

V.I.M.COR
BUY RECOMMENDATION

SUIZA FOODS		SZA		\$ 39.00		GROWTH	
52 WK PRICE RANGE	DIV	YIELD	EPS				AVERAGE DAILY VOLUME MILL \$
			1997	LATEST 12 MO	1998	1999	
\$25.69-67.00	\$ 0.00	0.00 %	\$1.25	\$ 2.69	\$ 2.88	\$ 3.34	\$ 11.7
		P/E :	31.20 x	14.5 x		13.5 x	11.7 x
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EPS COMPOUND GROWTH RATE							
VAL MODEL	P/E LEAST GROWTH RT	PAST 5 YRS.	LATEST QUARTER	THIS YEAR	NEXT YEAR	NEXT 5 YRS.	
59.0 %	0.97 x	39.9 %	40.0 %	39.0 %	16.0 %	15.0 %	

BASIS OF RECOMMENDATION

SZA is a perfect stock for uncertain times. It is concentrated in the food industry; dairy and Dairy products accounted for 97% of revenue in 1997. Even if a recession or an economic downturn were to hit the US economy, people still need to purchase milk to feed their children. However, SZA is also a growth company; It is growing earnings by buying and consolidating the milk industry. Price target for end of year 1999 is \$66 based upon 20x 1999 estimated EPS of \$3.34/share. Note that this is a value model estimate, the growth model is predicting a share price of \$100. The value model is more conservative and probably more accurately reflects the company's value in a slower economic environment.

POSITIVES

- * Company produces a consumer staple product that will be in demand during all economic times.
- SZA acts like a growth company. It is growing earnings in a stodgy industry by consolidating the industry and cutting costs.
- * Customers are widely dispersed geographically, further insulating the company against regional downturns.

NEGATIVES

- * SZA has suspended its stock buyback program and is issuing new shares. The proceeds will be used to pay down debt and reduce interest expense. Depending on how well this money is spent, this increase in share outstanding could adversely affect EPS. (estimated worse case is \$0.40/share in 1999, giving a new price target of \$46.80 vs. \$66.80)
- * Recent acquisition of MILK is priced at \$19/share. SZA has recently restructured this purchase so that it is protected against earnings shortfall; there may be a hidden problem within MILK that is not currently priced into the acquisition.

ANALYST	DATE OF STOCK PRICE	SPX PRICE THAT DATE	DATE OF THIS REPORT
Gary Vassalotti	January 20, 1999	\$ 1256.62	January 21, 1999

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SUIZA FOODS

SZA is a leading manufacturer and distributor of fresh milk and related dairy products, plastic containers and packaged ice. The company operates two divisions; Dairy Products (97% of '97 revenues, or \$ 1,805.17 mm) and Plastic Packaging (3% of '97 revenues, or \$55.83mm) with total 1997 revenues of \$1,861mm. The company has been public since 1996, when it came public for roughly \$18/share.

Investment Rational

SZA is in the consumer staple market segment, a segment that historically has had defensive characteristics in regards to economic downturns. Basically, people need to eat or buy certain things to survive, or non-discretionary spending. SZA, however, inhabits this category with a twist, it is in acquisition mode and is growing earnings and market share by purchasing other dairies and milk distributors and cutting costs. Similar to the effects the banking industry is currently experiencing.

Given SZA's growth attributes, the growth valuation model is probably the better model to use to set a target price. Shown below, the growth model is predicting a share price of \$86.40 for the end 1999. However, it is probably prudent to use the valuation provided by the Value model, with a price prediction of \$60.31 for 1999. This represents a return of 125% and 59%, respectively, from the current share price.

Projected Values - Value Model			
	End of YR	Next YR	5 Years
Price	\$60.31	\$65.84	\$85.45
Return	59%	74%	124%

Growth Model Predictions			
	End of Yr.	Next YR	5 Years
Price	86.40	100.20	152.39
Return	126%	162%	295%
P/E Least Growth Rate:			0.97

Prior acquisitions

Since 1996, SZA has made more than 40 acquisitions. In 1998 it purchased Continental Can, 1 million shares of Horizon Organic Dairy, West Lynn Creamery, a division of Cumberland Farm, and entered into an agreement to acquire Broughton Foods Co.

Quick, major acquisitions can be a danger signal of a company that is not watching the price that it is paying to acquire sales. However, SZA has demonstrated that is aware of ongoing business conditions with its purchase of Broughton (milk). SZA forced a restructuring of the deal to protect itself from incurring damages from the current problems that are affecting MILK. It has structured the deal so that SZA does not have to pay the full purchase price of \$19 in cash immediately, but will pay \$10 in cash now and \$9 later if the purchase proves to meet SZA's goals.

Effects of the issuance of new shares

Traditionally SZA has repurchased its shares from the open market when it had excess cash. Recently, it has reversed this trend and is issuing shares to pay down debt. Below is an estimated income statement reflecting this change in attitude and the effect it will have on EPS and the underlying share price target changes.

Suiza Earnings model for 6 mill share buyback						
Item	New Estimated	Avg. Growth Rate	1997	1996	1995	1994
Shares out	41		35	35	35	35
Revenue	\$ 3,384.69	89%	1795	521	430	341
Operating Inc	\$ 333.66	89%	177	45.1	39.8	34
Depr	\$ 83.93	88%	44.6	9.9	9.3	8.2
Int Exp	\$ 49.50	92%	36.7	17.5	19.9	19.3
Pretax Inc	\$ 200.23	84%	\$ 95.70	21.1	0.9	5.1
Eff Tax Rate	\$ 0.52	85%	0.52	nm	NM	0.17
Net Inc	\$ 96.11	88%	\$ 45.94	27.9	-1.6	4.2
Eps Old	\$ 2.75		\$ 1.31			
Eps New	\$ 2.34					
Shares Sold		6				
Price		38				
Proceeds		228				
Debt Outstanding		778				
- proceeds		550				
Old Interest Cost		70.02	Bond Interest Rate	9		
New Interest Cost		49.5				
Savings		20.52				

As the model above shows, this increase in shares could change EPS by as much as 40 cents per share. However, I have tried to create a pessimistic model to estimate worst-case scenario, and the worst-case scenario still would permit a sizable gain in share price to \$46.80 given future EPS estimates.

Pros:

- There is much room for consolidation in the milk industry, giving SZA plenty of opportunities for growth through acquisition.
- SZA is already the largest dairy processing company in the industry, giving the company some marketing stability.

Cons:

- Effects of the stock issuance program will not be known for several months. The pay down of debt should help to alleviate some of the hit to earnings.
- SZA may not be able to find reasonably priced acquisition targets, hindering future EPS growth.