: implied value per share € 91-103

For M&A transactions in the ready meals sector, acquirers are typically paying an EV/EBITDA multiple of 6-7. The multiple falls to 5-6 in processed meats. If we apply the average EV/EBITDA multiples of the peer group, we arrive at a target price of € 91-103. The valuation is based on the average number of outstanding shares during the given year.

### Valuation of Ter Beke based on EV/EBITDA multiples

	2003	2004	2005
EBITDA (€ m) <sup>7</sup>	20.61	22.56	24.20
EV/EBITDA peers	5.8	5.8	5.5
Implied EV (€ m)	120.1	131.0	133.5
Net debt	32.7	36.6	8.1
Minor + pension – fin. ass.	0.8	0.9	0.9
Implied equity (€ m)	86.6	93.4	124.4
Avg nb of shares	911,094	911,594	1,361,921
Value per share (€)	95	103	91

Source: Companies, Bloomberg, JCF, KBC Securities

<sup>4</sup> € 81m based on fully diluted number of shares

<sup>5</sup> Post-conversion automatically convertible bonds

<sup>6</sup> EV= mkt cap based on 2003 avg share prices + net debt + minorities + pension liabilities – financial assets

<sup>7</sup> KBC Sec forecast for 2004 and 2005

## Financial data

<b>INCOME STATEMENT (€ m)</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004E</b>	<b>2005E</b>	<b>2006E</b>
Sales	166.6	178.9	190.2	204.9	213.1	221.7
Other revenue	1.7	1.7	1.9	1.9	1.9	1.9
Personnel costs	-31.3	-34.0	-36.6	-39.8	-41.4	-43.0
Other operating costs	-123.3	-127.8	-134.9	-144.5	-149.5	-154.6
EBITDA	13.7	18.8	20.6	22.6	24.2	25.9
Depreciation and amortisation	-9.1	-10.8	-10.7	-11.5	-12.4	-13.2
Goodwill amortisation	-1.2	-1.2	-1.2	-1.3	-1.3	-1.3
EBIT	3.5	6.9	8.7	9.8	10.6	11.5
Net interest	-2.8	-2.4	-2.1	-2.0	-0.4	-0.4
Other financial result	-0.3	-0.2	0.0	0.0	0.0	0.0
Associates before tax	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional results	1.3	0.1	0.0	0.0	0.0	0.0
Pre-tax profit declared	1.6	4.4	6.7	7.9	10.2	11.1
Taxes	-0.3	-0.8	-2.5	-2.8	-4.0	-4.3
Associates after tax	0.0	0.0	0.0	0.0	0.0	0.0
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0
Net attributable profit	1.3	3.5	4.2	5.0	6.2	6.8
Retained earnings	0.1	2.1	2.6	2.3	3.0	3.1
Net current result before goodwill	1.3	4.7	5.4	6.3	7.4	8.0
Net current result after goodwill	0.1	3.5	4.2	5.0	6.2	6.8
Current cash flow	10.3	15.5	16.1	17.7	19.8	21.2
<b>BALANCE SHEET (€ m)</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004E</b>	<b>2005E</b>	<b>2006E</b>
Goodwill	12.3	11.1	11.7	10.5	9.2	7.9
Other intangible assets	3.6	3.4	3.2	2.3	1.3	0.3
Tangible assets	41.0	41.8	41.8	47.3	50.9	53.7
Associates	0.0	0.0	0.0	0.0	0.0	0.0
Other financial assets	0.1	0.1	0.0	0.0	0.0	0.0
Inventories	9.8	9.4	11.1	12.7	13.2	13.7
Trade debtors	19.3	19.7	21.2	23.6	24.5	25.5
Other current assets	14.2	11.3	13.7	15.4	16.0	16.6
Cash and equivalents	2.7	11.3	1.9	-1.0	0.9	3.8
Short-term liabilities (excl debt)	38.6	43.8	45.3	48.8	51.1	53.5
Provisions for pensions and other	1.1	0.9	0.9	0.9	1.0	1.0
Long-term liabilities (excl debt)	1.2	1.1	1.8	1.8	1.8	1.8
Financial debt	45.3	43.8	34.6	9.0	9.0	9.0
Minorities	0.0	0.0	0.0	0.0	0.0	0.0
Shareholder's equity	16.7	18.6	22.2	50.2	53.2	56.3
Restated net financial debt	42.6	32.5	32.7	10.0	8.1	5.2
Capital employed (restated)	62.7	54.4	59.2	65.6	67.2	68.0
Restated net financial debt / Equity	256%	175%	147%	20%	15%	9%
Restated net financial debt / Equity ex GW	969%	436%	312%	25%	18%	11%
<b>CASH FLOW STATEMENT (€ m)</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004E</b>	<b>2005E</b>	<b>2006E</b>
EBITDA	13.7	18.8	20.6	22.6	24.2	25.9
Change in working capital	0.9	6.9	-5.8	-3.1	-0.2	-0.2
Change in provisions	-0.3	-0.3	0.0	0.1	0.0	0.0
Other non-cash items	0.0	0.0	0.0	0.0	0.0	0.0
Gross operating cash flow	14.4	25.4	14.8	19.5	24.0	25.7
Net interest paid	-3.1	-2.6	-2.1	-2.0	-0.4	-0.4
Tax paid	-0.3	-0.8	-2.5	-2.8	-4.0	-4.3
Net operating cash flow	11.0	22.0	10.2	14.7	19.6	21.0
Capital expenditure	-8.4	-11.8	-12.3	-16.0	-15.0	-15.0
Free cash flow	2.5	10.2	-2.1	-1.3	4.6	6.0
Disposals	0.0	0.4	0.1	0.0	0.0	0.0
Acquisitions	0.0	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	-1.2	-1.4	-1.6	-2.7	-3.1
FX and others	0.6	0.7	3.4	0.0	0.0	0.0
New equity	0.0	0.0	0.0	25.6	0.0	0.0
Change in net debt	3.2	10.1	0.0	22.7	1.9	2.9

<b>PER SHARE DATA (€)</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004E</b>	<b>2005E</b>	<b>2006E</b>
EBITDA per share	15.3	20.8	22.6	24.8	17.8	19.0
EBIT per share	3.9	7.6	9.6	10.8	7.7	8.4
Published EPS	1.44	3.88	4.61	3.68	4.52	4.96
Current EPS before GW (diluted)	1.40	5.15	5.95	6.89	5.45	5.89
Current EPS after GW (diluted)	0.12	3.88	4.62	5.49	4.52	4.96
Current cash flow per share	11.5	17.1	17.7	19.5	14.5	15.6
Gross operating cash flow per share	16.0	28.0	16.2	21.4	17.6	18.9
Free cash flow per share	2.8	11.2	-2.3	-1.4	3.4	4.4
Net dividend	1.00	1.15	1.35	1.50	1.73	1.98
NBV per share	18.3	20.4	24.4	36.8	39.0	41.4
<b>PERFORMANCE CRITERIA</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004E</b>	<b>2005E</b>	<b>2006E</b>
EBITDA margin	8.2%	10.5%	10.8%	11.0%	11.4%	11.7%
EBIT margin	2.1%	3.8%	4.6%	4.8%	5.0%	5.2%
EPS annual growth	-72%	268%	15%	16%	-21%	8%
CFPS annual growth	-25%	48%	4%	10%	-25%	7%
Pay-out ratio	93%	40%	39%	54%	51%	53%
EPS CAGR 3y historic	-33%	-	6%	70%	2%	0%
CFPS CAGR 3y historic	-7%	23%	5%	19%	-5%	-4%
Return on invested capital	4.4%	8.8%	11.5%	11.7%	12.0%	12.7%
Return on equity	7.4%	26.5%	26.6%	17.3%	14.4%	14.6%
<b>VALUATION DATA*</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004E</b>	<b>2005E</b>	<b>2006E</b>
Financial year high (€)	39.60	50.50	52.95	59.05	-	-
Financial year low (€)	24.10	28.60	39.00	50.15	-	-
Reference market capitalisation (€ m)	20	37	42	54	81	81
Enterprise value (€ m)	64	70	76	91	90	87
PER high (x)	28.3	9.8	8.9	8.6	-	-
PER low (x)	17.2	5.5	6.6	7.3	-	-
PER reference (x)	21.5	7.8	7.8	8.6	10.8	10.0
P/CF (x)	2.6	2.4	2.6	3.0	4.1	3.8
P/Bookvalue (x)	1.6	2.0	1.9	1.6	1.5	1.4
Gross dividend yield (%)	4.4	3.8	3.9	3.4	3.9	4.5
EV/EBITDA (x)	4.7	3.7	3.7	4.1	3.7	3.4

Source: KBC Securities

\*Historic valuation data are based on historic prices

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