

Third Quarter 2004 Conference Call

**Operator:**

Good morning ladies and gentlemen, and welcome to the Nash Finch third 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 excluding certain items 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, Kathleen McDermott, Senior Vice President, Secretary and General Counsel, and LeAnne Stewart, Senior Vice President and Chief Financial Officer. In addition, we are pleased that Bob Dimond, our former CFO, has joined us today. Bob, as you know, will be working with us as a consultant going forward.

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 LeAnne 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. Before LeAnne begins, however, it is important to note that these represent record third quarter results that are more than 50 percent

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higher, on a comparable basis, than last year's previous record and we are very pleased with them. With that, I will ask LeAnne to report.

**LeAnne Stewart:**

Thank you, Ron.

Net earnings for its third quarter ended October 9, 2004 were \$14.6 million, or \$1.15 per diluted share, as compared to \$11.6 million, or \$0.95 per diluted share, for the third quarter last year. Results for each period were favorably affected by reductions in income tax expense as a result of the resolution of various outstanding state and federal tax issues. The amount of the reductions was \$.8 million, or \$.06 per diluted share, in the 2004 quarter and \$3.0 million, or \$0.25 per diluted share, in the 2003 quarter. Total sales for the third quarter of 2004 were \$1.191 billion versus \$1.215 billion in the prior-year period as a result of food and military distribution sales increases in the 2004 quarter relative to the 2003 quarter offset by a decrease in retail sales due to store closures at the end of the second quarter of 2004.

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For the first 40 weeks of 2004, total sales were \$2.977 billion compared to \$2.960 billion in the prior-year period. Net earnings were \$3.7 million, or \$0.29 per diluted share, for the 40 week period of 2004, compared to \$22.1 million, or \$1.82 per diluted share, in the year-ago period. Net earnings for the first 40 weeks of 2004 were adversely affected by an after-tax special charge of \$22.3 million, or \$1.77 per diluted share, resulting primarily from non-cash costs associated with retail store closures announced in the second quarter, and by after-tax costs of \$2.0 million, or \$0.16 per diluted share, primarily involving inventory markdowns related to the store closures that were recorded in operating income. Net earnings for the first 40 weeks of 2003 were adversely affected by \$2.3 million, or \$0.20 per diluted share, paid in the first quarter of 2003 to our lenders as consideration for bond indenture and credit facility waivers.

In a moment, Ron will comment on the performance of our individual business segments. However, before I turn the call back to him I would like to point out that the Company continues to focus on strengthening its balance sheet through more efficient inventory and receivables management, leveraging of accounts payable and operational efficiencies. The Company's cash flow improvement

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has resulted in significant reductions in debt and our leverage ratio. Total debt has been reduced by 30 percent since 1999 and the Company's leverage ratio has dropped from 4.0 to 2.0 times Consolidated EBITDA between the end of fiscal 1999 and the end of the fiscal 2004 third quarter. Finally, on October 15, the Company announced its intent to refinance its senior secured credit facility and redeem its 8.5 percent Senior Subordinated Notes due 2008. We expect to further reduce our cost of capital as a result of this strategic transaction.

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

**Ron Marshall:**

Thank you LeAnne.

Turning first to the Food Distribution segment, year-to-date sales increased 5.4 percent as compared to last year, while sales for the third quarter increased slightly by 1.0 percent versus the year-ago period. As we discussed on our last call, sales for the third quarter of fiscal 2004 provide a difficult comparison because the third quarter of fiscal 2003 included approximately \$25 million of temporary business subsequently transferred to other food distributors through

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the sale of the Fleming assets. Excluding the impact of the temporary sales, third quarter fiscal 2004 sales improved by 5.4 percent year over year. Third quarter Food Distribution operating profits increased 4.1 percent versus 2003 and year-to-date operating profits increased by 16 percent, driven primarily by greater operating efficiencies.

We had solid gains in our Military food distribution segment as well. Sales increased 6.1 percent for the third quarter of 2004 versus the year-ago period and operating profits increased almost 17 percent. Year to date Military sales increased 4.2 percent and operating profits were up 22 percent versus 2003. This improved profitability results not only from our improved sales but also efficiencies gained through the consolidation of dedicated military warehouses last year.

In our retail business, segment operating profits were up 36.7 percent in the third quarter of 2004. Retail sales were down by 17.0 percent in the third quarter. The improvement in profitability, as well as the reduced sales, are primarily attributable, as we discussed last quarter, to the closure of 18 underperforming stores earlier this year.

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

- Take advantage of business opportunities in Food Distribution using our industry-leading performance on key metrics, a focused new business approach, and the expertise of our associates.
- Leverage our military expertise and the benefits of our military distribution center consolidation to increase our market position by expanding our customer base and extending our product offerings.
- Continue to protect and improve our position in existing retail markets by dedicating efforts towards strong perishable execution, shopper convenience and customer service excellence.
- Drive shareholder value by delivering the Company and increasing the dividend yield.

As we discussed in this morning's release, we estimate that our diluted earnings per share for fiscal 2004 will range between \$1.17 and \$1.23. Earnings for both 2004 and 2003, however, are affected by several non-comparable items which we have listed in our earnings release. Adjusting for these items, fully diluted

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E.P.S. are expected to be between \$2.94 and \$3.00 for fiscal 2004 compared to \$2.48 in fiscal 2003. We will now open up the phones for your questions.

**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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