

July 18, 2011

Market Outperform / Speculative Risk

FEED: Thoughts on Potential Acquisitions and Management Changes

MARKET DATA 7/15/2011

Price	\$1.47
Exchange	NASDAQ
Target Price	\$3.50
52 Wk Hi - Low	\$3.44 - \$1.00
EV(MM)	\$151.1
Market Cap(MM)	\$85.2
Shares Out (MM)	58.0
Public Mkt Float (MM)	26.8
Avg. Daily Vol	1,166,172

BALANCE SHEET METRICS

Cash (MM)	\$9.2
LTD (MM)	\$14.3
Total Debt/Total Equity	NA
Debt/Capital	NA
Price/Book Value	0.6x
Book Value/Share	\$2.37

EARNINGS DATA (\$)

FY - Dec	2009A	2010A	2011E
Q1 (Mar)	0.08	0.02	(0.03)A
Q2 (Jun)	0.03	(0.07)	(0.01)
Q3 (Sep)	0.07	(0.43)	0.05
Q4 (Dec)	0.08	(0.42)	0.06
Full Year EPS	0.26	(0.90)	0.08

INDICES

DJIA	12,479.7
SP-500	1,316.1
NASDAQ	2,356.7
Russell 2000	828.8

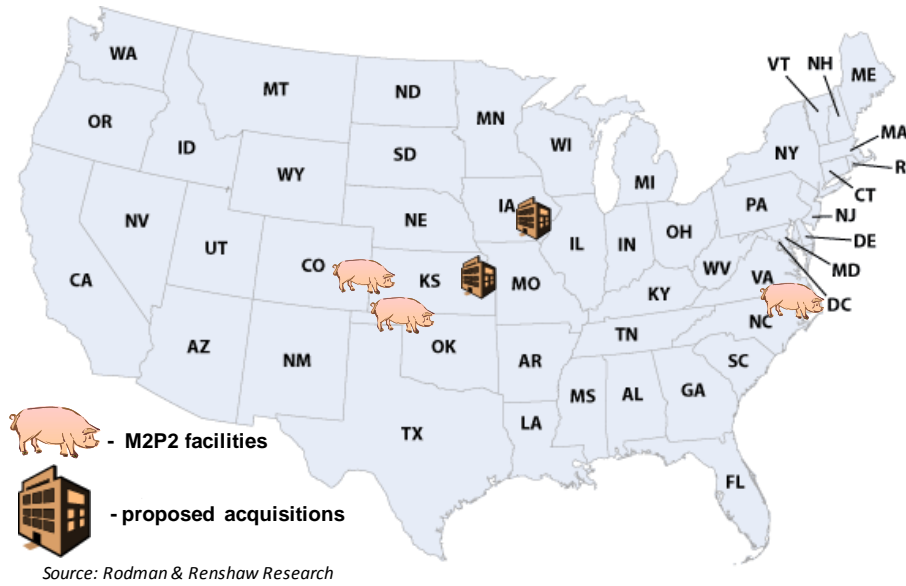


AgFeed Industries, Inc. announced several executive promotions and reassignments intended to better align the Company's management personnel with its corporate strategy. K. Ivan F. Gothner, previously an independent director and the Chairman of Audit Committee, was appointed as Vice Chairman of AgFeed. Gerry Daignault, formerly Chief Operating Officer, will be replaced by Glenn McClelland, the President and CEO of M2P2, AgFeed's U.S. subsidiary. Clay Marshall, the current CFO of M2P2, will take over as CFO from Ed Pazdro. Both Mr. Pazdro and Mr. Daignault will be reassigned to different positions within the company. Additionally, David Michael Johnson, the current President and CEO of Cattico, LLC (Private), one of the 25 largest cattle feeding operations in the U.S., will join the AgFeed board as a new independent director.

We view the addition of two M2P2 executives to AgFeed's management team as a positive. Both men are well-qualified for the positions and should be instrumental in integrating AgFeed's U.S. and China operations and building a global agribusiness operation. Glenn McClelland is a CPA with over 35 years of experience in agribusiness. He was a co-founder of Mariah Foods and later of M2P2, where he served as CFO until 2005 when he became M2P2's CEO. Clay Marshall spent six years working at Smithfield's (SFD, Not Rated) hog production unit, Murphy Brown LLC prior to joining M2P2 in 2005 as the Corporate Controller. He has been serving as M2P2's CFO since 2007. That said, we do dislike the frequent change in AgFeed's CFOs over the past two years and hope the latest appointments will be lasting.

In addition to the above management changes, AgFeed announced that it has entered into non-binding letters of intention to acquire two U.S. companies - Pine Ridge Farms (Private) and Kansas City Sausage Company, LLC (Private). Pine Ridge Farms, is a hog processing facility (i.e. slaughterhouse) established in 2004 in Des Moines, Iowa (Exhibit 1: M2P2 Existing Facilities and Proposed Acquisitions). The facility can process over 3,000 hogs per day, equivalent to more than one million animals a year. Privately-owned Pine Ridge Farms produces pre-rigor for sausage, fresh and frozen pork products and pork hides. It also provides ham boning and butcher pork processing services. Kansas City Sausage Company, located in Kansas, is a private label sausage company, specializing in producing retail ready, tray packed, over-wrap sausage and other minced meat products for major retailers and food service companies. Established in 2009, the company is one of the newest and best equipped sausage facilities in the U.S. Notably, both Pine Ridge Farms and Kansas City Sausage export products to locations outside of the U.S., including Canada, Mexico, the Caribbean, the Pacific Rim and China. While no information was provided on the acquisition terms, necessary financing or the expected closing date at this time, the company indicated that, if successfully completed, the two acquisitions will add approximately \$180 million to AgFeed's top line and \$13 million to EBITDA on an annualized basis.

Exhibit 1: M2P2 Existing Facilities and Proposed Acquisitions



The move coincides with the company’s previously disclosed intention to enter the harvesting and pork processing businesses. What took us by surprise was the location of the proposed acquisitions. Originally, we expected the company to build or acquire a harvesting facility in close proximity to its hog raising operations in the south of China. The proposed purchase of a U.S. slaughterhouse and a U.S pork processing facility may indicate a shift in strategy from “growing in China” to “importing to China”. While we are expecting the company to provide greater clarity on the strategic fit of these acquisitions, the integration strategy as well as the required financing in the near future, we do not at this time think that the company intends to enter the retail market in the U.S.

AgFeed is currently trading at 17.5x our FY11 FD EPS forecast of \$0.08 and 3.4x our FY12 FD EPS forecast of \$0.43. We continue to view the stock’s valuation as attractive and reiterate our Market Outperform rating and a \$3.50 price target based on the shares attaining a P/E level of 8x our FY12 FD EPS estimate of \$0.43.

Risks: (1) High feed costs (2) Hog prices (3) Weak consumer demand for pork (4) Swine disease (5) Execution risk (6) Regulatory risk (7) Commodity hedging (8) Client concentration.

Exhibit 2: Income Statement

AgFeed Industries, Inc. (FEED)																		
Income Statement	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11 E	3Q11 E	4Q11 E	FY07	FY08	FY09	FY10	FY11 E	FY12 E
(In USD, '000, except EPS)																		
Revenues	33,429	38,528	45,115	56,131	52,859	37,662	53,606	99,487	92,987	92,659	100,129	98,756	36,163	143,661	173,203	243,614	384,531	544,675
Cost of goods sold	(27,626)	(33,306)	(37,554)	(48,082)	(46,540)	(35,103)	(49,284)	(98,016)	(85,107)	(84,341)	(88,482)	(87,261)	(25,763)	(109,225)	(146,568)	(228,943)	(345,190)	(468,464)
Gross Profit	5,803	5,222	7,561	8,049	6,319	2,559	4,322	1,471	7,880	8,318	11,647	11,495	10,400	34,437	26,635	14,671	39,341	76,211
Selling expenses	(864)	(999)	(961)	(1,110)	(1,031)	(983)	(1,063)	(1,309)	(987)	(1,205)	(1,302)	(1,284)	(2,694)	(3,941)	(3,934)	(4,386)	(4,777)	(6,766)
G&A Expenses	(1,757)	(1,961)	(2,889)	(3,502)	(3,664)	(3,509)	(5,021)	(7,894)	(6,375)	(6,023)	(5,507)	(4,938)	(1,385)	(5,755)	(10,109)	(20,087)	(22,843)	(31,046)
Impairment of intangible assets	0	0	0	0	0	0	(16,752)	(4,860)	0	0	0	0	0	0	0	(21,612)	0	0
Impairment of long-term assets	0	0	0	0	0	0	0	(9,022)	0	0	0	0	0	0	0	(9,022)	0	0
Total Operating Expenses	(2,621)	(2,960)	(3,849)	(4,613)	(4,695)	(4,492)	(22,836)	(23,085)	(7,362)	(7,227)	(6,809)	(6,222)	(4,079)	(9,696)	(14,043)	(55,108)	(27,620)	(37,813)
Income from Operations	3,182	2,262	3,712	3,436	1,624	(1,933)	(18,514)	(21,614)	518	1,091	4,838	5,274	6,321	24,741	12,592	(40,436)	11,721	38,398
Other income (expense)	193	(189)	(388)	(58)	(96)	(355)	(193)	568	(3)	0	0	0	160	(711)	(443)	(76)	(3)	0
Interest income	61	53	75	25	48	38	55	(24)	15	30	30	30	142	191	213	117	105	49
Interest and financing costs	(153)	(625)	(193)	(52)	(125)	(140)	(291)	(809)	(915)	(1,000)	(1,000)	(1,000)	(154)	(5,704)	(1,023)	(1,365)	(3,915)	(4,910)
Foreign currency transaction loss	(2)	5	(18)	(3)	14	(34)	(35)	51	(10)	0	0	0	0	(559)	(18)	(5)	(10)	0
Total Non-operating Income (Expense)	98	(756)	(524)	(89)	(159)	(491)	(464)	(214)	(913)	(970)	(970)	(970)	149	(6,783)	(1,270)	(1,328)	(3,823)	(3,823)
Pre-tax Income	3,281	1,506	3,188	3,347	1,465	(2,424)	(18,978)	(21,827)	(395)	121	3,868	4,304	6,470	17,958	11,322	(41,764)	7,898	34,575
Income Tax	(216)	(286)	(293)	(348)	(454)	(641)	(1,759)	1,619	(539)	(16)	(484)	(516)	193	(587)	(1,142)	(1,235)	(1,554)	(6,805)
Net income (Loss) from Cont. Operations	3,065	1,220	2,895	2,999	1,011	(3,065)	(20,737)	(20,209)	(934)	105	3,385	3,787	6,663	17,370	10,180	(42,999)	6,343	27,770
Net income (Loss) from Discont. Operatic	0	0	0	0	0	0	0	0	(681)	(700)	0	0	0	0	0	0	(1,381)	0
Less: Net inc. attr. to noncont. Int.	(46)	6	1	208	56	110	101	28	(64)	(61)	(85)	(83)	0	(422)	169	295	(293)	(500)
Net income attributed to AgFeed	3,019	1,226	2,896	3,207	1,067	(2,955)	(20,636)	(20,237)	(1,551)	(533)	3,300	3,705	6,663	16,949	10,348	(42,704)	4,920	27,270
Weighted Avr. S/O - Basic	37,933	39,550	42,421	42,921	44,869	45,015	48,487	48,203	53,388	57,200	59,450	60,950	26,093	31,558	40,978	47,458	57,747	61,950
Weighted Avr. S/O - Diluted	37,933	41,446	43,329	43,829	45,213	45,015	48,487	48,203	53,388	57,200	61,434	62,934	26,175	31,714	41,214	47,458	58,739	63,109
Basic EPS (GAAP)	\$ 0.08	\$ 0.03	\$ 0.07	\$ 0.07	\$ 0.02	\$ (0.07)	\$ (0.43)	\$ (0.42)	\$ (0.03)	\$ (0.01)	\$ 0.06	\$ 0.06	\$ 0.26	\$ 0.54	\$ 0.25	\$ (0.90)	\$ 0.09	\$ 0.44
Diluted EPS (GAAP)	\$ 0.08	\$ 0.03	\$ 0.07	\$ 0.07	\$ 0.02	\$ (0.07)	\$ (0.43)	\$ (0.42)	\$ (0.03)	\$ (0.01)	\$ 0.05	\$ 0.06	\$ 0.25	\$ 0.53	\$ 0.25	\$ (0.90)	\$ 0.08	\$ 0.43
% Growth Rates																		
Revenue (Y/Y)	175.2%	8.1%	(8.7%)	20.8%	58.1%	(2.2%)	18.8%	77.2%	75.9%	146.0%	86.8%	(0.7%)	--	297.3%	20.6%	40.7%	57.8%	41.6%
Revenue (Q/Q)	(28.0%)	15.3%	17.1%	24.4%	(5.8%)	(28.8%)	42.3%	85.6%	(6.5%)	(0.4%)	8.1%	(1.4%)	--	--	--	--	--	--
Operating Income (Y/Y)	84.5%	(74.2%)	(60.1%)	(30.3%)	(49.0%)	(185.5%)	(598.8%)	(729.0%)	68.1%	156.4%	126.1%	124.4%	--	291.4%	(49.1%)	(421.1%)	129.0%	227.6%
Net Income (Y/Y)	228.4%	(68.7%)	(64.7%)	(17.6%)	(64.6%)	(341.0%)	(812.5%)	(731.0%)	(245.3%)	81.9%	116.0%	118.3%	--	154.4%	(38.9%)	(512.7%)	111.5%	454.3%
Diluted EPS (Y/Y)	166.7%	(75.0%)	(70.8%)	(36.0%)	(75.0%)	(333.3%)	(714.3%)	(699.8%)	(245.2%)	86.7%	112.5%	114.0%	--	112.0%	(52.8%)	(459.9%)	109.3%	415.9%
Margins (% of revenue)																		
Cost of goods sold	(82.6%)	(86.4%)	(83.2%)	(85.7%)	(88.0%)	(93.2%)	(91.9%)	(98.5%)	(91.5%)	(91.0%)	(88.4%)	(88.4%)	(71.2%)	(76.0%)	(84.6%)	(94.0%)	(89.8%)	(86.0%)
Gross profit	17.4%	13.6%	16.8%	14.3%	12.0%	6.8%	8.1%	1.5%	8.5%	9.0%	11.6%	11.6%	28.8%	24.0%	15.4%	6.0%	10.2%	14.0%
Selling Expenses	(2.6%)	(2.6%)	(2.1%)	(2.0%)	(1.9%)	(2.6%)	(2.0%)	(1.3%)	(1.1%)	(1.3%)	(1.3%)	(1.3%)	(7.4%)	(2.7%)	(2.3%)	(1.8%)	(1.2%)	(1.2%)
General & Administrative	(5.3%)	(5.1%)	(6.4%)	(6.2%)	(6.9%)	(9.3%)	(9.4%)	(7.9%)	(6.9%)	(6.5%)	(5.5%)	(5.0%)	(3.8%)	(4.0%)	(5.8%)	(8.2%)	(5.9%)	(5.7%)
Operating margin	9.5%	5.9%	8.2%	6.1%	3.1%	(5.1%)	(34.5%)	(21.7%)	0.6%	1.2%	4.8%	5.3%	17.5%	17.2%	7.3%	(16.6%)	3.0%	7.0%
Tax rate	(6.6%)	(19.0%)	(9.2%)	(10.4%)	(31.0%)	(26.5%)	(9.3%)	7.4%	(136.4%)	(13.0%)	(12.5%)	(12.0%)	3.0%	(3.3%)	(10.1%)	3.0%	(19.7%)	(19.7%)
Net margin	9.0%	3.2%	6.4%	5.7%	2.0%	(7.8%)	(38.5%)	(20.3%)	(1.7%)	(0.6%)	3.3%	3.8%	18.4%	11.8%	6.0%	(17.5%)	1.3%	5.0%

Source: Company Filings, Rodman & Renshaw Research

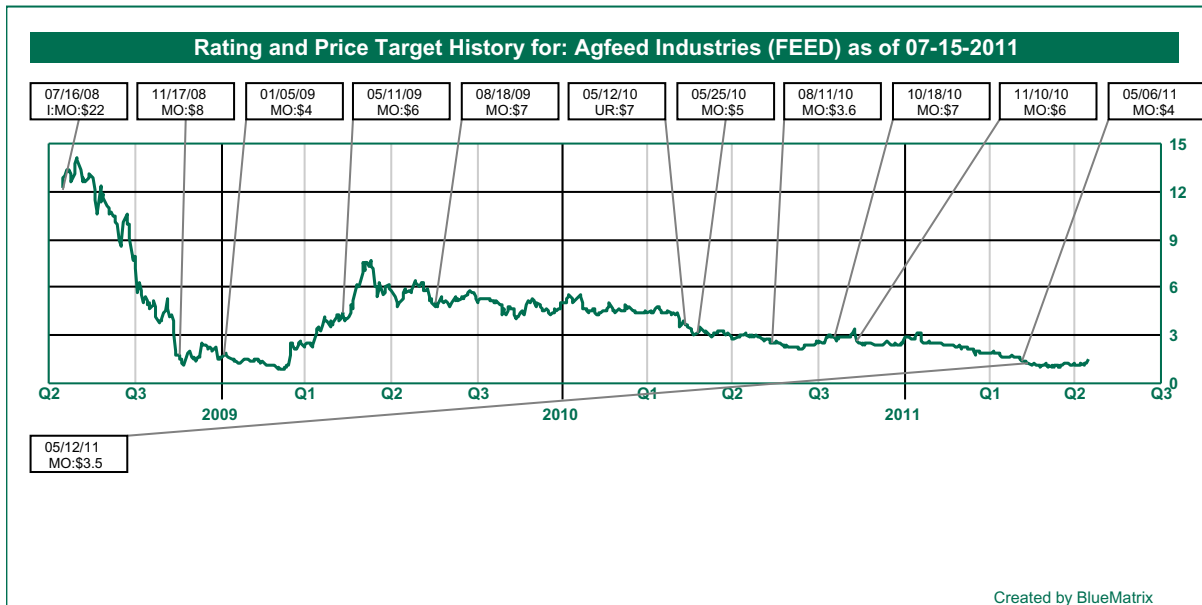
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- Aggressive - The common stock risk level is materially higher than market level risk. The stock price is typically more volatile than the general market.
- Moderate - The common stock is moderately risky, or equivalent to stock market risk. The stock price volatility is typically in-line with movements in the general market.



RATING SUMMARY

Rating	Count	Percent	IB Serv./Past 12 Mos	
			Count	Percent
Market Outperform(MO)	166	60.60%	37	22.29%
Market Perform(MP)	50	18.20%	5	10.00%
Market Underperform(MU)	8	2.90%	0	0.00%
Under Review(UR)	50	18.20%	11	22.00%
Total	274	100%	53	100%

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