

Cal-Main Foods, Inc (CALM)

Q3 Earnings show that everything is on track

March 31, 2008

Investment Highlights

- CALM will earn \$5.69 in the next 12 months, up 43% YOY
- Dividend payments will rise from \$.05 in TTM to \$1.90 in the next 12 months
- 102% of free float is sold short
- Industry egg supply will be constrained due to new cage requirements

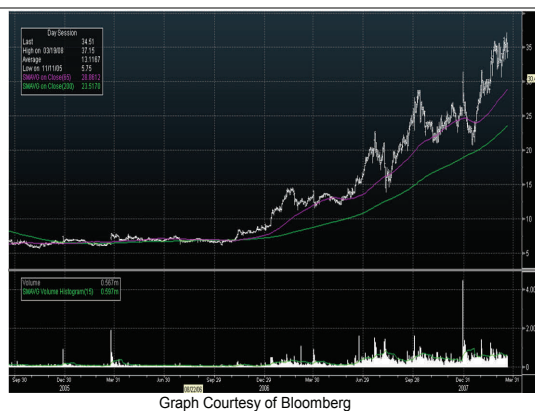
Executive Summary

- Cal-Maine reported 3Q FY2008 earnings this morning of \$2.41 per share on revenues of \$278 mln
- We had expected earnings of \$1.84 on revenues of \$270 mln
- Of the \$.57 variance from our estimates, cost of goods sold resulted in \$.47, likely due to timing affects of feed inventories expensed under FIFO
- While there is no conf call, in the press release management sounded confident in both the operations of Cal-Maine and the overall shell egg market

Financial Summary and Statistics

Current Price: \$37.83	Book Value/Share:	\$9.02
Price Target: \$46.00	Sales/Share (ttm):	\$25.42
Market Cap: \$820mln	Forward PE (e):	5.7X

	F2006	F2007	F2008e
Revenues	\$ 477,555	\$ 598,128	\$ 916,623
Cost of Sales	\$ 415,338	\$ 479,504	\$ 612,675
Gross Profit	\$ 62,217	\$ 118,624	\$ 303,948
SG&A	\$ 57,702	\$ 60,394	\$ 68,432
Operating Income	\$ 4,515	\$ 58,230	\$ 235,516
Other	\$ (5,993)	\$ (1,969)	\$ 6,410
Taxes	\$ (465)	\$ 19,605	\$ 84,139
Net Income	\$ (1,013)	\$ 36,656	\$ 157,786
EPS (Dilluted)	\$ (0.05)	\$ 1.55	\$ 6.65
Shares out	23,540	23,569	23,717



Research Analyst:

Nathan Weiss
 nweiss@uniteconomics.com
 (617) 763-4415



Unit Economics LLC

Earnings Report

Cal-Maine reported 3Q FY2008 earnings this morning of \$2.41 per share on revenues of \$278 mln. We had expected earnings of \$1.84 on revenues of \$270 mln. The variance of our earnings estimate from the actual announcement was \$.57. Our projected cost of goods sold was the major difference, accounting for \$.47 of the EPS difference. We believe that Cal-Maine may have had more feed and/or grain inventory than expected, which dampened the impact on the cost of goods sold this quarter. Cal-Maine accounts for all inventories under the FIFO method and maintains 37% of sales in inventories and 43% of costs of goods sold in inventories. In coming days, as we get a chance to discuss inventories with management we may change our earnings model, but don't expect the changes to materially impact full year results.

While Cal-Maine does not host a conference call, CEO Fred Adams stated in the press release today that the quarter went 'smoothly' and industry shell egg inventories are at good levels (see inventory chart in our initiation piece). Mr Adams also highlighted that egg industry projections are for 2008 production to be flat with 2007.

Cal-Maine announced that their new dividend policy is in effect and that the record date for the expected \$.80 dividend for the quarter will be 'sixty days following the end of the third quarter'.

Grain Margin Requirements

On Thursday the 27th the futures margin requirements for corn contracts were increased by 50% and the futures margin requirements for soy meal were increased by 30%. The current month corn contract price fell by 7.5% in total on Thursday and Friday and the soy meal current month contract fell by 5.3% in total, resulting in a \$.032 per dozen increase in shell egg margins as shell egg benchmark prices were down .2% over these 2 days. Remembering our simple rule of thumb (each \$.01 expansion in shell egg margins equals \$.05 EPS per Q for Cal-Maine), the commodity price action over the last two trading days will result in \$.16 in additional quarterly EPS going forward if the current price relationships hold. Our published earnings estimate for Q4 FY08 is \$1.41. The month of March was on pace to be to provide \$1.81 in earnings during the quarter. The recent grain price changes we just described would add \$.16 to the \$1.81 estimate if they hold. If shell egg prices continue to hold firm, we will most likely increase our earnings estimates in the coming two to three weeks.

Business Week Story

On Thursday the 27th Business Week released an AP story about the federal case against several poultry and egg producers in the Illinois watershed. The article, available under Bloomberg news, states that the Oklahoma Attorney General is asking for an injunction 'before the spring rains' to cease poultry production in the region. This news release was likely largely responsible for the 11.61% price decline in Cal-Maine shares that day.

While the court names Cal-Maine Foods as one of the polluters in the case, in reality Cal-Maine last had operations in the region some three years ago. These operations equated to 1% of the chicken population in the region, so the risk of a major financial ruling against Cal-Maine seems minimal. Cal-Maine does, however, disclose this risk in their SEC filings as a potential legal liability. A potential injunction would not affect Cal-Maine negatively, as they currently have no chickens in the area. The vast majority of the poultry population in the disputed area is for broiler production. If anything, there could be a mild positive affect to Cal-Maine if some shell egg production is taken offline in the suit, reducing total supply. Even this affect, however, would likely be too small to impact egg prices.



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