

Fourth Quarter and Fiscal 2003 Conference Call

**Operator:**

Good morning ladies and gentlemen, and welcome to the Nash Finch conference call. At this time, I would like to inform you that this conference call is being broadcast over the Internet, recorded for Rebroadcast and that all participants are in a "Listen Only" mode. At the request of the company, we will open the conference up for Questions & Answers after the presentation. I will now turn the conference over to your CEO, Mr. Ron Marshall. Please go ahead Mr. Marshall.

**Ron Marshall:**

Thank you Vicky and welcome to today's conference call. Joining me today are Bob Dimond, Executive Vice President and Chief Financial Officer, Kathleen McDermott, Senior Vice President, Secretary and General Counsel, and LeAnne Stewart, Vice President and Corporate Controller.

Each of you has had an opportunity to read our press release and to go through the numbers in detail. So I will ask Bob to summarize our financial results at this time. During the question and answer session we can address any specifics that are of particular interest to you. Before the Q&A, however, I will take a few minutes to share our future focus with you. With that, I will ask Bob to report.

**Bob Dimond:**

Thank you, Ron. Before I share the financial results, I need to note that this call will include forward-looking statements which involve risks and uncertainties

Fourth Quarter and Fiscal 2003 Conference Call

that could cause actual results to differ materially from those expressed in the forward-looking statements. Factors that could cause such differences are described in the Nash Finch press release and in our filings with the SEC. I should also note that certain financial information to be discussed, such as Consolidated EBITDA and ratios using Consolidated EBITDA, for example, are “non-GAAP” financial measures as the term is used in SEC Regulation G. A reconciliation of non-GAAP financial measures we refer to is provided in the schedules to our earnings release, which can be found on the “Investor Relations” portion of our website, under the caption “Press Releases.”

We are using the term “Consolidated EBITDA” today and in our press release rather than “Adjusted EBITDA,” a similar term we previously used, because Consolidated EBITDA is a term defined in our bank credit agreement and is the term the SEC has indicated that we may use in our SEC filings. That being the case, we have chosen to use consistent terminology in our filings and releases.

First I’d like to remind you that because our fiscal year-end date is the Saturday nearest to December 31st, about every six years we have a 53-week year. As a result, our fiscal 2003 4<sup>th</sup> quarter had 13 weeks compared to 12 weeks in fiscal 2002.

Total sales for the 53 week fiscal 2003 year were approximately \$4 billion versus \$3.9 billion in the 52 week fiscal 2002 year. The sales impact of the 53<sup>rd</sup> week was \$68 million.

#### Fourth Quarter and Fiscal 2003 Conference Call

Net earnings were \$35.1 million, or \$2.88 per diluted share, for fiscal 2003, compared to \$23.6 million, or \$1.95 per diluted share, in fiscal 2002. Earnings from continuing operations were \$34.7 million, or \$2.85 per diluted share in fiscal 2003, compared to \$30.6 million, or \$2.52 per diluted share, in 2002.

Earnings from continuing operations in 2003 and 2002 were affected by several items that did not affect both years, as detailed in the news release. In 2003, these items had a net favorable impact of \$4.5 million or 37 cents per diluted share, and consisted of:

1. a fourth quarter reduction in health insurance expense of \$3.8 million, or 31 cents per diluted share, resulting primarily from the elimination of post-retirement healthcare benefits for active non-union employees. I'd like to point out that benefits for current retirees were not affected;
  2. a third quarter reduction in income tax expense of \$3.0 million or 25 cents per diluted share; and
- partially offsetting these first two items, \$2.3 million, or 19 cents per diluted share, in first quarter debt facility waiver payments.

In fiscal 2002, earnings from continuing operations were favorably affected by a special charge reversal of \$.5 million, or 4 cents per diluted share.

Rather than taking time to repeat the details of the financial results for each of our three business segments and of the 4<sup>th</sup> quarter, I'd like to refer you to the news release.

Fourth Quarter and Fiscal 2003 Conference Call

We continue to strengthen our balance sheet. We've made these improvements through better working capital management as well as by increasing Consolidated EBITDA. During the past year alone, the Company reduced total debt by \$81 million, improving its leverage ratio to 2.7 times Consolidated EBITDA, its lowest point since 1997.

Anticipating your question, we did not have any outstanding borrowings on our bank revolver at year end. Factoring in outstanding letters of credit, availability on our bank revolver was \$127 million in addition to the \$12.8 million of cash on hand at the end of the year. Finally, capital expenditures were \$40.7 million in fiscal 2003 compared to \$52.6 million in fiscal 2002.

I will now turn the call back over to Ron .....

**Ron Marshall:**

Thank you Bob.

From several perspectives, 2003 was a very, very challenging year. I am proud of the way our organization dealt with adversity, particularly in our food distribution and military segments. Food distribution performance was particularly strong, driven by new account gains, principally among former Fleming customers. These accounts, which joined us throughout the year, represented close to 15 per cent in annualized new volume, which more than offset the normal attrition that we expect in our industry.

#### Fourth Quarter and Fiscal 2003 Conference Call

I know that many observers believe that with the acquisition by C&S, SuperValu and AWG of the bulk of the customer contracts initially available, the Fleming “sweepstakes” are over. We don’t believe that for a minute. We think that Fleming-related opportunities will help drive our business for several years. Why do we think so? First, not all Fleming customers were under contract. Second, customers who do have contracts frequently change suppliers when their contracts expire, particularly if they have not received the level of support they deserve. We believe that the bulk of the Fleming customer contracts transferred in the bankruptcy proceedings will expire anywhere from 3 months to 5 years from now. We are uniquely positioned to take advantage of this opportunity.

I should add that we’ve had experience with this kind of situation. About four years ago, for example, a smaller wholesaler – not too far from our offices in fact - was sold to a major competitor. Several customers who were not under contract joined us immediately. However, many customers were under contracts that were assigned to the new owner, and that’s where they stayed at first. Over the course of next few years, as their contracts expired, several chose to switch to Nash Finch, for a total business gain of over \$80 million or almost 20% of the total available.

A look at the competitive landscape suggests that the change caused by Fleming’s demise is just the beginning of a period of accelerated restructuring in the wholesaling industry. In addition we see major traditional retailers

#### Fourth Quarter and Fiscal 2003 Conference Call

rationalizing their networks. Some are selling just a few stores; others are divesting entire divisions, all opening up opportunities to independent operators who are able to niche market where the larger chains could not. These independents need a wholesale supplier with

- the right suite of services
- industry leading metrics, and
- financial stability. And that's what we offer.

While leading metrics remain a very important differentiator there is another element of our business that I believe is important as well - our leadership in private label. Over the past century, Nash Finch has developed and delivered high quality private label products to our customers – currently over 2400 skus, primarily under the “Our Family®” banner. Our private label sales were more than \$300 million in 2003, an increase of 25% over the past three years. This year we are celebrating the 100<sup>th</sup> anniversary of the Our Family® brand, with weekly, monthly and quarterly marketing events. Consumer response has been outstanding.

We overcame consolidation difficulties in the 4<sup>th</sup> Quarter in our Military segment, as we combined two warehouses into one in Norfolk, Virginia. While the project had a negative impact on earnings for the year, we began to realize in the 4<sup>th</sup> Quarter the benefits expected when we undertook the project. Sales in our military unit increased 5.1 per cent year over year, as a result of strong export sales, and from extending our product assortment.

#### Fourth Quarter and Fiscal 2003 Conference Call

Turning to our retail segment, our same store sales were obviously disappointing. We continue to have a strong and, we believe, defensible market position in the Upper Midwest. We believe that approximately 61% of our conventional grocery stores are #1 or #2 in their respective local markets. To defend this position, however, we know there are things we need to do better, with consistent store-level execution, a refocused emphasis on perishables, and more exciting promotional programs. Most of our independent retailers are very effective niche marketers – we understand that learning can flow both ways in this business and just as we support them in their programs, we see no reason not to learn from them.

To summarize, the critical success factors in 2004 are:

1. Taking advantage of new business opportunities in Food Distribution, strengthening our position as one of the most viable wholesaler choices.
2. Continuing to reap the benefits we expected from our distribution center consolidation in our Military segment.
3. Protecting and improving our position in our existing retail markets.
4. Finally, driving shareholder value through debt reduction and increased dividend yield.

Vicky will now open up the phones for your questions.

#### **Question & Answer Period**

(Conference call operator will moderate Q&A period)

Fourth Quarter and Fiscal 2003 Conference Call

**Ron Marshall:**

Thank you. Please call us if you have any other questions.

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