

# FINAL TRANSCRIPT

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## **NAFC - Q3 2007 Nash Finch Company Earnings Conference Call**

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## CORPORATE PARTICIPANTS

**Alec Covington**

*Nash Finch Company - President, CEO*

**Bob Dimond**

*Nash Finch Company - EVP, CFO*

## CONFERENCE CALL PARTICIPANTS

**Chris Ruth**

*Piper Jaffray & Company - Analyst*

## PRESENTATION

**Operator**

Good morning, ladies and gentlemen. Welcome to the Nash Finch third quarter 2007 conference call.

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 including its Form 10-K for fiscal 2006.

The Company also notes that the call may include references to certain non-GAAP financial measures as the term is used in SEC Regulation G such as consolidated EBITDA. Reconciliations of non-GAAP financial measures to the most comparable GAAP financial measures are provided on the Investor Relations portion of the Company's Web site under the caption, "Presentations and Supplemental Financial Information" and in the schedules to the Company's earnings release which can also be found in that same portion of the Company's Web site under the caption, "Press Releases."

It is now my pleasure to turn the conference over to the Company's Chief Executive Officer, Mr. Alec Covington. Please go ahead, sir.

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**Alec Covington** - *Nash Finch Company - President, CEO*

Good morning, and welcome to the third quarter call with all of our investors and analysts.

My name is Alec Covington. I serve as the President and CEO of Nash Finch.

With me today is Bob Dimond, our Executive Vice President and Chief Financial Officer of the Company, and Kathy Mahoney, the Senior Vice President and General Counsel of the Company. As we've done in the past, Bob will come up and talk a little bit about the quarter from a financial perspective, and then I'll be back to have a few comments on the quarter but on a variety of other topics as well.

So with that, Bob, I'll turn the meeting over to you.

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**Bob Dimond** - *Nash Finch Company - EVP, CFO*

Thank you, Alec. Good morning, everyone.

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We've got a few slides to take you through this morning to go through our third quarter results. Our total sales in the third quarter 2007 were \$1.367 billion compared to prior year sales of \$1.427 billion.

Year-to-date sales were \$3.463 billion as compared to \$3.532 billion last year. The declines in the third quarter and year-to-date sales comparisons were primarily due to the transition of a large customer to another supplier which we announced earlier this year.

The following is a breakdown of sales by our three business segments for the quarter. First, Food Distribution was \$810.3 million this year, down 5.9% compared to \$861.2 million last year. Excluding the decline in the sales of \$43.8 million relating to the customer who transitioned, the Food Distribution segment sales decrease would have been minus 0.8% which is a slight improvement to the year-to-date trend.

The sales momentum in our Military segment continued in the third quarter with sales of \$376.1 million, up 3% versus \$365 million last year.

And our Retail segment, sales were \$180.7 million in the third quarter 2007 as compared to \$200.8 million last year which primarily reflects the closure of eight stores since the end of the third quarter 2006. Retail same-store sales decreased 1.6% in the third quarter 2007 and were down 0.6% year-to-date versus the prior year.

Our gross profit margin improved to 8.9% of sales for the third quarter of 2007 as compared to 8.4% in the third quarter last year. Our year-to-date gross margin was also 8.9% as compared to 8.7% of sales in the same period last year. The improvement in our gross margin relative to the prior year periods resulted from initiatives that focused on better inventory management and vendor relationships.

Our selling, general and administrative expenses as a percent of sales for the third quarter 2007 were 6.2% compared to 7% in the prior year quarter. SG&A expenses for the third quarter 2007 included a significant item as shown on the bottom half of this slide for asset impairments and lease costs of \$1.2 million, or 0.1% of sales relating to the closure of three stores.

SG&A expenses for the third quarter 2006 included several significant items totaling \$11.7 million, or 0.8% of sales, primarily resulting from asset impairments, lease reserves, and executive severance charges. SG&A expenses as a percent of sales for the year-to-date 2007 period were 6.3% as compared to 6.9% last year and included asset impairment and lease costs of \$1.4 million.

SG&A expenses for the year-to-date 2006 period included several significant items totaling \$17.1 million, or 0.5% of sales resulting from the before-mentioned asset impairments, lease reserves, executive severance and an addition, an allowance for doubtful accounts. So as you can see, the significant items account for most of the variance in rate between the years.

Net earnings for the third quarter 2007, as you can see, just about the bottom of the slide there was \$15.4 million, or \$1.12 per diluted share. This compares to a net loss of \$4.6 million, or a loss of \$0.34 per diluted share last year. Net earnings for the year-to-date 2007 were \$30.3 million, or \$2.22 per diluted share, and that compares to net earnings of \$3.4 million, or \$0.25 per diluted share last year.

Please note that diluted EPS was favorably impacted in the third quarter 2007 as a result of the closure of an IRS examination covering fiscal 2004 and 2005 and, additionally, the 2003 statute of limitations for most tax jurisdictions which has expired. These events allowed the Company to file various reports to settle potential liabilities, and accordingly the Company released certain income tax contingency reserves which benefited the third quarter and year-to-date earnings per share by approximately \$4.9 million, or \$0.36 per diluted share.

I'd like to remind you that we provided -- or that we provide a supplementary schedule at the end of our earnings release which details our quarterly EBITDA results in terms of consolidated EBITDA as defined in our bank credit facility, and you'll recall that one of the key financial targets identified by our new strategic plan is to drive improvements in our EBITDA margin.

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With this in mind, as you'll see on the bottom of this slide, EBITDA for the third quarter 2007 increased to \$40.1 million, or 2.9% of sales compared to \$27.5 million, or 1.9% of sales last year. EBITDA for the year-to-date period in 2007 was \$98.6 million, or 2.8% of sales compared to \$78.8 million, or 2.2% of sales in the year-to-date 2006 period.

We're pleased with the year-to-date, or year-over-year increases in EBITDA realized during the quarter and the year-to-date periods which benefited from improvements in both gross margin and reductions in SG&A expenses.

The following is a breakdown of EBITDA by business segment. Our Food Distribution segment EBITDA was \$31.8 million, or 3.9% of sales in the third quarter 2007, an increase compared to \$26 million, or 3% of sales in the third quarter 2006. EBITDA in our Military segment was \$13 million, or 3.5% of sales compared to \$11.9 million, or 3.2% of sales last year.

In our Retail segment EBITDA for the third quarter was \$7.9 million, or 4.4% of sales, and that compares to \$8.6 million, or 4.3% of sales last year. Notably, the EBITDA margin as a percentage of sales in both the quarter and the year-to-date periods for all three of our business segments has improved relative to the prior year.

I'd ask you to refer to Page 2 of the earnings release which details several significant items that affected both pre-tax income and EBITDA.

Pretax income for the third quarter and year-to-date periods of 2007 included several significant items that totaled the \$1.76 million and \$0.6 million respectively. Of that, EBITDA for the quarter and year-to-date periods of 2007 included items totaling \$0.5 million and a credit for \$0.2 million respectively.

Pre-tax income for the 2006 comparable periods included significant items totaling \$18.3 million for the third quarter and \$24.6 million for the year-to-date periods. And finally, included in that EBITDA for the 2006 periods included significant items totaling \$5 million for the third quarter and \$5.7 million for the year-to-date period.

Now, turning to the balance sheet, you'll see that we paid down approximately \$16 million of revolving and long-term debt on our senior credit facility during the third quarter and \$41.3 million year-to-date. At the end of the quarter we had a total of \$118.7 million of debt outstanding on our senior debt facility, and we had \$105.9 million of availability under that facility at the end of the quarter.

Our leverage ratio of total debt to EBITDA improved to 2.51 at the end of the third quarter, and this is down significantly from the 3.42 times at the beginning of the year. Shown here are the financial ratios that relate to our covenants and our bank credit facility. As you can see, the Company was in compliance with all financial covenants at the end of the quarter.

I'd like to discuss briefly an item that we announced in a press release during the quarter relating to our convertible bonds. In September the Company received a purported notice of default from certain hedge funds claiming that we had not properly adjusted the conversion rate on the bonds after increasing the quarterly dividends paid to shareholders from \$0.135 to \$0.18 per share.

We believe that all required adjustments to the conversion rate have been made and that no default has occurred under the indenture. The Company promptly filed a petition asking the Hennepin County District Court to determine that Nash Finch has properly adjusted the conversion rate and on October 5th the Court granted a temporary restraining order preventing the hedge funds from declaring an acceleration of any debt under the indenture.

The temporary restraining order also tolls the 30-day cure period and such will remain in effect until ten days after the Court reaches a decision. We look forward to demonstrating to the Court that the Company made the required adjustments required by the indenture.

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On another note, the Company announced last Tuesday that our Board of Directors had declared a regular cash dividend of \$0.18 per share to be paid on December 7, 2007, and this is our 325th consecutive quarterly dividend to be paid.

Finally, let me comment regarding progress towards our long-term key financial targets, which are identified in our strategic plan. As mentioned earlier, one of our key financial targets is to achieve an improvement in our total company EBITDA margin to 4% of sales.

Just as importantly, we've also targeted to achieve free cash flow returns on net assets of 10%, a 2% sales growth rate, and to delever our balance sheet to a debt to EBITDA ratio of 2.5 times.

During the third quarter of 2007 we realized improvements in the following three metrics: EBITDA improved to 2.9% of sales in the third quarter 2007. That's up from 2.2% for the full-year 2006. Our rolling four quarter free cash flow to net asset ratio improved to 10.9% versus 8.7% in 2006, and our leverage ratio of total debt to EBITDA not only improved but achieved the initial target set of 2.5 times.

We expect to make improvements on the organic revenue growth metric as we implement initiatives associated with our strategic plan, and as we progress towards delivering on these long-term targets, we believe this should translate into driving significant shareholder value.

With that, I'll now turn the time back to Alec.

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**Alec Covington** - Nash Finch Company - President, CEO

All right, Bob. Thank you.

I have several topics, and I'm going to move rather quickly because I do have a lot of information and a lot of material to cover here between the third quarter, the fourth quarter discussion that I'd like to have, as well as a strategic plan update. Also, I'd like to talk a little bit about how the initiatives for 2008 will impact our 2008 year and our financial plan for that year, our debt structure, our financial target, as well as the Board declassification proposal which we announced as part of our press release.

So with that, getting on to the quarter, I would say that, first of all, one of the great things about 2007 has been that every quarter so far has come out within the expectations that we had set for the year, and that's encouraging because nobody likes surprises, and I certainly don't like surprises.

We saw 25% improvement in comparable EBITDA. Now, what I mean by that is, of course, a year ago we took some one-time charges mainly associated with executive severance, so it's unfair to talk about an EBITDA increase that has a lot of one-time items in the prior year, so I take those out, and when I look at them truly on a comparable basis the EBITDA improvement looks more dramatic than the 25% at face value.

But when you really factor out the one-time events of prior year, it's a 25% improvement in comparable EBITDA, so we feel good about that. Again, that is on track with where we had hoped we would be.

We also achieved the 10.9% free cash flow to net asset ratio. Our target for our strategic plan was 10%, so we're over that. And a 10.9% return on that asset in today's times, if you compare that against other companies that you have the opportunity to invest in, that's pretty strong because there's a lot of companies today that are considered to be doing well producing numbers substantially less than that.

We did have a significant debt reduction, so we are down right at the 2.50 ratio that we set out to achieve a year ago. There's a little bit of skepticism here in New York a year ago when we were here as to whether we could achieve that this fast, but we've

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been able to do that, so we're encouraged by that. And as Bob mentioned, we saw improved EBITDA percent improvements in all of our business segments, no matter we look at Retail, Military, Food Distribution, they're all improved in terms of their overall EBITDA percent performance.

One of the things that I take delight in is that we no longer have significant one-time charges. We have avoided that this year. From time to time, of course, we do have some small items. This particular quarter we were impacted to a small degree because of some store closings and disposition of inventories, but nothing of any large magnitude.

And during the quarter I would also like to mention we added some additional Board expertise which I'm quite proud of. Sam Duncan, who serves as a Chairman and CEO of Office Max, joined our Board during the quarter. He has a long background in retailing from Shopco to Fred Meyer and Ralph's, and Sam is already contributing greatly to the incumbent expertise that we already had on our Board.

Secondly, we also announced the addition of Retired Major General Pete Proctor to our Board. Mr. Proctor served nearly 35 years in the United States Army, in many particular capacities but certainly as Philadelphia General Quartermaster, which gives him an incredible amount of knowledge into the Military segment which, of course, is a huge, huge part of our business and something that is very important to our growth prospects for the future.

So those two additional Board members combined with the incumbent Board members that we already had in place is really giving us the right balance of expertise from all areas to move our agenda forward, and we're quite proud of that.

Looking at the Food Distribution business segment, we did see improvements made in comparable sales if you exclude the impact of Martin's. In fact, the Food Distribution segment has been improving ever so slightly quarter after quarter throughout the year, so that's been encouraging.

We saw a 14.5% improvement in EBITDA in our Food Distribution segment which, of course, is important. We continue to see improved inventory management practices which is leading not only to higher gross margin but also to an improvement in the level of promotions and deals that are available to our customers which is resulting in lower product costs, so that always helps from our customer perspective.

Also, starting with the second half have really began to see the benefits of improved expense control initiatives that we put in place early in the year which has really began to bear fruit in quarters two and three.

I want to discuss just for a few minutes some of the changes that we made in our Westville division. Our Westville facility, if you'll remember, is the facility that was serving Martin's which was a large customer that transitioned to another supplier earlier this year.

This is probably the last time we'll talk about Westville because I have felt compelled to give you specific information on this facility for the last two quarters. We've completely transitioned out of the Martin's business, so that now is all behind us. The facility is gaining new customers which is very encouraging.

They're very focused, they're very determined, and they're just doing a great job, quite frankly, in rebuilding the customer base in Westville. The Martin's business accounted for \$43.8 million of sales decline in the third quarter and had less than \$1 million worth of EBITDA impact in the third quarter.

The facility remains profitable and it's improving, and the location remains very strategic to our growth plans given the fact that it's very closely, obviously, located to Chicago where we have a great deal of interest both in inbound product and outbound product.

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Regarding Military, we saw a 4.6% sales increase from prior year and a 7% improvement in EBITDA results. This business segment just continues to improve quarter after quarter.

Again, much like Food Distribution, we began some productivity improvement initiatives early in the year in order to lower our expenses. Those have really begun to gain traction in the second and third quarter.

So in the third quarter specifically we saw excellent expense control from the Military segment. New business growth was quite strong in quarter three, and the new business pipeline remains strong for this business unit.

Now regarding corporate Retail, the comparable store sales is actually better than expected. A quarter ago when I was talking to you after the second quarter I acknowledged that I felt that our comparable store sales would go negative in the third quarter, but I expected it to be closer to 2%. The number that we actually achieved was 1.6, so we came out just a little bit better than we had anticipated.

We continue to see improved gross margin management from this group mainly by better managing promotional markdown activities at store level, and we've continued to see, as we had indicated and as we had designed through our plans, we intended to put additional labor back into the stores this year and some of the service departments. You continue to see that show up in our numbers as well, but it's having a very positive impact on the customer reception at store level.

The results obviously reflect three score closings that occurred within the quarter and also reflect an aggressive marketing campaign in the Denver market which we chose to initiate in the third quarter. It's a one-time marketing event that we chose to put in place in the third quarter, it is paying big dividends for us but something that we felt like was important for that particular market at this particular time.

Now looking to the fourth quarter, again, as a company we've chosen not to give guidance. However, I think we also have a pretty good record at Nash Finch of trying to give the proper information where things are changing in our business, and as I look at where we're at in 2007, we have improved sequentially quarter after quarter after quarter, and mainly because we've made fundamental improvements to some of the most basic operating parts of our company.

Now, as I look to the fourth quarter, I don't see us having the same kind of quarter after quarter improvements that we've had throughout the year for a variety of reasons. One is we're heading into the holidays where we ship an enormous amount of holiday products, some of which have very lean gross margins such as turkeys and other items.

And secondly, we have to have our team focus more on taking care of business in the fourth quarter given the holidays than on some of the strategic initiatives that we had them focused on in the second and third quarter.

So for that reason I wanted to give a little bit of specific information to help in trying to understand better what to expect in the fourth quarter because I don't expect to see the dramatic increases in quarter-over-quarter improvement as we saw earlier throughout 2007. First of all, in Food Distribution specifically, looking at that, the Martin's business will account for \$35.7 million worth of sales decline in the fourth quarter, and when you take out the Martin's effect, the year-to-date trend on the balance of that business will remain about the same.

So if you look at the year-to-date trend through the third quarter, excluding the Martin's business, we're actually trending at negative comps of just under 1%. So I don't expect to see a major change in that in the fourth quarter. There's not a lot of supply supplier changes that occurs in the fourth quarter, so I expect to be pretty consistent between the year-to-date comp numbers minus Martin's with Food Distribution for the fourth quarter as we've experienced for the first three.

The Military segment sales I think we can take the third quarter trend and assume safely that that will continue in the fourth quarter. For Retail, again, we'll have the impact of the two additional stores that we have just closed. That accounts for about \$2.9 million in quarter four, and also we should expect comparable store sales to be negative to the tune of about 3%.

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The reason for that is not just because of the additional competitive impacts that we've incurred throughout the year, but also because we're cycling the fourth quarter prior year where we closed seven or so under-performing stores, and some of those stores were actually in towns where we had two stores and they became one-store towns. So when you look at that on a comp basis, if you close multiple stores in a single town, you benefit a little bit from the comp side, and we're now cycling that period of time.

So our stores are operating today about as they have been. There's no real changes, but just because of cycling the calendar and the competitive activity that ramped up in the second and third quarter with additional stores that opened against some of our core markets, we expect to see what was 1.6% negative comps in the second quarter become 3% negative comps in the fourth quarter.

Regarding the total EBITDA rate, again, I would ask that all of us look at a slight improvement from quarter three but not a dramatic improvement. As we've seen quarter-over-quarter, we saw substantial improvements. Again, I don't expect to see that so much in the fourth quarter, but I would expect to see more slight improvements from quarter three to quarter four.

Now, also looking at quarter four as it relates to the balance sheet, a lot of our capital that we had planned to spend has not yet been spent. We managed our cash flow very carefully this year, managed our maintenance capital very carefully. So we have additional capital spending that we're expecting to spend in the fourth quarter that will range between 10 and \$12 million.

That's a substantial amount. It's actually half of our entire annual capital budget will be spent in the fourth quarter. That means for the year we expect to see somewhere between 20 and \$22 million in total spend for capital.

So it's an important number because that also has an influence on the free cash flow to net asset ratio. And because we'll be spending a lot more capital in the fourth quarter, we expect to see our free cash flow, the net asset ratio, remain about as it is and not a lot of improvement from third to fourth just for that reason alone.

Now I'd also like to take a little time and step you through an update on the strategic plan. In order to do that for those that have not been with us through the full journey, I also think I need to take a step back because I think it's important to connect the future with the past a little bit.

I joined the Company in May of 2006, and for the first several months there were primarily three major accomplishments that we wanted to achieve. One was to become a more stabilized company at that time. That was spending a lot of time with customers, employees and shareholders as we were doing a year ago.

The second was senior staff appointments. We announced a major reorganization as of July 31, 2006, so that was taking up a lot of our time a year ago and looking at how we would impact and affect the reorganization plan.

And the third was the development of the strategic plan which we refer to as Operation Fresh Start. We announced that a year ago just short of a day, here in New York a year ago with the announcement of Operation Fresh Start.

I think by the end of the year as we looked at what we had accomplished, I think there was nothing more than confidence that seemed to be building among all of our key stakeholders and, quite frankly, we felt good about that because we needed a lot of confidence at that point in our history.

Now, as we moved into 2007, we really began to focus on Operation Fresh Start the first year, and I spent a lot of time last year talking about all the detailed components of Operation Fresh Start, and I'll not do that this year, but in recapping what it really means, I've tried to put together several bullets that will help those that haven't been on the journey for the entire period of time to understand what we're talking about when we talk about Operation Fresh Start.

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One of the first things we're talking about is differentiated retail formats. I gave two examples of that on the slide, but there are others. One is AVANZA, which is our format that really specializes in serving Hispanic families, Buy-n-Save, which is another format that focuses on being more value conscious, cost conscious in rural communities.

The second is world-class perishable capabilities. We think that's essential to growing our business and continuing to be a viable industry leader in the future. And we believe that as part of that perishable capability we'll need to think about focusing more on acquisitions to increase the perishable penetration and so we built that in as part of our strategic plan.

And then as we spent a lot of time this year working on what we refer to our Center Store Program, it's a comprehensive approach to the center of the store, grocery, dairy, frozen, health and beauty care and it really focuses on having world-class category strategies. That's all the merchandising functions that have to be very well done and very well organized with proper people and systems to support that, simplified fee which is simply a more transparent way of going to market and serving our customers.

And, third, innovative logistics, one of which is what we refer to as upstream, downstream, using regional warehouses in order to aggregate slower moving items so that we can achieve a better bracket and distribute those more efficiently and cost effectively to our customers.

Also one of the key points of Operation Fresh Start is an unparalleled focus on independent customers. We believe that that's an opportunity for us simply because many of our competitors have chosen to take a different path, so we believe that today we are one of the few large publicly held wholesalers that are really focused on the success and the growth and the vitality of the independent retailer. And they need an ambassador, they need someone that really believes in them, and Nash Finch is and will continue to be that company.

And also lastly, continued growth of our Military business. A business that's very important to us, something that we've been very successful with. So when you sum up Operation Fresh Start, it really centers around differentiated retail formats, world-class perishable capabilities, a comprehensive center store program, an unparalleled and unrelentless focus on independent retailers and independent entrepreneurs, and the continued focus and growth of our Military business.

Now, in 2007 I was trying to think about how would I show you a picture of what 2007 has been like, and the best way I can think about it is the way that I've talked about it all year because as I've had quarterly meetings and employee meetings I always talk about my two levers.

And the two levers that we've had to manage in 2007 is not just about Operation Fresh Start and putting in our strategic plan, but also managing the here and now, the tactical, what we've sometimes refer to as survive the journey. In addition to implementing a strategic plan we had a business to fix in 2007.

I think that when I was here a year ago in person I said that every day that I get up in 2007 it's going to be clear to me that these two levers are going to be in contest with one another. And if one has to get out in front of other, I know which one it better be, it better be the tactical, it better be the survive the journey piece, and I think as you track our performance throughout the year, we've held true to that.

You can see in our numbers that this is indeed the way we've managed the Company this year. We felt that if putting our financial vitality in front seat of our overall initiatives this year was very important, very important from where we started a year ago.

Now, when we look at what does that mean, what is behind those two levers, well I first talk a little about the tactical, the survive the journey piece, what's embedded in that. Well, it's improved inventory management practices, something that was badly needed at Nash Finch and something today that has now been accomplished.

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Negotiated, obviously, we've negotiated improved promotions for our customers. So keeping our current customers in the forefront of our mind, making sure that they were seeing some improvements in our deal negotiations, their product costs, was a very important part of the tactical side of the journey.

Reducing our operating cost structure so that we could enhance our earnings was obviously part of this, and then [this] all summed up restored financial vitality. We needed to increase our EBITDA. We really needed to focus on the blocking and tackling of our business in order to make that sure we had preservation to our future.

Obviously reduced debt level was part of our tactical strategy, and today, of course, we sit with a ratio that matches our target. And of course improved free cash flow returns over net assets, just making sure that we were getting a higher return than we'd previously been getting on the assets that comprise Nash Finch.

Now the overall results of those initiatives is that our financial results are above expectations. We came in strong this year and we got a lot of those things done much faster than I think any of us internally, and probably many of you externally, thought that was possible, so I would have to say that all of that is a bit above our expectations.

Now, when we look at the strategic piece, there clearly are some things that we have put in place in 2007 that were not in place prior. We realized as we began to implement the strategic plan that there was some specialized talent that we needed to have that we just simply didn't have.

Along the lines of category and management expertise, along the lines of logistics, along the lines of things like strategic retail pricing, those kind of disciplines are very specialized talents that doesn't exist in every company, and in some cases we didn't have all of those talents. So 2007 was a time in which we had to focus on getting those specialized talents.

We already had the senior management team reorganized. We had the right people at the top, but there were a lot of specialized skills that we've been adding along the way in 2007 to ensure that as we rollout Operation Fresh Start, we've got the people to do the job properly.

Now the other thing is, is a year ago we had a strategy, but below that we needed to have very tactical, detailed plans, and we spent a lot of the time during 2007 developing the 1.1 plans to put in place the strategic plan, what are those things and how do they get implement and then how does that change get managed. It's been a huge focus for us in 2007. We also had to determine what kind of system requirements were needed in order to support some of the things that we wanted to do.

We also had began the rollout of center store. We have a test that's under way currently in our Lima facility. We just began to rollout the first categories under our category strategic plan. The results of that right now appear to be compelling both to us as well as to our customers, so that is going good.

And by the way, throughout 2007 believe it or not, Bob and I, even though it isn't visible, we have pursued accretive acquisitions. But if you'll think back to the early part of 2007, there was a lot of high expectations in the marketplace for what companies should bring, and Bob and I are patient buyers. We have our money in our back pocket today and we didn't make any acquisitions during 2007 and will not make acquisitions until the prices that we are able to pay matches up with the returns that we need to have.

So we'll continue to be very disciplined with that, but we did spend a lot of time looking. It's not that we've ignored that as part of our plan, it's just that the pricing has not been as conducive to our temperament as we would like to have seen and perhaps that's getting better and we'll see how that goes in 2008.

And we began the format rollout focusing on the expansion of AVANZA outside of Denver, focusing on the expansion of our value format, and by the way, we extended the geographic reach of our Military business, something that we had clearly hoped to achieve in 2007. We're now going much further west with our Military business than we were a year ago.

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The overall result of all of those activities is the capital spending is somewhat behind on some of those initiatives, and you see that in the level of capital that we'll spend this year because it's lower. It's not lower because we didn't have the money. It's not lower because of any other reason than we want to be very careful as we invest in our business.

We wanted to be sure that we had the right people, the right plans, and that everything was very well thought through. So delaying that for a few months was not to us, at least, as difficult a decision perhaps as making investments before we're ready and then not doing the proper job.

So as I thought about how can I describe where we're at today with our strategic plan, for whatever reason this particular slide, this visual came to my mind because I remember that when we started out on this journey, we believe that it would take probably 18 months in order to truly implement the foundation of our strategic plan. Would that mean we'd have everything done? No, but the basic parameters of our strategic plan we felt the foundation could be built in about 18 months.

We also believed that it would take about 18 months in order to restore the vitality of the business, to fix the block and tackle, to simply get what we refer to as survive the journey peace fully accomplished. We then believe that with those two things behind us 18 months from now, we began to see the benefit or the strategic lift, as I call it, from the strategic implementation of Operation Fresh Start.

Now, of course, when we were discussing this, the one thing that we all knew is that whatever would happen, this wouldn't because you're either going to be short or over your expectations, but nothing ever plays out the way that you think it'll play out. So there's kind of, as I call it, a good news/bad news story to where we're at today which I try to show on the second slide.

On this slide I portray and show you that the survive the journey piece, the blocking, tackling, putting in place the basic disciplines that have been lost in the business, we thought that would take about 18 months for the most part, not that we'll not continue to make some small incremental improvements in 2008.

For the most part that's been done and those disciplines are in place, and you saw that in the numbers as we proceeded throughout 2007. So we believe that will take about 18 months. It has happened faster, inside of about 12 months.

Now the strategic plan implementation that we felt would take about 18 months we believe it's going to take closer to 24. Why? The fundamental reason is because it just simply took longer to get the specialized talent in place lower in the organization so that Bob and I could feel confident about making the capital investments necessary as part of the strategic plan.

So what did we do in 2007? We delayed some of the monies that we would have otherwise spent in capital projects associated with the strategic plan, and we focused on getting the right people, the specialized talent, getting convinced we had the right plans, the right systems in order to properly implement.

So we believe that instead of about 18 months we think it'll take closer to 24 months to fully put in place Operation Fresh Start and the initiatives associated with that. Again, leading to the strategic lift that we want to see from that into the future.

Now, that brings us now to 2008 and what are the kinds of things that we'll focus on in 2008. So I want to touch on that for a moment. I think the first thing that we've looked at inside our company is how important it is that culture follow and support the strategic plan.

We have at Nash Finch brought on an enormous number of new people, not just at the senior executive levels but all throughout the organization. It is essentially a new company with a new direction, with a new focus. Quite frankly, we focused a lot this year on talking about values and the way that we should manage our business, values that we should focus on with our people.

So as we move into 2008, the first thing that we felt appropriate was to develop a theme around the changes that we want to see not so much in our business but within the environment and the culture, the DNA of the Company. And so we're talking a

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lot right now with our employees about culture, about values, about the strategic mission and how we want to act and interact with one another, those conversations, those training sessions are going on right now as we speak.

And encompassed in that is an overall communication tool that really changes from what we saw a year ago with Operation Fresh Start. Operation Fresh Start was born here a year ago, and we'll change it slightly this year. We'll keep the apple, but the apple will really be formed more from the hands of the people.

And then with that, we focus on the tag line of I have a hand in this. Now, that is a communication tool that is going out right now, and it really focuses on more of the culture, the values, the way that we work together, the way that we'll work with our customers, and the expectations of our people of how we should conduct ourselves and what our behavior should be on a daily basis, those things that are necessary to support the strategic plan.

Now as we look specifically at 2008, what is the key theme? Well, the key theme is, it's time now to invest wisely. We have put the people in place. We focused on the plans.

As we look at where we're at today, our debt levels are extremely conservative. We have plenty of liquidity. Our performance is more predictable. Our EBITDA is more dependable.

We have the right people in place now at all levels, not just at the top. We have the plans developed and some of you have worked more closely with Bob and I than others, but when we say that the plans are developed, that is quite an undertaking because we are a quite thorough, detailed group of people when we talk about implementing strategies and building plans around those strategies. So that's taken a huge amount of time and energy to accomplish.

We also have demonstrated dependability. We have not shocked anybody this year. We haven't fell short of commitments that we've made. Very simply said, we have delivered on our commitments.

Now what does that mean? I think it means that we have built internal confidence. We build confidence with our management team. We build confidence with our Board. We build confidence with the market, and we now believe that it's time to invest in our business, and invest wisely and carefully and slowly in certain aspects of our business.

Now, invest in what? What is it that we want to invest in in 2008? Could it be an acquisition that complements our strategy? Could it be investments internally in our strategic plan, organically, or could it be investing in our own stock, and of course the \$1million question is what is the correct answer?

We believe it's all of the above. We think that our investment approach should be balanced. We believe that as we look toward 2008 and investing strategically in our business that we need to have acquisitions at the forefront of our mind, but yet we shouldn't be dependent totally on acquisitions. That should be opportunistic.

When you get too dependent upon acquisitions to complete a strategic plan, you tend to get a little tendency to overpay and get over zealous about those acquisitions. We don't want to see that.

We're not going to be dependent upon any one particular strategy to add value. We're going to be dependent upon a balanced strategy of acquisitions, investments organically in our strategic plan and also in our own stock as that opportunity presents itself in the future.

How will we do that? Well, let's first talk about acquisitions. One of the things that Bob and I are famous for, one of the statements that we make constantly around the building is it's all about returns, whatever we're doing, it's all about returns, and acquisitions are all about returns so it must directly link to our overall strategy.

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We don't want to be making acquisitions that isn't lined up with where we want to go. They must be priced properly to ensure value creation. So we're going to have the discipline as we have in the past to not overpay.

They must contain manageable risk. There is no such thing as an acquisition that has no risk, but it certainly should have manageable risks, and those risks should be well defined, very carefully thought out so that we understand what they are, and they must not compromise our financial flexibility.

So betting the farm is not a logical acquisition strategy. We have no desire to do that. We have no need to do that. Bob and I will continue to be very, very disciplined in our approach on acquisitions to ensure shareholder returns.

If we get a deal done, we'll have confidence in that deal. If we don't get a deal done, fine, we have other places in which we can invest capital to develop a shareholder return. We don't want to be held hostage by any particular investment strategy.

We really want to use an opportunistic balance of all three because you never can time acquisitions. You can't time the market. You can't time a lot of things in life.

Now, looking at our strategic plan, that's more about organic investments, again, it's all about returns. So it is our intention in 2008 to pursue strategic investments slowly and carefully. We have allocated to spend up to an additional \$25 million in strategic capital during 2008 that we have not spent historically.

So if you remember, our maintenance capital budget has always been in the 23 to 25 range. I sometimes have said I'd love to have 28 to 30, but we believe that we can maintain maintenance capital at about 25. We'd like to spend an additional 25 strategically this year. But we'll do so slowly and carefully.

It's not a lot of money. It's not a huge start. It's not a huge bet. So it's something that we believe we need to pursue and we need to get about the business of developing our own initiatives internally and organically to grow our business.

We'll manage the investment risk very carefully as we have in the past. We'll demand proper returns and we'll also track against proper returns to ensure that we are getting those returns. And we'll diversify the investments in capital because we're going to spend those in three different areas.

One is expanding our retail formats, so we will put some money into the continued rollout of AVANZA and Buy-N-Save and the upgrade of some of our corporate stores, so that's important. We'll put some money into our warehouse efficiency improvements such as upstream/downstream with that initiative, and we'll put money there this year, both of those of which seem to have a very good returns.

We'll also invest in capital in our center store system support capabilities. Those are mainly merchandising systems that are necessary to put Nash Finch at the top of the heap in terms of capabilities from systems, whether that's promotional management, deal management, pricing programs, those kinds of things which are very important in driving the center store format.

So in terms of investments, again, we'll start slowly, carefully, and we'll primarily this year invest in retail formats, center store support systems as well as warehouse efficiency improvements.

And then we'll talk about share buybacks as being another one of those three investment alternatives. Again, it's still all about returns. We believe that a year ago as our financial performance had kind of been ebbing and flowing over the years, it would have been difficult to have looked out in the future and estimated what kind of value there might be in a strategic plan over a multi-year period.

Even though we built Operation Fresh Start a year ago, we needed to see bona fide evidence of our ability to implement before we began to think about a share buyback. We think it would have been an inappropriate strategy a year ago. However, financial

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improvements that we've made during the past year, consistent, dependable returns, have increased enthusiasm in this particular value creation strategy.

We think it's a good strategy of the three where, again, we're not going to be held hostage by any of the three. They will all have to come about opportunistically, but we think that this is the proper approach for us this year versus last year because as I mentioned in the second point, it can create more shareholder value as opposed to simply paying down debt and management will carefully execute and evaluate the effectiveness of this strategy.

Now, to get started with this, the Board has authorized the share repurchase of up to 1 million shares throughout fiscal year 2008. So again, when you look at all the things that we're looking at trying to accomplish from a strategic initiative perspective, it's about retail format, distribution logistics, and center store systems.

When you look at our overall plan for 2008, it's really about investing slowly and carefully in the strategic plan, up to \$25 million in 2008 that's investing in retail formats, logistics, and our center store systems. It's about looking and carefully evaluating acquisitions. They must support their strategic plan and they must deliver on proper returns.

And then third, the third investment alternative being launched, a share repurchase program which we have announced up to 1 million shares through fiscal year 2008. So that's a snapshot of what 2008 will look like from the standpoint of the activity that will be going on within our company, but then what impact does that have to the 2008 financial plan?

Well, again, we're a company that doesn't give guidance, but again, as much as I can share with you about the way we think about the Company, I think that's only logical and prudent. First of all, keep in mind that next year in 2008 for us will be a 53-week financial year, so when we talk about sales, we have to keep that in mind.

We believe that on an overall company basis our sales will be positive beginning in the third quarter. The reason for that, of course, is we need to cycle through the loss of the Martin's business which we still have about \$78 million to overcome in 2008, so we'll begin to see the total company sales become positive in quarter three.

We believe that when we end the year on a total company basis that we will have overcome that loss and our sales will be relatively flat and that's excluding the impact of the 53rd week. Of course with the 53rd week it would be positive, but setting that aside, we believe that overall sales will be relatively flat. This will reverse the negative growth trend from 2006 of course so that will be a huge step for us next year.

We expect Food Distribution to be slightly positive when we exclude the Martin's impact. So today, if you look at Food Distribution excluding Martin's, we're running about a negative -- just under a negative 1% negative, and we believe that number will reverse itself and become just slightly positive next year, setting aside the impact of Martin's, and Martin's in 2008 will account for \$78 million in lost sales.

So hopefully, that gives all of us the information needed to properly look at 2008 because, frankly, this is exactly how Bob and I and others on the management team is looking at 2008 from a sales perspective.

Now, looking at it from an EBITDA perspective, as I mentioned, when you go back to the chart or the graph that I showed you earlier, the survive the journey piece, the restoring the financial vitality has happened quicker. We thought it would take about 18 months. It's really taken about 12.

For that reason that's not to say that we can't continue to make incremental improvements in our business, but not quantum leap improvements in our business. And so when we're going from an extreme, a dramatic improvement to more slight improvement, I think it's proper that you be aware of that. We anticipate more incremental improvements in EBITDA, but that would translate into slight EBITDA rate improvement for 2008, not anything dramatic.

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In sight of that goal will be a lot of things that we will absorb associated with our decision to move forward with investments in 2008 because when you start investing, you have things like transition costs. Well, it's our intention that we will overcome those transition costs and still have a slight improvement in EBITDA.

You obviously have start-up costs associated with retail investments. It's our expectation that we will fully cover the start-up costs associated with those retail investments in new stores and still have a slight improvement in EBITDA next year.

Needless to say, we have additional staffing requirements associated with center store, category managers, those level of positions. Those positions will come ahead of the growth occurring but we will fully absorb those costs next year and still have a slight EBITDA rate improvement. So when you look inside the numbers, there's a lot of things that are moving inside of the plan year that isn't obvious from the outside.

So we anticipate slight improvement in EBITDA rate, nothing dramatic as we've seen of recent, but embedded in that will be a lot of costs that we'll cover which are not an easy task in itself. Again, next year will be a 53-week financial year, and the 53rd week of EBITDA, of course, would be incremental to everything we're talking about.

Now in working capital for 2008 EBITDA improvements will be slower allowing for implementation of our strategic initiatives. Again, that start-up cost, transition cost, all of that is embedded into our numbers, built into our budgeting process, so we've anticipated those costs and we're still forecasting a slight EBITDA improvement next year.

Needless to say as we start investing in our business, the free cash flow, the net asset ratio will be reduced due to those strategic investments. We think that's appropriate because we need to really focus more now on growing the EBITDA, getting a higher compounded annual growth rate of EBITDA, and obviously those two are opposing ratios.

So when you focus on the free cash flow measurement, obviously your capital investments go down. When you focus on investing in your business, then your free cash flow measurement goes down. So it's about choices and we believe this is a right choice.

So we will see a reduction in the free cash flow measurement, and we'll really begin to focus our attention, as you'll see a little bit later, on growing on a compounded basis our EBITDA as we make these investments. We really want to talk more about compounded annual growth rate of EBITDA and we're less now focused on, at least for the near-term, the free cash flow measurement because we've done the right job, I think, in righting the ship, getting the cash flow proper with our current asset base, but if that's all we do, then we don't really create the right shareholder value and growth. We need to make some investments.

The total capital including maintenance will be held to \$50 million or less. So that's really about a 50/50 split. It's not exact, but it's about a 50/50 split between about \$25 million allocated to maintenance capital and another \$25 million allocated to investment capital, again, to be invested in the areas that I discussed earlier.

And then, of course, we still will have additional free cash flow that doesn't take all of our cash flow, and the additional free cash flow generated next year will be used to pay down debt, purchase stock or fund an acquisition, whichever one of those appears to be the most appropriate and best return for our shareholders at any one given time.

Now, as we look at the next topic, I want to talk just a minute about our debt structure now that we've completed the discussion on the strategic plan. First of all, I'd like to remind you of what our current debt structure is at the end of the third quarter.

We had a total debt level of \$307.6 million. We have a revolver that has \$125 million in total with \$105.9 million available that is unused today. That's at a rate of LIBOR plus 200 bips.

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We have a term loan that has a balance of \$118.7 million, it's at LIBOR plus 250 bps, and then, of course, we have the senior subordinated convertible debt that Bob mentioned earlier. Its aggregate issue price of \$150.1 million, cash interest rate 3.5%.

We have capitalized lease obligations of \$34.6 million, and we have some other miscellaneous debt of \$ 4.2 million. And that is the total debt structure of Nash Finch as it looked at the end of the third quarter.

Now, we have some initiatives for 2008 which Bob and I will be very involved in. It's our intention to replace some of the debt, all of the outstanding debt besides the debentures and miscellaneous debt next year, so we plan to replace the revolver and the term loan during 2008.

Now, that would be the proper time to be doing that anyway. It expires, one of the tranches expires in 2009, so it'd be logical to be pursuing that in 2008, so this is just simply something we should be doing at this particular time. However, we have identified specific goals that we believe are achievable with a new debt structure.

We want to seek a more cost efficient alternative to the debt structure we have today, and we certainly want to seek more financial flexibility. We want to see reduced covenants, we want to see the ability to have more flexibility with things like share buybacks and things than what we have today under our current debt structure. So those are the goals.

Now, also, we're going to move slightly our leverage ratio target because we believe that today with the more dependable cash flow that we're generating, the more dependable financial results that we're seeing today, our track record of making improvements, we believe that we will be able to move our debt ratio, our leverage ratio target, slightly higher than it has been in the past.

So a year ago we established 2.5 as being the right debt ratio for Nash Finch, and I think that was appropriate. We didn't have the right EBITDA trend. We had had a very difficult year. We had a great deal of debt that we incurred as a result of making the Roundy's acquisition. So it was the right thing to focus on deleveraging the Company.

Today is a different day. We have a much a much stronger company, a more vibrant company. Our businesses are growing, and we need to think more carefully about that debt structure, so we're raising that target from 2.5 to a range of 2.5 to 3 mainly post the refinancing efforts that we'll go through in 2008.

The reason for that is quite simple. We want to have more flexibility in pursuing those three alternatives I talked about, one being the investment alternative for share buybacks, the investment alternative of acquisitions and the investment alternative of investing in our strategic plan as we see those results and see that those returns are producing the targets that we set out for ourselves.

With that, we need to then talk about some adjustments to financial targets because, again, when you look at 2007 our targets was 2% organic revenue growth, 4% consolidated EBITDA margin, 10% free cash flow to net assets, and a debt leverage ratio of 2.5. With the discussions that I've just had, it would be logical to change those targets somewhat, so we will keep our organic growth target of 2%.

We still believe, as we mentioned last year when I was here a year ago, I mentioned that we would have to get through the implementation of the strategic plan which last year we had targeted more 2009 for the 2% organic growth. We believe that'll be a little later in 2009 because it's taken a little bit longer to implement, but still we believe that's possible. So we still stay with our organic growth target of 2%.

Consolidated EBITDA margin, we're not changing that. We believed a year ago we could get to 4%. We believe this year we can get to 4%.

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As I mentioned a year ago, some of that we'll get from improving our business. You've seen that already this year. And then other parts of that improvement in overall EBITDA to get to the full 4% will require us to invest our dollars wisely in the right acquisitions and the right kinds of investments in order to move that number forward as well.

Now, free cash flow over net assets as we began to invest in our business is no longer an appropriate target. As a matter of fact, it's not a target that would be logically connected to our strategic plan if we left it in place. We believe that we still will have a better than average or average free cash flow to net asset ratio because we don't see it going negative.

We don't see it being mortally wounded with the small investments that we're talking about making, but it's not going to be 10%, so it isn't an appropriate target for us for the next several years. However, we have focused on a (inaudible) of EBITDA as being one of our targets.

We believe as we've looked at our plans that between the years of 2008 and 2012 we should be able to average 10% or greater compounded annual growth of EBITDA, and we think that is a more important number to creating shareholder value and extending the financial vitality of our company over a longer term. So that will be the focus for the next several years.

Again, I think in a turnaround in a situation where we're restoring financial vitality, I think free cash flow to net assets is the right thing because it really got us focused on managing our assets. We've continued to do well. It will be the strategic investments only that really changes that number going forward.

As I mentioned, our debt leverage ratio, we will change, I apologize for the misspelling there. But the debt leverage ratio will go from 2.5 to 2.5 to 3. It's a range going forward in 2008 post the refinancing.

The last point that I will talk about this morning has to do with our decision as a Board to declassify. I believe that this is a decision that demonstrates that our directors, number one, are holding themselves accountable. This is an accountable Board. We take that responsibility very, very seriously, and we think that this decision only further emphasizes that.

We welcome as a Board an annual election by our shareholders. We think that's proper, and I think it also demonstrates that this is a Board that is clearly focused on good governance and being aligned properly with shareholders.

So our Board had made this decision. There will be a proposal that will be presented in our 2008 proxy, and if the proposal passes, then all directors, myself included, will stand for election at the 2008 annual meeting. We think that, of course, again, demonstrates the good corporate governance that we want to have at Nash Finch.

Now, with that and just a moment with the help of Regina, we're going to turn to the telephone lines, but for right now just for a moment I'd like to ask if there's any questions from inside the room. Yes, Karen?

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## QUESTIONS AND ANSWERS

### Unidentified Audience Member

(Inaudible) You talk about getting organic growth of 2% by the end of fiscal year '09. Do you need to have positive comps in your retail stores in order to get there?

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**Alec Covington** - Nash Finch Company - President, CEO

Well, clearly, our retail stores is something that we're very focused on. If you look at the size of our retail organization today it doesn't have the kind of significant to our overall comps that it once did. It's a much smaller operation today than it was several years ago.

Having said that, we do believe that we need to have improved performance. Does it need to be positive? I don't know that we've counted on a huge amount of influence from the corporate retail side, but we clearly have not counted on that division to continue to see declines in comps.

I would characterize it is that we have not counted on a huge amount of positive store impact from the corporate retail side, but we certainly have built into our assumptions that we can reverse that trend at least keep it flat. We're really banking more on the distribution side of our businesses both Military and Food Distribution to achieve those 2% comps than the retail side.

And, Bob, if that's not fair, you need to step in please feel free, but that's my recollection. Is that fair?

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**Bob Dimond** - Nash Finch Company - EVP, CFO

That's correct.

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**Unidentified Audience Member**

If I could ask another one or two.

Then looking at your Food Distribution business, are there opportunities that you see out there -- well, two parts. Is there any concern or do you have any new business -- any business that you currently have that's up for new contract in this fiscal year '08?

And on the flip side, is there any new business that you see in conversations that you're having that you think would be a good opportunity -- do you think you could an opportunity to get the business in the near-term?

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**Alec Covington** - Nash Finch Company - President, CEO

Yes, let me answer the latter first. And that is we see growing the top line of food distribution as being the one of the most predominant priorities of our entire senior management team. That means that myself as the CEO, Christopher Brown, who runs that business, all of us at the most senior levels of our organization are focused on that every day of our lives.

Now, we do see and we are in conversations with several customers about opportunistic growth, and we believe that just as much today as I did a year ago that those opportunities are out there. The \$1 million question is when do they mature because they're much like acquisitions. You can't properly forecast when they might occur.

What you see happening now at Nash Finch in the Food Distribution side is something, and also in Military, is something that I think is very encouraging. When you set aside the Martin's impact, you're actually seeing comparable store growth in our Food Distribution business and every week we're signing up new customers, but they're small, one store, two stores, three stores here and there.

The larger type deals that perhaps you're referring to are things that myself would be involved in and others of our senior management team. Those are almost impossible to time, but they're out there. One is we see comparable store growth occurring

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now, setting aside the Martin's impact, and, yes, we do see several opportunities to have some nice base hits. The timing of those is really unknown to us.

The other thing we don't do, Karen, internally, is that we do count on a certain amount of organic growth in our internal numbers when we think about budgeting and the year ahead, but we don't try to place any big bets inside of those plans with what huge large customer might we be able to attract in a given year. So that's kind of the way we track it out in our five-year plan internally and in our internal budgeting process.

Now when we look out to 2008, we think about contracts that might be up for expiration. I am not thinking of any off the top of my head, Bob, but I don't know that we have -- there's nothing we're focused on right now, and maybe if there's something you think of then perhaps you can tell me, but nothing comes to my mind right now.

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**Bob Dimond** - *Nash Finch Company - EVP, CFO*

No, none of our largest customers are coming up this coming year. Every year we have a variety of smaller ones that are -- that just kind of ebbs and flows every year. Some come on and we resign those on a regular basis.

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**Unidentified Audience Member**

And then if it's not a problem I can just kind of finish off the sales questions with talking about the Military. You talk about got new business this quarter. Is it new product lines going into existing commissaries or actual and new commissaries that you're now servicing?

And also I believe you're mentioned you're moving the business further west. I think that's something I hadn't heard that before. I was wondering if you could elaborate on that a little bit?

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**Alec Covington** - *Nash Finch Company - President, CEO*

We actually supply military bases out of some of our food distribution centers and the movement west has been a growth of business out of our Omaha division that has pushed our business with military further west. So that has been very good news to us and something that we had not necessarily anticipated this time last year, so that has been helpful, I think.

Now, in overall terms, Karen, when you look at our Military business, I would say that the bulk of that growth is really products that's going to the same bases. There's not a lot of new bases that we're adding. It's new product lines, new vendors that are signing the business over to Nash Finch or MDV to go to those bases.

Having said that, there are some small exceptions to that. We do have, part of that business is in exporting, and part that business is in serving some of the exchange, whether that's NEXCOM with the Navy or AFIS with the Air Force, those are new points of distribution that are growing incrementally as well.

So it's largely products going to the same bases from more vendors, but to a lesser degree. It is in some cases such in the case of NEXCOM and AFIS where we're actually going new places we haven't been in the past but that's a smaller piece of it.

All right. I think that concludes the questions from the room. And so with Regina's help maybe we could answer any questions that might be on the phone lines. (OPERATOR INSTRUCTIONS)

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**Operator**

Our first question will come from Chris Ruth with Piper Jaffray.

**Chris Ruth** - Piper Jaffray & Company - Analyst

Good morning. Congratulations on a strong quarter and congratulations on achieving your leverage target.

My first question is you, of course, had nice improvement again in EBITDA margin. That's certainly a positive indicator, and looking at the balance of the year and into '08, what's going to drive your EBITDA improvement from this point forward?

Granted it'll be incremental and not dramatic as you set out, but is it primarily coming from costs reductions, ops cost reductions? Is that the proper way to look at it? And is it fair to say that the inventory and vendor management initiatives are about tapped out at this point?

**Alec Covington** - Nash Finch Company - President, CEO

Good question and thank you for that.

I think there's a two-part answer to that. I think that one thing that you may remember from some of the earlier calls is that early on in the recovery process during 2007 all of our initial gains in EBITDA was almost directly attributable back to improved inventory management practices that really got in place early in the year.

It was really late in 2007 that we really began to see the real leverage coming from expense reduction initiatives we put in place at Nash Finch. So as I think about the fourth quarter, I think, and looking into 2008, I think the bigger part of the slight incremental EBITDA improvement will be more expense driven.

Having said that, when you look at 2008 versus 2007, the improvements that we made in inventory management really occurred during the first three quarters, really heavy in the first two. So some of that improvement in 2008 will simply come from having those practices in place at the end of 2007 that will have a positive impact on margins in 2008 just simply because we haven't had the full-year impact of those improvements, but the big difference incrementally in 2008 will be the full-year effect of the practices that we put in place for gross margin in 2007.

And secondarily, some incremental expense reductions that we have planned in the business, and that will produce both incremental gains in the fourth quarter of 2007 and slight incremental gains over the 2007 year into 2008. Also embedded in that, as I mentioned, we'll overcome some transition costs and some start-up costs and still increase those, that EBITDA rate slightly, so if we didn't do any of those things, obviously, you would see more improvement in the underlying business than is evident in the 2008 year.

**Chris Ruth** - Piper Jaffray & Company - Analyst

Okay.

And then on the Martin's transition, you said that it's generally behind you, I know, the impact isn't, but related to that did you lose 100% of the perishables business as well? Is that all gone?

**Alec Covington** - Nash Finch Company - President, CEO

Yes. We lost 100% of that business has been transitioned out at this time. That's correct.

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**Chris Ruth** - Piper Jaffray & Company - Analyst

Okay.

And then finally, it looked like your inventory was up again year-over-year. Can you comment on maybe what was driving that? Was it further emphasis on service levels? I thought you'd already lapped the impact of Roundy's and the consolidation of inventory that resulted from that.

**Alec Covington** - Nash Finch Company - President, CEO

Bob Dimond's going to take that question for you. Thanks.

**Chris Ruth** - Piper Jaffray & Company - Analyst

Thanks.

**Bob Dimond** - Nash Finch Company - EVP, CFO

Actually, if you were to look at third quarter compared to third quarter this year, we're within \$1 million of the inventory levels. You might recall that typically this is our inventory building time period, if you will, at the end of the third quarter which allows us to have the inventory for the holidays, and then that comes right back down to the levels that you would have seen at the beginning of the year.

**Chris Ruth** - Piper Jaffray & Company - Analyst

Okay. Thank you.

**Alec Covington** - Nash Finch Company - President, CEO

Thank you.

**Operator**

There are no further phone questions at this time.

**Alec Covington** - Nash Finch Company - President, CEO

All right. Thank you very much. We look forward to being together again and talking about the fourth quarter results here in a few months.

**Operator**

Thank you very much. Thank you. That does conclude today's conference call. We thank you all for your participation. Have a great

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