

APPLICATION OF

AB MAURI FLEISCHMANN'S

FOR PAYMENTS IN LIEU OF TAXES

BEFORE

**THE ECONOMIC DEVELOPMENT GROWTH ENGINE
INDUSTRIAL DEVELOPMENT BOARD**

OF THE

CITY OF MEMPHIS AND COUNTY OF SHELBY,

TENNESSEE

2011

SUPPLEMENT

I. AB Mauri Fleischmann's Fresh Yeast Production In Memphis, Tennessee.

INTRODUCTION

AB Mauri Fleischmann's ("ABMF's" or Applicant's) Memphis facility is devoted to the production of fresh yeast, sometimes referred to as bakers' wet yeast. Fresh yeast is a commodity product, highly competitive based on price, and exists in a market which has significant excess capacity. Accordingly, ABMF's Memphis facility faces competition not only from other companies whose plants have lower costs of production, but also from ABMF's other production facilities, which have lower operating costs. (The original attributes of a Memphis location, as has been discussed — river transportation and relatively low utility expenses — no longer apply, due to a shifting of raw material needs from molasses to corn syrup and an increase in utility expenses in Memphis.) ABMF's Montreal facility, however, which will soon have excess capacity, makes additional products which ABMF's Memphis facility does not, and is closer than Memphis to key markets. In some respects, this Montreal facility presents a more attractive solution to ABMF's challenge to produce and deliver to its customers a low-cost high-quality fresh yeast product than its Memphis facility does.

To be competitive, ABMF seeks to trim as much as \$4,000,000 per year from its operating costs. In order to achieve significant operating cost reductions, ABMF will need to invest in new technologies (i.e., new equipment). Accordingly, the PILOT incentive requested is needed to buttress ABMF's return on that investment and help it achieve the requisite operating cost savings so that its Memphis facility can remain operational for the long term and even, eventually, allow ABMF to grow its presence in Memphis.

DISCUSSION

As explained in ABMF's PILOT Application, as previously filed with The Industrial Development Board of the City of Memphis and County of Shelby, Tennessee, predecessor in interest to The Economic Development Growth Engine Industrial Development Board of the City of Memphis and County of Shelby, Tennessee ("IDB"), the fresh yeast business in North America is very competitive,

with very low profit margins, due to over-capacity in the industry.¹ ABMF's Memphis facility manufactures both cream yeast and packaged yeast. The largest input cost for these products is for the fermentable sugars that are used to propagate yeast growth. These sugars primarily come in the form of molasses from various sources and corn syrup from Cargill. Due to the year to year variability of price, quality and availability of these sugars, ABMF's Memphis plant needs to be as flexible as possible to achieve the best cost/quality position.

Customers demand consistent, high quality, low cost yeast; and, due to the variability in sugar inputs, achieving this result can be challenging. Thus, in order to serve its customers, be cost competitive in the market, and to realize an acceptable level of profitability, ABMF must invest in process technology. The summary below is intended to describe some of the new technologies being considered for ABMF's Memphis facility and how they will allow this facility to reduce its operating costs if the project set forth in ABMF's PILOT Application (the "Project") materializes. These reductions in operating costs, coupled with reductions in property taxes from the PILOT program and other initiatives that ABMF may be able to accomplish, will all contribute to the long term viability of ABMF's Memphis facility.

ABMF has set a target reduction in total operating costs of \$4 million per year in order to be on a "level playing field" with its competition. ABMF understands that this level of cost reduction may be difficult to achieve, but it expects its Memphis facility to be profitable if it is to remain viable for the long term, and significant operating cost reductions must be achieved in order to achieve the requisite level of profitability.

As would be expected, ABMF's multi-year capital investment plan is updated annually as business dynamics change and as strategies are revised, but the following summary represents some of the actions that have been identified for the Project and which would allow ABMF's operating costs to be reduced were the Project to materialize. These proposed investments in capital improvements are in addition to other capital expenditures for ABMF's Memphis plant.

¹ Said PILOT Application is hereby incorporated by reference and made a part of this Supplement.

1. Investment in Membrane Technology (such as reverse osmosis) for treatment of ABMF's water streams to reduce ABMF's effluent costs and its salt consumption, and for possible recycling of water.
2. The heat and humidity of summer months in Memphis cause a reduction in plant capacity. Since fresh yeast is perishable and inventories of this product cannot be built up, ABMF can only sell product at the level of its highest volume in its most capacity limited season; thus, summer capacity affects ABMF's plant capacity year round in Memphis. Investment in high efficiency blowers and additional cooling will increase year round capacity, which will bring the overall cost per unit of product down through more efficient allocation of fixed costs.
3. Investment in process automation and information systems will reduce batch to batch variability, improve efficiency and reliability, and result in more cost effective operations.
4. Investment in process technology for moisture control of packaged yeast will also reduce operating costs.
5. Bulk ingredient handling upgrade will produce additional operating cost savings.

The above summary describes some of what ABMF will need to do in order for its Memphis facility to be competitive and profitable. Significant additional capital expenditures, including significant upgrades and proprietary plans which cannot be divulged in a public record document such as this (that ABMF's competition could obtain), which are necessary to the continued operation of ABMF's Memphis facility, will also be made. Again, much of the details of ABMF's plan are proprietary and cannot be disclosed in a public record document,

but the above summary gives some examples of how the Project would serve to enhance the profitability and viability of ABMF's Memphis facility.

Alternatively, ABMF's plant in Montreal, Quebec, will soon have substantial excess capacity, once the dry yeast production at that facility is successfully transitioned to ABMF's new plant in Veracruz, Mexico. This Canadian facility could be renovated to provide ABMF's customers the product now being produced at ABMF's Memphis facility. The Montreal plant has two key benefits that ABMF's Memphis facility lacks: closer proximity to the heavily populated Northeast region of the US/Canada; and dry yeast manufacturing capabilities that can be used for specialty yeasts for the ethanol and distillery industries

As you would expect, ABMF is working diligently to develop the lowest cost plans for operating the Montreal plant (post dry yeast transition), which includes developing a capacity utilization strategy, and exploring initiatives with the local government and authorities there, similar to what it is doing in Memphis. The level of success ABMF has with these efforts in both locations will go a long way in determining how ABMF splits its fresh yeast production between Montreal and Memphis. Ideally, ABMF would like to keep both plants open, but market conditions, competition, and profitability will surely dictate the ultimate outcome over the next few years.

II. Amendments to PILOT Application.

- A. Capital Investment: \$10 million in new capital expenditures to be made by the end of the second year of the PILOT term. The total amount of capital investment for the Project is estimated at \$10,500,000.
- B. Ramp Up Period – 3 years. Capital Expenditures, Job Numbers and Wages, as set forth in the PILOT Application, as here amended, to be achieved within the ramp up period. ABMF needs the one additional year beyond the standard two (2) year ramp up period in order to

assure that it is able to achieve all of its numbers and that all of its capital investment is included in the PILOT.

- C. ABMF's PILOT Incentive Request set forth at Item 5 of the Application, seeking a nine (9) year PILOT term, is hereby amended to request an eight (8) year PILOT term, consistent with the other changes to its Application effected by this Supplement. (Before consideration of any additional PILOT term for its Diversity Plan or Green Initiative.)

III. Conclusion.

- A. Operating cost reductions made possible with the incentive provided by the PILOT Program are important.
- B. If ABMF's Memphis facility can reduce its operating costs to an acceptable level, it is likely to remain in operation; and, if it remains, it is likely ABMF and/or related companies will, over time, grow their presence in Memphis. The opposite is also true.
- C. Profitability and, hence, the long term viability of ABMF's Memphis facility, will be dependent on many factors beyond just tax savings; however, tax savings are important, and the positive action of the IDB on ABMF's PILOT Application is important to ABMF, not only for the tax savings, but also because of the signal such action will send to ABMF's senior management, as regards Memphis' ability to work with ABMF in the future, were it to decide to site a new plant or significant expansion beyond the Project in Memphis. The PILOT incentive is clearly an incentive the IDB can award for the Project, unlike some other potential non-PILOT incentives from which ABMF will likely receive little or no benefit.
- D. The volatility of corn prices, as well as the volatility of molasses prices and supply, requires ABMF's Memphis plant to be as flexible as possible, so as to be able to accommodate changing inputs.

Accordingly, investment in technology, as is part of the Project, will be an important factor for ABMF's success in Memphis. ABMF needs Memphis and Shelby County to partner with it in these efforts. The PILOT Program incentives are especially important to ABMF, as it now appears local and state government will not be able to provide much other support of a financial nature for the Project.

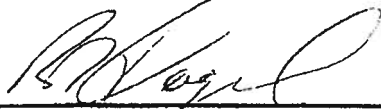
APPLICATION REPRESENTATIONS AND COVENANTS

This Supplement is made in order to induce The Industrial Development Board of the City of Memphis and County of Shelby, Tennessee to grant financial incentives to Applicant. Applicant represents and warrants that the statements contained herein or attached hereto are true and correct to the best of its knowledge and, together with the Application as previously filed, include all information materially significant to the Board in its consideration of this matter.

Applicant has read and agrees to comply with all requirements of the Application Procedures and Policies of The Industrial Development Board of the City of Memphis and County of Shelby, Tennessee. Applicant specifically agrees to pay all reasonable costs, fees and expenses incurred by the Board in connection with this Application.

APPLICANT:

AB Mauri Fleischmann's

By: 

Title: VP Mfg.

Date: January 27, 2012