

Second Quarter 2004 Conference Call

Operator:

Good morning ladies and gentlemen, and welcome to the Nash Finch second quarter 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.

The Company has asked me to advise you that this call will include forward-looking statements which involve risks and uncertainties 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 the Company's filings with the SEC. The Company notes that certain financial information to be discussed, such as Consolidated EBITDA, ratios using Consolidated EBITDA, and Company earnings and retail segment profitability excluding special charges and costs related to store dispositions, are "non-GAAP" financial measures as the term is used in SEC Regulation G. A reconciliation of these non-GAAP financial measures to the most comparable GAAP financial measures is provided on the

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“Investor Relations” portion of the Company’s website, under the captions “Presentations” and “Supplemental Information.”

I will now turn the conference over to your CEO, Mr. Ron Marshall. Please go ahead Mr. Marshall.

Ron Marshall:

Thank you 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.

As always, we assume that each of you has read this morning’s press release and gone through the numbers in detail. Therefore, I have asked Bob to begin today by providing an overview of our financial results. During the question and answer session we will be glad to address any area of particular interest to you. With that, I will ask Bob to report.

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Bob Dimond:

Thank you, Ron.

Total sales for the 12-week second quarter ended June 19, 2004 rose to \$906.4 million versus \$888.6 million in the second quarter of 2003. We reported a net loss for the second quarter of \$15.6 million, or \$1.26 per share, as compared to net earnings of \$7.3 million, or \$0.61 per share for the second quarter last year. Excluding the impact of the special charges and related costs attributable to the store dispositions, earnings for the second quarter 2004 would have been \$8.6 million, or \$0.70 per share.

Second quarter 2004 results were adversely affected by an after-tax special charge of \$22.3 million, or \$1.80 per share, resulting primarily from non-cash costs associated with previously announced store dispositions. In addition, net earnings were adversely affected by \$2.0 million, or \$0.16 per diluted share, in after-tax costs (primarily inventory markdowns) related to the closures that were recorded in operating income. As most of you will recall, on May 19, 2004, the Company announced that it would exit its Buy n Save and Avanza retail formats, and would also close ten conventional outlets, primarily operating under the Econofoods banner. The 21 stores involved represent approximately

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15% of the Company's annualized retail sales, and approximately 3% of its total annualized sales. The Company completed the closure of 18 stores near the end of the quarter, and is seeking purchasers for its three Denver-area Avanza stores.

For the first 24 weeks of 2004, total sales were \$1.786 billion compared to \$1.745 billion in the prior-year period. The net loss for the 24-week period of 2004 was \$10.9 million, or \$0.88 per share, compared to net earnings of \$10.5 million, or \$0.88 per share in the year-ago period. Excluding the impact of the special charges and related costs attributable to the store dispositions, earnings for the first 24 weeks of 2004 would have been \$1.08 per share. Earnings for the first 24 weeks of 2003 were adversely affected by \$2.3 million, or \$0.20 per share, paid in the first quarter to our lenders as consideration for bond indenture and credit facility waivers.

Ron will comment on the performance of our individual business segments, whose financial results are described in the news release.

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However, before I turn the call back to Ron, I would like to stress that, over the past year, we have strengthened our balance sheet through continued focus on management of working capital, debt reduction and improvement in Consolidated EBITDA. As a result, the Company's leverage ratio has improved to 2.5 times Consolidated EBITDA at the end of the current quarter as compared to 3.3 times Consolidated EBITDA at the end of the second quarter of 2003, reflecting a \$68 million reduction in debt, including capital leases, over the same period.

Factoring in outstanding letters of credit, availability on our bank revolver was \$123.0 million in addition to the \$30.1 million of cash on hand at the end of the quarter. Finally, capital expenditures were \$3.8 million in the second quarter compared to \$10.6 million in the second quarter of 2003.

I will now turn the call back over to Ron

Ron Marshall:

Thank you Bob

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As you can see, without the impact of the special charges and related costs, our earnings improved significantly over the year-earlier quarter and were in line with our expectations. We believe these results reflect the underlying strength of our food distribution and military units, the beginning of recovery in our retail segment and the wisdom of the decision to dispose of underperforming retail assets.

Our food distribution segment continues a positive trend, with sales increasing by 7 percent over the second quarter of 2003 and segment profits increasing by 24 percent over the same period. Note that during the second and third fiscal quarters of 2004 we are cycling against some temporary supply business from former Fleming customers. If these sales were excluded from the fiscal 2003 numbers, the sales comparisons would be even more favorable and, as you know, we continue to see substantial opportunity in the post-Fleming marketplace. In addition, last quarter we discussed the exciting sales potential inherent in assisting independent operators in purchasing stores from major retailers who are rationalizing their store networks. An excellent example of this potential is becoming a reality this quarter as two of our independent customers announced the purchase of 11 stores in Omaha from Albertson's who is exiting

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the market. This situation, and our ability to take advantage of it, is expected to result in growth for each retailer...and for Nash Finch, of course, beginning later in the third quarter.

Our Military segment sales increased 3 percent compared to last year, primarily reflecting continued growth due to line extensions in our domestic commissary business. Segment operating profits rose 28 percent over the same period, as we have continued to realize the efficiencies we anticipated from the consolidation of two distribution centers into one during 2003.

While retail results continue to reflect the challenges I described during our last several calls, we are beginning to see some improvement in this segment as well. Excluding sales from the 21 stores whose disposition was announced during the quarter, same store sales decreased 5.5% for the second quarter, representing an improvement from the 9.2% decrease experienced in the first quarter. Retail segment profits, excluding the \$3.3 million of store closure related costs incurred in the second quarter, were 3.5% of sales as compared to 1.4% of sales in the first quarter. As you know, we took decisive action during the quarter after evaluating our retail markets. While the decision to close

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stores was difficult, we believe it was a necessary step to allow us to better focus our retail initiatives to improve the performance in our remaining retail stores, including enhanced merchandising and pricing strategies, stronger store level execution and upgraded perishable offerings and quality.

While we believe we are taking the right steps going forward, it is important to reiterate that these closures and initiatives will take time to benefit our retail segment. Our view remains, as we said during our last several calls, that 2004 will be a difficult year for the retail business. At the same time, we remain optimistic about our overall performance, buoyed by both our food distribution and our military units.

Finally, our focus for the remainder of 2004 is unchanged. We intend to:

1. Take advantage of new business opportunities in Food Distribution.
2. Continue to reap the benefits from our military distribution center consolidation.
3. Protect and improve our position in existing retail markets.
4. Drive shareholder value through debt reduction and increased dividend yield.

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As we advised in this morning's release, excluding the impact of special charges and related costs pertaining to the store closures previously discussed, our overall results for the quarter, and year-to-date, were in line with our expectations. It is important to note that we expect to realize an annualized pre-tax earnings improvement of approximately \$16 million related to the store closures, of which approximately \$5.4 million after-tax, or 43 cents per diluted share, is expected to be realized in the second half of fiscal 2004. As a result of the expected \$1.50 per dilutive share net negative impact of the store closings during 2004, we now estimate that diluted earnings per share will range between \$0.98 and \$1.04 for the 52-week fiscal 2004 year. The Company's previous diluted earnings per share guidance for 2004 was between \$2.46 and \$2.54 and didn't include the impact of the store closure related adjustments.

We will now open up the phones for your questions.

Question & Answer Period

(Conference call operator will moderate Q&A period)

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Ron Marshall:

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

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