



## Fast Facts on Food Processing: Looking back, looking ahead

Today's session begins at  
1:00 p.m. Eastern (10:00 a.m. Pacific)



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## Introduction of the National Food and Beverage Practice Leader



**Dexter Manning**  
National Food and Beverage Practice Leader  
Atlanta, GA

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## Food and Beverage in the News



Worst financial crisis in 60 years marks end of an era



Peanut butter recalled amid salmonella outbreak

**The Boston Globe**

Surging costs of groceries hit home



\$5 Gas Likely by July 4th; Get Ready for 'Stay-cation'

**The New York Times**

Obama Elected President as Racial Barrier Falls



Recession will be worst since 1930s: Greenspan

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## Introduction of Presenters (continued)



**Tony Perazzo**

Audit Partner

San Francisco, CA



**Mark Andrus**

Regional Partner-in-Charge, Corporate Strategic Federal Tax Services

Portland, OR



**Steve Lyman**

Business Advisory Services Partner

Atlanta, GA



**Tim Schram**

National Director of Incentive Services, State and Local Tax

Chicago, IL

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## Agenda



- **Looking back on the key findings**
- Supply chain pressures
- Merger & acquisition activity and capital investments
- Consumer behavior and going “green”
- Looking ahead

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## Key Findings – Supply Chain Pressures

- Supply Chain costs increase
- Reliability of suppliers questioned
- Reduced availability of raw materials
- Disproportionate impact on small/medium sized manufacturers
- Outsourcing still an option

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## Key Findings – Investments in a down economy

- Capital spending put on hold
- Scarcity of capital
- M & A activity down but not out
- Optimism about 2009

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## Key Findings – Consumer Behavior and Green

- Reduce, Reuse, Recycle
- Green is growing and profitable
- Cost reductions drive interest in sustainability
- Consumers becoming more aware



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## Agenda

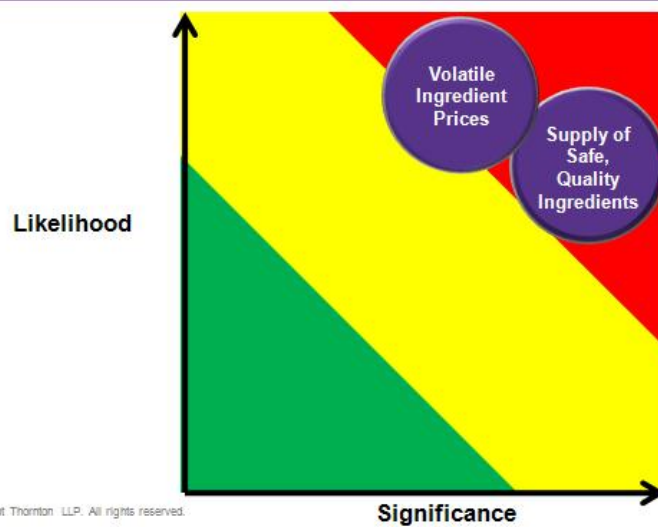


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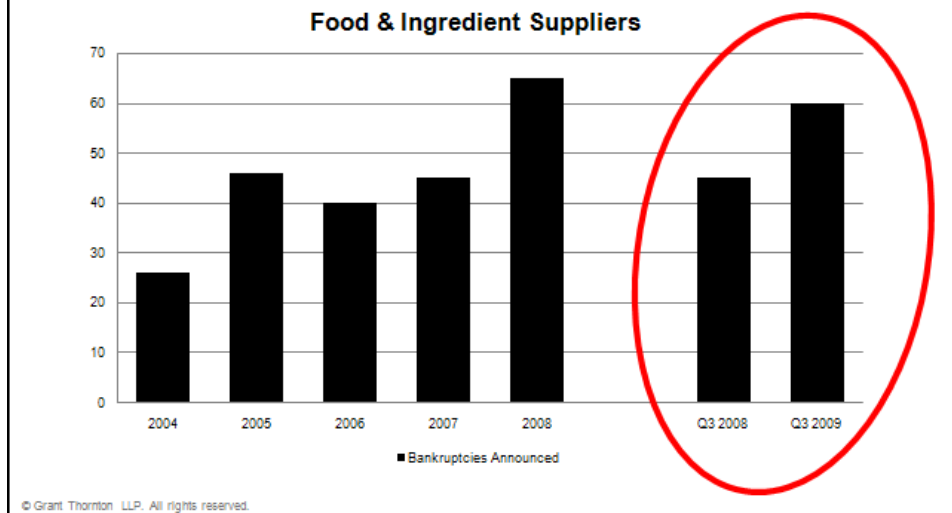
## Continuing concerns of food processors.....



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## Food supplier bankruptcies – no signs of slowing

Source: Capital IQ



## Ensuring a stable supply of quality ingredients

### Quality and Safety

- Understand the quality assurance and safety procedures of your key suppliers
- Test incoming ingredients
- Pre-qualify/pre-certify suppliers
- Periodic on-site audits of suppliers
- Regular meetings with suppliers to review performance

### Financial

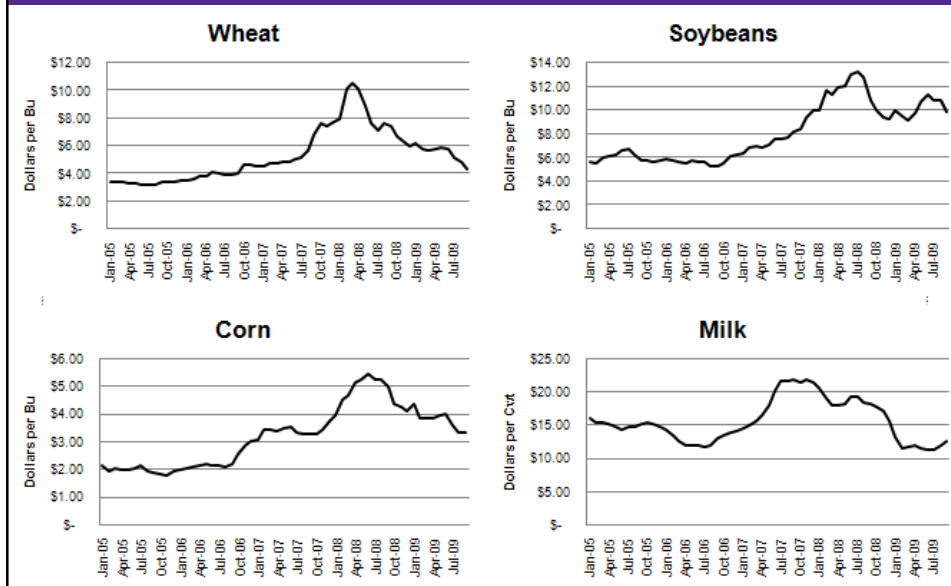
- Identify and prioritize your key suppliers
- Monitor financial condition of key suppliers
- Look for warning signs
  - Deteriorating quality
  - Late shipments
  - Excessive pressure to accelerate pay terms

**Identify Alternative Suppliers**

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## Food commodity prices will remain volatile

Source: USDA National Agricultural Statistics Service



## Approaches for managing price volatility

- Reliable supplier contracts
- Inventory hedging (bad idea!)
- Other hedging and sourcing strategies
- Look beyond ingredients for significant savings

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## Raise cash through R&D tax credits

- Federal R&D credit is a 20% credit for certain qualified research expenditures
- Credit is a dollar for dollar reduction to income tax expense
- Federal, state and foreign R&D credits available
- Federal R&D credit is expected to be extended

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## Raise cash through R&D tax credits



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## Raise cash through tax planning

- Production line and/or factory reconfiguration may be currently deductible rather than capitalized
- Discontinued business segments create opportunity to evaluate fixed assets
- Inactive corporations provide opportunity for tax restructuring

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## Operational challenges

- Companies must continue to invest in order to maintain competitive advantages
  - information technology, upgraded automation, equipment and process improvements are key
  - investment in green business practices continues despite economic challenges
- Many middle market companies do not have capital to make necessary investments
- Many companies are deferring capital investments to 2010 or later



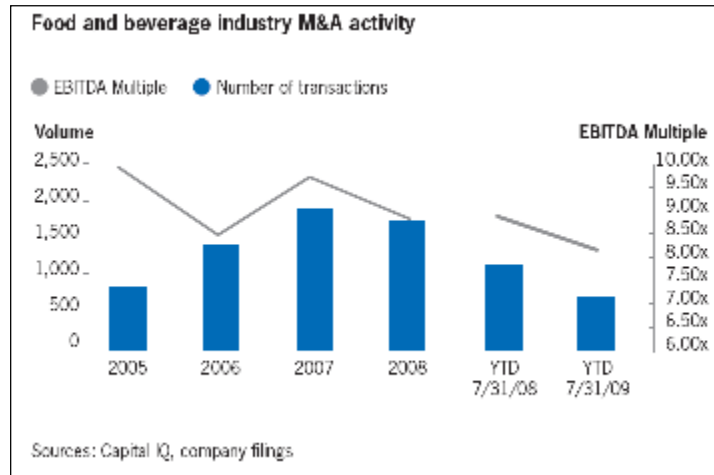
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## Mergers and Acquisitions

- Larger strategic buyers continue to look for opportunities
  - many transactions include an element of distress leading to attractive pricing
  - combined operating efficiencies make for highly attractive strategic deals
- For small and medium sized businesses, partnering with the right buyers can allow companies to expand their capacities and execute on their investment strategies.
- Private equity funding is limited; however, financial buyers are still completing deals

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## Food and Beverage Industry M&A Activity



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## Food and Beverage Index



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## M&A tax opportunities

- Transaction costs should be reviewed to maximize deductibility
- Review elected accounting methods and make changes as appropriate
- Review corporate structure for tax purposes:
  - state and local taxation
  - employment taxes
  - benefit plans

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## Triggering events

- Company expansion ***planned***
  - New location or expansion of existing location (increase in FTE)
- Company relocation ***planned***
  - Closure of a facility or reduction of FTE, and growth in total number of FTE at a new or other existing location
- Company consolidation ***planned***
  - Closure of one or more existing locations
- Many physical locations (large or small)
- Few large locations (high number of FTE)

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## Credits and incentives

- Wide range of benefits vary by State/City
  - Income tax credits
  - Sales tax exemptions
  - Property tax abatements
  - Cash grants
  - Training assistance
  - Utility tax refunds
- Current economy impacting programs
  - Eligibility policies are quickly changing (e.g. job “retention” qualifying in many states)
  - New programs developed; existing programs expanding

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## Why go green?

- Food and beverage manufacturers' green efforts are driven by a variety of objectives, with the biggest motivating factor being cost reduction
  - Three-quarters (75%) indicate that they are pursuing green practices in order to achieve cost reductions
  - More than half (57%) are adopting green practices "for the good of the earth" and another 52% cite marketability as a key objective



According to Grant Thornton's Fast Facts on Food Processing 2009 [www.granthornton.com](http://www.granthornton.com).

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## Going Green

The green/sustainability movement is more than buzzwords and marketing. Consumers are demanding green, and OEMs are demanding green from suppliers and manufacturers are beginning to get green. For example:

- 17% of plants have a formal green program
- 36% of plants practice energy management
- 34% of plants practice environmental management
- 10% (median) of plant products are recyclable/reusable

Source: 2009/2010 U.S. Manufacturers Executive Summary, by Manufacturing Performance Institute

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## Going Green

- Recent A.T. Kearney survey show more than 60% of US businesses have a stated sustainability program
  - Energy efficiency
    - Reduce fossil fuel usage
    - Reduce water consumption
  - Environmental
    - Reduce greenhouse gases
    - Reduce packaging materials
    - Reduce waste
- Historically cost prohibitive for making Green investment

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## Credits and Incentives – ARRA Introduction

- American Recovery and Reinvestment Act (ARRA)
  - Firms have focused primarily on Sec. 45 & 48 tax credit extensions
    - In lieu of grant election
- Most of the \$787 billion of funding goes well beyond Fed tax credits
- Funding spread among 13 categories
  - Over \$16 billion for energy-related initiatives

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## New State Energy Programs (SEP) thanks to ARRA

- **Illinois Large Customer Energy Efficiency Program**  
Competitive, discretionary grant for electricity and natural gas conservation
- **Virginia SEP Grant**  
Competitive, discretionary grant for alternative energy initiatives such as “waste-to-energy”
- **Wisconsin SEP Grant**  
Competitive, discretionary grant for manufacturing companies for energy efficiency improvements

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## ARRA training grants

- ARRA funded \$750 million for competitive Fed training grants
- High growth and emerging industries
  - \$500 million to prepare workers in energy efficiency and renewable energy
  - Additional priority for healthcare, wireless/broadband industries
- Combine with traditional training grant programs
  - Best States – CA, FL, IN, NJ, VA

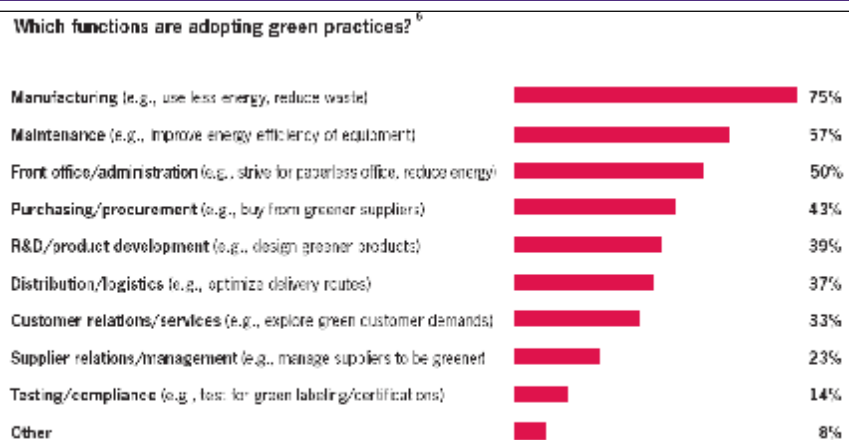
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## Other green incentives

- Sales and property tax exemptions/abatement
  - Wind
  - Solar
- Income tax credits
  - Federal Sec. 48
  - CT, MD, NY
- Pollution control programs
- Utility provider administered program
  - Cash grants
  - Rate reductions

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## Food and Beverage functions adopting green practices



Respondents were able to select more than one answer.

## Going Green without losing your “green”

85% of consumer packaged goods manufacturers and retailers have sustainability programs in place

- recycling and energy conservation
- sustainability strategies are addressing lower emissions
- energy efficiency
- water conservation
- fuel efficiency
- package recycling
- waste management,
- economic assistance in developing nations and efficient transportation of goods

Source: Food Processing Magazine 9/2008

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## Consumers voice their opinions about going green

- One in five U.S. consumers is sustainability-driven in brand and store selection
- Sustainability factors they consider are:
  - product is organic (39 percent);
  - packaging is better for the environment (29 percent);
  - product itself is better for the environment (23 percent);
  - manufacturer treats employees and suppliers fairly (21 percent).

Source: Information Resources Inc., 2007, a survey of 22,000 consumers

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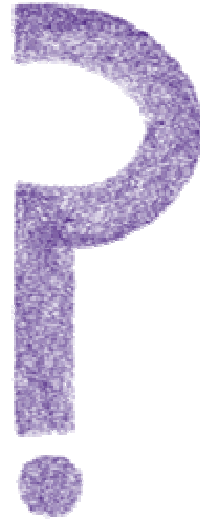
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## Looking ahead

- More efficient operations
- Increased optimism in the public
- Credit markets enter a new level of normalcy
- Greater governmental regulations
- Sustainability continues to gain acceptance
- Where will the consumers be?

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# Questions



Thank you.