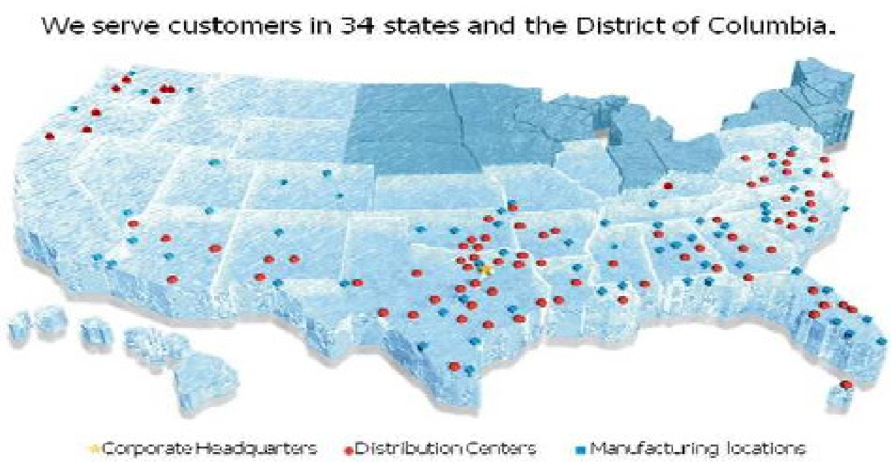
Sung Nam
July 31, 2012

Reddy Ice Part 2

Growth and Acquisitions

The company acknowledged growth is driven by acquisitions, of which they executed 80 small acquisitions for $160 MM over the past 9 years. The co. is the largest ice maker, distributor in the U.S., largely concentrated in the South, near Texas, Bible & Sun Belt. They have a very small presence in California, which could be saturated by the 2 other large ice distributors. We believe the co. will continue to pursue small acquisitions in the heavily fragmented industry. Excess costs and price premiums are associated with the strategy, which is a waste of capital. The packaged ice industry in the U.S. and Canada is a $2.3 BB market, so the co. only has a 15% market share. **Accumulated impairment loss is $150 MM!!!** No wonder this co. went to Ch. 11. Of $220 MM spent on goodwill or premium over book value of target, $150 MM was impaired. The co. saw a large goodwill impairment cost meaning a lot of their acquisitions are not justified and will continue to cut away in the asset base and eventually, the equity.



Topline growth is driven by expanding their clientele base. It is extremely difficult to raise the price of ice as it could be easily replaced by ice made by the retail customers' home freezers. It may be more difficult for large companies such as ball parks, supermarkets to replace the co.'s services. The co. targets clients within a 100 mile radius of their distribution centers, due to the nature of ice and the high cost to transport. A fleet of trucks are owned and leased during the peak summer season. We believe the co. should be performing well right now, amidst the heat wave in the U.S.

Cost Drivers

A large part of the COGS is **plastic bags**, which consumed **6%** of $370 MM revenue, or $20 MM in 2011. The co. signed a 5 year purchase agreement to buy 500 MM plastic bags every year for 5 years, which is roughly

$0.04/bag ($20 MM for 500 MM plastic bags). **Electricity is 5%** of revenue, used primarily in the distribution/manufacturing facilities. Another cost driver is fuel prices, which is another 5% of revenue. The final cost driver is distribution costs through 3rd party ice distributors, which delivered 28% of ice sales. The delivery fee were 6% of revenue, or a combined **12% for distribution/transportation**.

The co. has been under antitrust lawsuits for a few years where unnecessary funds were allotted to the legal bills, which didn't necessarily break the camel's back, but aggravated the situation. The co.'s filing mentions economic woes hurt top line, but from our stance, revenue held solid during the period. However, if management expected double digit growth, then it would have been weaker performance. If that is not the case, management is trying to cover the true underlying issue with a scapegoat, or the economy. Management members were mainly from Cadbury Schweppes, almost as if old management was replaced by a team placed by a PE firm or a large investor.

Valuation

Real Estate – Own 44 manufacturing plants and 26 distribution centers for a combined 70 properties. Maybe a gross combined value of $30 - $50 MM, assuming $500k to $750K for each property.

Non- Real Estate Assets – A negative $96MM in book value; $87 MM goodwill remaining; Roughly $50 MM in quick assets, $150 MM in equipment and property (Need to back out property estimate from $180 PP&E, or $30-$50MM from above paragraph); $470 MM in debt+revolving credit. **We think only $100 MM in assets (excluding real estate) supports the $470 MM in debt.**

Free cash flow – 30% GM 3 years ago, now down to 21% (higher fuel, electricity cost); Co. couldn't sustain their acquisition activity from operating cash flow so they borrowed debt. Op. cash flow averaged $60 MM, covering $30 MM cap ex investment and $15 MM acquisition costs. In an inflationary environment, fuel and electricity costs will rise (in deregulated districts) and it will cut into FCF.

Debt – Debt interest expense reached $50 MM. $300 MM in senior 11.25% 2013 maturity and $139 MM in senior 13.25% loans 2015 maturity. Once the debt is recapitalized, **100% recovery on 11.25% 2013 (only 10-40% in liquidation), and 13.25% converted to common shares**, then interest expense will be based on $300 MM debt base. Zero money goes to unsecured claims.

RE: $30 MM + Other assets: $100 MM =	$130 MM
New debt based:	$300 MM
Deficient amount:	$170 MM
Preferred shares:	$145 MM
Projected FCF (annually; after capex):	$30 MM

Common stock value will be positive after 10 years

All facts and figures are from the Disclosure Statement Soliciting Acceptances of a Joint Plan of Reorganization file provided by KCCLLC.net.

Reddy Ice Corporation
LIQUIDATION ANALYSIS [1]
($000s)

	Est 3/31/12 Balance Sheet Amount	Recovery / Cash Proceeds Low	Recovery / Cash Proceeds High		
I. Assets					
Cash in Operating Account	$ 11,572	$ 11,572	$ 11,572		
Return of Restricted Cash [2]	10,592	644	1,525		
Minority Investments [3]	7,357	6,880	9,173		
Accounts Receivable	23,483	14,090	18,786		
Notes Receivable - Affiliate	1,275	0	0		
Sale of Inventories	13,976	1,285	2,570		
Plant and Equipment	109,266	10,927	54,633		
Land and Buildings [4]	71,969	43,181	57,575		
		$ 88,578	$ 155,834		
II. Liabilities					
Wind-Down Operating Costs		(1,796)	(2,904)		
Trustee Fees		(2,657)	(4,675)		
Professional Fees		(2,094)	(3,450)		
Proceeds Available for Distribution		$ 82,031	$ 144,805		
	Claim	**Recovery Low**	**Recovery High**	**Recovery Percentage Low**	**Recovery Percentage High**
III. Senior Secured Claims					
Macquarie DIP Revolver	$ 55,000	$ 55,000	$ 55,000	*100.0%*	*100.0%*
First Term Notes 11.25%	302,813	27,031	89,805	*8.9%*	*29.7%*
Second Term Notes 13.25%	145,156	0	0	*0.0%*	*0.0%*
Total Secured Debt		82,031	144,805		
Proceeds Available for Distributions to Administrative Claims		$ 0	$ 0		
IV. Administrative Claims					
Sales and Use Taxes	11	0	0	*0.0%*	*0.0%*
Accrued Payroll	178	0	0	*0.0%*	*0.0%*
Payroll Taxes & Benefits	2,474	0	0	*0.0%*	*0.0%*
Proceeds Available for Distributions to Priority Unsecured Claims		$ 0	$ 0		
V. Priority Claims					
Taxes	2,287	0	0	*0.0%*	*0.0%*
Other Priority Claims	0	0	0		
Proceeds Available for Distributions to Subordinated Unsecured Claims		$ 0	$ 0		

PROJECTIONS

(Dollars in millions)

	2011A	2012F(1)	2013F	2014F	2015F	2016F
Revenue	\$328.5	\$341.0	\$347.6	\$359.7	\$372.2	\$385.3
COGS	229.1	228.2	226.0	232.2	239.1	247.9
Gross Profit	99.4	112.8	121.6	127.5	133.1	137.4
Gross Profit Margin	30.3%	33.1%	35.0%	35.4%	35.8%	35.7%
SG&A	57.2	57.2	55.8	57.5	59.2	61.0
Adjusted EBITDA(2)	\$44.5	\$57.2	\$66.4	\$70.7	\$74.6	\$77.1
Adjusted EBITDA Margin	13.5%	16.8%	19.1%	19.7%	20.0%	20.0%
Capital Expenditures, net	\$12.9	\$10.7	\$11.4	\$11.3	\$11.7	\$12.7
Change in Working Capital(3)	\$0.9	\$0.5	(\$1.0)	\$0.2	\$0.2	\$0.2