

Fourth Quarter 2004 Conference Call

Operator:

Good morning ladies and gentlemen, and welcome to the Nash Finch fourth 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 also notes that the call will include references to comparable earnings, to Consolidated EBITDA and to a leverage ratio that uses Consolidated EBITDA, which are "non-GAAP" financial measures as the term is used in SEC Regulation G. A reconciliation of Consolidated EBITDA to the Company's earnings before income taxes is provided in the schedules to the

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Company's earnings release, which can be found on the "Investor Relations" portion of the Company's website, under the caption "Press Releases."

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, LeAnne Stewart, Senior Vice President and Chief Financial Officer and Kathleen McDermott, Senior Vice President, Secretary and General Counsel.

As always, we anticipate that each of you has had time this morning to read our press release and go through the numbers in detail. Therefore, LeAnne will begin today by providing an overview of our financial results which, on a comparable basis, improved more than twenty percent in 2004. I'm also sure that you've read our announcement last week regarding our agreement to acquire two food distribution centers from Roundy's. I'll speak later in the call about this strategically important transaction. During the question and answer session we will, of course, be glad to address any area of particular concern to you. With that, I will ask LeAnne to report.

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LeAnne Stewart:

Thank you, Ron.

As Ron indicated, we are very pleased with our results for the quarter and year. This is true for the Company as a whole, but especially with respect to the outstanding sales and profit performance of our food distribution and military segments.

Net earnings for the 52 week fiscal 2004 year were \$14.9 million, or \$1.18 per diluted share, as compared to \$35.1 million, or \$2.88 per diluted share, for the 53 week 2003 year. Earnings from continuing operations were \$14.9 million, or \$1.18 per diluted share, for fiscal 2004 as compared to \$34.7 million, or \$2.85 per diluted share, for fiscal 2003. Fiscal 2004 earnings from continuing operations included several events which had a net unfavorable impact of \$24.0 million, or \$1.89 per diluted share, the largest of which was a special charge of \$21.0 million, or \$1.66 per diluted share, involving primarily non-cash costs associated with the disposition of 21 retail stores. Fiscal 2003 earnings from continuing operations included several events which had a net favorable impact

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of \$4.5 million, or \$0.37 per diluted share. Total sales for fiscal 2004 were \$3.9 billion versus \$4.0 billion in fiscal 2003. The 53rd week of fiscal 2003 represented \$68.4 million of sales.

For the fourth quarter of 2004, total sales were \$920 million compared to \$1.011 billion in the prior-year period. Excluding \$68.4 million of extra sales from the additional week in the 2003 fourth quarter, fourth quarter 2003 sales would have been \$942.6 million. Net earnings were \$11.2 million, or \$0.87 per diluted share, for the 12 week period of 2004, compared to \$13.0 million, or \$1.05 per diluted share, in the year-ago period. Fourth quarter 2004 earnings from continuing operations were \$11.2 million, or \$0.87 per diluted share, compared to \$12.5 million, or \$1.02 per diluted share, for the fourth quarter 2003.

Earnings from continuing operations for the last 12 weeks of 2004 were affected by several events that had a net unfavorable impact of \$0.5 million, or \$0.04 per diluted share, the most significant of which was the payment of a call premium for early redemption of our 8.5% Senior Subordinated Notes and non cash charges related to the refinancing of our Senior Credit Facility. Fourth quarter 2003 earnings from continuing operations were favorably affected by \$3.8 million, or \$0.31 per diluted share, resulting from a reduction in health insurance

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expense primarily reflecting a decision to eliminate post-retirement medical benefits for non union employees.

The Company announced during the fourth quarter that it had established a \$300 million Senior Secured Credit Facility and completed the redemption of its 8.5% Senior Subordinated Notes Due 2008. These strategic transactions reduced the Company's effective interest rate. In addition, the Credit Facility provides additional operational flexibility and the ability to prepay debt without cost. The Company's significant cash flow improvement has resulted in a 30 percent reduction in total debt from 1999 to the end of fiscal 2004 and a significantly lower leverage ratio. At the end of fiscal 1999, the Company's leverage ratio was 4.0 times Consolidated EBITDA, and improved to 1.9 times at the end of the fiscal year 2004. Although the announced acquisition will increase our leverage ratio, we anticipate the announced acquisition will result in additional cash flows that will allow deleveraging over time.

As I mentioned, our food distribution and military segments demonstrated outstanding performance, including increased sales and profit margins, year over year. Food distribution segment sales for fiscal 2004 were \$1.96 billion

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versus \$1.92 billion in fiscal 2003, an increase of 2.1 percent. Excluding sales from the 53rd week, fiscal 2004 sales would have increased 4.3 percent from fiscal 2003. Food Distribution segment profits in fiscal 2004 improved to 3.8 percent of sales from 3.3 percent of sales in fiscal 2003.

Military distribution segment sales for fiscal 2004 increased to \$1.12 billion compared to \$1.09 billion for fiscal 2003, an increase of 2.8%. Excluding sales from the 53rd week, military sales increased 4.7 percent from fiscal 2003 to fiscal 2004. Military segment profits also improved from 2.9 as a percent of sales in fiscal 2003 to 3.2 percent in fiscal 2004.

Corporate retail sales were \$813.8 million in fiscal 2004 versus \$966.3 million in the prior-year period. Same-store sales decreased 7 percent for fiscal 2004, as compared to fiscal 2003, and 6 percent for the fourth quarter of 2004, as compared to the same period in 2003. These declines continue to reflect competitive openings that have occurred during the past year in the Company's retail territories. Despite difficult sales comparisons, retail profits increased to 3.3 as a percent of sales in fiscal 2004 from 3.1 as a percent of sales in fiscal 2003.

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I would now like to turn the call back over to Ron for his comments on the importance of our recently announced purchase agreement with Roundy's, Inc....Ron.

Ron Marshall:

Thank you, LeAnne.

As we've discussed before, Nash Finch is well positioned strategically to take advantage of new business opportunities in Food Distribution. Our industry leadership in those metrics critical to independent supermarket retailers, as well as our position as a premier low cost value added distributor, continues to drive the results that you saw today in our food distribution segment. The opportunity to acquire the Westville, Indiana and Lima, Ohio food distribution divisions from Roundy's will allow us to take our company to the next level.

These Divisions represent approximately \$1.0 billion in annual food distribution sales, servicing over five hundred customers. Among them are some of the finest and most successful independent retailers in the United

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States. The distribution centers to be acquired fit well with the Company's existing network. As a result, we do not anticipate any facility closures. This transaction represents a "win-win" opportunity for both those new customers we look forward to working with after the transition, as well as our existing customers. This acquisition will allow us to expand our merchandising programs in a variety of areas, including the distribution of produce and meat, general merchandise, and health and beauty care. It will also drive productivity and buying efficiencies in excess of \$8 million annually that we expect to realize over several years. Specific examples of these productivity improvements include:

1. better balancing of transportation across the Company's distribution network to reduce both miles and equipment,
2. enhanced warehouse capacity utilization, and
3. reduction of outside storage space.

The transaction will be immediately accretive to earnings. Depending on how quickly the expected benefits are realized and how expensive the integration is, we believe, that as a result of this acquisition, operating earnings will improve by approximately \$31 to \$33 million, net of implementation costs of approximately

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\$3 million, during the twelve months following the closing of the transaction.

The impact on earnings per share will depend, of course, upon the cost of the related financing, as well as the purchase accounting allocations and the related amortization. Our already strong cash flows will be further strengthened by this transaction, allowing us to continue to de-lever immediately.

Finally, as we outlined in the press release, we estimate that diluted earnings per share for fiscal 2005 will range between \$3.40 and \$3.55 before the accretive effect of the acquisition just discussed. This compares to 2004 earnings from continuing operations of \$1.18 per diluted share which included several events that had a net unfavorable impact of \$1.89 per diluted share. This outlook for fiscal 2005 assumes low single digit sales growth in our food and military food distribution segments and flat to slightly negative same store sales in our retail segment. In addition, the Company anticipates some margin improvement across all segments as we continue to focus on productivity efficiencies. Depreciation and amortization will be affected by capital expenditures during fiscal 2005 of approximately \$35 million. We also estimate our average interest rate to be approximately 7.0% in fiscal 2005. Finally, the outlook assumes that working capital remains relatively consistent with 2004.

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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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