Boyar
asset analysis focus

Devon Energy Corporation
Post Holdings, Inc.

Asset Analysis Focus Brief Updates – Revisiting Recent AAF Profiles: Hanesbrands, Inc., Pall Corporation, The Scotts Miracle-Gro Company

June 28, 2012
Volume XXXVIII, Issue VI

"I think anybody who is a great investor, a good investor, a successful investor, has to be a person who can be both aggressive and defensive, too. You have to be able to bet. But you also have to have enough fear to have the caution. But you can't let the fear control you."

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S E A R C H I N G F O R V A L U E S I N C E 1 9 7 5

Page 1 ***NEW: Devon Energy Corporation ($56.85)***

Devon Energy Corporation is a well established firm in the Oil and Gas Exploration and Production sector. The Company has elected to focus on its core operations within the North American onshore area, and divest all offshore and international assets. Moreover, it has decided to focus its future production growth on higher-return crude oil and NGL (natural gas liquids) projects. DVN is targeting an overall production CAGR of 6%-8% for the 2011-2016 period, implying an overall production increase of more than 40% during the next five years. The Company's strategic changes have been accompanied by several positive financial developments. DVN has reduced its net debt by about $4 billion since 2003. Additionally, the Company has repurchased 20% of its shares and increased its dividend 7 times since 2004. The firm's balance sheet is solid, as of the most recent quarter DVN had a net debt: capital ratio of 15%. However, concerns about commodity prices have caused DVN shares to become out of favor with investors (shares have declined by approximately 30% over the past year), largely overshadowing DVN's favorable developments and positive outlook. Based on our projections for 2014, which reflect DVN's evolving production profile and a more normalized commodity price environment, the firm should be capable of generating annual EBITDA of at least $8 billion. Utilizing relatively modest assumptions (a multiple of 5.0x 2014 on an EV/EBITDA basis) produces an estimated intrinsic value of approximately $90 per share for DVN, implying total return potential of about 60% from the current valuation. Although the timing associated with a more normalized commodity price environment is difficult to predict, we believe the risk/reward proposition at DVN has become very attractive for patient, long-term investors.

Page 15 ***NEW: Post Holdings, Inc. ($30.85)***

Post Holdings is the #3 branded ready to eat (RTE) cereal manufacturer in the United States. Post was spun out from private label food/frozen bakery manufacturer Ralcorp in February 2012 as part of Ralcorp's ultimately successful strategy to resist ConAgra's acquisition attempts. Post's operating performance had deteriorated under Ralcorp control (Ralcorp acquired Post from Kraft in 2008), with Post's RTE market share steadily declining from 14.6% to as low as 10.3% in 4Q FY2011 and EBITDA declining from approximately $300 million to $216 million. We would primarily attribute Post's declines under Ralcorp to the loss of Kraft's vast distribution network and top-notch internal sales and marketing capabilities as well as conflicts with Ralcorp's competing private label cereal business. The separation from Ralcorp could prove to be a catalyst for Post unlocking its intrinsic value. Notably, longtime Ralcorp chairman William Stiritz vacated his position to become chairman and CEO at Post and has replaced Post's senior management. Under his leadership, Post is reinvesting in an expanded direct sales force, improving its trade spending analytics, and fixing its inconsistent price/advertising strategy. At the current share price, Post trades at a discount to its branded food peers at 9.3x EV/trailing EBITDA. Combined with the Company's strong free cash flow generation (11% trailing free cash flow yield and an estimated 7%-plus forward free cash flow yield), we believe Post shares represent an attractive opportunity to invest in a turnaround situation while offering a large margin of safety. Even assuming the RTE cereal category achieves no sales growth over the following three years, we estimate Post could earn upwards of $244 million in EBITDA by 2014 by recovering just one point of market share. Applying a still-discounted 9.5x EV/EBITDA multiple, we estimate Post's intrinsic value could reach upwards of $42 per share.

UPDATES: Asset Analysis Focus Brief Updates – Revisiting Recent AAF Profiles

In this section, we are revisiting three companies that have been featured in past editions of Asset Analysis Focus. With each name, there have been significant developments since our last full profiles and we have decided to provide an updated analysis.

Page 29 **Hanesbrands, Inc. ($27.13)** – While Hanesbrands' shares have advanced 21% since they were featured in January 2011, we believe that investors continue to overlook the Company's free cash flow generation potential. Hanesbrands' results should receive a significant boost during the second half of 2012 benefiting from significantly lower cotton costs. Free cash generation will likely be substantial at HBI and we would not be surprised if the Company decides to return a large amount of its free cash flow to shareholders via share repurchases or dividends following an aggressive deleveraging process in recent years.

Page 34 **Pall Corporation ($53.06)** – Following a 25% increase after we featured Pall Corporation in October 2011, Pall shares have retraced most of their recent gains. Notwithstanding a recent botched ERP system deployment, we are encouraged by initiatives by Pall's new management to drive growth and boost Pall's long term profitability. Notable actions include the April 2012 announcement that Pall would be divesting its low margin blood business ($430 million in expected after-tax proceeds) and restructuring its operations intended to provide $100 million in annual operating savings ($50 million expected to be realized in FY 2013).

Page 38 **The Scotts Miracle-Gro Company ($40.42)** – Shares of SMG have been buffeted (down nearly 30% from 52-week highs) by weak results and a disappointing outlook owing to extreme weather conditions, decisions made to invest in the brand (pricing and advertising investment) and a still challenging economic environment. We believe the pullback provides investors with an attractive entry point for SMG shares with its portfolio of strong brands (~60% of SMG's total sales are derived from products with greater than 50% share in their respective categories) and attractive growth opportunities.

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Volume XXXVIII, Issue VI

Devon Energy Corporation

NYSE: DVN

Dow Jones Indus:	**12,602.26**
S&P 500:	**1,329.04**
Russell 2000:	**775.89**
Index Component:	**S&P 500**

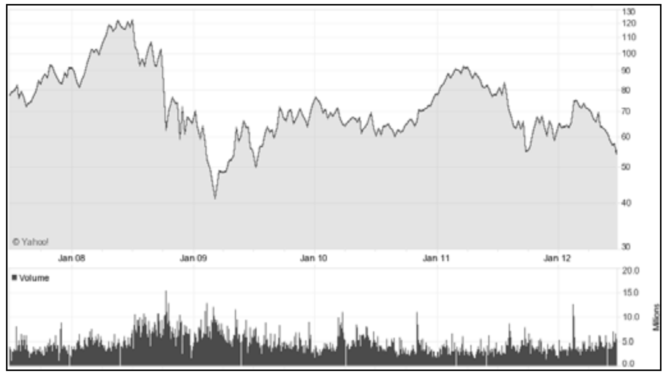
Trigger: No
Type of Situation: Business Value

Price:	**$**	**56.85**
Shares Outstanding (MM):		**404**
Fully Diluted (MM) (% Increase):		**405 (.25%)**
Average Daily Volume (MM):		**4.2**
Market Cap (MM):	**$**	**23,024**
Enterprise Value (MM):	**$**	**26,753**
Percentage Closely Held:		**~7%**
52-Week High/Low:	**$**	**84.52/50.74**
5-Year High/Low:	**$**	**121.38/39.92**
<u>Trailing Twelve Months</u>		
Price/Earnings:		**10.8x**
Price/Stated Book Value:		**1.0x**
Net Debt (MM):	**$**	**3,729**
Upside to Estimate of Intrinsic Value:		**58%**
Dividend:	**$**	**0.80**
Yield:		**1.47%**
Net Revenue Per Share:		
LTM:	**$**	**29.15**
2011:	**$**	**27.38**
2010:	**$**	**22.54**
2009:	**$**	**18.05**
Earnings Per Share:		
2011:	**$**	**5.10**
2010:	**$**	**5.29**
2009:		**NM**

Fiscal Year Ends:	**December 31**
Company Address:	**333 West Sheridan Road Oklahoma City, OK 73102**
Telephone:	**405-235-3611**
President & CEO:	**John Richels**

Clients of Boyar Asset Management, Inc. do not own shares of Devon Energy Corporation common stock.

Analysts employed by Boyar's Intrinsic Value Research LLC do not own shares of DVN common stock.



<u>Overview</u>

Devon Energy Corporation ("DVN," "Devon," or "the Company") is a well established firm in the Oil and Gas Exploration and Production sector ("E&P"). The firm has been in operation for over 40 years, but has made significant strategic changes during recent years. The Company elected to focus on its core operations within the North American onshore area, and divest all offshore and international assets. Moreover, it has decided to focus its future production growth on higher-return crude oil and NGL (natural gas liquids) projects, and shift its future production focus away from natural gas. DVN is targeting a 6%-8% production CAGR for the next five years, while reducing its production exposure to natural gas from 66% to less than 50% during the same period.

The Company's strategic changes have been accompanied by several financial developments we consider to be beneficial from a shareholder perspective. Much of the proceeds generated from asset sales during past years have been used to reduce debt and return cash to shareholders. DVN has reduced its net debt by about $4 billion since 2003. Additionally, the Company has repurchased 20% of its shares and increased its dividend 7 times since 2004 (current yield is 1.5%). This track record, combined with its strong balance sheet, disciplined capital spending approach, and emphasis on organic growth help to illustrate a shareholder orientation at DVN that is not always prevalent within the E&P sector.

Despite the Company's strategic positioning and strong balance sheet, DVN shares have performed poorly during recent quarters. Just within the past year, the stock has lost nearly a third of its value. In our view, much of this decline stems from DVN's exposure to natural gas production, and the price weakness that has been experienced by that commodity. Natural gas prices have declined by roughly 80% from 2008 peaks, and are down over 40% during the past year alone. As a result, DVN shares have become out of favor, and valuation has reached historically depressed levels. Although the timing of a recovery may be somewhat extended, we believe DVN shares represent a very attractive opportunity for long-term investors.

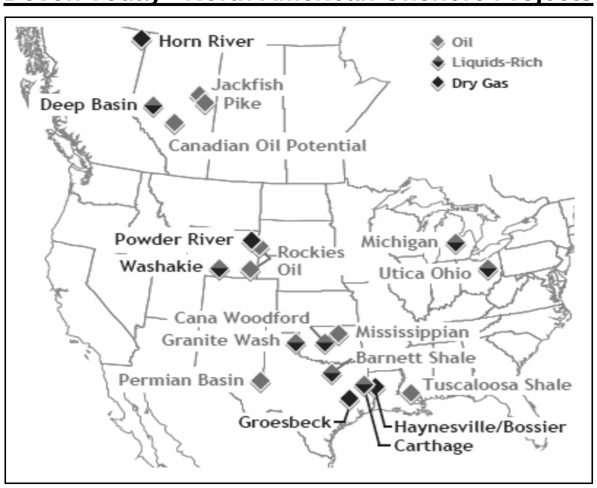
Background & Business Description

Devon Energy has been in operation for over 40 years, and started from relatively modest beginnings. The firm was founded in 1971 by John Nichols and his son Larry Nichols. John Nichols had already been in the energy sector for several decades (an accountant by trade), and had established a successful track record at energy partnership Blackwood and Nichols. Larry Nichols had a background in both geology and law, and joined his father to start Devon after graduating from law school and working for both the U.S. Supreme Court and U.S. Attorney General's office. During the 1970s, the Company focused on mature natural gas projects in North America (a less popular investment opportunity within the sector at the time). The management team gradually built DVN's operations through a series of acquisitions during the coming years, and the firm eventually became a Master Limited Partnership in 1985.

After several years of depressed energy prices and some tax law changes, DVN eventually abandoned the MLP structure and elected to become a public Company in 1988. As a public firm, DVN continued to pursue several M&A transactions (largely focused on the U.S. and Canada), and had become one of the most prominent independent U.S. E&P operators by the late 1990s. A 2000 merger with Santa Fe Snyder significantly bolstered DVN's overseas presence. In addition, its 2001 acquisition of Mitchell Energy helped establish DVN's position in the Barnett Shale area. However, the firm has become less acquisitive over the past decade (a $2.2 billion acquisition of an E&P operator in the Barnett Shale called Chief Holdings in 2006 is the main exception), and it created a separate division for its marketing and midstream operations in 2001.

During recent years, DVN has taken steps to sharpen its strategic focus on its core production areas (onshore projects in the U.S. and Canada) while also creating shareholder value via debt reduction, share repurchase, and a growing dividend. Management has taken several steps to reflect its revised strategy. During 2004, DVN announced plans to sell $2 billion in assets, repurchase 10% of its shares, and double its dividend. In 2010, DVN divested $10 billion in assets in the Gulf of Mexico, Brazil, and Azerbaijan. During subsequent years, DVN has maintained this strategic focus, and announced several increases to both its dividend and share repurchase authorization. Today, DVN remains one of the largest independent E&P operators based in the U.S. (headquartered in Oklahoma City). Its renewed focus on North American onshore projects is readily apparent upon examining its portfolio of current and existing projects (see map below).

Devon Today - North American Onshore Projects

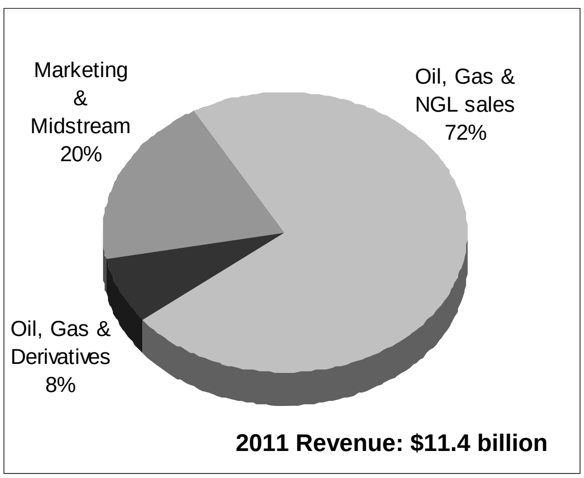


Source: Company presentation, June 2012

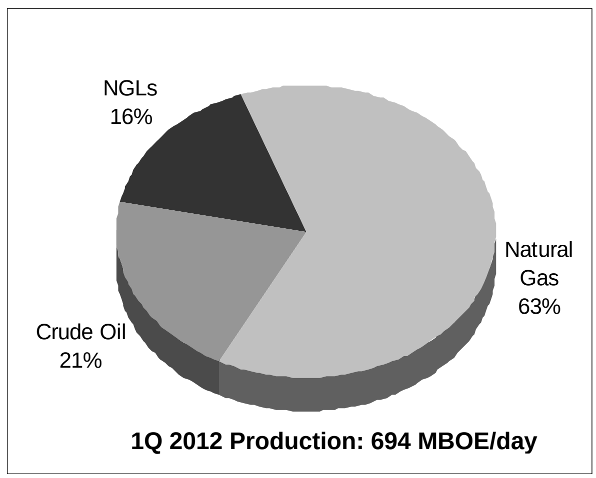
The Company has a fairly diverse geographical footprint across the North American continent, with a particular emphasis on the Southwestern U.S., U.S. Rocky Mountain region, and Western Canada. As of the most recent quarter, DVN had daily production of approximately 694,000 BOE (barrels of oil equivalent). Natural gas projects represent the largest source of current production (see following chart), accounting for 63% of output during the most recent quarter. Crude oil represented 21% of output in 1Q 2012, and NGLs such as propane, butane, and ethane represented the balance of production (16%) during the most recent reporting period. DVN's overall proved reserves now stands at approximately 3 billion BOE, with natural gas representing 58% of reserves, and crude oil and NGLs representing the remaining 42%.

Importantly DVN is not just an E&P company, it also owns natural gas pipelines and treatment facilities (marketing and midstream operations), and is one of North America's largest processors of natural gas. DVN owns about 15,000 miles of pipeline, and has ownership of 64 plants across the U.S. and Canada. Although DVN's marketing and midstream operations are a more modest contributor to its financial results, this segment possesses a meaningful strategic role within DVN. This business helps DVN to bring much of its daily natural gas and NGLs to market, and enables DVN to buy and sell commodities from third parties. Moreover, having access to these assets significantly enhance DVN's overall operating efficiency. According to Company estimates, the firm's midstream operations increase DVN's overall margins by about $2 per BOE. During the most recent fiscal year, DVN generated about $11.5 billion in revenue (see following chart), derived from its upstream operations (72%), marketing and midstream (20%), and gains from oil, gas, and NGL derivatives (8%).

2011 Revenue



1Q 2012 Production



Management

Larry Nichols (DVN's co-founder) is still Executive Chairman of the firm, but he is the only member of the founding family still present on the management team. The Company's management team consists of seasoned executives, with significant experience in the energy sector. The following table provides some additional background on DVN's executive team.

Executive	Age	Background
Larry Nichols-Executive Chairman	69	Co-founder of Devon, CEO of Devon 1980-2010
John Richels-President & CEO	61	Several executive positions at Devon since 1998
Jeff Agosta-Executive V.P. & CFO	45	Promoted to CFO in 2010 after 13 years with Devon
David Hager-Executive V.P. of E&P	55	Joined Devon in 2009, previously at Kerr McGee
Darryl Smette-Executive V.P. of Marketing & Midstream	64	Appointed to position in 1999, joined Devon in 1986

A Stable and Well Established E&P Operator

As its map of production properties illustrates, DVN has a well established presence across much of the North American onshore production market. Much of its assets are located in geographic clusters, reflecting an investment approach that emphasizes stable production areas where DVN has already built a presence, infrastructure, and expertise. Although its footprint no longer consists of some of the more high profile areas within the E&P sector (offshore projects, overseas projects, etc.), this portfolio offers meaningful growth and a relatively more predictable outlook for future production from our perspective. We regard the North American onshore as an attractive region given its political stability relative to other energy producing regions. Moreover, by focusing on onshore projects, DVN avoids projects that can both be capital intensive and higher risk from an operational perspective.

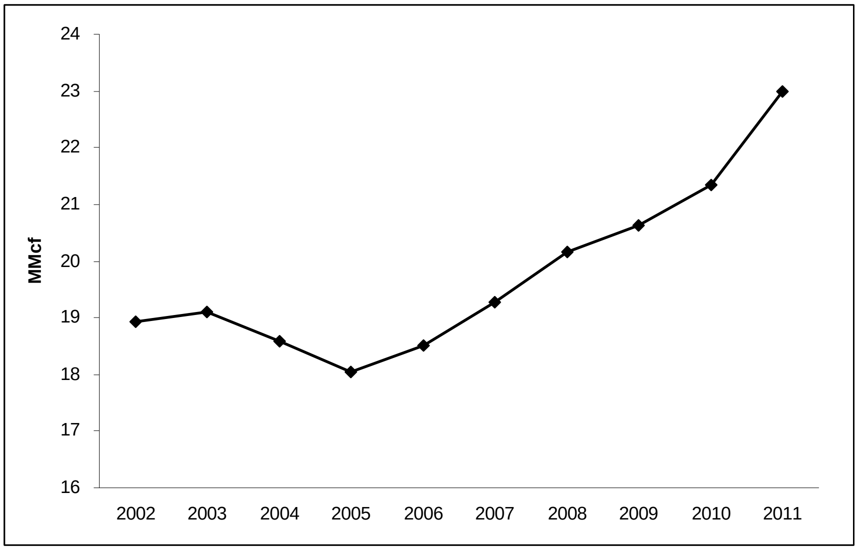
Despite lacking a presence in some of the more well-known and emerging energy areas, DVN has achieved an impressive production record from a historical perspective. Since 2006, DVN has achieved a production CAGR of 7% and average annual reserve replacement (proved reserves added relative to production) of over 200% within the North American onshore region. Importantly, this record was achieved during a period in which DVN pursued little in the way of M&A opportunities (with the exception of the $2.2 billion acquisition of Chief Holdings in 2006). Moreover, overall production cost per BOE for DVN was $7.71 in 2011, ensuring profitability through a wide range of commodity price scenarios. DVN’s reserves and production are derived from a diverse portfolio of projects, but there were 4 projects that accounted for over 70% of proved reserves and over 50% of production during 2011: Barnett Shale, Jackfish, Cana-Woodford Shale, and Permian Basin. The following provides more detailed descriptions of these projects:

- ***Barnett Shale**:* The Barnett Shale, located in North Texas, is by far DVN’s most significant project, representing 38% of proved reserves and 32% of production. The Barnett Shale produces natural gas and NGLs, and is one of the largest gas fields in North America. DVN has been an operator there for over a decade, and the Company is the largest operator in the area.
- ***Jackfish**:* Jackfish is a heavy oil project, located in the oil sands of Alberta, Canada. DVN is the only U.S. based independent E&P to develop and operate a project in the Canadian oil sands. During 2011, Jackfish was DVN’s second largest source of proved reserves (15% of DVN’s total portfolio), and accounted for approximately 5% of DVN’s total production.
- ***Cana-Woodford Shale**:* The Cana Woodford Shale is located in Oklahoma, and is DVN’s second largest source of proved reserves in the U.S. (about 11% of DVN’s total proved reserves), and accounts for about 5% of the firms daily output. The project largely yields natural gas and NGLs, and has emerged as a high growth project for DVN (DVN’s production from Cana-Woodford increased 85% in 2011). DVN is the largest producer and leaseholder in the area.
- ***Permian Basin:*** The Permian Basin, located in West Texas and New Mexico, is a relatively mature project with a well established operating history. Although Permian is not considered a high-growth area, it continues to be a stable source of both production and proved reserves for DVN, and the firm has been increasing its drilling operations in the region. During 2011, Permian accounted for over 7% of DVN’s total production, and about 6% of its proved reserves.

Fundamentals of the Natural Gas Market in North America

Within the last few years, a natural gas supply and demand imbalance in the North America has developed as a result of advancement in technology (hydraulic fracturing) and the development of shale gas. According to the U.S. Energy Information Administration, natural gas production reached an all time record with dry gas production of 23.0 trillion cubic feet in 2011 (+7.8% vs. 2010 and up 24.0% vs. 2006) and imports of a net 1.9 trillion cubic feet. However, total consumption was 24.4 trillion cubic feet, up only 2.5% vs. 2010. As a result, natural gas storage has been increasing over the same period. Over the last three years, natural gas storage has increased by 721 billion cubic feet to 3,472 billion cubic feet at the end of December 2011.

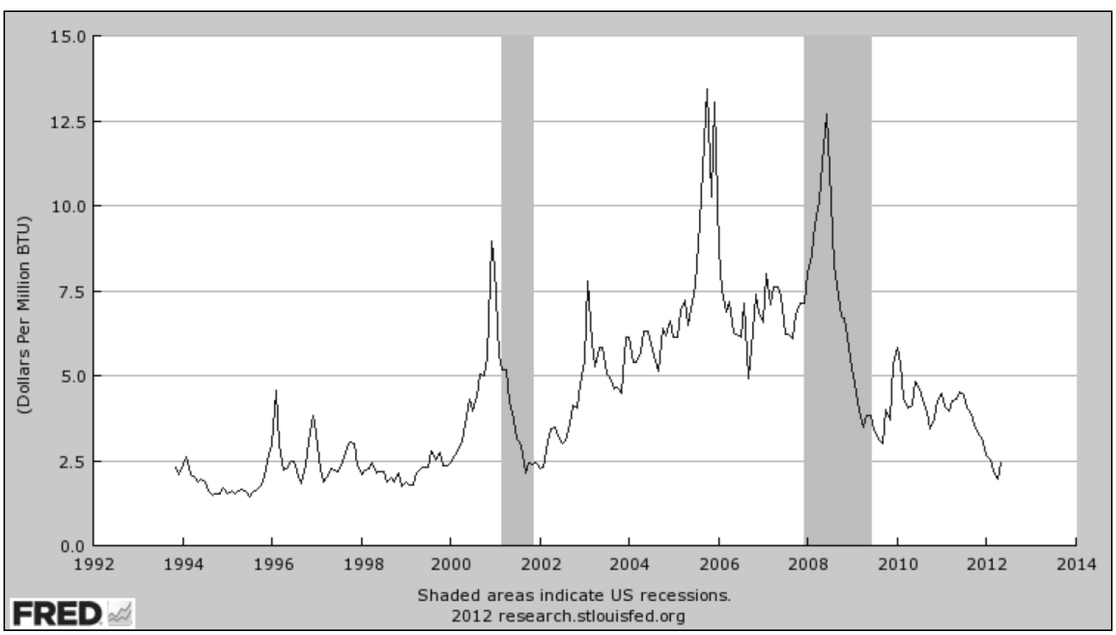
U.S. Dry Natural Gas Production (MMcf)



Source: U.S. Energy Information Administration

Higher production and increasing supply in storage helped put further pressure on natural gas prices. Natural gas Henry Hub spot prices have declined from a peak of $13.58 per mm Btu on 7/3/2008 to $2.42 per mm Btu at the end of May 2012. Meanwhile, oil prices have been increasing due to geopolitical tensions, tighter supplies and a moderate recovery in global economies. Since January 2009, oil prices have increased from $41.74 to $103.28 in April 2012. Oil prices have pulled back recently due to the global economic slowdown arising from economic uncertainties in Europe (due to the sovereign debt crisis) and an industrial slowdown in China. As of 6/25/2012, oil prices were $77.69.

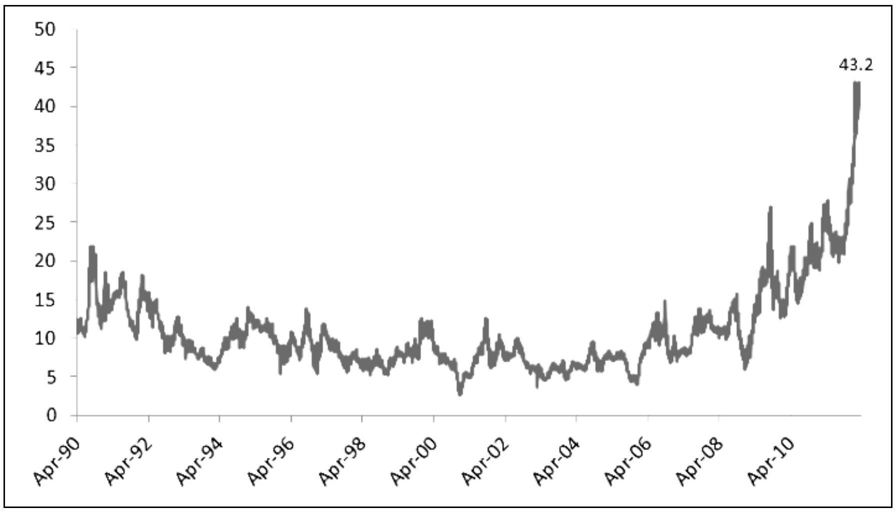
Natural Gas Price: Henry Hub, LA (GAS PRICE)



Source: Federal Reserve Bank of St. Louis

Historically, oil and natural have traded within a certain ratio. Technically, the price of oil should only be ~6.0x the natural gas price since one barrel is approximately equivalent to 5,800 cubic feet of natural gas. On a trading basis, the average ratio of oil prices to natural gas prices since 1990 has been about 10.0x. However, the recent outperformance of oil combined with the underperformance of natural gas has widened this ratio to 28.0x as of 6/28/2012 and has gotten as high as 54.4x as recently as March 6, 2012. Many energy experts have predicted that the ratio would eventually normalize back to ~10x. While industry experts have been looking for the ratio to normalize, we find this hard without a pickup in demand that would boost natural gas prices.

Oil to Natural Gas Ratio: 1990-Present



Source: Bespoke Investment Group

Plentiful natural gas supply and low prices led to talk of the need to develop new domestic and foreign markets for natural gas. For example, there are currently proposed projects to export liquefied natural gas (LNG), cumulatively accounting for about 12.5% of current U.S. natural gas production. Shipping the surplus production abroad will alleviate the excess supply and help bring the natural gas market back into equilibrium.

Currently natural gas comprises about 27% of US primary energy consumption and has averaged 24% per year since 1973. Due to abundance of natural gas in this country and low prices, some policy makers are advocating boosting natural gas use for electric power generation and use in alternative transportation. Currently, natural gas-fired combined cycle generation plants are displacing coal-fired generation plants. Coal generation, as a percentage of total output, declined steadily to 44% in 2011 from about 51% in 2002. Over the same period, generation from natural gas-fired combined cycle plants grew to more than 20% from 10%. Over roughly the last decade, the largest amount of capacity for natural gas-fired combined cycle generation plant construction occurred from 2000 to 2005. Their capacity factors have been growing steadily since that time, from the low 30% range to nearly 40%. As for transportation, Chesapeake Energy estimates that the U.S. total addressable market for compressed natural gas (CNG) is greater than 70 Bcf per day. Already, Clean Energy Fuels (the largest provider of vehicular natural gas in North America) looked to capitalize on this opportunity when it announced in January 2012 that it would build 150 LNG stations at truck stops and create a network with an average of about 250 miles between stations. We believe these factors should help create additional demand to help absorb the surplus production over the next few years, which will help lead to a normalization of natural gas prices at higher levels. For the purposes of our projections for DVN, we have assumed a crude oil: natural gas price ratio of 20:1 by 2014 ($80 for crude oil, $4.00 for natural gas).

Recent Developments at Devon Energy

Devon Sells Project Stakes to Sinopec

In January of 2012, DVN announced it had sold one-third of its stake in five new production ventures to Sinopec International Petroleum Exploration and Production Corporation (also known as “SIPC”, a publicly traded Chinese oil and gas firm) for $2.5 billion. Prior to the announcement, DVN held 1.2 million acres in these five new ventures: Tuscaloosa Marine Shale (Louisiana and Mississippi), Niobrara (U.S. Rockies), Mississippian (Oklahoma), Ohio Utica Shale, and the Michigan Basin. Under the terms of the agreement, SIPC agreed to pay DVN an upfront sum of $900 million, and a drilling carry of $1.6 billion. The carry requires that SIPC fund 80% of the projects’ development costs during the carry period, and this $1.6 billion figure is expected to be realized by the end of 2014. DVN will continue to be the operator of the projects, and will have ultimate responsibility for capital allocation decisions. This agreement allows DVN to partially monetize its interests in these projects, while still having meaningful exposure to future upside. Moreover, this transaction is consistent with DVN’s emphasis on capital efficiency, and allows the Company to manage the overall risk profile of its future production and reserves portfolio. Management has indicated that it may consider employing this strategy with other development projects in the future.

Devon’s 1Q Earnings Weaker than Expected, but Production Trends Encouraging

In May of this year, DVN reported EPS of $1.05, a 15% increase relative to 1Q-2011 but $0.38 below consensus expectations. The primary reason for the lower than expected profit was weaker commodity prices. Average realized price per BOE declined about 5% year over year to $32.83, impacted challenging pricing trends for both natural gas and a temporary change in price differentials for Canadian oil. Weak natural gas prices also had a negative impact on DVN’s marketing and midstream results, translating to a 4% revenue decline and a 7% drop in operating profit. In addition, lease operating expense (per BOE) increased 9% year over year reflecting a general increase in industry production costs and an increased exposure to crude oil production (which are more costly to develop relative to natural gas projects). Despite this disappointing report, we believe there were some positive developments. Specifically, production growth was impressive during the period. Overall average daily production increased 10% year over year, largely driven by higher liquids production (crude oil and NGLs). Average daily production of crude oil and NGLs increased 26% and 20% respectively, consistent with the firm’s strategic emphasis on these types of projects. Additionally, DVN’s shares outstanding were 6% lower compared to 1Q 2011, reflecting past share repurchase activity (but no shares were repurchased during 1Q 2012).

The Outlook for Devon Energy: Strategy & Opportunities

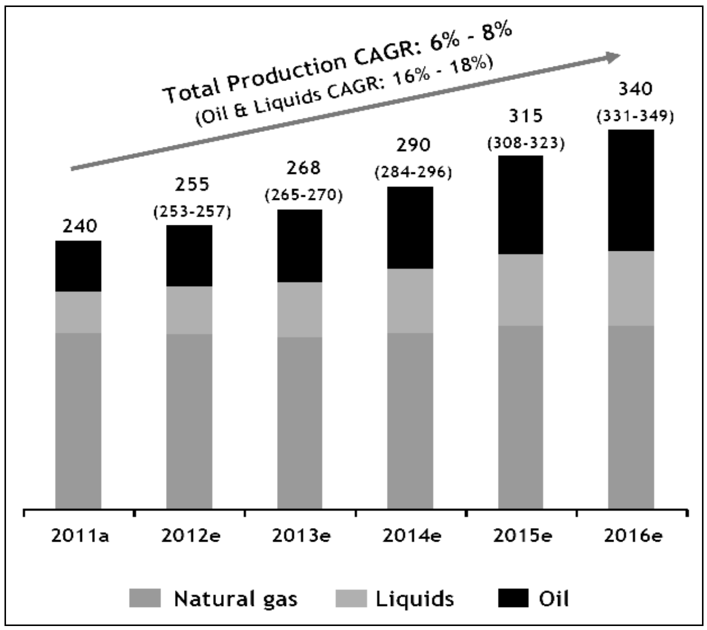
Strategy

During recent years, management has communicated a clear strategy through both words and actions. DVN has divested all of its offshore and overseas assets in order to sharpen its strategic focus on North American onshore projects and pursue attractive growth opportunities that can create value for its shareholders. Going forward we expect DVN to maintain this strategic direction: pursuing attractive growth opportunities within its core regions, while maintaining its strong financial profile. As management has frequently stated, these growth opportunities should largely consist of organic expansion of new and existing projects, with many projects occurring in areas where DVN already has a long operating history. Moreover, new production will emphasize higher return projects that produce crude oil and NGLs. Roughly two-thirds of current output consists of natural gas, but DVN expects natural gas projects to represent less than half of total production by 2016. Despite the challenging price trends within the energy sector (especially for natural gas in North America), we believe DVN’s strong balance sheet and cash flow generation should allow the firm to fund future growth opportunities without impairing its financial position. Moreover, DVN’s recent transaction with Sinopec to sell stakes in projects to manage capital efficiency and overall risk likely offers a preview of other potential deals in the future, as DVN seeks to achieve its production growth initiatives in a financially responsible manner. In our opinion, DVN’s strategy strikes an appropriate balance between financial strength and future growth. Although investors may be more focused on near-term commodity price challenges, the benefits of DVN’s strategy should become more apparent during the coming years, reflected in a growing and more profitable production profile.

Future Growth Opportunities

Although DVN has exited from some of the more high-profile and emerging production areas such as Brazil and Azerbaijan, it continues to possess a portfolio that contains many attractive growth opportunities. Some investors may consider North American onshore production to be relatively mature with only modest growth potential during future years. However, we would regard such a view as inaccurate, and believe DVN's existing and future projects offer very meaningful production upside over the long-term. As the following slide illustrates, DVN is targeting an overall production CAGR of 6%-8% for the 2011-2016 period, implying an overall production increase of more than 40% during the next five years. Consistent with DVN's strategic shift toward crude oil and NGL production, those types of projects are expected to achieve production CAGRs in the mid-upper teens, while natural gas production increases only modestly.

Oil & Liquids Production Growth



Source: Company presentation, June 2012

DVN's future production will be derived from a combination of new and existing projects. In the near-term (the next 1-3 years), management has highlighted projects such as Jackfish (Canada), Mississippian (Oklahoma), and projects in the U.S. Rockies region as among the most meaningful growth drivers. Longer-term, other projects that are still in the early stages of development such as Utica (Ohio), Tuscaloosa (Louisiana/Mississippi) and Michigan Basin also offer significant production potential. The following offers a more detailed description and analysis of DVN's more material production prospects. Within the JV projects with Sinopec alone, there are net "unrisked resources" (reasonably expected to be recovered based on past drilling and production) equivalent to 1.5x DVN's current proven reserves.

- ***Jackfish/Western Canada***: As mentioned earlier in this report, Jackfish is already a meaningful contributor to DVN's existing production and reserves, but further development is being undertaken in this area. This heavy oil project in Western Canada will likely remain one of DVN's key sources of new oil production. DVN's projects in this region (Jackfish 1, Jackfish 2, Jackfish 3, and others) are considered to be low-risk projects from a geological perspective, and reserve life is estimated to exceed 25 years. New projects in this region are expected to yield over 200,000 barrels per day in additional production during the coming decade.

- ***Mississippian***: This project, along with U.S. Rockies, Utica, and Tuscaloosa are part of the recently announced transaction with Sinopec that allows DVN to develop these projects in a more capital efficient manner (explained in greater detail earlier in this report). Importantly, about

80% of production in these areas is expected be in the form of liquids (crude oil and NGLs). Mississippian is a crude oil project, with light/sweet characteristics (which typically commands premium pricing), and is considered to be among the lower-risk prospects in DVN's portfolio of new projects. Net to Devon, this project contains 560 million BOE of unrisked resources.

- ***U.S. Rockies***: DVN's "Rockies Oil" projects (located in Eastern Wyoming) also offer meaningful future upside, and should also help the firm increase its future production exposure to crude oil. The projects in this region are estimated to contain 890 million BOE of unrisked resources (net to DVN). Importantly, DVN has already established operating expertise in this region (Powder River and DJ Basins).
- ***Utica***: This project (located in Ohio) has 640 million BOE in unrisked resources, and 85% of this project consists of liquids. Although development of this area is still at a relatively early stage, industry results in the region have been positive.
- ***Tuscaloosa***: Located in Louisiana and Mississippi, this project is estimated to contain 90% liquids, and DVN's net interest in the project translates to over 1.1 billion BOE in unrisked resources. The initial issue with this project is that development costs are relatively high. However, management has pointed out that the project has geological similarities to DVN's Cana Woodford project, where the Company has successfully reduced drilling costs by 30%-40% since inception.
- ***Michigan Basin***: This project is estimated to have over 1.5 billion BOE in unrisked resources. However, the production profile is somewhat less attractive compared to other new ventures (55% liquids/45% natural gas).

Balance Sheet and Financial Position

In our view, maintaining a strong financial position and disciplined capital allocation through all phases of the industry cycle is a particularly important issue within the E&P sector. In the past, many E&P companies have tended to take on additional financial leverage when energy prices are robust, assuming the strong pricing environment will remain intact over the long-term. Inevitably, energy prices prove much less predictable, and are often subject to significant and extended corrections. As a result, both M&A and capital investments that were once justified by a buoyant industry environment can become much less attractive, often translating to deteriorating returns on capital and financial distress. We believe firms that exhibit a more conservative investment approach and a strong balance sheet hold a superior competitive position within the sector, allowing such companies to better endure industry downturns and to capitalize on the attractive investment opportunities that often arise from such scenarios. Moreover, having a track record of returning cash to shareholders is another key consideration. Firms that consistently issue dividends and repurchase stock tend to exhibit both a shareholder orientation and a more disciplined investment approach (as a result of retaining less earnings, etc.).

We believe DVN possesses many of the favorable financial characteristics just outlined. The firm's balance sheet is solid, and it holds only a modest level of financial leverage. As of the most recent quarter, DVN had about $3.7 billion in net debt, translating to a net debt: capital ratio of 15% (cash and short term investments total over $7 billion). The Company's strategic positioning and corresponding asset sales (about $10 billion in sales in 2010), has allowed management to reduce its debt, while also returning cash to shareholders and funding future capital projects (net debt has decreased by about $4 billion since 2003). Since 2004, the Company has increased its dividend 7 times and repurchased about 20% of its share base. DVN completed a $2.5 billion share repurchase program in 4Q 2011, but there is no additional authorization currently in place. During 1Q-2012 DVN announced an 18% increase to its dividend. The current annual dividend of $0.80 per share translates to a 1.5% dividend yield, and represents a dividend payout ratio of roughly 17% (based on EPS expectations for the current year). It warrants mention that much of DVN's existing cash is being held overseas for tax purposes; these proceeds stem from DVN's past divestitures of international assets. Given the tax consequences and the low cost of borrowing in the U.S., management is not inclined to repatriate those funds for the foreseeable future.

Given the firm's strong balance sheet, some investors may speculate that some type of M&A activity could become increasingly likely. We believe an expensive or transformative acquisition is a less likely scenario for DVN given the firm's conservative financial philosophy, and the Company has reiterated its preference for organic growth opportunities in recent meetings with investors. During DVN's Investor Day on April 4, 2012 CEO John Richels addressed this issue directly:

> *"I think people kind of think it's in our DNA to do mergers and acquisitions, and we did a lot of them in the late 90s and early 2000s…and I can tell you absolutely, I'm just being as candid with you as I can be, in my current position here, I haven't and our management team hasn't either in the last few years spent 5 minutes thinking about doing a large merger."*

During this same meeting with investors, management provided additional details regarding its future capital allocation plans. Management believes maximizing its cash flow, earnings, production and reserves per share (adjusted for debt) has a strong correlation with stock performance over the long run, and makes capital allocation decisions within that context. In addition, management typically hedges about 50% of its production in order to provide some visibility to future cash flows. Going forward, investments in current projects and funding new venture will be the top Company priorities for uses of cash and future cash flow. Consistent with its overall strategy, DVN will be focused on developing projects that produce oil and NGLs. The Company seeks to make capital decisions from a long-term perspective, and the firm has already outlined its investment intentions and forecasts for the next several years. It is worth noting that DVN's forecast assumes a crude oil price (West Texas Intermediate) of at least $95 per barrel and a natural gas price (Henry Hub) of at least $2.75 per mcf (assumptions vary by year). The following shows DVN's 5-year plan for capital spending:

DVN's 5-Year Capital Spending Plan

($ billions)	2012	2013	2014	2015	2016
E&P Capital Expenditures	$6.3	$6.6	$7.4	$7.3	$7.8
Projected Cash from Operations	$6.0	$6.6	$7.7	$8.8	$10.1

Corporate Governance

Insiders own approximately 7% of the Company. DVN strongly encourages stock ownership by its employees, and senior executives have the following ownership requirements relative to base salary: President and CEO (5 times base salary), Executive Chairman (5x base salary), and Executive Vice Presidents (3x base salary). The Company also utilizes stock options and other types of equity awards to incentivize and compensate its employees. DVN has approximately $387 million in unrecognized compensation costs related to stock options and awards, and the majority of these expenses are expected to be realized over the next 2-3 years. Although DVN's co-founder Larry Nichols is still Executive Chairman and a board member, no other members of the founding family are represented on the management team or board of directors. It also warrants mention that there is no dual class structure present at DVN.

DVN's Board of Directors consists of 8 members; all members are subject to annual approval by shareholders (non-staggered). Under Company policy, a majority of the Board members must qualify as "independent" according to NYSE standards. Currently, 6 of 8 DVN's directors are classified as independent (Larry Nichols and John Richels are not considered independent). All members of the Audit Committee, Compensation Committee, and Governance Committee must be considered independent. The firm does not currently have a "poison pill" plan, but the Company believes that a terminable shareholder rights plan could be justifiable under appropriate circumstances, and it retains the right to issue such a plan in the future.

DVN Board of Directors

Board Member	Year Appointed	Background
Larry Nichols	1971	Co-founder of Devon, CEO of Devon 1980-2010
Michael Kanovsky	1999	President of Sky Energy, founder of Northstar Energy and Bonavista Energy
John Hill (lead director)	2000	Founder & Vice Chairman, First Reserve Corp. (energy investment firm)
Mary Ricciardello	2007	Former Chief Accounting Officer (retired) at Reliant Energy
John Richels	2007	President & CEO of Devon
Robert Mosbacher, Jr.	2009	Chairman of Mosbacher Energy Company (an independent E&P firm)
Robert Henry	2010	President of Oklahoma City University, former federal judge
Duane Radtke	2010	CEO of Valiant Exploration, former CEO of Dominion Exploration

Valuation

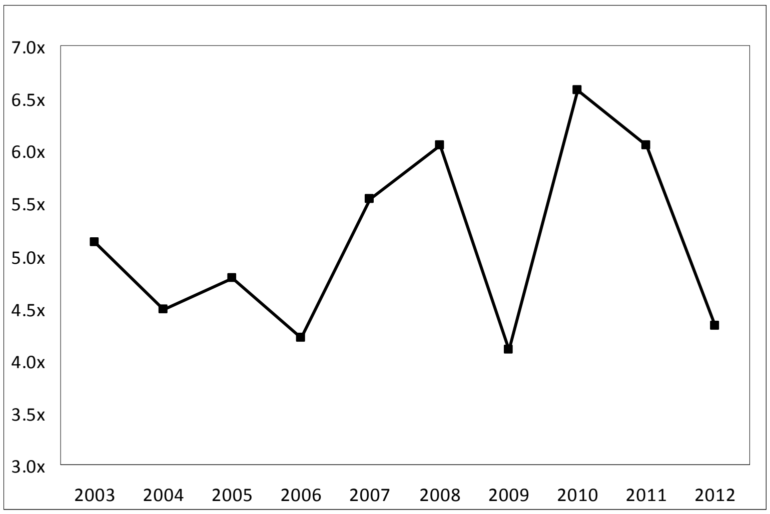
DVN shares have declined by approximately 30% over the past year. In our view, this pull-back in valuation largely reflects investor concerns pertaining to commodity prices (natural gas especially, which has declined over 40% during the past year), and is not a result of any Company-specific developments. Clearly, commodity prices remain a very important aspect of the overall backdrop for DVN and its competitors. However, it is important to note that the firm has taken several steps during recent years to enhance shareholder value, and that these considerations have been largely ignored by the market. Assuming commodity prices stabilize, and that the pricing relationship between crude oil and natural gas gradually approaches a more normalized level (for valuation purposes, we have assumed an $80 price for crude oil per barrel and a $4 per mcf price for natural gas), investors should once again shift their focus to DVN's solid fundamentals.

Although the timing associated with a more normalized commodity price environment is difficult to predict, the firm's strong financial position should allow DVN to endure any potential market oriented challenges. The Company has reduced its net debt by $4 billion since 2003, and its overall net debt: capital stands at a mere 15%. Moreover, it has sharpened its strategic focus, and possesses an attractive set of production growth opportunities that are being developed in a financially responsible manner (the recent partnership with Sinopec for example). Looking ahead, we expect DVN will continue to possess a solid financial and competitive position, and that several potential catalysts could translate to growth and multiple expansion during the coming years. In addition to a more normalized commodity price environment, DVN's profits and valuation should benefit from solid production growth, and a production profile that will have an increasing exposure to higher-return crude oil and NGL projects. Given management's past emphasis on returning cash to shareholders, additional dividend increases and share repurchase activity could also be future catalysts for multiple expansion and enhanced shareholder value.

Company Name	Ticker	TTM P/E	TTM EV/EBITDA	Net Debt: EBITDA (TTM)
Apache	APA	8.0	3.2	0.6
Anadarko Petroleum	APC	NM	5.3	1.5
Chesapeake Energy	CHK	7.2	5.9	2.6
Denbury Resources	DNR	8.0	4.6	1.5
Encana	ECA	28.1	3.9	1.0
EOG Resources	EOG	17.9	5.1	0.9
Marathon Oil	MRO	10.5	2.9	0.6
Noble Energy	NBL	20.7	6.1	1.2
Average		***14.3***	***4.6***	***1.2***
Devon Energy	***DVN***	***10.9***	***3.8***	***0.5***

As the chart above indicates, DVN is currently trading at a P/E multiple of about 10.9x, and an EV/EBITDA multiple of 3.8x (both from trailing twelve month perspectives). On both metrics, DVN trades at roughly a 20% discount to comparable firms. DVN also possesses much less financial leverage relative to peers on a Net Debt: EBITDA basis (0.5 compared to peer average of 1.2). Based on our assumptions for 2014, which reflect DVN's evolving production profile and a more normalized commodity price, the firm should be capable of generating annual EBITDA of at least $8 billion. This level of EBITDA implies DVN is trading at a multiple of approximately 3.25x based on an EV/EBITDA methodology. As the following chart illustrates, this multiple is below the stock's historical trading range. In our view, this valuation fails to reflect the Company strategic and financial accomplishments of recent years, and gives little credit for potential growth in production or profits during the coming years. Overall, DVN's valuation seems to emphasize the risks and concerns associated with the current environment in the E&P sector, while ignoring favorable Company developments and potential catalysts for future growth or multiple expansion.

DVN History: EV/EBITDA Multiple (LTM)



Source: Capital IQ

Utilizing relatively modest assumptions (a multiple of 5.0x 2014 on an EV/EBITDA basis) produces an estimated intrinsic value of approximately $90 per share for DVN, implying total return potential of about 60% from the current valuation (see following table). This estimate assumes DVN can trade at a multiple that is consistent with the stock's recent historical range. In our view, this estimate of intrinsic value could prove to be conservative as the firm's growth prospects and evolving production profile become more appreciated by investors. Moreover, we have assumed no additional share repurchase activity going forward, and production growth that is somewhat below Company objectives (our projections assume overall production growth of 4%-5%). Given management's track record of returning cash to shareholders, and the profit growth we believe is attainable during the coming years, some additional buyback activity could be another feasible catalyst.

Devon Energy Estimate of Intrinsic Value

2014	Value ($MM)
DVN @ 5.0x 2014 EV/EBITDA	40,159
Net Debt (1Q 2012)	3,729
Equity Value	36,430
Shares Outstanding (2014)	405
Intrinsic Value Estimate per share	**$89.95**
Upside from Current Price	58%

Conclusion

Overall, we regard DVN as a well managed firm within the E&P sector that possesses a strong financial position and meaningful growth opportunities. However concerns about commodity prices have caused DVN and much of the sector to become out of favor with investors, largely overshadowing the favorable developments and positive outlook at the Company. As a result, the recent performance of DVN shares has been fairly anemic (losing nearly a third of its value over the past year), translating to a depressed valuation on both an absolute basis and relative to the stock's historical range. Although near-term commodity price challenges could persist, we believe investors will eventually gain greater appreciation for the firm's fundamental position and outlook. Moreover, the firm's debt reduction progress, low degree of financial leverage, and disciplined approach to capital investment should allow DVN to continue to invest in future growth opportunities despite the challenges associated with the current industry environment.

Our $90 estimate of intrinsic value implies total return potential of about 60% relative to the current price. In our view, this could prove conservative as commodity prices (especially natural gas) eventually approach more normalized levels. Moreover, our estimate of intrinsic value assumes no additional share repurchase activity and relatively modest production growth (below firm targets). In our view, the risk/reward proposition at DVN has become very attractive for patient, long-term investors.

Risks

The Company's primary risks include:

- DVN's strong balance sheet could allow management to pursue large or expensive M&A opportunities in order to accelerate its strategic emphasis on liquids production. Such an occurrence could be damaging to shareholder value.
- Poor performance of the overall economy could jeopardize future demand growth for commodities, and cause pricing for crude oil and natural gas to be weaker than expected. Such a scenario would likely hinder both stock performance and profit growth.
- DVN management could fail to execute its plan to shift its production from natural gas to crude oil and NGLs over time. Failure to realize this objective could negatively impact the firm's future production growth, returns on capital, and overall stock performance.
- Failure to successfully find and develop new projects could hinder DVN from achieving production growth targets.
- Changes to environmental laws or to the overall regulatory landscape within the energy sector could jeopardize DVN's future production growth, midstream operations and profitability.
- Successful development of alternative energy resources could eventually diminish the demand for fossil fuels over the long-term, and could negatively impact DVN's competitive position and profitability.

Analyst Certification:

Asset Analysis Focus certifies that the views expressed in this report accurately reflect the personal views of our analysts about the subject securities and issuers mentioned. We also certify that no part of our analysts' compensation was, is, or will be, directly or indirectly, related to the specific views expressed in this report.

DEVON ENERGY CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in millions)

ASSETS	**March 31, 2012 (Unaudited)**	**Dec. 31, 2011**
Current assets:		
Cash and cash equivalents	$ 5,828	$ 5,555
Short-term investments	1,282	1,503
Accounts receivable	1,107	1,379
Other current assets	861	868
Total current assets	9,078	9,305
Property and equipment, at cost:		
Oil and gas, based on full cost accounting:		
Subject to amortization	64,272	61,696
Not subject to amortization	3,896	3,982
Total oil and gas	68,168	65,678
Other	5,341	5,098
Total property and equipment, at cost	73,509	70,776
Less accumulated depreciation, depletion and amortization	(46,948)	(46,002)
Property and equipment, net	26,561	24,774
Goodwill	6,067	6,013
Other long-term assets	899	1,025
TOTAL ASSETS	**$ 42,605**	**$ 41,117**

LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,079	$ 1,471
Revenues and royalties payable	513	678
Short-term debt	4,120	3,811
Other current liabilities	550	778
Total current liabilities	6,262	6,738
Long-term debt	6,719	5,969
Asset retirement obligations	1,944	1,496
Other long-term liabilities	752	721
Deferred income taxes	4,972	4,763
Stockholders' equity:		
Common stock, $0.10 par value	40	40
Additional paid-in capital	3,564	3,507
Retained earnings	16,621	16,308
Accumulated other comprehensive earnings	1,731	1,575
TOTAL STOCKHOLDERS' EQUITY	21,956	21,430
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$ 42,605**	**$ 41,117**

June 28, 2012
Volume XXXVIII, Issue VI

Post Holdings, Inc.

NYSE: POST

Dow Jones Indus: 12,602.26
S&P 500: 1,329.04
Russell 2000: 775.89
Index Component: S&P 400

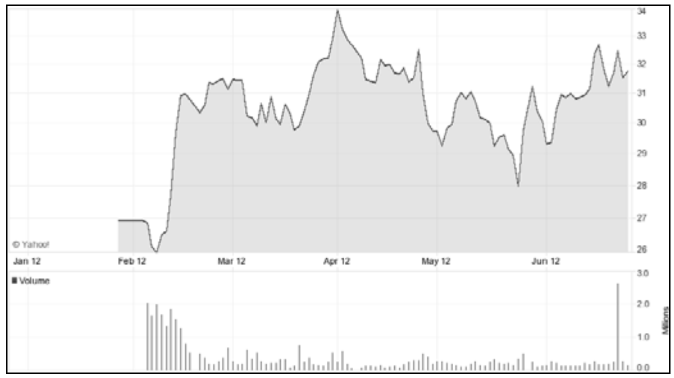
Trigger: No
Type of Situation: Consumer Franchise, Business Value

Price:	**$**	**30.85**
Shares Outstanding (MM):		**34.4**
Fully Diluted (MM) (% Increase):		**34.6 (0.6%)**
Average Daily Volume (MM):		**0.3**
Market Cap (MM):	**$**	**1,067**
Enterprise Value (MM):	**$**	**1,985**
Percentage Closely Held:		**Ralcorp 20%**
52-Week High/Low:	**$**	**33.98/26.02**
5-Year High/Low:		**NM**
<u>Trailing Twelve Months</u>		
Price/Earnings:		**NM**
Price/Stated Book Value:		**NM**
Long-Term Debt (MM):	**$**	**950**
Upside to Estimate of Intrinsic Value:		**37%**
Dividend:		**NA**
Yield:		**NA**
Net Revenue Per Share:		
TTM	**$**	**27.61**
2011	**$**	**28.15**
2010	**$**	**28.97**
2009	**$**	**31.17**
Earnings Per Share:		
TTM		**NM**
2011		**NM**
2010	**$**	**2.67**
2009	**$**	**2.94**

Fiscal Year Ends:	**September 30**
Company Address:	**2503 South Hanley Road St. Louis, MO 63144**
Telephone:	**314-644-7600**
Chairman/CEO:	**William P. Stiritz**

Clients of Boyar Asset Management, Inc. do not own shares of Post Holdings, Inc. common stock.

Analysts employed by Boyar's Intrinsic Value Research LLC do not own shares of POST common stock.



Introduction

Post Holdings, Inc. ("Post" or "the Company") is the #3 branded ready to eat (RTE) cereal manufacturer in the United States. The Company's stable of premier brands includes Honey Bunches of Oats (#3 ready to eat cereal brand in the U.S.), Pebbles, and Shredded Wheat. Post was spun out from private label food/frozen bakery manufacturer Ralcorp in February 2012, with Ralcorp retaining just under 20% of Post shares after the separation. Ralcorp's decision to spin off Post was at least in part related to the company's strategy to thwart ConAgra's takeover attempt—which lasted 6 months and included a twice-raised bid before ultimately failing in September 2011 as Ralcorp's board refused to negotiate.

In our view, the decision to spin off Post also represents a meaningful step toward unlocking the Company's intrinsic value, which was stifled under Ralcorp's control. Since Ralcorp acquired Post from Kraft in 2008, Post's RTE market share steadily declined from 14.6% to as low as 10.3% in 4Q FY2011 (fiscal year ending September 30). EBITDA declined from approximately $300 million under Kraft to $216 million over the trailing 4 quarters through March 31, 2012. Although the challenging economic environment was likely a factor, we would primarily attribute Post's declines under Ralcorp to the loss of Kraft's vast distribution network and top-notch internal sales and marketing capabilities. Under Ralcorp, Post transitioned to a primarily outsourced distribution and brokered sales model, as well as an inferior trade promotion platform. Post also had to compete for resources with Ralcorp's leading private label cereal business. Post's newly-independent management team is looking to aggressively attack these problems and regain market share going forward. Notably, longtime chairman of Ralcorp and its predecessors, William Stiritz, vacated his position to become chairman and CEO at Post. He has also brought an almost entirely new senior management team over to Post. Under his leadership, Post is reinvesting in an expanded direct sales force, improving its trade spending analytics, and fixing its inconsistent price/advertising strategy.

At the current share price, Post trades at 9.3x EV/trailing EBITDA , representing a discount to its branded food peers. In addition to the recent operational declines, we also suspect Post's current valuation multiple is depressed due spinoff-related selling pressures and an overhang from Ralcorp/Post's ongoing accounting restatement issue—which is expected to be resolved shortly without a cash impact on Post. Combined with the Company's strong free cash flow generation (11% trailing free cash flow yield and an estimated 7%-plus forward free cash flow yield), we believe Post shares represent an attractive opportunity to invest in a turnaround situation while offering a large margin of safety. Despite its competitive, highly promotional nature, the U.S. branded cereal industry is still highly consolidated (4 companies with scale) and features profit margins among the highest in the broader food category. Even assuming the RTE cereal category achieves no sales growth over the following three years, we estimate Post could earn upwards of $244 million in EBITDA by 2014 through picking up just one point of market share. Applying a still-discounted 9.5x EV/EBITDA multiple, we estimate Post's intrinsic value could reach upwards of $42 per share. We suspect Post could also be a prime acquisition candidate after the new management team stabilizes operations. The Company would benefit from a more scaled sales/distribution network under a larger food company's umbrella, and its strong brands could have value in adjacent categories. Chairman/CEO Stiritz is 77 years old, is highly incentivized with an all-stock/options pay package that could hand him upwards of 6% ownership of Post (with options for 1.55 million shares not exercisable until he is no longer an officer), and has an extensive history of utilizing spinoffs to unlock shareholder value through either an eventual sale or via value-creating free cash flow deployment.

History

Post Holdings traces its roots back to 1895, when founder Charles William Post founded Postum Cereal Co. in Battle Creek, Michigan. C.W. Post was a protégé of John Harvey Kellogg, a proponent of radical vegetarian and wheat-based diets who developed the namesake corn flakes cereal. Inspired by Kellogg, Post created the grain-based cereal beverage Postum as a healthier alternative to coffee in 1895. Post debuted his first ready-to-eat cold cereal, Grape-Nuts, in 1897, and followed with Post Toasties (corn flakes) in 1904. Post grew rapidly over the following decades as cereal gained popularity, and the Company expanded its packaged food portfolio to over 60 products through over a dozen acquisitions (including Jell-O and Maxwell House) between 1925 and 1929. Post acquired Birds Eye frozen food parent company General Foods in 1929 and adopted the General Foods name. General Foods continued to execute food industry acquisitions over the following decade until it was purchased by Philip Morris (now Altria) for $5.6 billion in 1985, marking the largest non-oil company acquisition in U.S. history. Philip Morris merged General Foods with Kraft after purchasing the latter in 1989, and Kraft expanded the Post Cereals division with the purchase of Nabisco's cold cereal unit (including Shredded Wheat) for $450 million in 1993. Kraft was carved out from Philip Morris via a partial IPO in 2001 before being fully spun off in 2007.

In November 2007, Kraft announced it would sell the Post Cereals division to private label food manufacturer Ralcorp for $2.64 billion (including the assumption of $960 million in liabilities). The transaction was structured as a spinoff-merger with Kraft shareholders receiving 54% ownership of the combined entity, and was completed in August 2008. For Kraft, the divestiture allowed the company to shed a low-growth, mature business as the company responded to activist shareholders and attempted to transition toward higher-growth emerging markets. The divestiture aided Kraft's goal of reducing its sizable debt load to maintain an investment grade rating and keep liquidity for future acquisitions (Kraft went on to acquire Cadbury in 2010). For Ralcorp, the acquisition roughly doubled the company's revenues and provided a stable of quality branded cereals that management believed would offer synergies with the company's leading private label/value brand cereal business. However, as detailed below, integration synergies never materialized and Post suffered from under-management at Ralcorp.

Following a sharp run-up in Ralcorp's share price in late April 2011, Ralcorp disclosed on May 2, 2011 that the company had received, and its board unanimously rejected, an unsolicited acquisition proposal from packaged food company ConAgra in March. Ralcorp's board unanimously rejected the offer and Chairman William Stiritz stated,

> *"We have not met, and are not in discussions, with any third party regarding a sale of the company. Our board of directors is resolutely committed to executing its strategic plan, which we expect will continue to generate significant shareholder value."*

ConAgra raised its initial $82 per share offer (representing a 26% premium to Ralcorp's closing price on March 21, 2011, the day before the initial offer) to $86 on May 4, 2011. ConAgra management stated the acquisition would advance the company's goal of expanding its ~$850 million private label business with the addition of Ralcorp's growing private label business, which had reached ~$3.5 billion or roughly 3/4 of Ralcorp's total sales. Ralcorp's board again rejected the revised offer and on July 14, 2011, the Company announced it would separate the Post Foods division through a tax-free spinoff to shareholders. Chairman Stiritz stated,

> *"The Board has been carefully evaluating tax-free separation alternatives for some time…as independent companies, both Ralcorp and Post Foods will be better positioned to focus on strategies specific to their particular businesses, thereby improving the opportunities to deliver increasing shareholder value."*

Combined with extensive anti-takeover provisions in Missouri (Ralcorp's state of incorporation) law and the adoption of a poison pill in May, the spinoff plans created a challenging barrier for ConAgra to attempt a hostile merger. Nonetheless, ConAgra raised its bid to $94 per share in August and set a September 20 deadline. The revised offer valued Ralcorp at approximately 9.5x trailing EV/EBITDA. Ralcorp's board again summarily rejected the offer without holding discussions with ConAgra. Although Wall Street continued to speculate that Ralcorp would accept a higher bid and ConAgra could come back to the table, the September 20th deadline passed without further discussions and ConAgra withdrew its offer. On February 3, 2012, Ralcorp completed the spinoff of 80% of Post Foods (reincorporated as Post Holdings, Inc.) to shareholders. Ralcorp retained a 20% interest in Post as well as $900 million in cash and debt in conjunction with the spinoff. Ralcorp Chairman Stiritz assumed the chairman and CEO position at Post, while Vice Chairman Patrick Mulcahy (chairman and former CEO of Energizer) became chairman of Ralcorp. Ralcorp Co-CEO and President Kevin Hunt retired after leading Post through the separation process, while Co-CEO and President Dave Skarie stayed on as CEO of Ralcorp.

Business Overview

Post Holdings is the third largest branded ready-to-eat cereal company in the ~$9 billion U.S. market, behind Kellogg and General Mills. Post holds an estimated 11% market share according to A.C. Nielsen estimates, which exclude Wal-Mart sales. Post generates the vast majority of sales (~88%) in the U.S., with Canada the primary foreign market. Post's stable of iconic brands includes the original Grape Nuts (introduced in 1897), Honey Bunches of Oats (1990), Pebbles (1971), Post Raisin Bran (1942), Honeycomb (1942), Shredded Wheat (debuted in 1893 and acquired by Kraft/Post in 1993), Golden Crisp (1949), and Great Grains. While Post does not disclose complete sales details by brand, Honey Bunches of Oats is the Company's best seller and the third largest RTE cereal brand in the U.S. with a 4.8% market share in the 52 weeks ended November 31, 2011 according to Nielsen data. Post's second largest brand is Pebbles, with a 2.0% market share over the same time period. Post does disclose sales by three cereal categories: balanced, sweetened, and unsweetened. The sales mix has held relatively steady across categories in recent years, with the balanced category averaging approximately 57% of total sales.

Sales by Category

	Fiscal Year Ended September 30, 2009	2010	2011
Balanced	$ 609.0	$ 572.7	$ 560.4
Sweetened	$ 266.6	$ 240.2	$ 249.2
Unsweetened	$ 196.5	$ 183.8	$ 158.6
	$1,072.1	$ 996.7	$ 968.2

Post primarily manufactures its cereal at three Company-owned facilities in the U.S. and one in Niagara Falls, Canada. The Company's largest facility in Battle Creek, Michigan dates back to the Company's founding in the late 1800s and includes 1.9 million square feet of manufacturing space on 68 acres, rail access for receiving grain, and 1.5 million bushels of grain storage and milling capabilities. Post also operates five distribution warehouses across the U.S. The Company relies on contracted distribution carriers including a shared vehicle distribution agreement with Ralston Foods' private label cereal business. The Company expects to maintain this relationship given the scale and cost savings benefits.

Management: Stiritz Moves to Post Spinoff

We often find the employment decisions of key management in relation to spinoffs/split ups to be instructive for investors. In the case of Ralcorp, longtime Ralcorp chairman William P. 'Bill' Stiritz's decision to resign his chairmanship at Ralcorp and assume leadership of Post as chairman and CEO is a meaningful component of our investment thesis for Post Holdings. Mr. Stiritz has a long history of successful management and capital allocation decisions in the consumer sector dating back to his appointment as CEO of former Ralcorp parent Ralston Purina in 1981.

Stiritz's Background

In our view the history of Bill Stiritz's managerial decisions at Ralston Purina and its spinoffs may be instructive for the Post/Ralcorp case. By the time Bill Stiritz took over Ralston Purina in 1981, the company had expanded far beyond its origins as an animal feedstock provider and cereal maker (brands included Chex and Cookie Crisp) into a diversified holding company with businesses ranging from consumer food products to the world's largest soybean production facility, a large Keystone, Colorado ski resort development, and even the St. Louis Blues hockey team. Stiritz quickly divested non-core or competitively challenged businesses including the hockey team in 1983, the Foodmaker division (operator of the Jack in the Box QSR chain) in 1985, and even the legacy domestic animal feed business (sold to British Petroleum for $545 million in 1986; excluding pet food lines). Mr. Stiritz's strategy was to reposition Ralston Purina into stable free cash flow generating consumer products businesses. By 1986, consumer products accounted for approximately 95% of the company's operating profits versus only ~50% when he took the helm in 1981. Alongside the divestitures, this transition was also aided by several sizable acquisitions including Continental Baking Company (then the largest U.S. bakery) in 1984 and Union Carbide's Eveready battery division (which includes the Energizer brand) for $1.43 billion in 1986. Ralston Purina also acquired Beech-Nut, the #2 U.S. baby food company, from Nestlé in 1989.

Stiritz has a long history of utilizing spinoff transactions to unlock shareholder value and create a new currency that provides greater flexibility to pursue strategic alternatives (acquisitions, divestitures, large-scale share repurchases, etc.), dating well before the Post Holdings spinoff. In fact, Ralcorp was created in 1994 through the spinoff of Ralston-Purina's consumer food businesses, which included the domestic cereal, baby food, cracker, and cookie lines. Stiritz remained chairman of both Ralcorp and Ralston Purina (retiring as CEO of Ralston Purina in 1997) following the separation. Stiritz led numerous additional acquisitions/divestitures at Ralcorp prior to Post, refocusing the company as a private label food manufacturer. Ralcorp sold its branded cereal line to Procter and Gamble for $570 million in 1995 as the division's #5 position in branded cereal posed competitive challenges amidst a price crunch, although Ralcorp held onto its private label cereal business. The Beech-Nut baby food division was sold to private equity investors in 1998. Acquisitions included private label condiment company Red Wing (for $132 million in 2000), frozen griddle food company Bakery Chef ($287.5 million in 2003), Cottage Bakery ($171 million in 2006) and Bloomfield Bakers ($140 million in 2007). More recently Ralcorp executed two large private-label food acquisitions: American Italian Pasta ($1.3 billion in 2010) and Sara Lee's refrigerated dough business ($545 million in 2011).

Of course, Ralston Purina also continued to pursue strategic acquisitions and divestitures under Stiritz's chairmanship after the Ralcorp spinoff. Stiritz slowly repositioned the company into a pure-play pet products business. The bakery business, which Ralston Purina segregated as a separate tracking stock in 1993, remained with Ralston after the Ralcorp spinoff before being sold to Interstate Bakeries for approximately $550 million in 1995. The international feedstock/agricultural products business was spun out as Agribrands International in 1998, with Stiritz assuming the role of Chairman and CEO of Agribrands until it was sold to Cargill in 2001. Ralston sold the soy/protein business to Du Pont for $1.5 billion in stock in 1997. Ralston-Purina spun off the battery business as Energizer Holdings in 2000, with Mr. Stiritz remaining chairman of both companies. With the Energizer spinoff Ralston Purina was finally positioned as a pure play pet food company, and in short order (April 2001) Ralston Purina was acquired by Nestlé.

Stiritz's History of Value-Enhancing Spinoffs

Mr. Stiritz has shown a proclivity for value-enhancing dealmaking over the past 3 decades. While some moves have worked out better than others, over the long term Stiritz's track record is impressive. Of particular relevance in the Post case, Stiritz has frequently utilized spinoff transactions to create shareholder value—often in short order. For example, Ralcorp shares have posted a well-above 300% total return since the spinoff from Ralston. The Energizer spinoff also created tremendous value for both Ralston Purina and Energizer. The parent company was acquired by Nestlé within one year of the Energizer spinoff, at a hefty 75% premium to Ralston's closing price upon the completion of the Energizer separation. As detailed in the April 2012 *Asset Analysis Focus* report on Energizer, as Chairman of Energizer from 2000-2007, Stiritz oversaw the acquisition of several prominent branded consumer products companies as well as the repurchase of ~50% of Energizer's shares. Energizer shares returned an impressive ~240% during his time as Chairman.

In the past Mr. Stiritz's managerial position decisions have also provided some insight into his perception of where the most hidden value may lie. For example, he resigned as CEO of Ralston Purina in 1997 to assume the CEO position at the smaller spinoff Agribrands. At the time Agribrands was struggling with margin pressures and market declines, but Stiritz helped stabilize the business and within approximately 2.5 years Agribrands' board agreed to sell the company to Cargill (aborting a planned merger with Ralcorp) for a healthy ~50% return for shareholders post-separation from Ralston.

Stiritz Highly Incentivized with Post Shares

In our view, Mr. Stiritz's decision to take operational control over the smaller Post business has similarities to the Agribrands case, and suggests he sees greater potential to unlock value through leading a turnaround at Post. Stiritz still retained a large interest in Ralcorp as of the spinoff (~800,000 shares or 1.5% of the Company as of January 2012) and his resignation from the board was likely necessitated by the two companies' competing cereal lines. But Mr. Stiritz is making a much bigger bet on Post shares with his compensation package: Stiritz will receive only a token $1 per year salary under his initial 3-year employment agreement. In lieu of cash, Stiritz was granted a hefty 1.55 million stock options with a $31.25 per share strike price. The options vest over the course of 3 years but are not exercisable until Stiritz is no longer an officer of the Company. Stiritz was also granted 312,500 restricted stock units. This package is not entirely unusual for Mr. Stiritz, who has taken outsized stock/incentive-based payments in prior instances including the Energizer spinoff. This compensation package closely aligns the CEO/Chairman's interests with shareholders'. Furthermore, at age 77, and not having served in the CEO capacity since Agribrands was sold in 2001, we suspect Stiritz's turnaround timeline for Post will be aggressive. If Post can stabilize or regrow market share in the coming years, Post shares should garner a healthy premium to the currently depressed valuation in an eventual sale.

New Senior Management Team Joins Post

Mr. Stiritz has also recruited a new management team to assume senior positions at Post. The new executives include several former colleagues from Ralston Purina. Most prominently, Terence Block (age 63) assumed the positions of president and chief operating officer on January 1, 2012, and also joined the board of directors. Mr. Block was a longtime Ralston Purina executive who served as COO of the company's North

American Pet Foods division prior to the Nestlé acquisition, and remained in the same position at Nestlé Purina from 2002 through 2011. Additional new hires include CFO Robert Vitale and executive vice president of marketing James Holbrook. In addition to Mr. Stiritz's assumption of the CEO position, we are optimistic the additional new executives at Post will help bring a renewed focus on the Company's operations after years of under-management at Ralcorp, as detailed in the following sections.

Historical Performance: Market Share Declines Under Ralcorp

Post cereals have struggled to maintain both sales volume and pricing since the separation from Kraft, suffering sales volume declines and market share losses for at least three years. Overall sales volume declined by 1% in FY10 and a whopping 9% in FY11. On a dollar basis, net sales declined a more modest 3% in FY11 as higher selling prices, aided by an 18% reduction in trade spending, partially offset volume declines. The opposite was the case in 2010 as sales declined by 7% due to discounted pricing and heavy trade promotion. As illustrated in the following table, the volume declines have been more modest in Post's largest Honey Bunches of Oats and Pebbles lines than the rest of the Company's cereal portfolio.

Volume Changes by Brand, Y/Y

	Fiscal Year Ended September 30,		3 Mos. Ended
	2010	2011	Dec. 31, 2011
Honey Bunches of Oats	7%	(6%)	(4%)
Pebbles	(6%)	(2%)	(4%)
Other	(6%)	(14%)	(2%)
Total	1%	(9%)	(3%)

Post's adjusted gross margins rebounded 280 basis points (bps) Y/Y to 47.4% in FY11, benefiting from the refocus on maintaining price and reducing promotional spending. However, lower trade promotion was offset by a 32% increase in advertising to $117.3 million as Post stepped up its national advertising campaigns to support its core brands as well as the relaunch of Great Grains. Combined with fixed cost absorption from the volume declines, this caused adjusted EBITDA margins to decline 120 basis points Y/Y to 26.4% in FY11. This followed a 10 bps decline in FY10 from Post's 27.7% adjusted EBITDA margin level in FY09.

Historical Operating Performance Summary

	Fiscal Year Ended September 30,			6 Mos. Ended March 31,	
	2009	2010	2011	2011	2012
Net Sales	$1,072.1	$996.7	$968.2	$482.7	$469.8
Gross Margin	46.95%	44.58%	46.64%	48.66%	44.49%
Adj. EBITDA	$297.4	$275.5	$256.0	$127.5	$99.7
Adj. EBITDA Margin	27.74%	27.64%	26.44%	26.41%	21.22%
Diluted EPS*	$2.94	$2.67	NA	$1.56	$0.67

* Unadjusted for Post's current balance sheet

Post's struggles in recent years reflect the competitiveness of the U.S. branded cereal market, which is highly promotional and marketing-driven. Short-term results are highly sensitive to pricing/advertising decisions and Post is disadvantaged by its size versus larger competitors Kellogg and General Mills. Post's domestic ready-to-eat cereal market share declined from approximately 12.2% in FY09 to as low as 10.4% in 4Q 2011. Additionally, the RTE category as a whole has suffered competitive pressures in recent years from the growth of breakfast offerings at quick-service restaurants and convenience channels, as well as increased popularity of other breakfast alternatives such as Greek yogurt and hot cereal. Overall U.S. RTE sales have remained roughly flat or declined slightly the past 3 years. Nonetheless we would stress that Post remains highly profitable with impressive above-20% operating margins. The U.S. branded RTE cereal industry is still a

$9 billion market with ~92% household penetration and is highly consolidated with scale and brand strength providing large barriers to entry. Furthermore, as detailed below, we believe Post was extremely under-managed at Ralcorp and the new management team should be able to reverse the recent market share declines.

Post Brands Neglected at Ralcorp

Ralcorp completed the acquisition of Post from Kraft in August 2008. Under a transitional service agreement, Kraft continued to manage Post sales until mid-2009. Post's significant market share declines began shortly after the transition, which was not mere coincidence. Kraft offered Post an internal sales force considered best in the industry and highly sophisticated trade spending and advertising & promotion software/tools. This enabled Kraft/Post to generate effective ROI for advertising and promotional spending. By contrast, under Ralcorp, Post transitioned to a primarily outsourced, brokered sales strategy. Additionally, Ralcorp did not provide comparable trade spending tools and, as evidenced in results since mid-2009, advertising and promotional spending was highly erratic (quarterly trade spending fluctuated as much as 30% Q/Q in fiscal 2011) and ineffective. Post management has characterized the operations under Ralcorp as a "broken network" that caused "significant disruptions to business." Furthermore, we suspect the Post division was neglected as a whole due to the internal conflicts/competition from Ralcorp's pre-existing private label/value-brand cereal business.

New Management Tackling Problems

Since Ralcorp announced it would spin off Post in July 2011, the Post management team has laid out a broad plan to reverse the recent market share declines. The plan includes:

- Strengthening Sales Team: Management is leading the transition from a brokered to a direct sales force. The Company had already increased the sales headcount by 50%-plus and transitioned key customers to the direct sales channel. The Company's goal is to service 85% of customers through the direct sales channel by 3Q 2012.
- Improving Trade Spending Effectiveness: The Company is augmenting its trade spending capabilities with new analytics and programming, and will continue to investigate the potential of digital and social media. Combined with the focus of a direct sales force, the Company believes this will significantly improve marketing effectiveness.
- Creating Consistent Pricing/Advertising Strategy: Post increased its average prices by 16% since mid-2008 versus only 7% for the category as a whole. At the same time, Post reduced total advertising and consumer spending by 5%. This inconsistent strategy contributed to Post's market share losses in recent years.
- Increasing Focus on Secondary Brands: Management believes Ralcorp has been too focused on the 'Diamond Brands' (Honey Bunches of Oats, Pebbles, and Great Grains) while neglecting smaller brands. As noted earlier, Honey Bunches of Oats and Pebbles significantly outperformed the rest of the Company's portfolio in 2010 and 2011. The Company may have overinvested in these already well-established brands to the detriment of the remaining portfolio. Bringing sales trends in the remainder of the portfolio in line with the Diamond Brands would meaningfully boost Post's results.

1H 2012 Results Show Market Share Stabilization

While it is still too early to draw definitive conclusions, results in fiscal 2012-to-date suggest Post's turnaround efforts are making progress in stabilizing market share. Post's U.S. market share increased from 10.5% in 4Q11 to 11.1% in 1H12, according to Nielsen data. The Great Grains brand re-launch under a new advertising campaign has produced good results with sales up 25% on 13% volume growth. However, Company-wide net sales still declined 2.7% YTD and gross margins declined ~420 bps to 44.5% on commodity cost absorption and fixed cost absorption. Combine this with higher advertising spending and investment in the sales force, and 1H12 adjusted EBITDA declined 21.8% to $99.7 million. The Company has guided for $200 to $210 million in adjusted EBITDA for the full year fiscal year and $210 to $220 million for its first full year as an independent company. Management's underlying assumptions include stabilizing market share with appropriate trade and pricing strategies and adequate A&P spending. The profitability figures are disappointing, but Post has only been independent for 5 months and is still only in the early stages of implementing the aforementioned reforms. Post's market share remains well below the 12%-plus level held prior to the Ralcorp transition and should improve as the Company continues to implement its sales and marketing efforts.

Long-Term Growth Opportunities

Looking over the longer-term, we would note that Post's market share was as high as 15% at Kraft prior to the downturn. While achieving these levels again as independent company may be challenging, Post has several tailwinds or growth opportunities that could enable the Company to return to positive sales growth over the long term. These include:

- **New Product Development:** Post's annual research and development budget averages approximately $7 million or well below 1% of sales. Nonetheless new product development since 2007 accounted for approximately 10% of total sales in 2011. Looking ahead, one area management has targeted for development is within the Honey Bunches of Oats product line. According to the Company, 78% of the lines have produced positive sales results in 1H 2012. The remaining flavors have significantly underperformed and will be revamped or replaced going forward, which could provide a material sales lift. The Company will also consider licensing opportunities for new products.
- **Favorable Demographics:** Post's leading brand, Honey Bunches of Oats, holds the #2 market position among the high-growth Hispanic demographic (with almost twice its market share compared to other demographics). The U.S. Hispanic population is projected to triple by 2050.
- **Adjacent Categories:** The broader cereal aisle category (including hot cereals and snack bars) generated approximately $13.5 billion in sales last year according to SymphonyIRI Group data. Post's stable of well-recognized brands offer opportunities for expansion into adjacent cereal aisle categories. For example, Post introduced Pebbles Treats, a snack bar, in 2011 and has already gained a 14% share of the 'treats' category.
- **Distribution:** Post is looking to increase its distribution in non-traditional grocery channels such as dollar stores, drug stores, club stores and other discount stores. Additionally, we suspect Post lost meaningful shelf space/distribution under Ralcorp, which could provide upside if recovered.
- **Acquisitions:** Post will consider acquisitions that strengthen its current RTE cereal portfolio or move the Company into "complementary categories, geographic regions or distribution channels." The Company believes acquisitions of complementary businesses could have positive benefits with retailers and marketing and distribution efficiencies from improved scale.

Balance Sheet & Cash Flow

In conjunction with the spinoff from Ralcorp, in February 2012 Post issued to Ralcorp (subsequently publicly placed) $775 million in 10-year, 7.375% senior notes. The Company also entered into a 6-year credit facility with Barclays providing up to $350 million in borrowing capacity. This includes a $175 million term loan that Post borrowed against upon the spinoff, used in part to pay Ralcorp $125 million as part of the spinoff transaction. While Post has not provided an updated balance sheet post-spinoff (for reasons detailed later), the Company's pro forma net leverage at the time of the spinoff (unadjusted for any subsequent cash flow) was approximately $918 million or approximately 4.5x 2012E EBITDA at the midpoint of management's guidance. Post also has a sizable pension liability. At December 31, 2011, Post's total pension and other postretirement benefit liabilities were $106.2 million. Defined benefit pension plan accruals were frozen for all administrative and some production employees in 2011.

Post Historical Cash Flow

	FY2009	FY2010	FY2011	1H FY2011	1H FY2012
Cash Flow from Operations	$222.1	$135.6	$143.8	$60.3	$69.8
Capital Expenditures	($36.7)	($24.3)	($14.9)	($7.0)	($15.8)
Free Cash Flow	$184.4	$111.3	$128.9	$57.3	$54.0

Although Post's leverage is elevated following the separation, we are fairly comfortable with the leverage ratio given the Company's consistent free cash flow. Post generated $425 million in cumulative free cash flow between FY09-FY11. We project free cash flow to decline to $78 million (7.3% implied FCF yield at the current share price) in fiscal 2012 due in part to the higher interest expense as well as elevated capex (guidance is $33-$35 million) related to establishing Post as a standalone company. Even at these levels Post is capable of rapidly deleveraging, and the Company has an extended maturity schedule following the recapitalization in February. Barring acquisitions, Post should be well positioned to begin repurchasing shares and/or initiate an attractively sized dividend within the next couple years (subject to customary tax-free spinoff-related restrictions). Although known more for his frenzied M&A activity, Chairman/CEO Stiritz also has an extensive history of returning capital to shareholders through both dividends (Ralston Purina) and sizable share repurchases (Energizer, Ralston Purina, Ralcorp).

Valuation: Multiple Overhangs Depressing Shares

Post shares have climbed by 15% since completion of the spinoff on February 3, 2012, exhibiting the outperformance that is typical of spinoffs, as Asset Analysis Focus has previously documented. Nonetheless we still view Post shares as attractively valued, currently trading at only approximately 9x EV/TTM EBITDA and a greater than 11% TTM free cash flow yield. Accounting for Post's continued recent profitability declines and higher interest and public company costs post-spinoff, Post still trades at a modest 9.2x our projected 2012 adjusted EBITDA ($203 million, versus Company guidance of $200-$210 million) and a reasonably attractive 7.3% 2012E free cash flow yield with plenty of upside from operational improvements. As illustrated in the following table, this places Post at the low end of its branded food peer group.

Comparable Company Analysis

Company Name	Market Capitalization ($MM)	Total Enterprise Value	TEV/ EBITDA LTM	TEV/Total Revenues LTM	P/Diluted EPS Before Extra Items LTM	LTM Gross Margin %	LTM EBITDA Margin %
Campbell Soup Co.	10,238.4	12,697.4	8.4x	1.6x	14.0x	39.09%	19.72%
ConAgra Foods, Inc.	10,512.9	13,346.6	10.2x	1.0x	22.6x	21.48%	9.51%
General Mills, Inc.	24,306.5	32,573.7	9.9x	2.0x	16.0x	36.29%	19.24%
H. J. Heinz Company	17,013.2	20,853.1	10.3x	1.8x	18.6x	35.53%	17.33%
Kellogg Company	17,408.4	22,853.4	9.8x	1.7x	14.4x	41.12%	17.78%
Kraft Foods Inc.	66,327.5	93,176.5	10.6x	1.7x	18.7x	34.70%	15.97%
Pepsico, Inc.	109,086.6	133,179.6	10.2x	2.0x	17.3x	52.20%	19.53%
Average			**9.9x**	**1.7x**	**17.4x**	**37.20%**	**17.01%**
Post Holdings, Inc.	**1,062.6**	**1,962.6**	**9.3x**	**2.1x**	**17.7x**	**44.56%**	**22.65%**

Source: CapitalIQ and AAF estimates. Data as of June 27, 2012.

In addition to the Company's recent operational struggles, we would partially attribute Post's depressed valuation to two overhangs that should abate in the coming months:

Spinoff & Arbitrage Selling

While Post shares have rallied from their initial trading range, the current valuation may still reflect the forced or mechanical selling pressures, and a reduced pool of prospective investors, that typically accompany the spinoff of a smaller division. In the Ralcorp/Post case, shares likely faced particularly heavy selling pressure from arbitrage funds and other investors speculating on the ConAgra acquisition. ConAgra's takeover attempt lasted over 6 months and included two raised bids. According to public reports, many arbitrageurs expected a deal to ultimately be completed in the $95 to $100 range. Furthermore, many investors may have retained Ralcorp shares (and dumped Post shares) after the spinoff in speculation that ConAgra would shortly take another run at the new pure-play private label company (which was ConAgra's primary interest). (An acquisition of Ralcorp or Post should not jeopardize the tax-free nature of the spinoff as, by all reports, Ralcorp's board never entertained any negotiations regarding a sale/spinoff prior to the separation.)

Accounting Restatements

On May 7, 2012, Ralcorp announced it will restate financial statements for fiscal 2011 and 1Q 2012 due to an accounting error. The company identified an error in the $364.8 million non-cash goodwill impairment charge taken against the Post cereal business in 4Q 2011. According to Ralcorp, the impairment charge should have included an additional $54 million (after tax). Ralcorp identified the error in the amount of deferred tax liabilities used in the goodwill impairment analysis. As a result, Post will also have to restate its fiscal 2011 and 1Q 2012 financial statements. The accounting issue also prevented Post from filing its 10-Q for 2Q 2012 in May. Ralcorp previously stated the company would file its 2Q 2012 financials on May 15, 2012, but as of June 28 neither Ralcorp nor Post has filed its 2Q 2012 10-Q. Post does not believe the restatements will affect the Company's cash or liquidity position, but the still unresolved issue has created an overhang over Post shares and may be deterring some prospective investors. Resolution of this issue, assuming no additional material restatements, could create renewed interest in Post shares.

Beyond these overhangs, we would attribute Post's discounted valuation multiple to continued investor concern over the Company's deteriorating market share and profitability over the past 3-plus years. While we recognize these concerns, we believe the Post business was severely neglected under Ralcorp and faced conflicts of interest with Ralcorp's growing private label cereal business. Post's recent problems primarily related to sales and marketing failures that should be fixable. The combination of the newly independent structure and a highly experienced, highly incentivized new senior management team may provide the catalysts to reverse the recent operating deterioration. Importantly, we view Post's currently depressed share price as offering a large margin of safety: even assuming Post can only maintain its current profitability levels, we estimate Post's intrinsic value is at or above the current share price. On the other hand, Post generated $297 million in EBITDA (versus $213 million in trailing EBITDA) as recently as 2009 and had a 14.6% market share under Kraft immediately prior to Ralcorp's acquisition (versus the current 11.2% market share). Nonetheless, in our base case we assume Post's market share and EBITDA still remains depressed at 12% and $244 million in FY 2014, while conservatively assuming sales at the RTE category as a whole actually decline by 1% between 2011 and 2014. Applying a 9.5x EV/EBITDA multiple, we estimate Post's intrinsic value exceeds $42 per share.

Post Estimate of Intrinsic Value	
2014E EBITDA	$244
Assumed EV/EBITDA Multiple	9.5x
Enterprise Value	$2,323
2014E Net Debt	($781)
Underfunded Pension	($106)
Equity Value	$1,435
2014E Diluted Shares Outstanding	34.0
Estimated Intrinsic Value Per Share	**$42.20**

The upside potential for Post shares is significantly greater should management succeed in regaining lost market share. For example, if Post reaches even 13% market share in fiscal 2014 while EBITDA margins reach 24% (still well below the 26.4% to 27.4% range Post recorded between FY09-FY11), Post's intrinsic value could exceed $56 per share assuming only a modest multiple expansion to 10x EV/EBITDA. The following sensitivity table illustrates Post's estimated EBITDA and intrinsic value under various market share and EBITDA margin scenarios.

Implied EBITDA and Stock Value at Selected Market Share & Margin Levels

Assumed 2014 EBITDA Margins	Assumed 2014 RTS Cereal Market Share: 9.0%	10.0%	11.0%	12.0%	13.0%	14.0%
19%	$146	$163	$179	$195	$211	$228
21%	$162	$180	$198	$216	$234	$252
23%	$177	$197	$217	$236	$256	$276
24%	$185	$205	$226	**$246**	$267	$288
25%	$193	$214	$235	$257	$278	$300
27%	$208	$231	$254	$277	$300	$323
28%	$216	$240	$264	$288	$312	$335

Implied Share Value at Various 2014 EV/EBITDA Multiples

8.5x	9x	9.5x	10x	10.5x	11x
$10.48	$16.94	$23.87	$31.29	$39.18	$47.55
$14.33	$21.47	$29.13	$37.33	$46.05	$55.30
$18.18	$26.00	$34.39	$43.37	$52.92	$63.05
$20.11	$28.26	$37.02	**$46.39**	$56.36	$66.93
$22.03	$30.53	$39.65	$49.41	$59.79	$70.80
$25.89	$35.06	$44.92	$55.45	$66.66	$78.56
$27.81	$37.33	$47.55	$58.47	$70.10	$82.43

Looking out 2-4 years, we also view Post as a prime acquisition candidate. A larger packaged food company would have a greater ability to increase distribution and win back market share for Post. While the anti-trust implications are uncertain, an acquisition of Post by Kellogg or General Mills would likely be highly accretive. Pepsi, whose Quaker cereal brand holds a #4 market share, would also have much to gain from increasing its scale in the RTE segment through the acquisition of Post. Post's strong brands could also be leveraged into adjacent categories where Pepsi already has a strong presence, such as cereal bars, hot cereal, and snacks. Additionally, Post's consistent free cash flow and strong brand equity could also attract interest from private equity investors, which have been very active in the consumer foods industry in recent years. Furthermore, as we have highlighted, CEO/Chairman Bill Stiritz has a very extensive history of utilizing spinoffs to unlock shareholder value and facilitate the sale of businesses at a full valuation. Mr. Stiritz and the Ralcorp board resisted ConAgra's acquisition offers in 2011, which we interpret Mr. Stiritz viewed as undervaluing the Post business. Stiritz's decision to move to Post and accept an all-stock compensation package, as well as Ralcorp's decision to retain a ~20% interest in Post after the spinoff, also suggest management believes ConAgra's bid undervalued the Post business. But at the age of 77 and now possessing a large amount of stock and options (which do not vest until he is no longer an officer) representing ~6% of the Company, we suspect Mr. Stiritz would be unlikely to reject a healthier acquisition offer for Post after stabilizing operations and improving profitability over the next couple of years.

As we have detailed in previous AAF reports, packaged consumer goods companies with strong brand equity have historically garnered robust transaction multiples averaging low- to mid-teens EV/EBITDA multiples. According to Bloomberg, $500 million-plus food company acquisitions between 2006 and 2011 were completed at a median of 11x EBITDA. Post is unlikely to achieve a multiple above 11x given the weak growth prospects for the North American cereal market. Nonetheless, we would highlight that in 2008 Ralcorp still paid a large premium versus Post's current multiple to acquire the Company, offering $2.6 billion including assumed debt, or 11.3x EV/EBITDA. Although admittedly it was a more robust M&A environment (some would say frothy) when the deal was announced in November 2007, we believe Post could still garner a double-digit EBITDA multiple if acquired. ConAgra's final offer for Ralcorp valued the company at approximately 9.5x EV/trailing adjusted EBITDA, but most of Ralcorp's value was in private label businesses—which typically garner lower, single-digit EBITDA multiples given their lower margins and weaker competitive positions. Additional branded cereal transactions are hard to come by given the industry's consolidation, but we would note that Kellogg currently trades at 9.8x EV/EBITDA. While Kellogg's market position is obviously superior to Post's, on the other hand Post appears to have much more room for operational improvement and an easier opportunity to regain lost market share. As illustrated in the preceding sensitivity tables, we estimate Post would command upwards of $46 per share at 10x 2014 EV/EBITDA assuming EBITDA modestly recovers to $246 million in 2014. In a more robust scenario in which EBITDA reaches $300 million and Post garners a 10.5x multiple, this implies a private market value greater than 100% above the current share price. Barring an acquisition, the eventual deployment of Post's substantial free cash flow generation also offers potential catalysts in the coming years.

Risks:

Risks that Post may not achieve our estimate of the Company's intrinsic value include, but are not limited to:

Customer & Competitor Concentration

Post derived 56% of its sales from its top 10 customers in fiscal 2011, including 21% from Wal-Mart alone. Large customers' buying power can put pressure on slotting fees/margins and result in lost distribution. Post must also battle significantly larger and more diversified competitors Kellogg, General Mills, and Pepsi (Quaker) for shelf space. The Company has lost market share to these competitors in recent years. On the other hand, we would note that Wal-Mart has remained steady at 21% of Post's sales for at least each of the past three years.

Private Label

Private label competition has grown throughout the U.S. grocery trade in recent years. According to ConAgra statistics, private label's share of overall supermarket sales has increased from ~16% in 2006 to ~19% in 2011 as cost-conscious consumers trade down. New grocery chains like Whole Foods and Trader Joe's have also focused on boosting the quality and perception of private label offerings. While RTE cereal market shares are not available, we would note that Ralcorp's leading private label cereal business posted far superior volume trends in recent years: volume growth was 9% in FY08, 12% in FY09, (3%) in FY10, 0% in FY11, and 1% in 1H12.

Acquisition and Leverage Risks

Post was spun out with $950 million in debt or approximately 4.4x trailing EBITDA. Post also held $106 million in net employee pension and postretirement liabilities as of December 31, 2011. Although the Company continues to generate very strong free cash flow, significant further deterioration in sales and/or margins could stress Post's interest coverage ratio. Post has also stated the Company will explore acquisition opportunities for complementary products or adjacent categories. Although Post Chairman and CEO William Stiritz has a good M&A track record, there is no guarantee this will continue and acquisitions would further increase Post's leverage and reduce its financial flexibility.

Financial Restatements

As discussed, Ralcorp identified an error in its financial statements for 4Q 2011 and subsequent periods. The error related to an under-stated goodwill impairment taken at the Post business in 4Q 2011, due to errors in the amount of deferred tax liabilities used. While Ralcorp has restated its financials for periods prior to the Post spinoff, neither company has issued a 10-Q for 2Q 2012. The identified error does not affect historical cash flows, cash balances, or operating results, which provides us with some comfort that they should not be material to our intrinsic value estimate for Post. However, Ralcorp failed to issue its 10-Q by the Company's initial May 15, 2012 (and later, May 31) target and there is no guarantee the accounting errors will not include additional issues or have tax implications.

Anti-Takeover Provisions

Any attempt to acquire Post will likely require the consent of the Company's board of directors. Post has a 'poison pill' preferred stock provision that can be triggered upon an investor obtaining 15% ownership of common shares. Additionally, Post is incorporated in Missouri, which has multiple anti-takeover statutes that could effectively allow Post's board to squash any acquisition. As illustrated in the Ralcorp/ConAgra saga, Post's board is likely to block any offer they do not believe fully values the Company.

Analyst Certification:

Asset Analysis Focus certifies that the views expressed in this report accurately reflect the personal views of our analysts about the subject securities and issuers mentioned. We also certify that no part of our analysts' compensation was, is, or will be, directly or indirectly, related to the specific views expressed in this report.

POST HOLDINGS, INC.
CONDENSED COMBINED BALANCE SHEETS
(Unaudited)
(in millions)

ASSETS	**Dec. 31, 2011**	**Sept. 30, 2011**
Current Assets		
Cash and cash equivalents	$ 12.9	$ 1.7
Accounts receivable, net	52.9	10.1
Receivable from Ralcorp	–	41.3
Inventories	79.3	66.6
Deferred income taxes	3.8	3.8
Prepaid expenses and other current assets	2.1	4.0
Intercompany notes receivable	–	7.8
Total Current Assets	151.0	135.3
Property, net	411.0	412.1
Goodwill	1,429.4	1,429.2
Other intangible assets, net	745.5	748.6
Investment in partnership	60.4	60.2
Other assets	1.4	0.8
TOTAL ASSETS	**$ 2,798.7**	**$ 2,786.2**

LIABILITIES AND RALCORP EQUITY		
Current Liabilities		
Short-term intercompany debt	$ 68.0	$ 68.0
Accounts payable	30.7	28.8
Other current liabilities	50.0	37.5
Total Current Liabilities	148.7	134.3
Long-term intercompany debt	716.5	716.5
Deferred income taxes	328.9	332.8
Other liabilities	107.2	104.9
TOTAL LIABILITIES	1,301.3	1,288.5
Ralcorp Equity		
Net investment of Ralcorp	1,501.1	1,501.3
Accumulated other comprehensive loss	(3.7)	(3.6)
TOTAL RALCORP EQUITY	1,497.4	1,497.7
TOTAL LIABILITIES AND RALCORP EQUITY	**$ 2,798.7**	**$ 2,786.2**

June 28, 2012
Volume XXXVIII, Issue VI

AAF Brief Update

Hanesbrands Inc.

Price:	**$27.13**
Shares Outstanding (MM):	**97.6**
Market Cap (MM):	**$2,646.8**
Enterprise Value (MM):	**$4,753.0**
52-Week High/Low:	**$33.36/21.74**
5-Year High/Low:	**$37.50/5.78**
Price/Earnings TTM:	**14.0x**
Intrinsic Value Estimate:	**$45**
Upside to Estimate of Intrinsic Value:	**65.8%**
Dividend:	**NM**
Yield:	**NM**
Earnings Per Share TTM:	**$1.94**
TTM EBITDA ($MM):	**$474.9**
EV/TTM EBITDA:	**10.0x**

Ticker (NYSE): HBI
Initially Probed: Volume XXXVII, Issue I @ $22.46
Last Probed: Volume XXXVII, Issue XI & XII @ $22.42

Clients of Boyar Asset Management, Inc. own 55,930 shares of Hanesbrands Inc. common stock at a cost of $22.47 per share.
Analysts employed by Boyar's Intrinsic Value Research LLC own shares of HBI common stock.

Overview

Asset Analysis Focus initially profiled Hanesbrands in January 2011. At that time, we believed that Hanesbrands was at an inflection point and would experience a meaningful acceleration in free cash flow. Hanesbrands had just completed a multi-year restructuring that offered a number of benefits including an improved cost structure (supply chain was migrated to three low cost regions around the world) and lower capital requirements. In addition, Hanesbrands with its strong portfolio of brands with number one or number two market positions in its major categories was experiencing improving fundamentals thanks to shelf space gains and new distribution agreements. Despite these favorable developments, Hanesbrands' free cash flow generation potential did not materialize during 2011 due to an unprecedented increase in the price of cotton during the spring of 2011. While the Company had hedged most of its cotton needs for 2011 at prices well below peak levels, Hanesbrands did purchase cotton at elevated levels for future needs, which it took delivery of during the second half of 2011. With cotton prices declining significantly from 2011 peak levels, high cotton prices should only serve as near term headwind. According to Hanesbrands, the high cost cotton inventory will make its way through the Company's P&L by the end of 2Q 2012. Importantly, Hanesbrands expects to generate between $400 and $500 million of free cash flow (17.0% FCF yield based on the midpoint) during 2011, with approximately half coming from working capital improvements primarily in inventory.

Hanesbrands stated priority for its free cash flow generation is debt paydown, with the Company expected to pay down $300 million ($150 million paid down to date through June 2012) of floating rate debt during 2012 and $500 million (8% coupon) in 2013 reducing debt from $1.8 billion to $1.0 billion. Should Hanesbrands realize its targeted debt reduction goals, free cash flow will be aided meaningfully reflecting lower interest expense. Given this dynamic, we would not be surprised if the Company institutes a meaningful dividend and/or aggressive stock repurchase program at some point over the next 12-18 months.

During 2011, Hanesbrands reported record levels of sales, operating income and EPS. In addition to benefiting from its astute cotton hedging, results were aided by multiple price increases and shelf space gains. While first half 2012 results will face pressure from high cost cotton, HBI will likely experience a meaningful improvement in operating performance during the second half of 2012 as commodity price pressures pivot from a headwind to a tailwind. Hanesbrands' portfolio of brands has emerged from the recent recession meaningfully stronger with HBI's core branded products gaining share versus private label during the downturn. While the extreme movements in cotton prices during 2011 also prompted Hanesbrands' recent decision to reposition its Imagewear business (~8% of sales), we view the move favorably as it should allow the Company to focus on more attractive opportunities for its branded products in both the U.S. and international markets. It should be noted that international sales during 2011 were $579 million and the Company is targeting $1 billion in international sales by mid-decade (note: the recently announced divestiture of the European imagewear business may alter this target slightly). Below we provide additional detail of the Company's future free cash flow generation potential and the opportunity for the Company to return additional value to shareholders as soon as its deleveraging process nears completion. In addition, we review the Company's recent decision to deemphasize the volatile Imagewear business, which faced significant challenges because of elevated commodity prices.

Free Cash Flow Acceleration Following Temporary Raw Material Pressure

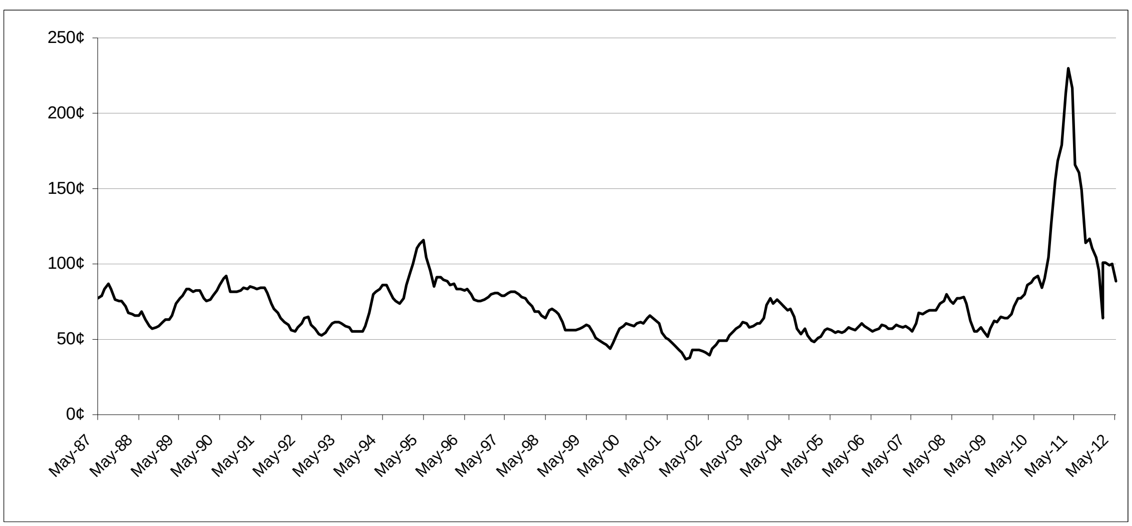
We believe Hanesbrands has the potential to generate robust free cash flow going forward. As CFO Richard Moss reiterated in the Company's first quarter 2012 earnings call,

> *"Many of the headwinds we saw from working capital in 2011 should reverse and become significant sources of cash for us in 2012. Our free cash flow guidance of $400 million to $500 million reflects the unwinding of inflation and working capital, as well as reduced unit inventories."*

Raw Material Headwind in 2011 Becomes a Tailwind in 2012

The Company's financial results faced a few extraordinary events over the last two years, which we believe masked the Company's true cash generating capability. In 2010 and 2011, HBI faced some difficult market conditions as it relates to raw material costs. In particular, cotton (the Company's largest input cost) spot prices increased from 77.4 cents per pound in January 2010 to a peak of $2.29 per pound in March 2011.

Monthly Cotton Prices Cents/Pound



Source: IndexMundi, http://www.indexmundi.com/commodities/?commodity=cotton&months=300

Fortunately, the Company hedges its cotton exposure. Unfortunately, hedges only reduce the price volatility and do not limit the price increases. In 2011, Hanesbrands paid an average of $1.09 per pound for its cotton requirements, up a whopping 58% from 2010's level of $0.69 per pound (cotton represented ~12% of the Company's cost of sales during 2011 compared with a historical level of ~6%). The Company locks in commodity purchases (through hedges) six to nine months prior. Therefore, the Company was hedging cotton purchases for its first half 2012 during March 2011-June 2011, when prices were near peak levels. The effect of that was seen in the first half 2012 results, where it expects to report a loss in operating earnings. For full year 2012, we estimate the impact of cost inflation for HBI to be in the range of $250-$300 million, of which $200 million is related to higher cotton prices. Cotton prices have now fallen to what we believe are more normalized levels. For May 2012, cotton spot prices were 88.5 cents per pound. Therefore, HBI should be able to reap the benefit of lower input costs going into the second half of 2012.

Pricing

To recover operating profit margins, the Company implemented three rounds of price increases with retailers. All of the increases were accepted by its customers and were followed by pricing increases from competitors. We believe HBI will be able to keep these increases and retailers may be hesitant to roll them back due to the negative impact lower prices would have on their same store sales. Therefore, the resultant price increase combined with lower raw material costs later in second half 2012 should expand HBI's operating profit and cash generated from operations. For the second quarter of 2012, Hanesbrands expects that gross margins should improve to the high 20s range, up from 25.2% reported for the first quarter 2012 with operating margins in the mid to high single digits. For the second half of 2012, HBI expects that gross margins will return to the low 30s while operating margin will be at the double digit (teens) level.

Working Capital is a Significant Source of Cash in 2012

Further depressing free cash flow in 2011, the Company had to invest an incremental $285 million in working capital (primarily inventory) due to commodity inflation and to support international growth. The Company estimates that $250 million of the increase in working capital was related to higher commodity costs and the remainder was due to carrying excess inventory to support international growth. With lower commodity costs in 2012, we expect working capital will be a source of cash and contribute positively to the Company's free cash flow generation. The Company has already indicated that approximately half of the free cash flow that is expected to be generated in 2012 will come from working capital improvement.

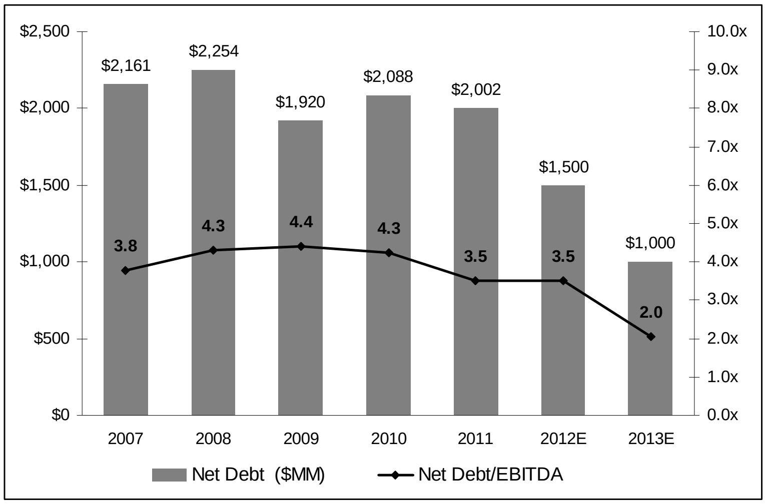
Lower Capital Expenditures Going Forward

Finally, HBI has been reconfiguring its supply chain over the last couple of years. Between 2007 and 2009, the Company streamlined its operations as part of a plan to develop a low-cost global supply chain in three tightly clustered regions in the Caribbean, Central America and Asia capable of serving regions representing ~70% of global GDP. As this new supply chain is completed, not only will the Company reap the benefits of sourcing low cost materials, but it will also reap the benefit of lower capital expenditure going forward. Over the next three to five years, HBI expects that maintenance capital expenditures of $40 million per year (compared with average total capex of $107 million over the past three years) will represent the bulk of the Company's capital expenditures and will be well below depreciation (~$80 million). These factors should provide a nice boost to free cash flow generation over the next few years.

Debt Reduction Accelerates – Return to Shareholders Should Follow

HBI total debt totaled close to $2.0 billion as of December 2011. Fortunately, the Company's ability to generate strong free cash flow is enabling it to quickly deleverage. For 2012 Hanesbrands stated that it expects to pay off $300 million in floating rate notes, leaving the Company with no floating rate notes compared to nearly all floating rate notes at the beginning of the spin-off (2006). Further, HBI plans to pay off $500 million of 8% notes in 2013 (as soon as they become callable) reducing long term debt to approximately $1 billion by the end of 2013. Combined, these debt repayments should save the Company at least $50 million in interest expense, which can be used to return value to shareholders via share repurchases or increased dividends.

Net Debt and Net Debt/EBITDA ($MM)



We want to note that the lead Director on the Company's Board, J. Patrick Mulcahy, previously served as CEO of Energizer and is currently that company's chairman. Since 2000, Energizer has reduced its shares outstanding by almost 50%. We would not be surprised to see Mulcahy recommend that Hanebrands adopt a similar capital allocation strategy given Hanesbrands' ability to generate free cash flow is similar to Energizer's.

Management Deemphasizes Wholesale Business – Focusing on Growing Brands in the U.S. and Abroad

The unprecedented increase in the price of cotton during 2011 coupled with intense pricing competition instigated by two large suppliers (Gildan and Fruit of the Loom) impacting HBI's Imagewear (products here are sold to the wholesale screen-print channel) business has created meaningful near term headwinds for the Company. Although the Imagewear business represented just 8% of HBI's total sales during 2011, this business lost $0.18 a share during the first quarter of 2012, and represented the bulk the Company's first quarter loss of $0.27 a share. Approximately 1/3 of HBI's sales within the Imagewear business were derived from the promotional sector (private label etc.) where price competition intensified. While Hanesbrands has demonstrated good pricing power in its branded business, the promotional business typically lacks pricing power to offset commodity cost increases. Accordingly, the price competition and commodity price environment created a perfect storm for the Company and was the primary contributor to the Company's rare quarterly loss.

In response to these adverse trends, Hanesbrands announced in May 2012 that it would be divesting its European Imagewear business, eliminating all Company exposure to Europe. In addition, the Company announced that it would be divesting its Outer Banks brand and exiting the private label business within the U.S. As a result of these actions, HBI expects to incur pre-tax charges of up to $85 million to $95 million, the majority of which will be non-cash. As part of the repositioning, Hanesbrands changed the name of its Imagewear business to "branded printwear," which will be focused on Hanes and Champion branded products in the U.S. with improved operating margins. We view favorably the Company's exit from this competitive business. While the Imagewear business did generate double digit operating margins (on par with overall Company margins) during 2011, the potential for volatile commodity prices exposes this business to dramatic variations in profitability.

Outlook and Conclusion

Hanesbrands' results during the first half of 2012 reflected the pressure from surging cotton prices during 2011. Despite these near term headwinds, profitability will likely be restored during the second half of the year as commodity inflation pivots to a tailwind for the Company. In May 2012, HBI confirmed it previously issued guidance (excluding the impact of the Imagewear restructuring) for 2012 calling for:

- Diluted EPS between $2.50 and $2.60
- Free Cash Flow in the range of $400 million to $500 million

While Hanebrands no longer provides detailed information about its future hedging positions (ostensibly for competitive reasons), the Company has good visibility on its cost structure. In addition, during 2011, Hanesbrands has confirmed pricing with retailers for 2012 accounting for 95% of its expected U.S. volume.

We continue to be attracted by Hanesbrands' business model with its strong portfolio of brands. A key component of the Company's business model is the replenishment nature of its major product categories (e.g. t-shirts, socks, underwear, etc.), which help generate strong and consistent cash flows. Further, the vast majority of the Company's products are not subject to fashion risk in contrast to most apparel retailers. In our view, recent commodity price pressure is masking the significant progress the Company has made in reducing its cost structure and gaining shelf space with new and existing customers. While HBI is deploying its excess capital in the near term toward debt reduction as part of its ongoing deleveraging process, we would not be surprised to see the Company start returning a meaningful amount to shareholders through the institution of a dividend and/or share repurchases as HBI reaches its debt reduction targets ($800 million debt reduction by the end of 2013). Based on our estimates, Hanesbrands' expected debt paydown in 2012 and 2013 will translate into a $40-$50 million boost to free cash flow, the full impact of which will be experienced in 2014. It should be noted that Hanesbrands' lead director is J. Patrick Mulcahy who has overseen a massive share repurchase program while at the helm (as CEO and later as Chairman) of Energizer, with diluted shares outstanding declining by ~50% since 2000. Our estimate of Hanesbrands' intrinsic value approaches $45 a share. We believe a number of factors could drive shares higher including accelerated returns to shareholders or greater than anticipated growth in developing markets. Management has a strong incentive to drive shares higher – at year end 2011 there were 5.1 million options (representing 5.2% of diluted shares outstanding) exercisable at a weighted average exercise price of $22.25 a share.

Risks:

Risks that Hanesbrands may not achieve our estimate of intrinsic value include, but are not limited to:

- **Customer Concentration** – The Company's largest customers represented nearly 50% of total sales in 2011 including Wal-Mart (25%), Target (16%) and Kohl's (6%). The loss of any one of these customers would have a material impact on the Company's financial results. Hanesbrands notes that it has well-established (10+ year) relationships with its largest customers. In addition, Hanesbrands has been gaining shelf space in its core categories in recent years.
- **Input cost inflation/volatility** – Hanesbrands' results can be negatively impacted by fluctuations in input costs including cotton and oil-related materials, utilities, freight and wages. As we detailed above the extreme volatility in the price of cotton presented a near term headwind for the Company. In addition to commodities price volatility, wage rates in developing markets have experienced increases in recent years that have negatively impacted HBI's results.
- **Developing Market Supply Chain Concentration –** Hanesbrands has moved its supply to chain in three tightly clustered regions including the Caribbean, Cental America and Asia. While the supply chain boasts advantages in terms of operating costs and capital requirements, political uncertainty impacting any one of its regions could pressure the Company's operations.
- **Changing Consumer Preferences** – While Hanesbrands' core categories are less impacted by fashion risk, changes in consumer preferences or inability to adapt to changing styles could impact the Company's results.

Analyst Certification:

Asset Analysis Focus certifies that the views expressed in this report accurately reflect the personal views of our analysts about the subject securities and issuers mentioned. We also certify that no part of our analysts' compensation was, is, or will be, directly or indirectly, related to the specific views expressed in this report.

June 28, 2012
Volume XXXVIII, Issue VI

AAF Brief Update

Pall Corporation

Price:	**$53.06**
Shares Outstanding (MM):	**118.358**
Market Cap (B):	**$6.3**
Enterprise Value (B):	**$6.4**
52-Week High/Low:	**$64.24/41.00**
5-Year High/Low:	**$64.24/18.82**
Price/Earnings TTM:	**19.4x**
Intrinsic Value Estimate:	**$72**
Upside to Estimate of Intrinsic Value:	**40%**
Dividend:	**$0.84**
Yield:	**1.6%**
Earnings Per Share TTM:	**$2.74**
TTM EBITDA ($MM):	**$654.8**
EV/TTM EBITDA:	**9.8x**

Ticker (NYSE): PLL
Initially Probed: Volume XXVIII, Issue IV @ $20.80
Last Probed: Volume XXXVII, Issue XI&XII @ $56.31

Clients of Boyar Asset Management, Inc. own 400 shares of Pall Corporation common stock at a cost of $52.42 per share.
Analysts employed by Boyar's Intrinsic Value Research LLC do not own shares of PLL common stock.

Overview

Asset Analysis Focus (AAF) last featured the shares of Pall Corporation ("Pall", "PLL" or "the Company") in its October 2011 issue. Back then, AAF believed it was an opportune time to re-visit Pall (PLL shares were profiled in the May 2010 issue) as shares were pressured owing to concerns over exposure to Europe and operational challenges during the fourth quarter of Fiscal 2011 (ended July), which marred an otherwise strong year. While Europe represents Pall's largest market accounting for 38% of total sales during FY 2011, we believed concerns were overblown given that Pall's Life Sciences business accounts for the bulk of the Company's European exposure and this business is less susceptible to economic conditions. Although Pall's operational missteps during the fourth quarter of Fiscal 2011 were disappointing, we cited a leadership change at the top of the organization that could serve as a catalyst for Pall's shares. In September 2011, Larry Kingsley took the reins of Pall Corporation as its President and CEO, replacing long-time Pall CEO Eric Krasnoff. We viewed this move favorably given Mr. Kingsley's strong operating background having served as President and CEO of IDEX Corporation since 2005. While Krasnoff had successfully positioned Pall Corporation with strong market positions in a number of attractive markets, operational hiccups were not uncommon during his tenure.

Pall shares were initially a strong performer advancing by over 25% to $64 a share subsequent to our October 2011 report. However, shares have largely retraced those gains and now trade slightly above where they sold for when we featured them last October. Pall's recent share price weakness is attributed to disappointing results released in June for the Company's 3Q FY2012. Results were negatively impacted by challenges encountered when the Company rolled out the last stage of its Enterprise Resource Planning platform. While the ERP deployment had a negative impact on revenues and profitability during the quarter, we believe the sell off presents an attractive opportunity for investors. Below we highlight a number of catalysts that have emerged since our last full report on Pall.

Recent Catalysts Have Emerged

Sale of Blood Product Line – Focusing on Faster Growing and Higher Margin Businesses

As one of new CEO Kingsley's first strategic initiatives, Pall announced in April 2012 that it will be selling its blood product line to Haemonetics for $550 million. The proposed sale includes certain business assets of the Company's blood collection, filtration and processing product lines including related blood filter media manufacturing capability. For fiscal 2012 (ending in July), this business was expected to generate sales of $230 million and

$60 million of operating profit (excluding allocation of segment and corporate overhead of about $25 million). Despite the $0.38 per share dilution, we view this divestiture favorably as PLL has divested a low margin business, which should help boost the Company's Life Sciences segment's already healthy profitability margins (~24% in fiscal 2011). We expect PLL to be able to offset some of the earnings dilution through structural costs actions and ongoing supply agreements with Haemonetics. While the divestiture will shift the Company's sales mix towards the Industrial segment, which has lower operating profitability (14.7% in fiscal 2011), we believe proceeds from the sale and the Company's overcapitalized balance sheet will be deployed, in part, to boost Pall's presence in the faster growing and higher margin Life Sciences segment. In FY 2011, PLL's Industrial segment accounted for 48% of total Company's sales, but would have been greater than 50% pro forma for the blood business divestiture.

We believe PLL received a fairly good price for this sale, at ~2.4 times the unit's 2012E sales. Pall expects to receive about $430 million in after tax cash proceeds, further bolstering its already strong balance sheet (net debt/TTM EBITDA is ~0.23x at 4/30/2012). Eventually, the proceeds are expected to be directed at growth, particularly acquisitive growth. However, if PLL is unable to find an attractively priced acquisition target, it would consider share repurchases and increasing its dividends. If the Company uses the sales proceeds to repurchase shares, such a move could potentially increase earnings by ~$0.24 per share.

Finally, we think divesting the blood business makes sense for Pall given that the competitive balance in the blood collection space was shifting towards the blood centers and hospitals, weakening Pall's pricing power. By acquiring Pall's blood business, Haemonetics gains more scale and should be able to invest more in the business. Similarly, Pall can now concentrate its efforts on other core filtration businesses where it maintains clear competitive advantages and owns leading market shares.

Improved Earnings Power

CEO Kingsley has begun implementing structural changes to reduce the Company's bloated cost structure and improve the Company's earnings power. On its fiscal third quarter 2012 earnings conference call, the Company announced it had gotten a head start on its $100 million annual cost savings program. Approximately 70% of the savings will be generated from selling, general and administrative expenses such as combinations of back office, IT, finance, human resources and other support functions. The remaining 30% of the cost savings are expected to come from restructuring its operations, which includes operating a more efficient manufacturing footprint and supply chain. The Company expects to recognize more than $50 million of the total savings during FY 2013. Just based on the cost savings alone, the Company's normalized earnings power is boosted by an incremental $0.60 per share when the program is completed. More importantly, the Company's lowered fixed cost structure enables it to boost operating leverage. PLL is targeting to achieve 35% incremental margin by the end of 2014 (but aspiration goal is 40%), up from ~25% currently (excluding the effect of foreign exchange translation).

Share Repurchases

> "…*what we're not going to do is pay top-of-market prices through acquisitions. Frankly, it doesn't make any sense. We've got* plenty *of balance sheet capability to do both. Both repurchase the shares if we decide to do that and aggressively acquire. So I think, I know for a fact that you'll see us be very thoughtful, very disciplined in our capital allocation thinking considering both the short term and the growth plans as we go forward."*[1]
>
> *– Lawrence D. Kingsley, CEO of Pall Corporation*

PLL's new CEO Kingsley was formerly the CEO of Idex Corp (a small flow meter, pump and valve manufacturer), which was a serial acquirer (18 acquisitions during his six year tenure). When Kingsley was named CEO of Pall, there were concerns that he would continue to use his old firm's play book and run the risk of misallocating PLL's robust free cash flow. While acquisitions will play a part of his capital allocation strategy, we were relieved to hear that he's a disciplined acquirer. In addition to acquisitions, comments from CEO Kingsley suggest he is willing to return cash to shareholders through share repurchases. Indeed, given the uncertain economic environment and unrealistic seller expectations (high prices), Kingsley has recently indicated (June 2012) that he prefers stock repurchases to acquisitions. As of April 30, 2012, the Company had $453.0 million left on its $500 million repurchase authorization. Given the recent weakness in the Company's stock price (down 17.5% since its 52-week high in

[1] Pall Q3 2012 Results Earnings Call Transcript

mid-February), we would not be surprised if the Company has been more aggressive with stock repurchases on the open market.

Higher Dividends

In January 2012, the Company increased its quarterly dividend 20% to $0.21 per share, bringing its annual dividend yield to 1.6%. Based on fiscal 2012 consensus earnings, the Company's dividend payout ratio is near 30%. Given PLL's ability to generate robust free cash flow, we believe there is ample room for the Company to increase its dividend. Further dividend increases could serve as another potential catalyst for the stock.

ERP Integration Issues Create Near Term Uncertainty – Long Term Opportunity

> *"While the ERP System clearly will have significant long-term benefits for the Company and our temporary transition issues are being resolved, the disruption in the quarter meant that shipments of consumables were delayed and we incurred substantial additional costs in what I'll call hyper care actions to mitigate the impact on our customers."*
>
> *– Larry Kingsley, President and CEO of Pall Corp. 3Q FY2012 Earnings Call*

Pall's 3Q FY2012 results were negatively impacted in part by a self-inflicted disruption in the Company's supply chain, which was the result of a botched deployment of the Company's ERP System. The Company encountered issues with the final phase of the roll out of the ERP system within the Americas region. The Americas region was the last area to go live with the platform after having been deployed previously to the Company's operations in Europe and Asia. Management stated the final phase of the rollout was the biggest with the deployment involving 2,800 users at 28 locations. Pall estimates that challenges associated with the rollout cost the Company 3 percentage points of organic growth and negatively impacted earnings per share by approximately $0.10 due to delayed sales and increased costs to mitigate the impact on its customers. Management believes that it will recoup its lost sales by August, the beginning of Pall's FY2013. CEO Kingsley attributed the ERP challenges to Pall's "workaround culture" and one that has not historically been very strong with respect to "operational process and procedure." While the ERP misstep is discouraging, we believe the platform will play a key role in the Company's goals of attaining higher levels of profitability through better leverage of its fixed cost structure as discussed above.

Conclusion

In our view, the recent sell off in Pall's shares associated with the Company's ERP system deployment along with soft order trends is providing investors with an attractive opportunity. While the ERP system deployment is discouraging, Pall expects to recoup the lost orders by the beginning of the Company's next fiscal year (begins August). While slowing order trends are worth monitoring, we would note that 2/3rds of Pall's sales are consumable products that will eventually need to be replaced. In the past 9 months, a number of meaningful catalysts have emerged that should help boost Pall's valuation. The proposed sale of the Company's blood business has a number of favorable implications including bolstering the Company's already strong balance sheet and allowing the Company to focus on building a larger presence in higher margin and faster growing businesses. In addition, the divestiture of the business, which generated margins that were much lower than the overall life sciences business should allow that segment to command a higher valuation. While CEO Kingsley has an acquisitive track record, recent comments suggest he will be a disciplined acquirer of business as he seeks to boosts Pall's value over time. Further, we are comforted by Kingsley's most recent comments (June 2012) that share repurchases/dividends look like a better alternative than acquisitions given the lofty valuations sought by sellers in today's environment. While it is still very early in CEO Kingsley's tenure, we are encouraged by his aggressive actions aimed at reducing Pall's historically bloated cost structure. Should recent actions translate into improved profitability, we would not be surprised to see Pall's valuation expand. Our estimate of Pall's intrinsic value approaches $72 a share, representing 40% upside from current levels. Our estimate of Pall's intrinsic value could prove conservative if future profitability exceeds expectations and/or Pall's balance sheet is successfully deployed toward value creating opportunities.

Risks

Risks that Pall may not reach our estimate of their intrinsic value include but are not limited to:

- **Foreign Currency Exposure** – During FY2011, Pall derived 69% of its revenue outside of the U.S. With regard to the Euro, 25% of Pall's total sales are derived from euro-denominated countries. Of these sales, 70% to 80% of the cost of these sales are denominated in British Pounds or U.S. dollars.
- **Europe Exposure –** During FY2011, Pall generated 38% of its sales from Europe. While concerns over sovereign debt issues could make investors uneasy, we would note that Pall generates a disproportionate amount of its Europe sales and profitability from its Life Sciences segment (63% of Europe sales are generated from the Life Sciences segment). Accordingly, we believe the majority of the Company's European exposure is not dependent on government funding.
- **Emerging Markets -** Emerging markets represent approximately 20% of Pall's total revenues including approximately 5% of total sales derived from China. Any slowdown in global economic activity will likely have a negative impact on Pall's profitability and growth rates.
- **ERP Deployment –** Inability to resolve issues encountered with recent deployment of the Company's ERP System. In addition, while Pall indicated that it expedited orders to meet customer demand, there could be negative long-term implications associated with the recent disruption.

Analyst Certification:

Asset Analysis Focus certifies that the views expressed in this report accurately reflect the personal views of our analysts about the subject securities and issuers mentioned. We also certify that no part of our analysts' compensation was, is, or will be, directly or indirectly, related to the specific views expressed in this report.

June 28, 2012
Volume XXXVIII, Issue VI

AAF Brief Update

The Scotts Miracle-Gro Company

Price:	**$40.42**
Shares Outstanding (MM):	**62.6**
Market Cap (MM):	**$2,531.3**
Enterprise Value (MM):	**$3,877.9**
52-Week High/Low:	**$55.95/35.49**
5-Year High/Low:	**$60.27/16.92**
Price/Earnings TTM:	**20.1x**
Intrinsic Value Estimate:	**$78**
Upside to Estimate of Intrinsic Value:	**93%**
Dividend:	**$1.20**
Yield:	**3.0%**
Earnings Per Share TTM:	**$2.01**
TTM EBITDA:	**$364.9**
EV/TTM EBITDA:	**10.6x/8.8x excluding seasonal debt**

Ticker (NYSE): SMG
Initially Probed: Volume XXXVII, Issue VI @ $51.49
Last Probed: Volume XXXVII, Issue XI&XII @ $43.47

Clients of Boyar Asset Management, Inc. own 30,452 shares of Scotts Miracle-Gro Company common stock at a cost of $47.37 per share. Analysts employed by Boyar's Intrinsic Value Research LLC own shares of SMG common stock.

Overview

The Scotts Miracle-Gro Company ("Scotts", "SMG", or "the Company") is a leading manufacturer and marketer of consumer branded products for lawn and garden care. The Company possesses meaningful competitive advantages including an unrivaled supply chain, the industry's largest seasonal in-store sales force and well-regarded brands. Approximately 60% of SMG's total sales come from products with greater than 50% market share in their respective categories. Asset Analysis Focus (AAF) initially featured the shares of SMG in its June 2011 issue. We believed it was an opportune time to consider SMG as an investment as its shares were trading at an attractive valuation relative to other consumer product companies. However, since that report, the Company's share price has been pressured due to challenging sales and category growth arising from extreme weather conditions. Notwithstanding recent category growth challenges reflecting a still fragile economic environment, we believe the industry still possess healthy category growth potential driven by favorable demographics including an aging population (gardening tends to increase as individuals age), and an increasing awareness of gardening as a solution to food safety concerns and high grocery bills. After a particularly horrible May 2012 where point of sales (POS) was down 30%, SMG preannounced disappointing third quarter results (on June 12th) for the second consecutive year. This somewhat surprising news came on the heels of strong fiscal second quarter 2012 results reported on May 8th where management's cautious tone was met with disappointment and derision (shares declined 16.1%) as most Wall Street analysts had already raised their annual EPS estimates for the Company. As a result of the earnings preannouncement, SMG's stock price promptly declined 6.6% the following day. Similar to fiscal year 2011, weather played a big part in the disappointment during the current fiscal year and was compounded by the Company's decision to forgo price increases to help drive category growth. In addition, operating profit growth was weaker than expected due to significantly higher raw material prices ($80 million headwind compared to last year) and increased investments in marketing and advertising, which have doubled versus the prior year. With shares down 27.8% from its 52 week high of $55.95 a share we believe the recent stock price decline is an overreaction and presents long term investors with an attractive entry point to own a well-known company trading at an extremely attractive valuation at 10.6x TTM EBITDA, but just 8.8x TTM EBITDA excluding seasonal debt. This is at the lower valuation range of peer publicly traded consumer products companies (10x-14x LTM EBITDA).

Unprecedented Weather Conditions Wreak Havoc on Scott's Sales

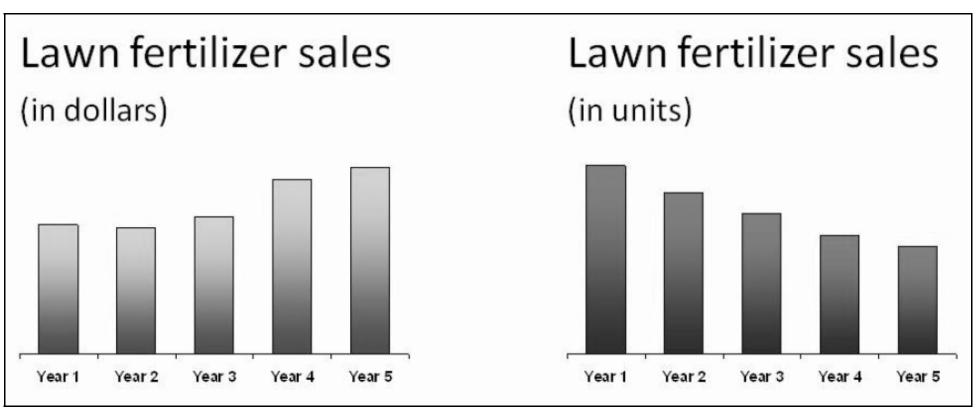
For the second year in a row, SMG came up short in its important spring lawn and garden season primarily due to unprecedented weather conditions. While we are generally skeptical of companies attributing poor sale results to the weather, we believe extreme weather conditions did indeed play a crucial role in SMG's sales results. According to the National Oceanic and Atmospheric Administration (NOAA), the spring of 2011 was the tenth wettest spring in recorded history. This caused homeowners to postpone or forgo maintaining their lawns as the wet weather kept homeowners indoors, limiting their lawn and garden activities. These conditions had the effect of limiting grass seed and fertilizer sales.

While a mild winter may have been good for consumers' wallets, a winter with above average temperatures and minimal snow/ice does not bode well for SMG's top and bottom line results. Typically, a harsh winter consisting of cold weather and snow/ice causes damages to a consumer's lawns. As a result, consumers wishing to have well manicured lawns need to rebuild their lawns the following spring. With the winter months between December 2011 and February 2012 being the fourth warmest on record according to NOAA coupled with well below average snowfall amounts across most of the country (recorded snowfall was the lowest in 25 years), consumers' lawns did not experience the normal wear and tear. As a result, with lawns still fairly intact in spring 2012, homeowners purchased less grass seed and fertilizer, which negatively impacted SMG's sales.

An interesting dynamic of the mild 2011-2012 winter was an early start to spring lawn and gardening during 2012. After a promising and optimistic start in March, sales trailed off in April and May. We believe April sales were pulled forward into March, but May's soft results were attributed to spotty weather patterns in the Northeast and lower live plants sales (which impact SMG's high margin plant food business). Year to date through the end of May POS were up 3%. While this may be respectable growth in any other year, SMG's 2012 sales growth had a lower hurdle due to bad weather that depressed sales in fiscal 2011. As a result, the Company expected sales to increase 6%-8% during fiscal year 2012 (ends September 30th) off of what appeared to be a fairly easy comp. Despite reporting lower than expected sales growth, it should be noted that SMG has not lost business to store brands, with market share gains in all categories with the exception of Roundup, which was impacted by a new competitor (Bayer introduced a premium priced product for non-selective control).

SMG's Decision to Forgo 2012 Pricing Explained

During fiscal year 2012, SMG decided to forgo higher pricing that would have helped it recover higher raw material costs. As a result, many analysts and investors questioned this decision and concluded that SMG had lost its pricing power with the big box retailers. To the contrary, SMG has been quite successful in growing category sales through price increases over the past few years. In fact, it may have been a little too successful. Using fertilizer as an illustration, category sales have been increasing over the last five years and the average price has increased 56%. SMG's market share for fertilizer has remained fairly constant (between 50% and 55%) over the same period. However, category unit sales have declined. While some of this decline may be attributed to the housing crisis, SMG (as the industry leader and a responsible category leader) became concerned with the health of the category and decided to withhold pricing increases in fiscal 2012 to help revive and drive unit growth.



Source: Company presentation

Unfortunately, the forgone price increases coincided with steep increases in raw material costs and negatively impacted operating profitability. The Company has indicated that it will be aggressive in raising prices in fiscal 2013 to recover operating profit margin. We believe the Company can achieve 1%-3% pricing and we estimate that each 1% increase in pricing should increase EPS by $0.25 to $0.30.

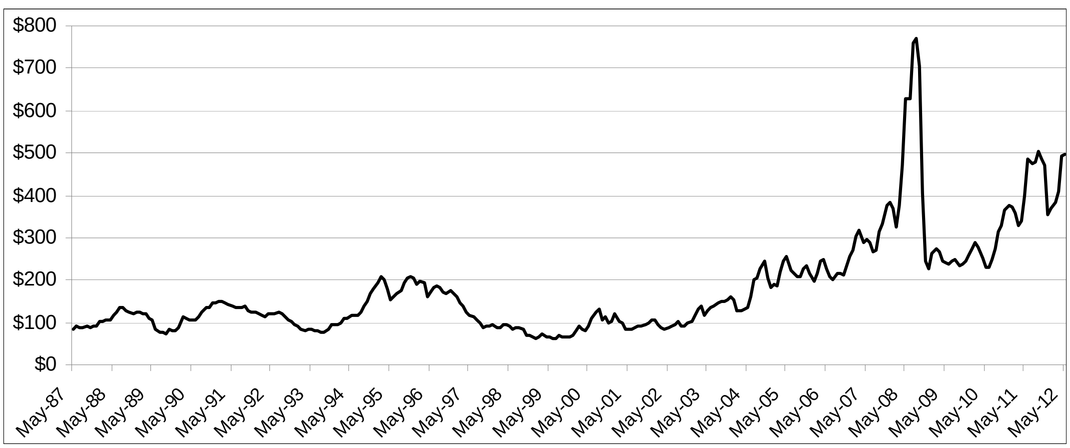
Operating Profit Growth Stalled

SMG's operating profit was negatively impacted by higher raw material prices and increased investment in the business through higher advertising spending. In June 2012 in a 20 minute video posted to the Company's website CEO Hagedorn discussed SMG's recent adverse results and decision to forgo pricing and boost advertising.[1] Below we review in greater detail the Company's raw material exposure and increased advertising investment.

Unfavorable Raw Material Prices

Commodity costs, urea in particular, represent about 1/3 of the Company's cost of sales. The Company is a big consumer of urea, which is used in its fertilizer business. Over the last year, urea prices have increased from approximately $340 per metric ton in April 2011 to near $500 per metric ton in April 2012.

Monthly Urea Prices $/Metric Ton



Source: IndexMundi, http://www.indexmundi.com/commodities/?commodity=urea&months=300

While SMG is about 90% hedged at the end of fiscal second quarter 2012 for current year's use, the Company still faced a raw material headwind of approximately $80 million for the current fiscal year as it did not take pricing to offset this pressure. The Company had planned to offset some of the higher costs through manufacturing cost reductions and SGA efficiency (resulting from leveraging sales growth). However, with lower than expected sales growth, the Company was not able to leverage SGA efficiency as expected, resulting in stagnant operating profit growth. While current spot prices for urea remain elevated due to favorable spring weather and aggressive planting by farmers using urea for its plants (e.g., corn), the prices in the forward market during the period when SMG is expected to purchase urea is already lower than current levels. For the fourth calendar quarter 2012, urea forward prices are near $400 per metric ton. We also note, as a result of its seasonality, SMG historically had the opportunity to lock in large quantities of urea for the next fiscal year during market low points (usually after peak demand arising from the agriculture planting season). In most years, the Company is able to lock in 50%+ of its urea cost by the Company's fiscal year end (ending September 30th). Finally, we expect the global fertilizer industry to face a large surplus as 250 new fertilizer manufacturing plants come online after a $90 billion investment spree over the last few years. The International Fertilizer Industry Association estimates that global nitrogen capacity (urea is a form of nitrogen fertilizer) is expected to expand by 17%-25% from 2011 to 2015. By the end of 2012, it is estimated that an additional four million tons of annual granular urea capacity is due to come online and the market will be oversupplied. This surplus should help keep urea prices at lower levels than seen over the past year.

[1]Video message from SMG's CEO Jim Hagedorn Explaining Weak Fiscal 2012 Outlook on 6/12/1012: http://thescottsmiraclegrocompany.com/6-12-12_Video_Message.html

Increased Advertising

During FY 2012, SMG ramped up investment in marketing and advertising to build brand awareness of the Company and category. SMG increased its fiscal 2012 advertising budget by $40 million or 50% compared to the previous year. In our view, this advertising investment was prudent as it helped boost market shares across all categories, except Roundup (which faced a new product from Bayer in the marketplace), with volume increases in lawn fertilizer, controls and mulch. We believe this incremental investment also bodes well long term for the Company as it builds brand awareness, improves consumer acceptance of new products and increases consumer engagement. It should be noted that household penetration for the Company's products continues to be low and usage rates for its products are below recommended dosages. In total, the forgone pricing increase in FY 2012 and increased advertising investment is expected to negatively impact full year earnings by ~$0.80 per share.

Growth Initiatives

Alternative Channels

Approximately 60% of the Company's business is made through the "Big 3" retailers: Home Depot (30%), Lowe's (18%) and Wal-Mart (13%). These retailers remain committed to the lawn and garden category and continue to provide support for SMG brands. However, we believe there is an opportunity for the Company to expand its sales to non-mass channels such as hardware stores, garden centers, and grocery and drugs. Hardware stores and garden centers remain important destinations for millions of lawn and garden enthusiasts. Meanwhile, SMG's partnership with SC Johnson (where SMG distributes SC Johnson's products in home improvement retailers and SC Johnson distributes Roundup and Ortho products in grocery and drug channels) has quickly improved its presence in the grocery and drug channels. Already, the partnership has led to more than a 50% improvement in sales in 2011 and SMG has expanded distribution plans in place for 2012. Based on recent commentary from SMG's management, sales to these alternative channels represent incremental sales to the Company and do not cannibalize sales from the "Big 3" retailers.

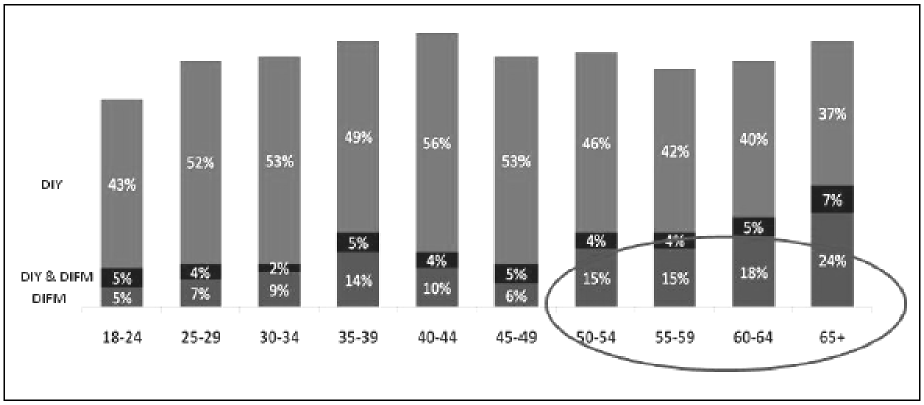
International Markets

Currently, international sales represent approximately 20% of total SMG sales and are mostly derived from Western Europe. While fiscal 2012 was challenging due to both weather and economic uncertainties, we believe this continent presents SMG with a large (and fairly untapped) market with strong growth potential. For example, in Europe's biggest market, Germany, the lawn and garden industry is about $1 billion and SMG only has a 10% market share in the categories that it competes in. However, in that country's largest category, which is lawn/plant growing media ($350 million), SMG does not have any market share. As a result, the Company has plenty of room to capture additional market share. The Company is currently making investments in Germany to build its brand recognition and develop a local distribution network. In addition, in Fiscal 2012, the Company started selling Miracle-Gro plant food in China. We believe this is a lucrative market for SMG where two-thirds of the Chinese consumers participate in container gardening and the average Chinese household owns eight indoor house plants. Accordingly, we believe that China presents a significant growth driver for the Miracle-Gro brand and we would not be surprised to see the brand expand swiftly and profitably in that country during the coming years.

Scotts LawnService

Finally, Scotts Lawnservice (SLS), which accounted for ~10% of SMG's total sales during FY 2011, provides another growth driver for the Company. Since its inception in 1998, SLS has grown a substantial footprint in the eastern U.S. and has become the solid number two player in the $4 billion lawn service market, with a 7% share. It currently has 171 branches, and 60% of the U.S. population resides within its service area. After being in investment mode for the last few years, this segment has reached the scale it requires to begin accelerating growth. The Company expects this business to grow sales by $100-$200 million by 2016 (from our estimated $300 million in fiscal 2012) as it accelerates share gain in lawn care, increases its density in the largest cities and builds up its pest control business in select markets. Finally, SLS faces strong demographic trends as the percentage of homeowners who purchase lawn services increases steadily after these consumers reach 50 years of age. According to a 2011 NGA National Gardening Survey, 15% of people between the ages of 50-54 purchase lawn services, compared to only 6% for people aged 45-49 and 10% for people aged 40-44. As illustrated in the following chart, this statistic jumps to a whopping 24% for people aged 65 or over.

Percentage of Homeowners Who Purchase Lawn Services



Source: 2011 NGA National Gardening Survey via Company presentation

Valuation and Conclusion

Adjusting for the Company's seasonal debt of approximately $665 million, SMG is only trading at 8.8x TTM EBITDA (excluding seasonal debt). At this valuation level, SMG is not only trading at a discount to precedent industry transactions (average: 12.5x EBITDA), but also below the valuation of peer publicly traded consumer products companies (10x-14x LTM EBITDA). Given the weather-related setback over the last two years, we believe normalized results have been pushed back a two or three years. Since we do not view the setback to be a structural issue or a sign of a fundamental change in the Company's business model, we believe SMG can still achieve our original forecast of $516 million in EBITDA as detailed in our initial SMG report. However, the Company is unlikely to achieve this level of EBITDA until fiscal year 2016 compared with our initial projection of FY 2013. Nevertheless, applying a 10.0x EBITDA multiple to our estimated normalized EBITDA of $516 million, we derive an intrinsic value for SMG of $78 per share, representing close to 100% upside from current levels.

CEO Jim Hagedorn and his family, through Hagedorn Partnership, own about 30% of the Company. With SMG shares trading at such a depressed valuation, we would not be surprised if the family decides to take the Company private or attracts the attention of private equity investors, especially given the current low interest rate environment. In our view, SMG's normalized earnings power and free cash flow generation is materially higher than current levels. Despite the earnings shortfall in Fiscal 2012, we forecast SMG to still generate positive free cash flow.

Risks

The Company's key risks include the following:

1) Raw material costs. As we mentioned previously, commodity costs represent about one-third of cost of sales and a big part of that is urea for its fertilizer business. Urea prices have been volatile and have a 78% correlation with corn prices. We believe the current spot prices for urea are not indicative of prices SMG will pay as prices in the forward markets are lower than current spot prices. Further, we expect excess global capacity coming online between now and 2015 to result in a surplus of urea, which will help pressure prices. However, tightness (due to capacity outage or delay in new capacity plants) in urea supply can cause higher prices similar to the first part of 2012.

2) Customer concentration. Approximately 60% of the Company's sales are made to the major big box retailers including Home Depot (30%), Lowe's (18%) and Wal-Mart (13%). A loss of any one of these customers will negatively impact sales in a big way. Fortunately, SMG maintains favorable relationships with all three retailers and they continue to provide support to SMG's brands.

3) Weather. As we saw the last two years, weather can negatively impact SMG sales. However, we believe these unprecedented weather conditions do not represent structural impairment to the business.

Analyst Certification:

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