MARBLE ARCH RESEARCH

AgFeed Industries, Inc.

Initiating Coverage
AgFeed Industries, Inc

SUMMARY FINANCIALS						
Fiscal Year	2008A	2009A	2010A	2011E	2012E	2013E
In millions						
Net Sales	143.7	173.2	243.6	**422.1**	**557.5**	**654.3**
EBITDA	31.3	16.0	-36.8	**29.5**	**55.5**	**71.6**
Net Income	16.9	10.3	-42.7	**6.4**	**24.0**	**35.6**
EPS, $	0.53	0.25	-0.90	**0.10**	**0.37**	**0.52**
PE	2.30x	4.90x	-1.37x	**11.78x**	**3.32x**	**2.35x**

MARKET DATA	24 May 2011
Nasdaq	FEED
Market Cap.	$64.95m
Current Share Price	$1.12
52 Week Range	
Low	$1.09
High	$3.55
DCF medium term Target Price	$6.50

We are initiating coverage of AgFeed ("the Company") with a speculative underweight opinion of its share price. AgFeed is listed on the US NASDAQ Global Market as FEED and the EU-based NYSE Alternext as ALHOG. The Company specializes in hog rearing and hog feed. It is building an international presence from current operations in China and the USA and in an investment phase in both its current operating countries. It purchased its first USA-based subsidiary M2P2 in 2010, and is in the process of building two, and planning several more, Western scale pig (hog) farms in China. The scale of Company operations will increase dramatically; additional US management and resources should ensure it happens smoothly. The Chinese Government is actively supporting industrialization of its agricultural industry, of which AgFeed is part, both to support demand from a growing, affluent population and to ensure safe, high quality food after its 2009 'Food Safety Law'.

Difficult trading conditions have meant AgFeed's transition to a modern, Western style operation of its Chinese hog rearing division has so far not proved easy. The company has divested some smaller operations, which it purchased at peak prices, but which were not producing a positive investment return. This led to short term restructuring charges and necessitated management change, resulting in poor investor sentiment. Looking forward, the company will be positioned well to benefit from modernization of the Chinese agricultural industry. AgFeed has made no announcements about its international intentions, but we note the US hog industry has been subject to economic and other pressures so may be open to consolidation in which AgFeed could participate. Indeed, the hog industry in China, the USA and perhaps other countries is subject to varying disruption and pressures so should offer more growth opportunities in the future. Our expectation is that AgFeed will aim to take advantage of opportunities as they appear.

INVESTMENT SUMMARY: BRINGING HOME THE BACON

AgFeed Industries, Inc (AgFeed) is engaged in China hog nutrition and in the hog production industries both in China and the USA. The Company is involved, through large Western-style hog rearing & processing farms giving controlled birth-to-shelf quality and safety, in the PRC-supported process of transforming China's hog production from uncontrolled, multiple small-unit family businesses, towards better quality & safer meat. The Company has strengthened its top-level management team to a degree that could enable it to participate in USA & other international M&A opportunities.

A TRANSFORMATIONAL DEAL

AgFeed started in China. It is clear that China's pork industry needs the injection of Western-style mass production, controlled genetic breeding and quality control both to expand greatly its output and to improve its meat quality. The PRC Government knows its growing and more affluent population will both need and demand these improvements in pork output. AgFeed planned and acted to align itself closely with what it sees as an essential development.

In September 2010, in a largely cash and stock deal, AgFeed acquired M2P2 LLC, a leading US hog producer of 1.3 million pigs annually with sow operations in Colorado, Oklahoma and North Carolina, and finishing operations centered in Iowa. AgFeed's closing consideration was around $22m in cash plus almost 1.3m shares of AgFeed's common stock. M2P2 previously signed in May 2010 a joint venture to establish AgFeed International Protein Technology Corp. in Asia, focused on introducing Western models of pork production to China.

Also in 2010 AgFeed agreed a deal with Hypor, a leading genetics company, to improve genetic capability in China.

In all M2P2's acquisition and deal with Hypor gives AgFeed the opportunity to shorten dramatically its learning curve towards world-class hog production facilities operating in China. The Company is in a good position to participate fully in China's pork industry upgrade & expansion and to achieve its target to nearly triple production from current levels, with highest quality safe pork. Its strengthened management team also gives AgFeed longer-term global opportunities.

ATTRACTIVE LONG TERM VALUATION

The main determinants of valuation are Potential and Risk. Assumptions made on how the company addresses these are critical to the Valuation process.

This report provides an assessment on management, market environment and the strategic plan the Company is deploying. Given the typically fluid nature of companies at this stage of AgFeed's development, there is no right or wrong answer to valuation but an indication can be derived. Method used for this report is the discounted cash flow method which takes a base case scenario for development of the company over the next five years. It obviously requires the company to deliver commercialization on time and to achieve the necessary margin structure. Any changes to this scenario will have a considerable impact on our model. Given the risks of a company at this stage in its development, a high discount rate has been used. If the company performs well, there will be a considerable upside as the financial results in our model would improve and perceived "riskiness" of the company could decreases leading to a lower discount rate. Both these changes would lead to higher valuation. Obviously the converse is also true should AgFeed fail to deliver.

AgFeed is currently in investment mode. The deal to acquire M2P2 and development of Western-Model production in China will require time before expected increases in hog production will be seen. Near term earnings momentum should not be used to drive AgFeed's share price performance. Its valuation therefore should be based on a longer-term perspective which incorporates a view on the impact of the transformational M2P2 deal.

With an eye to working capital and investment needs AgFeed has also adopted a strategy of making itself a Holding Company and spinning off some of its business activities into separate public companies, starting with a separate IPO of its Animal Nutrition (ticker code "AANI") business. As a public company in its own right, AANI will have a sharp strategic focus and independent access to both debt and equity capital for supporting its pursuit of growth. This will provide an independent valuation of one of the business units, providing more visibility and potentially unlocking value for AgFeed's shareholders.

SUMMARY OF POSITIVES

- Growing market within China for pork and pork products – consumption per capita can rise further
- A rising Chinese population with increased affluence increases demand for higher-quality pork
- Food Safety is driving agricultural industry change towards AgFeed's business model
- The PRC sees Industrial scale achieving China agriculture's self-sufficiency & ensuring food quality & safety.
- Longer term opportunities to export pork to the rest of Asia or build Western-model farms in other countries
- Carve out of Animal Nutrition will bring greater visibility to the business
- AgFeed's "spin-off" strategy should more easily enable raising of cash on the (still-difficult) equity markets so that AgFeed can fund China developments. A spin-off of M2P2 appears consistent with AgFeed's future group structure.
- The Company has made no announcements on intentions, but a good cash position will also enable it to take advantage of opportunities to expand its reach in the USA and other markets.

RISKS AND ISSUES TO BE ADDRESSED

Investing in AgFeed involves a variety of risks and uncertainties, including, among others, those discussed below. The company is evolving, there is likely to be considerable change over the near term and investors should note that valuation of a business with these dynamics can show considerable volatility. We have highlighted risks in three broad areas: Strategic, Operational and Legal/Regulatory.

STRATEGIC

Despite its US acquisition, and strategy of moving to more international trading, AgFeed is currently substantially a Chinese business

Whilst the acquisition of M2P2 has brought with it a USA based operation which will contribute greatly to AgFeed's activity in 2011 and beyond, AgFeed has been, and to a considerable extent remains, a business with much of its nearer term growth expected to come from the Chinese market. It is therefore subject to a variety of general economic and political risks in China over which the Company could have little or no control, including:

- China's economic policies
- Tax laws and regulations
- Changes in policies toward private enterprise, even nationalizing or expropriating private enterprises

Such considerations may have influenced AgFeed's decision to spread its risk into other countries starting with the USA. Nevertheless, although M2P2's acquisition may indicate a broadening of the Company's approach to encompass countries other than China, it seems to us that such a strategy has not yet been fully realized.

Scale up may require further funding

Scale up so far has been funded mainly by cash, largely through share issuance. The Company has in the past used loans in China but banking conditions have changed making loans much more difficult to access there, and even when available, loans are much more expensive than in the past. Added to that Chinese economic policy is currently changeable, creating further uncertainty. AgFeed wants to finance further capital expenditure related to purchase of equipment, working capital for purchase of raw materials and expansion of the business, through cash flow provided by operations and funds raised through cash investments. The company already has continuing facilities in place to raise additional capital through an agreement with Southridge Partners LLC.

In addition, as an integral part of its strategy AgFeed has put in place a corporate structure that provides opportunities for the market to value each of the Company's operating units independently of the whole, through the holding company selling separately a part of each in order to raise further cash. As independent public companies, AgFeed's operating units will have in time the ability to attract capital and investors separately and apart from the holding Company. The AgFeed Group of Companies will offer investors a choice of investing in a "pure-play" animal nutrition business, a hog production business, a hog processing business, or a holding company which has very significant interests in a number of operating companies. As a first step in AgFeed's structured funding strategy, in October 2010 AgFeed Animal Nutrition Holdings Inc. ("AANI") filed a registration statement on Form F-1 with the U.S. Securities and Exchange Commission ("SEC") for a proposed initial public offering ("IPO") of Class A ordinary shares. It is planned to sell up to 20% of AANI's business, raising up to $20m from the offering. This IPO will enable independent valuation on AANI and allow it to access equity and debt markets to finance further opportunities.

OPERATIONAL

Management needs to demonstrate successful implementation of western style farm systems in China so that it retains a strong base in its original market.

AgFeed has a relatively limited operating history in hog production, and a depth of experience in the feed product industry. It is now in the process of introducing large scale, Western model hog producing units into China. These require more capital expenditure and new ways of operating. The management team needs to show that this scale up can be achieved without problems and that the team is capable of managing an operation of this size. The acquisition of M2P2 brings additional expertise that, together with recent additions to the management team during a recent restructuring, provides comfort in this regard, whilst AgFeed 's local management provides experience of dealing with issues such as the PRC's local and central Governments. Restructuring of AgFeed's existing hog production business will lead to speculation over quality of management decision making, since the original purchases were made relatively recently in the Company's history. A largely US led management team still needs to prove it can successfully operate a much larger Chinese business.

Volatile hog, commodity and other raw material prices need to be managed

Both the feed and hog production businesses can be adversely affected by fluctuations in pork & other commodity prices.

Price of hogs is directly affected by supply and demand for pork products and other proteins in China, all of which are determined by frequently changing market forces of supply, demand and other factors. A downward move in demand for pork will negatively impact results of AgFeed's hog farming business. Hog prices can also be impacted by imports of pork products. The Government has been increasingly using stock piles of frozen pork as a method of trying to control supply and demand and market prices. In addition, the price for corn, an important element in feed, has been volatile. Lower hog sale prices, higher feed costs, or both have a negative effect on net results of operations. Cost of goods sold largely depends on costs of other agricultural commodities such as corn. These can be volatile in the short term (corn prices have been especially high over the past 12 months and show no immediate sign of falling from current levels) and influence gross margins in both the nutrition and hog businesses, although the company can overcome some rises by its own price increases or by changing mix of business towards higher margin products when possible. The China feed business also uses paper products, such as corrugated cardboard, aluminum products, films and plastics; their prices can impact net margins.

Agricultural and Environmental Issues determine success at the operational level

The location of farms in China leads to a variety of issues linked to success of its agricultural industry. Although in the process of modernization and improvement, the pork industry is still heavily affected by biological (disease), environmental and climatic factors.

The Chinese climate can have a major impact on agriculture through drought and flooding; extremes of either could impact AgFeed's operating results and insurance to cover such events may not be available. For example, in 2010, it is estimated that 13.5 million hectares of farmland were affected by floods. On-going volatility in China's weather pattern remains a risk to all agriculture-based businesses. Bio-security is important and spread of disease may impact more than expected.

Looking forward, AgFeed's new farms in China will have in-built modern bio-security and therefore disease should be less of an issue for the Company.

Maintaining good relations with partners is essential to an on-going business

In China, AgFeed has a firm strategy 'AgFeed, Farmer, Government', a pragmatic 'stakeholder' approach to running its large agricultural business. It recognizes that AgFeed requires a successful partnership both with the farming community which acts as customer, supplier and part of the production system (local farmers, in partnership with AgFeed, "finish" pigs from 40 pounds to market weight) and local / regional governments who help procure and establish farms, providing assistance with site location, clearing, and putting in place necessary infrastructure of roads, power, water etc.

The USA division has different issues. Infrastructure and efficient mass production is well established, M2P2 has close links and a long trading partnership with Hormel a major US pork processor and its arrangements are such that M2P2's profits have a reasonable assured level that they will not fall below. Nevertheless M2P2 is very dependent on one customer, a situation requiring careful consideration in both strategy and operational management.

LEGAL/REGULATORY

Regulation and Licensing - reliability and quality matter for future sales in China

AgFeed must continue to adhere to regulations concerning a number of issues including food safety and licensing. Manufacture and sale of agricultural products in China is regulated by central government and local provincial governments. AgFeed is required to comply with applicable hygiene and food safety standards in relation to its production processes. Premises and transportation vehicles are also subject to regular inspections by regulatory authorities for compliance with applicable regulations. Failure to pass inspections, or loss of /

failure to renew licenses and permits could require temporary or permanent suspension of some, even all, production or distribution operations.

China's Food Safety Laws introduced in 2009 are leading to development of a more professional industry where quality of feed and hog meat is more closely monitored. This should be beneficial to AgFeed in the longer term and lead to less competition from smaller operations where compliance with 2009 laws is not possible.

Currency Remains an Issue for the Company

The majority of the Company's revenues and expenses have been denominated in Renminbi (RMB). There is no assurance that exchange rates between the RMB and the USD will be stable. China recently commenced a program of controlling the RMB's appreciation of but it has not yet settled down and it may be some time before exchange rates cease to be an issue.

This will not necessarily be so critical in the future, given AgFeed's acquisition of M2P2, and such risks will decrease further if AgFeed makes other non-China acquisitions. At the time of writing it remains important that the company monitors, and as far as possible alleviates, its exchange rate risk.

At the same time the Company is pursuing a strategy of owning assets in China, as it expects the RMB (Yuan) to appreciate. Expectations are a 3-5% increase this year and 2.5-3% thereafter. The Company believes that world economic conditions, if anything, are likely to force greater / faster appreciation of the Yuan. China's GDP is rising, which is well-known, but less widely discussed is that its consumer's share of GDP within the country is rising, leading to increasing demand and also to the possibility of increased capital goods prices. Such factors underpin the Company's policy of continuing to own Chinese assets.

AGFEED – AN INTRODUCTION TO THE COMPANY

BUSINESS DESCRIPTION

AgFeed is a Nevada corporation with its main activities being animal nutrition in China and commercial hog production in China and the USA. Business is conducted through indirect operating subsidiaries in the People's Republic of China ("China" or "PRC"). In the USA the Company currently operates through M2P2 and currently has made no announcements to increase its international reach either inside or outside the USA.

The company was incorporated on March 30, 2005 in Nevada. Following a merger into a wholly-owned subsidiary, the company changed its name to AgFeed Industries, Inc. on November 17, 2006. A restructure in 2008 led to much of the original board and management being replaced by a much stronger team more experienced in public companies and a process of steadily improving management quality continues to the present day. From October 2006 the principal place of business was in China, until the addition of USA operations in September 2010.

AgFeed's pork operation was founded in 1995 by five Chinese agri-businessmen, some still active in the business, with a focus on animal nutrition. Through its subsidiaries, the Company engages in research and development, manufacture, marketing, and sale of fodder and blended feed animal husbandry markets primarily in China; its products include additive premix fodder & blended feeds used in all stages of a pig's life. The Company also breeds, raises and sells hogs into China's pork production and hog breeding markets. It is investing in its expanding China sales by bringing Western industrial style approaches to China's hog farming, traditionally served by small family units. The Company, following its acquisition of a USA hog producer in September 2010 has moved away from being totally focused on China, but China remains critical to AgFeed's success and future growth. The bulk of China revenues are primarily linked to hog production either directly or through the sale of feed and nutritional supplements to other hog producers. Agriculture in China remains very important for the PRC and its Government's tone can be seen from annual publication of the 'No 1 Central Document', a policy response to the previous year usually issued at the end of January. Given a rise in agricultural prices in 2010, there will be continued focus in agriculture, rural areas and farming.

The acquisition in September 2010, of M2P2, a USA hog production business brings an international element to the group and we expect this will be an area where the group continues to expand in the long term through appropriate acquisitions.

In summary, AgFeed is currently made up of three distinct operations; Animal Nutrition, Chinese hog production and US hog production. All three business units are undergoing a period of rapid change and each has distinctive growth opportunities. The sections below outline more detail of each operation and its business potential.

AgFeed is listed on the US NASDAQ Global Market and the EU-based NYSE Alternext.

ANIMAL NUTRITION

Introduction

The animal nutrition business serves hog producers throughout southeastern China from 5 feed mills where the company produces additive premix, concentrates and complete feed. There are a number of exclusive distribution arrangements with nearly 1,900 independently owned retail stores/mini markets and AANI directly serves over 890 commercial farms.

AgFeed is in the process of carving out its Animal Nutrition ("AANI") business as a separate IPO. This will provide an independent valuation of one of the business units to provide more visibility and potentially unlock value for AgFeed's shareholders. As a public company in its own right, AANI will have a sharp strategic focus and independent access to both debt and equity capital to support its pursuit of growth.

Market Information for the China feed business

The PRC recognizes that a safe, highly efficient feed industry producing high quality animal nutrition products is the foundation for sustainable and healthy development of the animal breeding industry and a fundamental basic component in providing for security and health of China's people. China's feed industry initially developed during the 1980s, then in the early 1990's was transformed by issuance of feed and feed additives regulations which emphasized labeling standards for different grades of product, and aimed to eliminate substandard products and fraudulent labeling. These standards assisted in controlling product quality during the feed industry's expansion.

China's feed manufacturing industry is second only to the United States in volume. It is estimated that 4 kg of feed grain are needed to produce 1 kg of pork. The feed industry grew from 96 million tons in 2004 to 140 million tons in 2009. In the same period the Chinese feed industry market has grown from $36 billion to $58 billion. According to a report by the USDA Foreign Agricultural Services, developing countries average 24 kg per person annually while developed countries average 75 kg per person annually. As incomes rise in China, annual meat consumption is expected to rise from the current 53 kg per person to around 70 kg per person in coming years; already the country's annual pork consumption almost doubled from 20kg per person in 1990 to 40kg per person in 2006.

The animal feed industry in China is highly fragmented, but less than it was. There were over 30,000 feed suppliers ten years ago and, although there are still over 10,000 producers, each with an annual production of less than 10,000 tons, China's 2009 Food Safety Law means consolidation is a continuing central theme in the PRC government's efforts to restructure the feed industry and promote industrial modernization. Based on its management's international experience, AgFeed's board expects consolidation to leave less than 1,000 larger-scale feed enterprises in China by 2015.

The Chinese feed industry, after many years of development, has set up a complete feed industrial system integrated with feed processing, additive, raw material, and machinery manufacturing industries as well as research, education, standardization and government examination. Chinese industrial feed production was approximately 137 million tons in 2008, with production by product type as follows:

- Additive premix was approximately 5.46 million tons, or 4%
- Concentrate feed was approximately 25.3 million tons, or 18%
- Complete feed was approximately 105 million tons, or 77%

Pork feed represented 34% of the total market in 2008.

AgFeed Animal Nutrition ('AANI')

AgFeed manufactures, distributes and market and sells all three main product lines in China primarily for the hog industry, where it is used at all stages of a pig's life. It is organized through a series of subsidiaries - Nanchang Best, Shanghai Best, Guangxi Huije, Shangdon Feed and Hopejia.

An important part of the business is a "Green Certification" that has been granted by the Ministry of Agriculture in China for premix products under the brand label "BEST". This means AgFeed can promote its feed for production of "green" pork which is perceived to be of high quality.

The feed business requires corn and soyabean meal as key ingredient inputs; as agricultural commodities their prices can be volatile with wide variances. However, it is typical that a feed company passes on to its customers these increases or decreases in price, without materially changing its net gross margin.

Prospects for Animal Nutrition

AgFeed is well placed to capitalize on consolidation of the feed industry in China. It has sufficient scientific knowledge to provide customers with high quality, differentiated products, enabling it to achieve standards that meet or exceed Government and Environmental regulations. It should continue to take share from smaller players who are not of sufficient scale to meet new standards or compete with effective brands or pricing strategies. It could also look to acquire or merge with other businesses in order to participate fully in the expected industry consolidation. This will bring volume increases which will allow the Company to improve management of margins throughout the feed business as AANI's mix of sales alters to reflect changes in demand and pricing conditions.

The business has relatively low, but stable, margins and volume growth will drive the business forward. AANI's proposed "spin-off" IPO will sharpen the focus of the division and enable it to participate more readily in on-going consolidation of China's feed industry.

In summary, AgFeed's IPO of its animal feed division will provide more information on prospects for this business. AANI is in a strong position to participate in consolidation of the industry in China, which should lead to high top line growth and prospects for raising net margins

HOG PRODUCTION

Introduction

With its Sept 2010 acquisition of USA-based M2P2, AgFeed now has three hog production areas – its historic Chinese business which it entered in 2008, a US hog production business acquired with M2P2 and the on-going development, based on the US M2P2 model, of Western style farms being developed in China. It is likely that the company will look to concentrate on this area after the spin-off of Animal Nutrition.

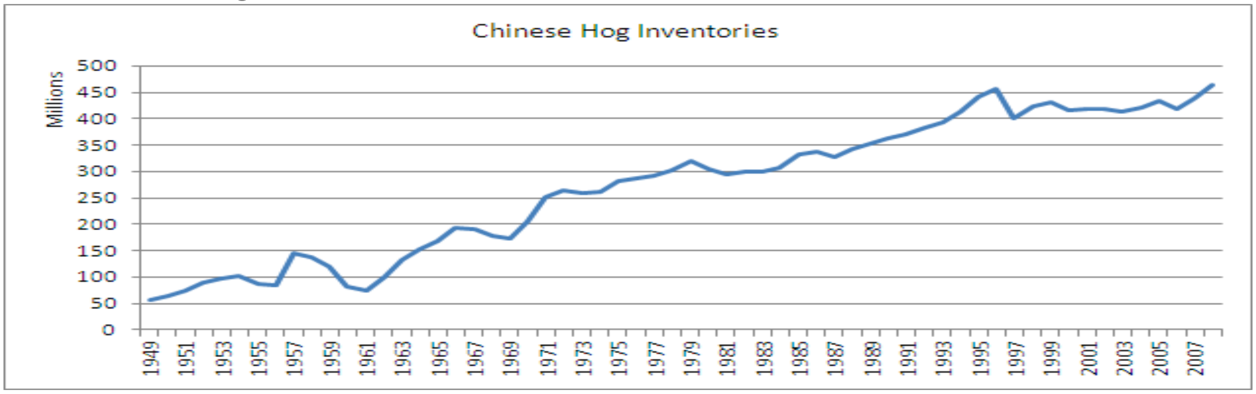
China is encouraging genetic improvements to herds to assist in its food security and provide better use of resources when larger, healthier pigs are produced. A number of competing businesses are also looking at a similar program of genetic improvement to their herds. During 2009 the Company entered into two important agreements. The first was with M2P2 LLC for a joint venture to use western technology for hog production eventually leading to M2P2's acquisition. The second is to implement a genetic program arrangement with Hypor, the pig breeding division of Hendrix Genetics. The Company considers these agreements allow its hog business to grow, both in sales and operating margin.

We consider it very likely that the USA-based M2P2 business could also be IPO'd at some stage, providing additional funds for investment, giving investors further choice over which AgFeed business to buy into, and allowing shareholders more insight value creation within the group.

Market Information - China

Pork is one of the world's most extensively consumed meats, accounting for nearly 38% of worldwide meat production. China is the largest pork consuming nation, where pork is the staple meat used throughout the country. Pigs are relatively easy animals to husband – requiring little space with no grazing, and are easy to feed and rear. Increasing demand for meat within China has led to opportunities to invest in the hog business to satisfy that demand. The inventory of hogs in China has been growing over the last 50 years as illustrated in Chart 1 below.

Chart 1: Chinese Hog Inventories



Consumption of pork per capita in China is lower than in developed countries. However, China has the world's largest population and its consumption of pork has been increasing rapidly over the last twenty years. Per capita pork consumption almost doubled in China between 1990 and 2007; each Chinese person consumed on average 20 kg of pork in 1990 and the figure stood at 39.6 kg in 2006.

As incomes increase and population grows there will be continued demand for pork. The Chinese population is projected to rise from 1.3 billion to 1.4 billion by 2030. There is also a difference between rural and urban diets, with urban diets generally including more meat. Rural consumption of pork is expected to rise towards levels now seen in urban areas.

However, pork is a relatively mature commodity in China. As income rises, the average diet is likely to be more varied with additional meats consumed (such as beef and especially chicken, which is being strongly promoted due to its efficient feed-to-meat conversion rates). Long term projections by Profession James Simpson, suggest that per capita consumption of pork will remain stable at around 39kg per capita by 2030.

This change can be illustrated by looking at "% share of throat" i.e. the proportion of food types consumed on average. The table below shows changes that have occurred between 1999 and 2008 in per capita retail sales, share of throat and the percent of non-retail sales. Pork has fallen from nearly 15% of food consumed to less than 9%. This trend is likely to continue as diets match the variety seen in Western economies. The major factor behind these changes in eating habits have been the dropping of import barriers after World trade Organization (WTO) membership in 2001, price liberalization, the end of rationing and growth of larger retail chains.

Table1: Changes to "Share of Throat" in China

	Retail KG/Capita		%	% Share of Throat		% Non-retail	
	1999	2008	Growth	1999	2008	1999	2008
Grain	7.39	11.64	57.51	11.63	10.88	96.17	92.31
Veg	19.80	44.75	125.98	31.18	41.82	81.93	58.92
Oil	0.51	1.06	106.39	0.80	0.99	92.98	86.48
Pork	9.26	9.11	-1.56	14.58	8.52	36.32	40.24
Beef	0.75	0.77	2.44	1.18	0.72	32.18	41.21
Mutton	0.46	0.48	3.67	0.73	0.45	34.22	42.12
Chick	2.40	3.61	50.54	3.78	3.38	32.19	37.58
Eggs	2.85	4.42	55.23	4.48	4.13	58.76	41.23
Fish	1.91	3.53	84.82	3.01	3.30	81.88	76.32
Milk	0.22	0.62	182.90	0.35	0.58	95.85	93.22
Fruit	4.56	12.08	164.92	7.18	11.29	85.18	63.61
Nuts	0.53	0.95	80.03	0.83	0.89	97.14	94.17
Other	12.88	13.98	8.60	20.27	13.07		
Total	63.52	107.00	68.47	100.00	100.00	84.95	93.45

Source: FAT CHINA, How expanding waistlines are changing a nation, French & Crabbe

Despite all these changes, pork remains extremely important to the Chinese diet and economy. This is illustrated by the impact of Blue Ear disease, a porcine virus, which hit herds in 2007. The disease killed large numbers of pigs and led to herd culls. This caused a shortage of pigs and prices rose until new hogs were ready for slaughter in summer 2008. The resultant increase in pork prices had a major impact on food price inflation, pushing up prices across most food sectors.

Production of pork will become increasingly commercialized. It is estimated that the proportion of pork produced in commercial farms (operations other than "backyards" typically with 2-5 mature pigs) will be 77% in 2020 and 92% by 2030, driven by Government policy directed towards its population's food security through modernizing the agricultural sector.

The hog industry has been rapidly adopting new technologies and approaches to farming and this is having an impact on the quantity of meat produced per pig. In 1985 this stood at 54kg per animal. By 2000 it had reached 95kg and is projected to reach 145kg by 2030, a weight comparable to the US and Western Europe in 2000.

As industry efficiencies increase, slaughter weights will improve. Shifts in scale of the agricultural industry, improvements in genetic stock, higher quality inputs and improved management are all reasons why pork production per head of inventory in 2030 is projected to increase by over 50% to the levels indicated above.

In China, AgFeed's strategy of creating a large scale, integrated 'industrial' production business is driven by two factors. First, the Chinese Governments push to create a self-sufficient agricultural base capable of producing foods with a high degree of safety. Second, by a more affluent population's demand for availability of better quality products.

A new Food Safety law was enacted in March 2009 in response to a series of food processing scandals including tainted milk. The law's aim is to ensure adherence to quality through a series of financial and other punishments for transgressors. Legislation in 2010 intends to modernize the slaughterhouse industry and this will lead, again, to consolidation and an opportunity to create new state-of-the-art facilities capable of fulfilling legislative needs. The company has noted that a recent clenbuterol-contaminated pork scandal in Hebei Province has negatively impacted short term demand for pork. In contrast, the Company intends that its safe, secure, transparent approach to meat processing as well as production will reassure its customers and help AgFeed's perception and a reputation as a top-class supplier of pork products in China.

China also introduced the "National Swine Price Alert System" in early 2009. This is a price monitoring arrangement that allows the government to create a strategic reserve of frozen pork by buying in the open market when price levels are low (for instance when the live hog-to-corn price ratio falls below 6.0 for a period of four weeks). The system should ensure there are no large drops in price and it effectively insures farmers' returns. The system also helps to cap price rises as pork is released from these central reserves when the hog-to-corn ratio rises above 9.0.

The government is also trying to regulate supply and demand conditions by ensuring that sows account for no more than 10% of the hog population. It encourages sow production through insurance and subsidies when stocks fall (e.g. through disease and natural disasters). It is also using subsidies to encourage genetic improvement of herds.

In summary, volume of pork sales in China will continue to rise as protein consumption increases in the country but at a slower rate than other meats which are likely to see faster growth. Nevertheless, sourcing and quality of hog meat will continue to improve. Government in China is encouraging a professionalized industry to provide more food security both in quantity and quality. AgFeed is well positioned to benefit from these changes.

AgFeed Hog Production - China

The company's strategy and business plan is based around the company retaining its existing ability to satisfy both Government and Farmer, the two key "stakeholders" whose support AgFeed needs to grow its business.

AgFeed diversified into Hog production in November 2007 through acquisition of the Lushan Breeder Pig Farm Co. Ltd., a mid-scale farm raising, breeding and selling hogs in China. Starting in 2008, AgFeed acquired an interest in 31 meat hog producing farms in the Jiangxi, Shanghai, Hainan, Guangxi, and Fujian provinces through its subsidiaries - Nanchang Best, Shanghai Best, Guangxi Huijie and Best Swine.

Recognizing that China's industry was changing, in 2009 AgFeed started JV's with M2P2 and Hypor, bringing into its business the knowledge and methodology for Western-style intensive farming and breeding, and to the Company starting its own Western-style farms in China.

AgFeed broke ground on its first "Western-model" farm in Da Hua, Guangxi Province and also completed construction of a nucleus farm, operated by Hypor AgFeed Breeding Company, in Wuning, Jiangxi Province - both in November 2009.

AgFeed's original hog farms were purchased when prices were high, coinciding with the period around the Beijing Olympics. The farms were also hit by flooding which resulted in fewer sows, hence lower production than expected. Subsequent declines in hog prices led to AgFeed reviewing these purchased farms and writing down their value in Q3 2010 results. A review resulted in a change in the management of the acquired farm system and the new team's re-assessment concluded the farms can be operated profitably but will not sustain a high enough level of profitability to support the original acquisition values and resulting goodwill. As a result management determined a write down of intangible assets of $16.7 million was necessary and this was included in 2010's Q3 results. Further details emerged with the 10-K report; the company took further charges during Q4 2010 ($4.8 million goodwill plus a fixed asset write-down of $9.0 million) and seven of the farms have now been divested, leaving 24 farms operating in April 2011. New management, assisted with expertise from M2P2, is now in place and it is likely the legacy farms will continue and provide a steady business once restructuring and closures are complete.

AgFeed's current traditional Chinese hog production business now consists of 24 existing farms. In 2011 these farms are expected to produce 320,000 to 350,000 hogs from a sow base of 15,000 to 17,000. In 2012, it is expected that births per sow will increase due to enhanced genetics, enhanced bio-security and better management, giving production of 420,000 to 450,000 hogs from 18,000 to 20,000 sows.

In February 2010, AgFeed entered into negotiations to participate in a project with Xinyu City in China's Jiangxi Province. The project is to construct 5 western model hog farms requiring an investment of $18 million for the construction of the initial facilities. In April of 2010 negotiations were successfully completed and construction began in May 2010. The project, once complete, is expected to have annual production capacity of 230,000 hogs from this initial development. The new, western style farms that have been under construction since May 2010 at Dahua and Xinyu will have upon completion production capacity of 850,000 based on a sow base of 35,000.

AgFeed currently plans to stock the new Western-style farms in Dahua and Xinyu by mid-2011 and anticipate delivering hogs to market in second and third quarters 2011.

A first Harvesting (slaughter, processing & marketing) business unit was established in 2010 and represents the next step in AgFeed's efforts to deploy a fully integrated hog production system. AgFeed's activity will then range from the manufacture of highest quality, safe nutrition products for the hog industry, to the most modern and efficient breeding operations, to highly efficient state of the art processing facilities.

In summary, AgFeed had a difficult 2010 with stock prices hit and pressure on margins, culminating in management changes with existing farms. In the short term, lower profits are expected to continue as food price inflation impacts the business, safety concerns impact demand and investment in new farms continues. However, from 2012 onwards, the new Western-style farms will start to have an improving impact on total revenues and margin outlook.

AgFeed Hog Production USA - M2P2

The M2P2 deal was finalized in September 2010 and the closing price was around $22m in cash plus nearly 1.3m shares of AgFeed's common stock. It acquired a solid USA business selling into US markets and gave AgFeed its first international acquisition. The Company also gained expertise and additional resources which will help it transfer modern Western approaches to its Chinese production operations.

The US M2P2 production system comprises 10 sow farms in Colorado, Oklahoma and North Carolina and a contract finishing system of over 200 farms in Iowa, producing 1.3 million market hogs annually.

One potential area for concern is that the bulk of US hog production goes to one customer, Hormel Foods. The relationship with Hormel is obviously an important on-going consideration. Hormel Foods Corporation, together with its subsidiaries, produces and markets various meat and food products in the United States and Internationally. It offers meat products, including fresh, frozen, cured, smoked, cooked, and canned meat, with perishable meat including fresh meats, sausages, hams, wieners, and bacon. It is currently valued at nearly $7bn and had sales just above $7bn in 2010. As a major supplier to Hormel, M2P2 has a solid customer and sound trading terms but Hormel's scale suggests they would limit M2P2's upside profitability.

In the short term, M2P2 is likely to see a steady increase in custom from Hormel as it expands product lines and manages suppliers over the medium term. However, any deterioration in this relationship would be extremely detrimental.

Prospects for Hog Production - China

AgFeed's three year strategic plan is to develop a platform with the capability of producing and selling approximately 2 million hogs into the Chinese market by 2015, following investment in modern processes between 2009 and 2012.

The genetic improvements being made and enhancements in systems should produce larger, healthier animals that are "green certified" and able to provide more, better quality, meat. This should enhance revenue per hog whilst strictly controlling production costs. AgFeed's strategic alliance with Hypor has four phases which will lead to long term improvements in production output (numbers, size and meat quality). The first phase is to upgrade genetic quality of the existing herds. Phase two is to create the sow farrow-to-finish nucleus facility at Wuning Farms to provide better breeding stock for both AgFeed and other commercial farms. Phase three consists of ensuring genetics at the new Western style farms are top quality and finally, phase four is to develop gene transfer centers and ensure use of top quality boars across the AgFeed farms.

This joint venture, Hypor AgFeed Breeding Company, is owned 85% by AgFeed and 15% by Hypor.

New management at existing farms purchased in 2007-2008 should ensure that business remains stable. The M2P2 deal will lead to a quality improvement in output from these farms and ensure they remain a profitable part of operations.

Finally, production of food and food safety remain a top priority within the PRC. The Chinese Government therefore supports the pork industry with favorable tax status plus a variety of subsidies and assistance.

Given trends identified above and the addition of M2P2 resources, we believe AgFeed has a realistic target in the medium term.

Prospects for Hog Production – USA and elsewhere

AgFeed has not made public any plans for expansion outside of China.

With M2P2 the Company has the opportunity to increase supply to Hormel Foods in the US, which will see a steady rise in volumes, Prices are likely to be tight, leading to a need to manage margins well.

The company can use its scale to consider other international opportunities. It seems to us to be, in due course, a natural step for AgFeed to make other acquisitions with the aim of limiting its international division's reliance on a single customer, as its strengthened top management team has a much greater capability to handle such strategic moves. This is purely conjecture and no allowance has been made for such eventualities within our financial projections.

THE MANAGEMENT TEAM

A VERY EXPERIENCED BOARD IS NOW IN PLACE

Although quoted in the US, AgFeed was started in China and its board membership represents a mix of US and Chinese experience of the hog and feed industries.

The company recently announced that John Stadler had been appointed Chairman. He has also been appointed interim President and Chief Executive Officer. The acquisition of M2P2 has brought the opportunity to expand the human resources available to the company in order to manage the current expansion of the business.

The members of the board are currently:

JOHN A. STADLER, CHAIRMAN AND ACTING CHIEF EXECUTIVE OFFICER

Mr. Stadler brings over 45 years of experience as a senior executive and investor in the animal production and processing industry. Mr. Stadler started his career in the Stadler Packing Co, from 1976 as President of Big Creek Land and Cattle Co. that owned and operated cattle ranches in Utah and Colorado. Mr. Stadler formed Mariah Foods in 1983 by purchasing the assets of Stadler Packing Co and was president until 1996. He was then a consultant in the pork production and processing industry and began to acquire the various components which would result in the formation in 2004 of M2P2 LLC, where Mr. Stadler was Chairman of the Board until its purchase by AgFeed in September 2010.

RAYMOND M. CESCA, PRESIDENT

Mr. Cesca was recently appointed President, taking up his position on 1 April 2011. Mr. Cesca served as Managing Director of World Trade for the McDonald's Corporation where he was a leader of their global expansion. He led the establishment of new relationships that served to lower supply chain costs and helped build an infrastructure that created a world-class supply chain. Prior to McDonald's, Mr. Cesca served in leadership positions at CPC International in marketing, sales, and business development. In recent years he also has served as the President of the World Agricultural Forum where he brought together food and agricultural leaders from industry, government, and academia to address critical issues facing global agriculture.

K. IVAN F. GOTHNER, CHAIRMAN OF AUDIT COMMITTEE, INDEPENDENT BOARD MEMBER

Mr. Gothner has been Managing Director and founder of Adirondack Partners, LLC, a private merchant-banking firm focusing on serving small and mid-size growth companies since 1993, and in that field for his entire career. His work has mainly been with rapid-growth companies owning new technologies / products or entering new markets. Currently, Mr. Gothner is also a Director of ArtID, LLC, Covenant Group Holdings, Inc. and Best Buddies of Massachusetts.

MILTON P. WEBSTER, III, INDEPENDENT BOARD MEMBER

Mr. Webster's experience has included serving as an advisor to Wasserstein & Perella, Inc. in connection with their strategic advisory and financing activities in the Greater China Region and since 1978, as a principal investor and advisor in the acquisition, operations, improvement and sale of the assets of undervalued companies.

LIXIANG ZHANG, PH.D., SPECIAL CONSULTANT

Dr. Zhang is a leading expert in animal nutritional science and management consulting in China. Dr. Zhang is Professor of Agricultural Management and the Assistant Dean of the College of Agricultural Development at Renmin University of China since July 2003. In 2005, he was named a Top Ten Enterprise Strategist and in 2004, a Top Ten Best Management Consulting Expert, both by the Chinese Government. In 2002, he received top prize for Innovative Management Science by the Chinese Ministry of Commerce. He has authored over 60 books and articles on agricultural science and management science and conducted management training programs for global companies including amongst others SONY, Panasonic, General Motors, Motorola, China Life Insurance, and China Telecom.

KEY OPERATING PERSONNEL ARE ALSO VERY EXPERIENCED

The key operating personnel now consists of a mixture of people with experience of working with AgFeed, M2P2 and both the US and Chinese hog production markets. This mix of personnel will enable a smooth transfer of skills and experience of operating Western style farms into the Chinese market place.

GERRY DAIGNAULT, CHIEF OPERATING OFFICER & PRESIDENT & CEO OF AGFEED ANIMAL NUTRITION

Mr. Gerry Daignault brings to AgFeed more than 26 years of senior US executive experience including 18 years at the Chief Financial Officer (CFO) level for several leading US and global agricultural companies in animal feed and hog production. In the 1980s, he became Director of Finance at Purina Mills, the largest US feed company, and in the late 1990's CFO for PMAG Products, a subsidiary of Tate & Lyle, N.A., a global leader in animal feeds and premix. His responsibilities included formulation and execution of an aggressive M&A strategy that led to the consolidation of various operating subsidiaries and services positioning the company for future growth. Additionally, Mr. Daignault was CFO of Newsham Hybrids, currently the 3rd largest swine genetics company in the US. Before co-founding Spectrum Agribusiness in 2006, he was CFO/Director of Finance for PIC North America, the largest swine genetics company in the US and a world leader. While at PIC, Mr. Daignault oversaw operational and organizational restructuring that allowed PIC to profitably reposition itself to meet the needs of the rapidly consolidating North American pork industry, growing operating profit by more than 100% until the company was sold in 2005 to Genus PLC, a London Stock Exchange listed company, then staying on during the successful integration of the two businesses.

GLENN MCCLELLAND, CORPORATE SECRETARY & MANAGING DIRECTOR HOG PRODUCTION

Mr. McClelland has over 35 years of experience in agribusiness. He was a co-founder of Mariah Foods together with John Stadler and served as Mariah's CFO until 1995. Mr. McClelland is also a co-founder of M2P2, LLC where he served as CFO until 2005 when he became M2P2's Chief Executive Officer.

EDWARD PAZDRO, CHIEF FINANCIAL OFFICER

Mr. Pazdro was appointed CFO of the Company in February 2011. Mr. Pazdro has served as the chief financial officer of AgFeed International Protein Technology Corp., a joint venture of the Company focusing on enhancing hog production systems for Chinese and other Pan Asian clients, the hog division of the Company since July 2009. He has been CFO of AgFeed Animal Nutrition Holdings, Inc., a wholly-owned subsidiary of the Company formed to operate its feed business, since August 2010. Previously, Mr. Pazdro was Controller for PIC USA Inc., a subsidiary of biotechnology leader Genus plc, international leader in providing genetically superior pig breeding stock and technical support for maximizing genetic improvement to the global pork chain. Mr. Pazdro was responsible for PIC's financial management, financial reporting, tax and audit coordination, management of cash and internal controls. Additionally, he developed inventory valuation models for compliance with US accepted accounting principles and international accounting standards, including agriculture-specific requirements for biological assets. Mr. Pazdro has broad-based financial management experience gained at National Futures Association, & global organizations such as Tate & Lyle North America and Gambro, Inc.

JUNHONG XIONG, CHAIRMAN OF ANIMAL NUTRITION (AANI), CO-FOUNDER

Since founding the Company in May l995, Mr. Xiong has served as Chief Executive Officer until February 2011. Before that he worked for Guangzhou Huashi Animal Nutritionals Company as head of marketing, rising rapidly to that position from an entry-level sales position through sales manager. He is now chair of the animal nutrition business in its run up to its Initial Public Offering (IPO).

POTENTIAL MANAGEMENT ISSUES

The recent changes to the management structure have seen US nationals replace a number of Chinese nationals in key positions. This should lead to better transference of Western know-how towards running the company. However, the company must still be able to operate effectively in China and needs to ensure that good relations remain with the company stakeholders both internal and external.

One issue which may need to be addressed is succession planning and the structure of the board going forward. Some board changes were undertaken quickly in order to comply with NASDAQ listing rules and further changes to the structure need to ensure good governance and adherence to issue such as the number of independent board members.

FINANCIALS

INCOME STATEMENT

The company achieved net sales of around $234m in year 2010 and we expect it to achieve revenue of over $400m in 2011 following its acquisition last year of M2P2.

In 2010 numbers, US Hog Production was included in the divisional breakdown. The change in the shape of the company following M2P2's acquisition and the proposed addition of a Harvesting business may lead to differences in revenue reporting going forward. This will provide useful information for judging on-going performance and forward forecasting

AgFeed is currently developing three revenue streams following acquisition of M2P2: animal nutrition, Chinese hog production (including Chinese Western style farms) and US hog production. Additionally, it is moving into hog processing by adding a harvesting unit. This may require a change in reporting lines in the future if it generates significant other revenue.

2010 net income was reduced by a number of one-time non-recurring charges and additionally by one-time professional fees and expenses of $1,055,833 in connection with acquisition of M2P2. The Chinese hog production business continues to recover from low margins and weaker production following the impact of floods and extreme heat in 2010 Q2 and Q3, also from an outbreak of disease in Jiangxi Province which led to lower-weight pigs being sold.

The table below outlines major assumptions used to generate indicative revenue for the businesses:

Table 3: Divisional Forecasts

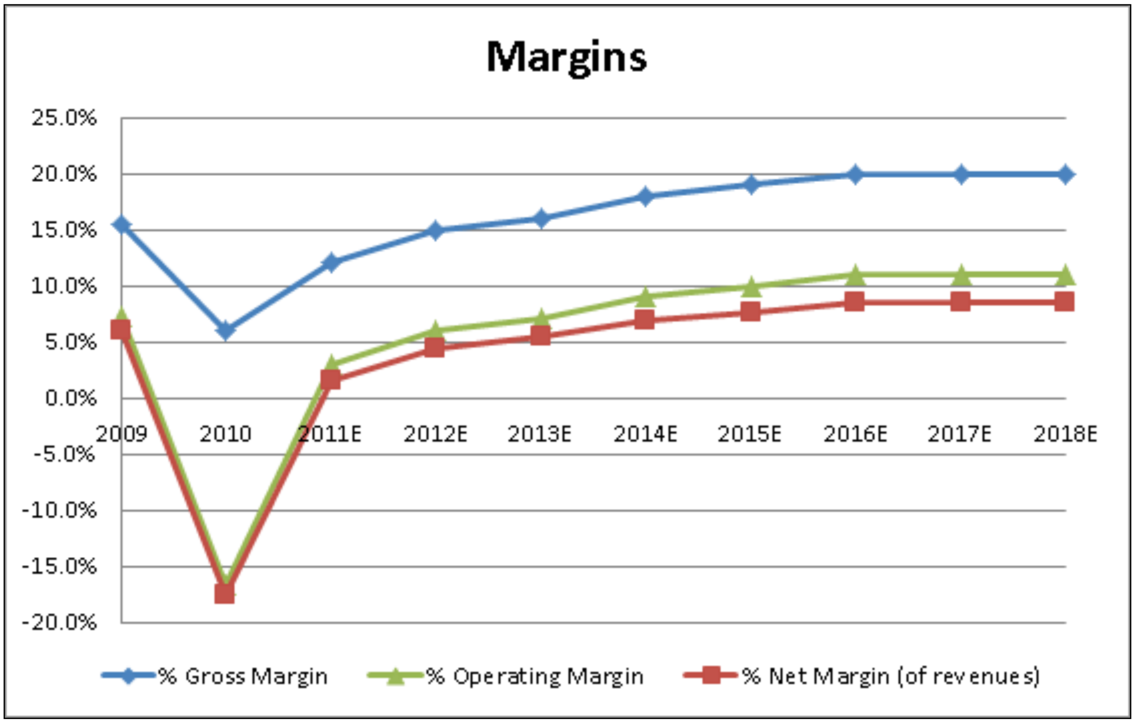
Divisional Level										
Animal feed nutrition	**FY 2010 A**	**FY 2011 E**	**FY 2012 E**	**FY 2013 E**	**FY 2014 E**	**FY 2015 E**	**FY 2016 E**	**FY 2017 E**	**FY 2018 E**	**FY 2019 E**
Volume (Metric Tonnes)	177,000	235,410	270,722	284,258	292,785	301,569	310,616	319,934	329,532	339,418
Growth	50.8%	**33%**	**15%**	**5%**	**3%**	**3%**	**3%**	**3%**	**3%**	**3%**
Revenue Per MT	679	659	678	685	692	699	706	713	720	727
Change	2.2%	**-3%**	**3%**	**1%**	**1%**	**1%**	**1%**	**1%**	**1%**	**1%**
Total Revenue	120,310,563	155,058,163	183,666,394	194,778,211	202,627,773	210,793,672	219,288,657	228,125,990	237,319,467	246,883,442
Hog production - China			**Western Farms**							
Volume (hogs)	474,554	**375,000**	**1,000,000**	**1,500,000**	**1,750,000**	**1,900,000**	**2,000,000**	**2,000,000**	**2,000,000**	**2,000,000**
Revenue (in 000s)	72,154,261									
Revenue/hog	152	152	158	161	165	168	171	175	178	182
Change in Revenue Per Hog	-6.2%	**0.0%**	**4.0%**	**2.0%**	**2.0%**	**2.0%**	**2.0%**	**2.0%**	**2.0%**	**2.0%**
Hog production - M2P2										
Volume (hogs)	422,006	**1,308,219**	**1,373,630**	**1,401,102**	**1,429,124**	**1,457,707**	**1,486,861**	**1,516,598**	**1,546,930**	**1,577,869**
		210.0%	5.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Revenue/hog	156	**172**	**174**	**177**	**180**	**182**	**185**	**188**	**191**	**194**
Change in Revenue Per Hog		10.0%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Revenue (in 000s)	65,950	**224,890**	**239,676**	**248,137**	**256,896**	**265,964**	**275,353**	**285,073**	**295,136**	**305,554**

MARGINS

AgFeed's businesses tend to have relatively low gross margins. They are particularly at risk of sharp rises in input rises in corn and soyabean meal, ahead of hog prices and these typically amount to 60-75% of raw material costs. China is actively trying to manage prices to mitigate additional increases.

The chart below details the history and forecasts of group margins.

Chart 2: Group Margins.



Published margins at M2P2 have been variable but in 2009, gross margin was just 6% with a 2% net margin. Incorporation of M2P2 in the business and creation of new Western style farms, makes margin assumptions going forward more difficult until the operating characteristics of all new farms are known.

In 2010, margins were hit by a number of write-offs and costs which could be considered one-off in nature. These were detailed in the 10-K annual report and amounted to approximately $15 million of operating losses and $30 million of write-downs in goodwill and asset values.

Looking forward, we see margins remaining volatile as the impact of food price inflation leads to leads and lags between input costs and achieved prices. The table below sets out margin forecasts.

Table 4: Margin Forecasts.

Forecasts	FY 2010 A	FY 2011 E	FY 2012 E	FY 2013 E	FY 2014 E	FY 2015 E	FY 2016 E	FY 2017 E	FY 2018 E	FY 2019 E
Gross Profit Margin	15.4%	12.0%	15.5%	17.0%	18.0%	19.0%	20.0%	20.0%	20.0%	20.0%
SG&A (% of Revenue)	10.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%

Appendix A provides more detail on the financial model and Appendix B looks at a DuPont analysis to determine the drivers of recent financial performance.

HOW SHOULD AGFEED BE VALUED?

AgFeed is a relatively young stock with a limited track record in stock markets. It is mid way through implementing a strategic plan to transform its operation by being one of the leaders in introducing Western style farm units in China. It has expanded, through acquisition of M2P2, into USA hog production in the USA and seems in a good position to expand further within the USA and also elsewhere. However it is still developing and this was clearly highlighted in 2010 when AgFeed made a major US acquisition and began closure & rationalization of its existing Chinese Hog Farms, leading to losses in the financial year.

It could be described as a "speculative stock" having little significant historical data on which to derive a view on value, because the Company's transformation remains on-going. Therefore, a substantial portion of valuation is based, to quote Graham and Dodd, "on projection, conjecture, extrapolation, hopes and even dreams".

There are a number of approaches to ascribing value in stocks such as these.

As it goes through the investment process, the use of such determinants as PE will be of limited usefulness, as current earnings will not reflect the growth the company is likely to see on a longer term view. The main determinants of valuation are Potential and Risk. Valuation is a process and assumptions made are critical to this process.

This report provides an assessment on management, the market environment and development of the Company's strategic plan. Given the fluid nature of companies at this stage of development, there is no right or wrong answer to valuation; nevertheless reasonable indications can be derived. The primary method used for this report is the discounted cash flow method which takes a base case scenario for the development of the company over the next five years. It obviously requires the company to deliver commercialization on time and to achieve the necessary margin structure. Any changes to this scenario will have a considerable impact on the model. Furthermore, given the risks of a company at this stage in its development, a high discount rate has been used. If the company performs well, there will be a considerable upside as the numbers in the model could see improvements and the perceived "riskiness" of the company decrease leading to a lower discount rate; both lead to a higher value. Obviously the converse is also true if the company fails to deliver. We have also looked at other relative valuation measures but feel this is less appropriate given the current transitional situation of the company.

The IPO of AANI will allow an independent valuation of this component of the business and provide a guide to how the market values the balance of the hog production business.

DISCOUNTED CASH FLOW VALUATION

We have used a discounted cash flow method to value the stock. This involves a number of assumptions about the company and uses the forecasts detailed in the next section.

We explicitly modeled cash flows to 2020 and then calculated a terminal value based on a constant growth in EBITDA. The table below summaries the assumptions used to determine the discount rate used in this analysis.

Table 5: Discounted Cash Flow Valuation Assumption

ASSUMPTIONS	
Equity Risk Premium	10.0%
Marginal Tax Rate	20.0
Cost of Debt	8.0%
Long term Growth Rate	2.0%
Risk Free Rate	3.2%
Beta (versus NASDAQ)	1.46

Equity Risk Premium has been set at 10% to reflect a number of risks the company currently faces in terms of location of operations, size of the company, etc. Marginal tax rate reflects an estimate of the mix of tax from the US and Chinese operations and the impact of current tax losses carried forward. Cost of debt has been estimated at 8% reflecting the kind of rates that high yield debt is currently attracting. Long term growth rate is based on likely level of future GDP growth in China and the US together with the relatively mature nature of the markets in which AgFeed operates.
Forecasts to 2019 reflect the bigger growth opportunities that AgFeed might exploit as industry consolidation and scale improvements bring merger and acquisition activity. If the company undertakes more corporate activities over this period, for example increasing geographical exposure, this could create faster long term growth.

Risk free rate is assumed to be current yield on US 10 Year Treasury Bonds. Beta is calculated against the NASDAQ index.

These assumptions allow the calculation of the weighted cost of capital which is the discount rate used in the valuation. This is set out in the table below.

Table 6: Weighted Average Cost of Capital Calculation

Calculation of WACC			
Risk free rate (Assumed as 10 Year Treasury Yield) % - Rf	3.18	Market Capitalisation (E)	76
Risk-Premium % (Rm-Rf)	10.0	Average Net Debt/(Cash) (D)	61
Beta	1.46	***Total Funding***	***137***
Cost of Equity= Rf+beta(Rm-Rf)	***17.78%***	***Funding***	
Cost of Net Debt %	8.0%	% Market Cap	55.5
Group marginal tax rate %	20%	% Net Debt	44.5
Market Price/Share	1	% Mkt Cap*Cost of Equity	9.88%
Diluted Shares O/S	62	% Net Debt*Post-Tax Cost of Debt	2.85%
		WACC=E/(D+E)* Re+ D/(D+E)*Rd(1-T)	***12.72%***

Using this discount rate together with our financial projections allows a view on the likely value of AgFeed Industries. Obviously, it is indicative of the value inherent in the stock and we have looked at sensitivity to a number of the assumptions to determine the range of valuation that the company could trade at. These are outlined in tables 7 and 8

Table 7: Discounted Cash Flow Value

FCF and Terminal Value	
Sum of PV of FCF (9 years)	226
WACC	12.7%
Long term growth rate in EBIT	**2.0%**
Present value of terminal Value	233
Terminal Value as % of Total Value	***50.8%***
Intrinsic ("Fair") Value Calculation	
Enterprise Value (Equity Value + Net Debt)	**459**
- Debt	(73)
+ Cash	12
Net Debt	61
Equity Value (Market Capitalization)	**399**
Diluted Shares Outstandsing	62
Fair Value Per Share, $	**6.5**

Table 8: Sensitivity Analysis

Sensitivity Anaysis - Terminal Value Approach - Growth In Perpetuity Method										
			at a Perpetual Growth Rate of:				Enterprise Value			
	WACC	PV of FCF	1.0%	2.0%	3.0%		1.0%	2.0%	3.0%	
From Model	12.7%	226	213	233	257		439	459	483	
	11.0%	246	292	324	365		537	570	610	
	12.0%	234 +	242	267	296	=	476	501	530	
Sensitivity	13.0%	223	203	222	244		426	445	467	
	14.0%	213	172	186	203		385	399	416	
	15.0%	203	146	157	171		349	361	374	

		Equity Value (EV - Net Debt)				Fair Value Per Share		
	+	1.0%	2.0%	3.0%		1.0%	2.0%	3.0%
From Model	12.7%	379	399	423		$6.1	$6.5	$6.8
	11.0%	477	509	550		$7.7	$8.3	$8.9
	12.0%	416	440	470	=	$6.7	$7.1	$7.6
Sensitivity	13.0%	366	384	406		$5.9	$6.2	$6.6
	14.0%	324	338	355		$5.3	$5.5	$5.8
	15.0%	289	300	313		$4.7	$4.9	$5.1

Based on the scenario outlined in this note, our discounted cash flow valuation shows that the company might achieve a value in excess of $6 per share if it can demonstrate the levels of growth outlined. Obviously, if the company can demonstrate better returns that outlined here, the valuation can improve further. The current share price appears to indicate that there are concerns over the ability of the company to deliver this outcome and the degree of visibility of the future earnings stream.

COMPARATOR VALUATION

Valuation versus peers is an alternative method of valuing these types of agricultural stocks. Generally a "normalized" PE ratio is used in order to adjust for the effects of agricultural cycles. Given the transitional state of AgFeed today, this is unlikely to be a valid valuation method. However, tables 9 and 10 below show data on both Chinese and US based compactors. AgFeed looks to be valued at the bottom end of these peers at present.

Based on our 2012 estimates and average PE of 9x, the company could be worth around $3 per share using this methodology.

Table 9: Peer Valuation – Price Earnings

Ticker	Company	Year End	Market Cap, $ million	Current Price	Earnings 2010	2011	2012	PE 2010	2011	2012
FEED	AgFeed Industries Inc	Dec 31	69	$1.23	-0.9	0.08	0.51	-1.4x	15.4x	2.4x
HOGS	Zhongpin Inc	Dec 31	649	$16.09	1.65	1.84	2.3	9.8x	8.7x	7.0x
CSWG.OB	Sen Yu International Holdings, Inc.	Jun 30	18	$0.85	0.29	-	-	2.9x	-	-
OINK	Tianli Agritech	Dec 31	30	$3.01	0.9	-	-	3.3x	-	-
US Based Comparators										
HRL	Hormel Foods Corp	Oct 31	7,970	$29.84	1.46	1.7	1.75	20.4x	17.6x	17.1x
TSN	Tyson Foods Inc	Oct 2	7,000	$18.53	2.06	2.02	2.02	9.0x	9.2x	9.2x
SFD	Smithfield Foods Inc	May 2	3,410	$20.55	-0.65	2.9	2.44	-31.6x	7.1x	8.4x

Table 10: Peer Valuation – Other Metrics

Ticker	Company	ROE %	Div. Yield %	Long-Term Debt to Equity	Price to Book
FEED	AgFeed Industries Inc	-31.5%	-	59.1%	0.5x
HOGS	Zhongpin Inc	16.1%	-	69.5%	1.4x
CSWG.OB	Sen Yu International Holdings, Inc.	43.5%	-	--	--
OINK	Tianli Agritech	37.5%	-	2.4%	1.0x
US Based Comparators					
HRL	Hormel Foods Corp	18.4%	0.5%	13.7%	3.1x
TSN	Tyson Foods Inc	17.1%	0.1%	43.4%	1.3x
SFD	Smithfield Foods Inc	13.6%	--	77.1%	1.1x

APPENDIX A – SUMMARY FINANCIALS

INCOME STATEMENT

Company Name

AgFeed Industries

5/15/2011

Symbol

FEED

in $Mil, except per share data	2009	2010	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
INCOME STATEMENT											
Gross Revenue	**$ 173.2**	**$ 243.6**	**$ 422.1**	**$ 557.5**	**$ 654.3**	**$ 713.1**	**$ 758.5**	**$ 797.7**	**$ 822.0**	**$ 847.1**	**$ 873.0**
% Growth (1 year)	20.6%	40.7%	73.3%	32.1%	17.4%	9.0%	6.4%	5.2%	3.0%	3.1%	3.1%
Cost of Goods Sold	$ 146.6	$ 228.9	$ 371.5	$ 473.9	$ 549.6	$ 584.7	$ 614.4	$ 638.1	$ 657.6	$ 677.7	$ 698.4
Gross Profit	**$ 26.6**	**$ 14.7**	**$ 50.7**	**$ 83.6**	**$ 104.7**	**$ 128.4**	**$ 144.1**	**$ 159.5**	**$ 164.4**	**$ 169.4**	**$ 174.6**
% Gross Margin	15.4%	6.0%	12.0%	15.0%	16.0%	18.0%	19.0%	20.0%	20.0%	20.0%	20.0%
Operating Expenses											
SG&A	$ 14.0	$ 24.5	$ 38.0	$ 50.2	$ 58.9	$ 64.2	$ 68.3	$ 71.8	$ 74.0	$ 76.2	$ 78.6
% SGA (of revenue)	8.1%	10.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%
Impairments	$ -	$ 30.6	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Total Operating Expenses	$ 14.0	$ 55.1	$ 38.0	$ 50.2	$ 58.9	$ 64.2	$ 68.3	$ 71.8	$ 74.0	$ 76.2	$ 78.6
Income from Operations (EBIT)	$ 12.6	$ (40.4)	$ 12.7	$ 33.5	$ 45.8	$ 64.2	$ 75.9	$ 87.7	$ 90.4	$ 93.2	$ 96.0
% Operating Margin											
as %age of revenue	7.3%	-16.6%	3.0%	6.0%	7.0%	9.0%	10.0%	11.0%	11.0%	11.0%	11.0%
Other Income (Expenses)											
Interest & Other Income	$ 0.2	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0
Interest & Other Expense	$ 1.5	$ 1.4	$ 4.8	$ 4.3	$ 3.9	$ 3.5	$ 3.2	$ 2.8	$ 2.6	$ 2.3	$ 2.1
Income Before Tax											
Pre-Tax Income	$ 11.3	$ (41.8)	$ 7.9	$ 29.2	$ 41.9	$ 60.7	$ 72.7	$ 84.9	$ 87.9	$ 90.9	$ 94.0
Income Tax Expense	$ 1.1	$ 1.2	$ 0.9	$ 4.7	$ 5.9	$ 10.9	$ 14.5	$ 17.0	$ 17.6	$ 18.2	$ 18.8
After Tax Income/Loss	$ 10.2	$ (43.0)	$ 6.9	$ 24.5	$ 36.1	$ 49.8	$ 58.2	$ 68.0	$ 70.3	$ 72.7	$ 75.2
Adjustments/Minorities	$ (0.2)	$ (0.3)	$ 0.5	$ 0.5	$ 0.5	$ 0.5	$ 0.5	$ 0.5	$ 0.5	$ 0.5	$ 0.5
Net Income, Continuing Ops	**$ 10.3**	**$ (42.7)**	**$ 6.4**	**$ 24.0**	**$ 35.6**	**$ 49.3**	**$ 57.7**	**$ 67.5**	**$ 69.8**	**$ 72.2**	**$ 74.7**
% Net Margin (of revenues)	6.0%	-17.5%	1.5%	4.3%	5.4%	6.9%	7.6%	8.5%	8.5%	8.5%	8.6%
Other Comprehensive Income	$ 0.0	$ 4.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0
Comprehensive Income	$ 10.2	$ (39.0)	$ 7.0	$ 24.5	$ 36.1	$ 49.8	$ 58.2	$ 68.0	$ 70.3	$ 72.7	$ 75.2
Per Share Data											
Basic EPS (Continuing Ops)	$ 0.25	$ (0.90)	$ 0.10	$ 0.37	$ 0.52	$ 0.69	$ 0.79	$ 0.92	$ 0.94	$ 0.96	$ 0.99
Diluted EPS (Continuing Ops)	$ 0.25	$ (0.90)	$ 0.10	$ 0.37	$ 0.52	$ 0.69	$ 0.79	$ 0.92	$ 0.94	$ 0.96	$ 0.99
Depreciation & Amortization Expense	$ 3.40	$ 3.65	$ 16.88	$ 22.02	$ 25.84	$ 28.17	$ 29.96	$ 31.51	$ 32.47	$ 33.46	$ 34.48
EBITDA	$ 15.99	$ (36.79)	$ 29.55	$ 55.48	$ 71.64	$ 92.35	$ 105.81	$ 119.25	$ 122.88	$ 126.64	$ 130.51
EBITDA Margin	9.2%	-15.1%	7.0%	10.0%	11.0%	13.0%	14.0%	15.0%	15.0%	15.0%	15.0%
Shares Outstanding - Basic	41.0	47.5	61.7	64.8	68.0	71.4	72.8	73.6	74.3	75.1	75.8
Shares Outstanding - Fully Diluted	41.2	47.5	61.7	64.8	68.0	71.4	72.8	73.6	74.3	75.1	75.8

BALANCE SHEET

in $Mil, except per share data	2009	2010	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
BALANCE SHEET											
ASSETS											
Current Assets											
Cash & Equivalents	$ 36.6	$ 12.4	$ 69.5	$ 59.9	$ 76.5	$ 127.6	$ 176.1	$ 237.5	$ 306.4	$ 381.0	$ 458.4
Restricted Cash	$ 1.0	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Marketable Securities	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Accounts Receivable, net	$ 15.6	$ 23.6	$ 33.8	$ 44.6	$ 52.3	$ 57.0	$ 60.7	$ 63.8	$ 65.8	$ 67.8	$ 69.8
Inventories	$ 26.0	$ 84.6	$ 42.2	$ 66.9	$ 78.5	$ 71.3	$ 75.9	$ 79.8	$ 82.2	$ 84.7	$ 87.3
Prepaid Expenses	$ 1.3	$ 2.3	$ 4.2	$ 5.6	$ 6.5	$ 7.1	$ 7.6	$ 8.0	$ 8.2	$ 8.5	$ 8.7
Current Deferred Taxes	$ -	$ 0.1	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0
Other Current Assets	$ 0.0	$ -									
Total Current Assets	**$ 80.5**	**$ 122.9**	**$ 149.7**	**$ 176.9**	**$ 213.9**	**$ 263.1**	**$ 320.2**	**$ 389.1**	**$ 462.6**	**$ 542.0**	**$ 624.3**
Fixed Assets, net	$ 34.6	$ 66.0	$ 85.1	$ 124.4	$ 146.5	$ 163.9	$ 166.6	$ 178.8	$ 184.4	$ 190.1	$ 194.8
Intangible Assets	$ 43.8	$ 28.2	$ 28.2	$ 28.2	$ 28.2	$ 28.2	$ 28.2	$ 28.2	$ 28.2	$ 28.2	$ 28.2
Non-Current Deferred Taxes	$ -	$ 2.3	$ 1.0	$ 2.0	$ 3.0	$ 4.0	$ 5.0	$ 6.0	$ 7.0	$ 8.0	$ 8.0
Other Non-Current Assets	$ 4.0	$ 4.1	$ 6.2	$ 11.2	$ 13.1	$ 14.3	$ 15.2	$ 16.0	$ 16.4	$ 16.9	$ 17.5
TOTAL ASSETS	**$ 162.9**	**$ 223.5**	**$ 270.1**	**$ 342.7**	**$ 404.6**	**$ 473.4**	**$ 535.1**	**$ 617.9**	**$ 698.6**	**$ 785.2**	**$ 872.7**
LIABILITIES & EQUITY											
Liabilities											
Current Liabilities											
Accounts Payable	$ 8.1	$ 13.4	$ 29.5	$ 39.0	$ 45.8	$ 49.9	$ 53.1	$ 55.8	$ 57.5	$ 59.3	$ 61.1
Notes Payable	$ -	$ 1.0	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Short-Term Debt	$ 4.4	$ 6.3	$ 6.7	$ 6.0	$ 5.4	$ 4.9	$ 4.4	$ 3.9	$ 3.6	$ 3.2	$ 2.9
Accrued Liabilities	$ 1.1	$ 7.9	$ 10.6	$ 13.9	$ 16.4	$ 17.8	$ 19.0	$ 19.9	$ 20.5	$ 21.2	$ 21.8
Deferred Revenues	$ 0.6	$ 0.5	$ 1.1	$ 1.4	$ 1.6	$ 1.8	$ 1.9	$ 2.0	$ 2.1	$ 2.1	$ 2.2
Current Deferred Taxes	$ 0.4	$ 1.9	$ 1.1	$ 1.4	$ 1.6	$ 1.8	$ 1.9	$ 2.0	$ 2.1	$ 2.1	$ 2.2
Other Current Liabilities	$ 0.1	$ 0.1	$ 0.4	$ 0.6	$ 0.7	$ 0.7	$ 0.8	$ 0.8	$ 0.8	$ 0.8	$ 0.9
Total Current Liabilities	**$ 14.6**	**$ 31.2**	**$ 49.3**	**$ 62.3**	**$ 71.5**	**$ 76.9**	**$ 81.0**	**$ 84.5**	**$ 86.6**	**$ 88.8**	**$ 91.1**
Long-Term Debt	$ 0.9	$ 66.9	$ 60.2	$ 54.2	$ 48.8	$ 43.9	$ 39.5	$ 35.5	$ 32.0	$ 28.8	$ 25.9
Other Long-Term Liabilities/[required funding]	$ -	$ -	$ -	$ -	-	$ -	-	$ -	$ -	$ -	$ -
Total Liabilities	**$ 15.5**	**$ 98.0**	**$ 109.5**	**$ 116.5**	**$ 120.3**	**$ 120.8**	**$ 120.5**	**$ 120.1**	**$ 118.6**	**$ 117.5**	**$ 117.0**
Equity											
Preferred Stockholder Equity	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Common Stock Equity	$ 147.4	$ 125.4	$ 149.4	$ 177.2	$ 216.7	$ 270.2	$ 329.7	$ 398.0	$ 468.7	$ 541.9	$ 617.5
Equity, Other	$ -	$ -	$ 11.2	$ 49.0	$ 67.6	$ 82.4	$ 85.0	$ 99.9	$ 111.3	$ 125.8	$ 138.2
Total Equity	**$ 147.4**	**$ 125.4**	**$ 160.6**	**$ 226.2**	**$ 284.3**	**$ 352.6**	**$ 414.6**	**$ 497.9**	**$ 580.0**	**$ 667.7**	**$ 755.7**
TOTAL LIABILITIES & EQUITY	**$ 162.9**	**$ 223.5**	**$ 270.1**	**$ 342.7**	**$ 404.6**	**$ 473.4**	**$ 535.1**	**$ 617.9**	**$ 698.6**	**$ 785.2**	**$ 872.7**

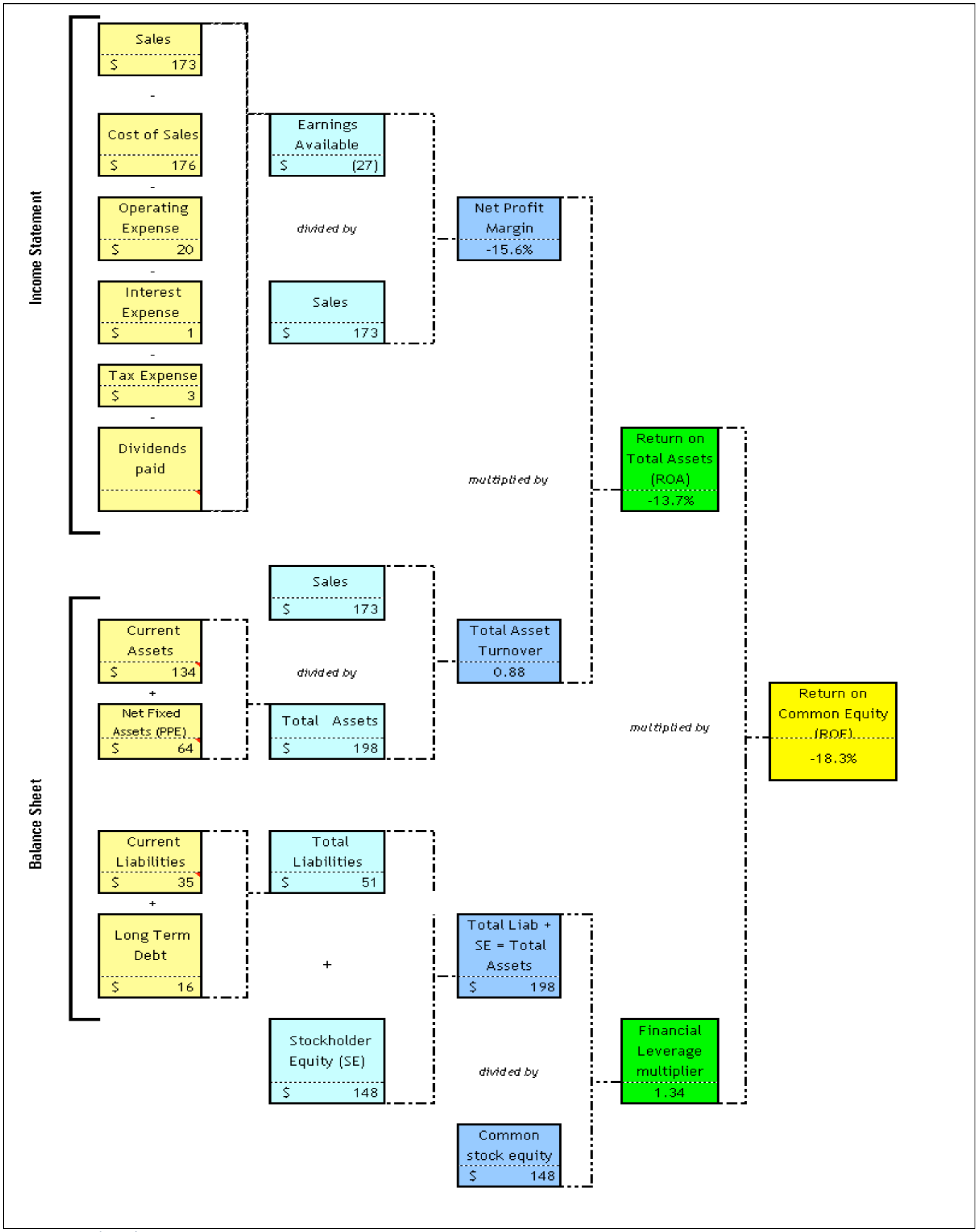
CASH FLOWS

in $Mil, except per share data	2009	2010	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
CASH FLOWS											
Operating Activities											
Net Income (Continuing Ops)	$ 10.2	$ (43.0)	$ 6.9	$ 24.5	$ 36.1	$ 49.8	$ 58.2	$ 68.0	$ 70.3	$ 72.7	$ 75.2
Adjustments to Reconcile Net Income to											
Net Operating Cash											
Depreciation & Amortization	$ 3.4	$ 3.6	$ 16.9	$ 22.0	$ 25.8	$ 28.2	$ 30.0	$ 31.5	$ 32.5	$ 33.5	$ 34.5
Deferred Income Taxes	$ -	$ (2.4)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Operating (Gains) Losses	$ 1.3	$ 2.7	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Extraordinary (Gains) Losses	$ -	$ 30.6	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Other Non-Cash (Income) Expenses	$ 0.6	$ 1.8	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Change in Operating Assets and Liabilities											
(Increase) Decrease: Receivables	$ (7.7)	$ (0.7)	$ (10.2)	$ (10.8)	$ (7.7)	$ (4.7)	$ (3.6)	$ (3.1)	$ (1.9)	$ (2.0)	$ (2.1)
(Increase) Decrease: Inventories	$ (3.6)	$ 1.5	$ 42.4	$ (24.7)	$ (11.6)	$ 7.2	$ (4.5)	$ (3.9)	$ (2.4)	$ (2.5)	$ (2.6)
(Increase) Decrease: Prepaid Expenses	$ (0.2)	$ (0.3)	$ (2.0)	$ (1.4)	$ (1.0)	$ (0.6)	$ (0.5)	$ (0.4)	$ (0.2)	$ (0.3)	$ (0.3)
Decrease (Increase): Payables	$ 1.3	$ (9.6)	$ 16.1	$ 9.5	$ 6.8	$ 4.1	$ 3.2	$ 2.7	$ 1.7	$ 1.8	$ 1.8
Decrease (Increase): Other Working Capital	$ (1.4)	$ 5.8	$ 1.0	$ 2.0	$ 3.0	$ 4.0	$ 5.0	$ 6.0	$ 7.0	$ 8.0	$ 8.0
Net Cash From Operating Activities	**$ 3.9**	**$ (10.0)**	**$ 71.2**	**$ 21.1**	**$ 51.4**	**$ 88.0**	**$ 87.7**	**$ 100.8**	**$ 106.9**	**$ 111.2**	**$ 114.6**
Investing Activities											
Net Capital Expenditures	$ (9.9)	$ (21.1)	$ (25.3)	$ (27.9)	$ (32.7)	$ (35.7)	$ (36.0)	$ (35.9)	$ (34.9)	$ (33.9)	$ (34.9)
Net (Acquisitions) Divestitures	$ -	$ (12.4)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Net (Purchase) Sale of Long-Term Investments	$ 0.8	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Other Investing Activities	$ (1.0)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Net Cash From Investing Activities	**$ (10.0)**	**$ (33.6)**	**$ (25.3)**	**$ (27.9)**	**$ (32.7)**	**$ (35.7)**	**$ (36.0)**	**$ (35.9)**	**$ (34.9)**	**$ (33.9)**	**$ (34.9)**
Financing Activities											
Net (Purchase) Issuance of Debt	$ 4.5	$ 5.5	$ (6.3)	$ (6.7)	$ (6.0)	$ (5.4)	$ (4.9)	$ (4.4)	$ (3.9)	$ (3.6)	$ (3.2)
Net (Purchase) Issuance of Stock	$ 16.3	$ 12.5	$ 17.5	$ 3.8	$ 4.0	$ 4.2	$ 1.8	$ 0.9	$ 0.9	$ 0.9	$ 0.9
Payment of Dividends	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Other Financing Activities (including Exchange Effects)	$ (3.0)	$ 0.4	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Net Cash From Financing Activities	**$ 17.9**	**$ 18.4**	**$ 11.3**	**$ (2.9)**	**$ (2.0)**	**$ (1.2)**	**$ (3.1)**	**$ (3.5)**	**$ (3.0)**	**$ (2.6)**	**$ (2.3)**
Net Change in Cash	$ 11.7	$ (25.2)	$ 57.1	$ (9.7)	$ 16.6	$ 51.1	$ 48.5	$ 61.4	$ 68.9	$ 74.7	$ 77.4
Free Cash Flow	**$ (6.0)**	**$ (31.1)**	**$ 45.9**	**$ (6.8)**	**$ 18.7**	**$ 52.3**	**$ 51.7**	**$ 64.9**	**$ 71.9**	**$ 77.3**	**$ 79.7**

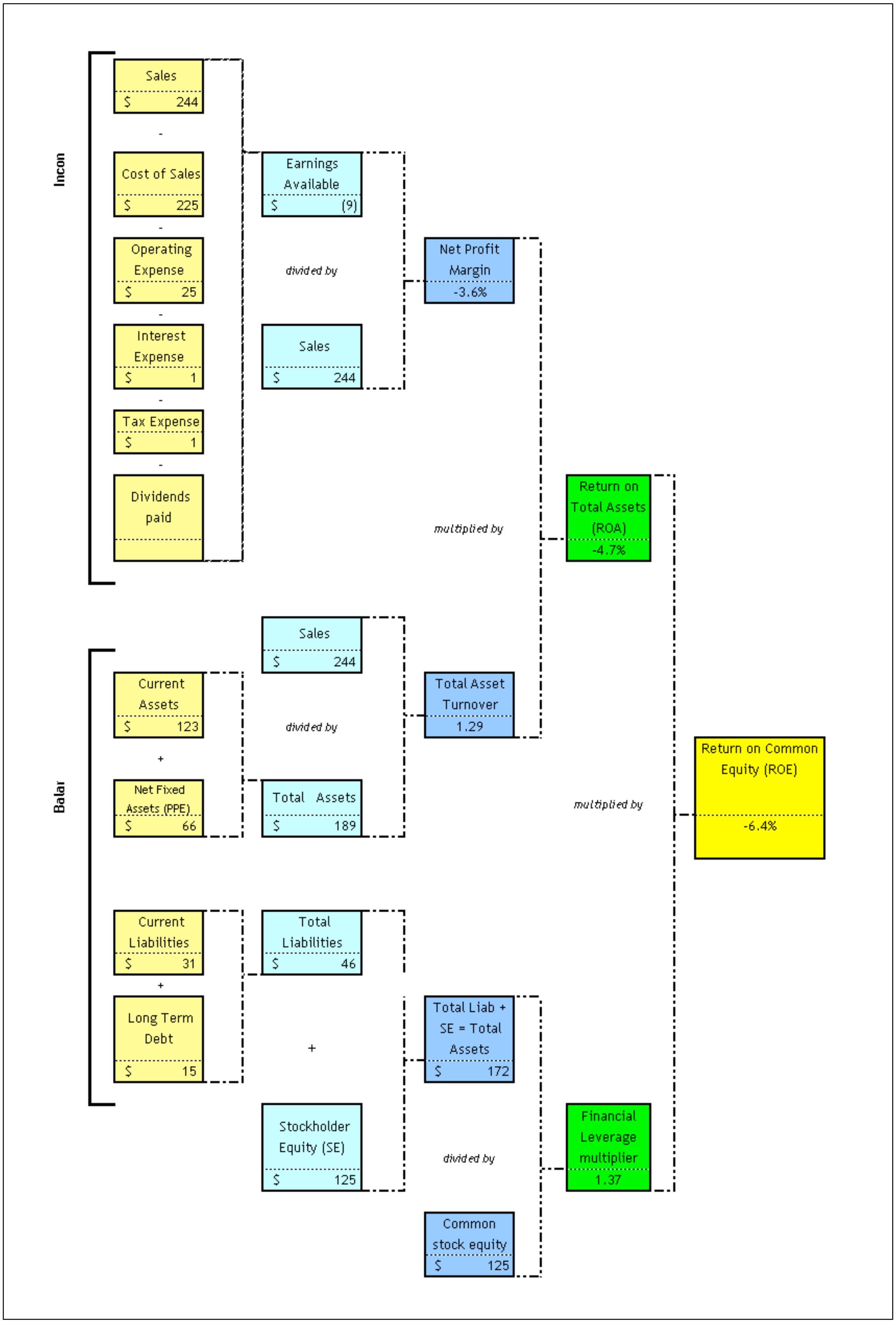
FINANCIAL SUMMARY

FINANCIAL SUMMARY in $Mil, except per share data	2009	2010	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
Income Statement											
Revenues	$ 173.2	$ 243.6	$ 422.1	$ 557.5	$ 654.3	$ 713.1	$ 758.5	$ 797.7	$ 822.0	$ 847.1	$ 873.0
Gross Profit	$ 26.6	$ 14.7	$ 50.7	$ 83.6	$ 104.7	$ 128.4	$ 144.1	$ 159.5	$ 164.4	$ 169.4	$ 174.6
Operating Income	$ 12.6	$ (40.4)	$ 12.7	$ 33.5	$ 45.8	$ 64.2	$ 75.9	$ 87.7	$ 90.4	$ 93.2	$ 96.0
Net Income	$ 10.3	$ (42.7)	$ 6.4	$ 24.0	$ 35.6	$ 49.3	$ 57.7	$ 67.5	$ 69.8	$ 72.2	$ 74.7
Balance Sheet											
Excess Cash	$ 7.2	$ 12.4	$ 38.6	$ 5.1	$ 10.6	$ 69.0	$ 113.0	$ 170.5	$ 236.8	$ 308.9	$ 383.6
Total Current Assets	$ 80.5	$ 122.9	$ 149.7	$ 176.9	$ 213.9	$ 263.1	$ 320.2	$ 389.1	$ 462.6	$ 542.0	$ 624.3
Total Fixed Assets	$ 34.6	$ 66.0	$ 85.1	$ 124.4	$ 146.5	$ 163.9	$ 166.6	$ 178.8	$ 184.4	$ 190.1	$ 194.8
Total Assets	$ 162.9	$ 223.5	$ 270.1	$ 342.7	$ 404.6	$ 473.4	$ 535.1	$ 617.9	$ 698.6	$ 785.2	$ 872.7
Current Liabilities	$ 14.6	$ 31.2	$ 49.3	$ 62.3	$ 71.5	$ 76.9	$ 81.0	$ 84.5	$ 86.6	$ 88.8	$ 91.1
Long-Term Debt	$ 0.9	$ 66.9	$ 60.2	$ 54.2	$ 48.8	$ 43.9	$ 39.5	$ 35.5	$ 32.0	$ 28.8	$ 25.9
Total Liabilities	$ 15.5	$ 98.0	$ 109.5	$ 116.5	$ 120.3	$ 120.8	$ 120.5	$ 120.1	$ 118.6	$ 117.5	$ 117.0
Shareholders' Equity (Common)	$ 147.4	$ 125.4	$ 149.4	$ 177.2	$ 216.7	$ 270.2	$ 329.7	$ 398.0	$ 468.7	$ 541.9	$ 617.5
Tangible Equity	$ 99.6	$ 90.9	$ 125.3	$ 184.9	$ 240.1	$ 306.2	$ 366.3	$ 447.8	$ 528.4	$ 614.6	$ 702.1
Cash Flow											
Cash From Operations	$ 3.9	$ (10.0)	$ 71.2	$ 21.1	$ 51.4	$ 88.0	$ 87.7	$ 100.8	$ 106.9	$ 111.2	$ 114.6
Capital Expenditures	$ (9.9)	$ (21.1)	$ (25.3)	$ (27.9)	$ (32.7)	$ (35.7)	$ (36.0)	$ (35.9)	$ (34.9)	$ (33.9)	$ (34.9)
Free Cash Flow	$ (6.0)	$ (31.1)	$ 45.9	$ (6.8)	$ 18.7	$ 52.3	$ 51.7	$ 64.9	$ 71.9	$ 77.3	$ 79.7
Owner Earnings (Quick Calculation)	$ 4.3	$ (28.0)	$ (1.5)	$ 18.6	$ 29.2	$ 42.3	$ 52.1	$ 63.6	$ 67.9	$ 72.3	$ 74.8
Start Cash Balance	$ 24.8	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
End Cash Balance	$ 36.6										
Profitability											
Gross Margin	15.4%	6.0%	12.0%	15.0%	16.0%	18.0%	19.0%	20.0%	20.0%	20.0%	20.0%
Operating Margin	7.3%	-16.6%	3.0%	6.0%	7.0%	9.0%	10.0%	11.0%	11.0%	11.0%	11.0%
Net Margin	6.0%	-17.5%	1.5%	4.3%	5.4%	6.9%	7.6%	8.5%	8.5%	8.5%	8.6%
Efficiency											
CROIC	3.0%	-15.6%	-0.9%	8.2%	11.5%	17.3%	20.3%	24.2%	25.7%	27.6%	28.8%
Return on Capital	32.7%	-63.1%	13.1%	22.6%	26.9%	32.1%	36.4%	39.3%	39.2%	39.2%	39.4%
Return on Equity	7.0%	-34.0%	4.3%	13.5%	16.4%	18.2%	17.5%	16.9%	14.9%	13.3%	12.1%
Per Share Data											
EPS	$ 0.25	$ (0.90)	$ 0.10	$ 0.37	$ 0.52	$ 0.69	$ 0.79	$ 0.92	$ 0.94	$ 0.96	$ 0.99
DPS	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Tangible Book Value	$ 2.4	$ 1.9	$ 2.0	$ 2.9	$ 3.5	$ 4.3	$ 5.0	$ 6.1	$ 7.1	$ 8.2	$ 9.3

APPENDIX B – DUPONT ANALYSIS (2009 & 2010)



2009


Incon
Sales
$ 244
Cost of Sales
$ 225
Operating Expense
$ 25
Interest Expense
$ 1
Tax Expense
$ 1
Dividends paid
Earnings Available
$ (9)
divided by
Sales
$ 244
Net Profit Margin
-3.6%
multiplied by
Return on Total Assets (ROA)
-4.7%
Balar
Current Assets
$ 123
Net Fixed Assets (PPE)
$ 66
Sales
$ 244
Total Assets
$ 189
Total Asset Turnover
1.29
multiplied by
Return on Common Equity (ROE)
-6.4%
Current Liabilities
$ 31
Long Term Debt
$ 15
Total Liabilities
$ 46
Stockholder Equity (SE)
$ 125
Total Liab + SE = Total Assets
$ 172
divided by
Common stock equity
$ 125
Financial Leverage multiplier
1.37

APPENDIX C - CURRENT MARKET EXPECTATIONS

The Table below details current expectations in the market place. AgFeed is currently only covered by one broker, Rodman & Renshaw.

Earnings Estimates	Current Qtr. Jun 11	Next Qtr. Sep 11	Current Year Dec 11	Next Year Dec 12
Number of Analysts	1	1	1	1
Low Estimate	$0.02	$0.05	$0.08	$0.51
High Estimate	$0.02	$0.05	$0.08	$0.51
Year Ago EPS	-$0.07	-$0.43	-$0.90	$0.08
Average Estimate	$0.02	$0.05	$0.08	$0.51

Revenue Estimates	Current Qtr. Jun 11	Next Qtr. Sep 11	Current Year Dec 11	Next Year Dec 12
Number of Analysts	1	1	1	1
Average Estimate	97M	99M	392M	545M
Low Estimate	97M	99M	392M	545M
High Estimate	97M	99M	392M	545M
Year Ago EPS	38M	54M	244M	392M
Sales Growth	158.1%	83.9%	61.0%	38.9%

Consensus EPS Trend	Current Qtr. Jun 11	Next Qtr. Sep 11	Current Year Dec 11	Next Year Dec 12
Current Estimate	$0.02	$0.05	$0.08	$0.51
7 Days Ago	$0.11	$0.13	$0.49	$1.05
30 Days Ago	$0.11	$0.13	$0.49	$1.05
60 Days Ago	$0.11	$0.13	$0.49	$1.05
90 Days Ago	$0.11	$0.13	$0.49	$1.05

EPS Revisions	Current Qtr. Jun 11	Next Qtr. Sep 11	Current Year Dec 11	Next Year Dec 12
Up Last 7 Days	0	0	0	0
Up Last 30 Days	0	0	0	0
Down Last 30 Days	1	1	1	1
Down Last 90 Days				

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