

Third Quarter 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 Webcast, 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 and welcome to today's conference call. Joining me today is 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.

Today, we will highlight Nash Finch's financial performance for the third quarter of fiscal 2003 and review our outlook for the year.

Before that, however, let me say that I am pleased with the significant progress achieved during the third quarter evidenced by a 39% gain in comparable earnings. First, I am encouraged by the sales development success in our food distribution business which enjoyed a 9% sales increase during the quarter. Second, retail profitability improved significantly during the quarter despite a significant investment in Avanza. Lastly, we made important head way in our

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de-leveraging efforts as our leverage ratio improved to 2.7, the lowest level since 1998, an improvement of 25%.

I now will turn the call over to Bob to discuss third quarter financials in detail.

Bob...

**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 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 recent filings with the SEC. I should also note that certain financial information to be discussed, such as the 2003 and 2002 earnings figures that exclude events that do not affect both years and Adjusted 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 discuss in this call to the most comparable GAAP financial measures 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.” Relevant reconciling information is also provided on the “Investor Relations” portion of our website, under the caption “Presentations – Supplemental Financial Information.”

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Sales for the third quarter ending October 4, 2003 rose to \$1.215 billion versus \$1.191 billion for the third quarter of 2002.

Net earnings for the third quarter of fiscal 2003 were \$11.6 million, or 95 cents per diluted share, as compared to \$6.7 million, or 55 cents per diluted share, for the third quarter last year. Results for the 2003 third quarter were favorably affected by a reduction in income tax expense of \$3.0 million, or 25 cents per diluted share, as a result of the resolution of various outstanding state and federal tax issues. Results for the 2002 quarter included a special charge reversal that increased earnings by \$0.5 million or 4 cents per diluted share. Excluding the 2003 tax adjustment and the 2002 special charge reversal, earnings would have been \$8.6 million or 70 cents per diluted share in the 2003 quarter as compared to \$6.2 million or 51 cents per diluted share in 2002, a 39 percent increase.

For the first 40 weeks of 2003, total sales were \$2.960 billion compared to \$2.994 billion in the prior-year period. Net earnings were \$22.1 million, or \$1.82 per diluted share, for the 40 week period of 2003, compared to \$16.0 million, or \$1.31 per diluted share, in the year-ago period. Results for the first 40 weeks of 2003 were adversely affected by \$2.3 million, or 20 cents per diluted share, paid in the first quarter 2003 to our lenders as consideration for bond indenture and credit facility waivers, and were favorably affected by the tax adjustment described earlier.

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Results for the 40 week 2002 period included the cumulative effect of a change in accounting principle related to the adoption of EITF No. 02-16 that reduced earnings by \$7.0 million, or 58 cents per diluted share, and the special charge reversal described earlier that increased earnings. Excluding the impact of the 2003 waiver fees and tax adjustment, as well as the 2002 cumulative effect of a change in accounting principle and the special charge reversal, earnings for the first 40 weeks of 2003 would have been \$21.5 million, or \$1.77 per diluted share, as compared to \$22.5 million, or \$1.85 per diluted share, in the 2002 period. Excluding the impact of these amounts from the 2003 and 2002 earnings figures is intended to enhance a comparison of the Company's underlying profitability by eliminating the impact of events that do not affect both periods.

Now let's examine the financial results of our three key business segments – food distribution, military and retail.

The food distribution segment represents approximately 50 percent of total company sales and posted third quarter sales of \$604.5 million versus \$555.5 million in the third quarter of 2002. The increase in sales is primarily due to new business with former Fleming accounts, as well as the growing acceptance of the quality and product diversity of our private label program, which improved 15 percent in sales. Profits were \$19.6 million in the third quarter of 2003 versus \$16.8 million in the prior-year period.

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For the 40-week period, food distribution sales were \$1.414 billion compared to \$1.409 billion in the prior-year. Food distribution profits were \$44.4 million versus \$46.4 million in the year-ago period.

Nash Finch's military segment represents approximately 26 percent of total company revenues. Third quarter 2003 sales for the military segment were \$319.0 million versus \$313.9 million in the year-ago period. Profits from our military business in the third quarter were \$9.3 million compared with \$9.4 million in the prior year period. In September 2003, we completed the consolidation of two warehouses into one located in Norfolk, Virginia. Military profits were negatively impacted by \$0.8 million of transition costs during the third quarter and \$2.7 million year-to-date. The recent East Coast hurricane also temporarily impacted operations but the prompt action of our associates returned us to normal operating levels in a very short time.

For the 40-week period, military sales increased to \$813.6 million compared to \$780.0 million in the prior-year. Military profits were \$22.6 million versus \$24.0 million in the year-ago period.

Sales from our retail segment, representing approximately 24 percent of the company total, were \$291.3 million in the third quarter of 2003 compared with \$321.7 million in the year-ago period. Year-over-year same store sales declined 11.3 percent for the quarter and 11.5 percent for the 40 week period. Continued supercenter growth in our retail markets and the lingering difficult economic conditions continue to negatively impact sales.

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Retail profits increased sharply to \$10.0 million in the third quarter compared to \$5.9 million in the prior year period, illustrating significant progress on improved operational execution and expense control. Retail profits were negatively impacted by start-up costs relating to our new Avanza format which totaled approximately \$2 million in the third quarter and \$3 million year-to-date.

As we have mentioned on previous calls, during the third quarter of 2002 we reduced gross margin by approximately two percent in response to increased competitive pressures. Since then, retail gross margins have rebounded although our same store sales have declined. We expect to see an improvement in same store sales comparisons in the fourth quarter of 2003 when we will have cycled the new competition added last year.

For the 40-week period, retail sales were \$732.7 million compared to \$804.5 million in the prior-year. Retail profits increased to \$27.3 million versus \$24.9 million in the year-ago period.

Our store count at the end of the quarter was 109 compared to 112 at the end of the third quarter of 2002. During the quarter, we opened our fourth AVANZA Supermarket in Pueblo, Colorado. We also entered a new market, with the opening of our first Chicago store. Our sixth AVANZA store, also in Chicago, opened just yesterday.

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Since 1998, the Company has focused on strengthening its balance sheet through a number of avenues – rationalization of inventory, efficient receivables management and leveraging of accounts payable. In addition, the Company has focused on reducing its leverage ratio through the reduction of long-term debt and increasing Adjusted EBITDA. As a result, our leverage ratio has improved by 25 percent since 1998, to just 2.7 times Adjusted EBITDA.

Interest expense for the third quarter of 2003 decreased \$0.2 million to \$9.0 million compared to \$9.2 million in the prior year period. The decrease resulted from a reduction in our average borrowing level, offset by an increase in our average borrowing rate under our bank credit facility that was 5.4 percent in 2003 compared to 4.4 percent in 2002.

The balance outstanding on our bank credit facilities was \$100 million at the end of the third quarter. Factoring in outstanding letters of credit, additional credit availability on our bank revolver was \$127.5 million in addition to the \$7.9 million of cash on hand at the end of the third quarter.

Working capital at the end of the third quarter of 2003 was \$118 million compared to \$159 million at the end of fiscal 2002 and \$110 million at the end of the third quarter of 2002. Capital expenditures for the third quarter of 2003 were \$11.3 million versus \$14.4 million in the third quarter of 2002. We expect capital expenditures to be approximately \$40 million for the year.

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

**Ron Marshall:**

Thanks, Bob.

As we look out over the remainder of this year, we continue to see challenges for our industry. The best way to address these challenges, we believe, is to be singularly focused on our own particular opportunities for success. In our case, our priorities are clear.

- First, we must continue to grow our Food Distribution business. We believe that the next year represents an incredible opportunity to fully leverage our distribution competencies. Our attention to customer service and efficiency, evident in our industry leading metrics, positions us well with present and potential wholesale customers.
- Second, we must accelerate the improvement in our retail business. I believe that we have seen the worst of the Super Center rollout in the upper Midwest allowing us the opportunity to stabilize the top line and continue to grow the bottom line. In addition, our focus is to ensure the success of our Avanza concept. We have invested heavily in AVANZA with both capital and start-up losses. Now is the time to fully refine the concept to make sure it is well positioned for future expansion in each of its unique markets.
- Third, now that we have successfully completed our Military warehouse consolidation we must rapidly improve productivity in our remaining facility so that we return to the levels of profitability that we have traditionally enjoyed from our Military segment.

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The Nash Finch team understands that our continued momentum depends on superb execution of these priorities.

Finally, we are revising our estimate of diluted earnings per share to range between \$2.48 and \$2.52 per diluted share for the 53 week fiscal 2003 year as compared to \$1.95 per diluted share in the 52 week fiscal 2002 year. This represents an estimated range for the fourth quarter of 65 cents to 69 cents. Excluding the impact of previously discussed events that do not affect both years, we expect 2003 earnings to range between \$2.43 and \$2.47 per diluted share, as compared to \$2.49 per diluted share in fiscal 2002.

Now, we'll take any questions you have...

**Question & Answer Period**

(Conference call operator will moderate Q&A period)

**Ron Marshall:**

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

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