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JANUARY 7, 2008

COMPANY SUMMARY

Monday, January 7, 2008

Speaker: Bob Cummins

Rating: Strong Buy

Food Industry Comment:

ConAgra Foods (CAG-\$23.15)

	<u>F2007</u>	<u>F2008E</u>	<u>F2009E</u>	<u>Dividend/ Yield</u>	<u>Shares Out. (mil.)</u>	<u>12-Mo. Range</u>	<u>12-Mo. Target</u>
EPS (a)	\$1.51	\$1.65	\$1.85	\$0.76	490.7	\$28-\$23	\$29-\$30
P/E	-	14.0x	12.5x	3.3%			

(a) May fiscal years. Excludes nonrecurring gains and charges.

ConAgra's results for F2Q (November), reported December 20th, continued the trend of the August period. EPS of \$0.53, up 33%, were well in excess of expectations, driven by impressive earnings gains in the Trading & Merchandising and Food & Ingredients segments. Meanwhile, profits in the largest segment, Consumer Foods, which is more highly rated by many analysts, continued to lag, as margins remained under severe pressure due to delays in raising prices to offset commodity price inflation, which amounted to 8% in the latest quarter. As a result, the stock declined on the news, despite the strong overall earnings. We would take advantage of this weakness to establish or add to positions.

Given the heightened activity in commodity markets around the world, we suspect that trading opportunities for experienced companies like ConAgra will continue to generate higher profits than in the past, albeit with periodic fluctuations. On the other hand, we are pleased that CEO Gary Rodkin is now taking a direct role in the packaged foods pricing process, and stated on the conference call that Consumer Foods results will show progress in that regard in F3Q, with even more to come in F4Q. The upside earnings potential is substantial, since Consumer is a \$6.6 billion a year business, and its operating margin of 13.0% in the first half was 290 basis points below a year ago. Meanwhile, the stock price is 18% below its recent high of \$28.35 in

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See page 10 for Analyst's Certification, pages 10-11 for Important Disclosures and pages 11-12 for Other Disclosures and Disclaimers

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December, 2006, and close to a 15-month low, despite trailing earnings that are 36% higher, while the 3.3% yield on the recently increased dividend is one of the highest in the food industry. We are reemphasizing our “1” (Strong Buy) rating, although we are shading our 12-month target price from \$31-\$32 to \$29-\$30 to reflect current stock market conditions.

ConAgra’s **Trading & Merchandising** segment, the source of most of this year’s profit growth, according to the 10-K report engages in “the sourcing, merchandising, trading, marketing and distribution of agricultural and energy commodities.” It has general, merchandising and administrative offices in Omaha, Tulsa and Savannah, as well as in eight foreign countries. It operates 73 production facilities and 61 storage facilities across the U.S. In addition to its commodity trading activities, it is the number one global source of fertilizer components, and operates the third largest grain-handling system in the U.S.

For most analysts, this was an obscure and relatively unimportant division in the past, and they rightly focused their attention on the brand-name consumer food business. T&M contributed only 13% of segment operating profits in F2005, and 12% in F2006. The well-publicized runup in commodity prices in the past several years has changed the situation. The segment represented 18% of total profits in F2007, thanks to a dramatic increase in the May quarter, when its profits were nearly five times those of a year earlier. For the six months ended November, 2007, sales increased 74%, and segment earnings were more than four times those of a year ago, accounting for 25% of corporate profits, versus a below-average 7% in the prior-year period. The increased relative importance of the segment has been influenced by weak earnings in Consumer Foods, but the absolute increase in profits for the six months (from \$55 million to \$234 million) is impressive. For obvious reasons, management is avoiding specific estimates for the second half. We would note that the \$62 million earned in the February 2007 quarter was only modestly above those of the previous two years, and does not seem to represent a difficult comparison, but the \$200 million in the May period was a record high in the history of the company, and a difficult target to match, much less exceed. As mentioned above, we suspect that Trading & Merchandising may continue to account for a higher percentage of earnings, and thus greater volatility for the company as a whole, than in prior years, but a gradual improvement in consumer profits should help to smooth the trend.

Food & Ingredients, with annual sales of \$3.6 billion, is ConAgra’s second largest business segment, after Consumer Foods, and also is performing well. On average, it contributed 23% of segment profits over the past three years, but in the first half of F2008 it amounted to 27% versus 24% a year ago, thanks to a 29% increase in operating income, as well as the decline in CAG’s Consumer profits. Its largest single subsidiary, and one of ConAgra’s most successful businesses, is Lamb Weston, the leading manufacturer and distributor of potato products and other food items to McDonald’s and other fast-food chains around the world. CAG is also one of the nation’s leading flour millers, as well as a supplier of seasonings and flavorings to food processors. After a relatively easy comparison in the November quarter, we expect year-to-year earnings progress for the segment to slow in the current quarter, and pick up again in F4Q.

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Finally, **Consumer Foods** had a highly successful F2007, as inflation pressures were offset by benefits from cost reduction programs. Operating income was up 21% at the end of nine months, and would have increased at least 15% for the year, despite flat sales, except for a strategic decision to increase marketing expenditures sharply in F4Q to take advantage of the record-high profits in Trading. F2008 has been a different story. Consumer Foods sales for the year to date are up 2.2%, but operating income is down 17%, reflecting accelerated cost inflation and management's failure to raise prices promptly to pass it on. The operating margin for the first six months was 13.0% of sales, compared with 15.9% a year ago, and 12.6% in the same period of F2006. Thus, the company has given back virtually all of last year's margin improvement, and profitability is back to the unsatisfactory level of two years ago, when CEO Rodkin took charge.

We are pleased by management's obvious dedication to reversing this year's margin decline in Consumer through more aggressive pricing actions. The company instituted more price increases in F2Q than in F1Q, but most of the impact was offset through trade promotions. Some of the current pricing steps will be reflected in profit margins in the February quarter, but more of the impact will be seen in the May period, and even more in F2009. As discussed above, Consumer earnings in the May 2007 quarter were artificially depressed due to above-average marketing outlays. The margin for that period was only 11.5% of sales, down from 15.0% a year earlier, and the lowest for any quarter since August 2005. We expect that analysts will take that easy comparison into account in judging the company's success in raising prices to offset inflation.

Inasmuch as Consumer Foods profits were artificially depressed in the May 2007 quarter, we believe results for the 12 months ended February 2007 are the most realistic basis for judging recovery earning power for the division. Segment operating income for that period was \$1.054 billion, on sales of \$6.488 billion, or a margin of 16.2% of sales. For the May 2008 fiscal year, we tentatively estimate sales at \$6.683 billion, and income at \$903 million, or 13.5% of sales. Based on a 16.2% margin, operating income this year would have been \$1.083 billion, representing an incremental \$180 million before taxes, and \$117 million after taxes, or \$0.24 per share, a 15% increase on our estimate of \$1.65 for F2008.

Thanks in part to the strong performance of the non-Consumer businesses, ConAgra Foods continues to generate a substantial amount of excess cash. In the first half of F2008, net income and noncash charges, less capital expenditures and dividend payments, amounted to \$212 million (\$0.43 per share), versus \$204 million (\$0.40) a year ago. Share repurchases for the six months totaled \$88 million, down from \$203 million a year ago, reflecting the completion of the previous buyback program. However, on September 27th the company announced a 5.6% increase in the annual dividend, from \$0.72 to \$0.76 per share, and the board also authorized a new \$500 million repurchase program, which at the present price would result in the retirement of 21.4 million shares, or 4.4% of the total outstanding. We expect that the company will be an active buyer, in view of the depressed price of the shares.

Table 1: ConAgra Foods, Inc. - Quarterly Summary (millions except EPS) (a)

	Continuing Operations					
	F2008	F2007	F2006	F2005	F2006	F2005
August						
Net Sales	\$2,955.6	\$2,688.6	\$2,673.8	\$2,630.6	\$3,362.9	\$3,383.2
Cost of Goods Sold	2,235.2	2,025.6	2,003.1	1,995.1	2,635.4	2,700.4
Gross Profit	720.4	663.0	670.7	635.5	727.5	682.8
SG&A Expenses	418.1	398.2	391.0	376.5	427.0	386.1
Operating Profit	302.3	264.8	279.7	259.0	300.5	296.7
Interest Expense, Net	58.5	58.0	72.4	73.4	68.1	73.4
Income Before Taxes	243.8	206.8	207.3	185.6	232.4	223.3
Income Taxes	85.0	75.8	82.3	74.6	74.6	91.4
Income After Taxes	158.8	131.0	125.0	111.0	157.8	131.9
Equity Earnings	12.3	2.2	5.1	14.1	7.9	14.1
Net Income	\$171.1	\$133.2	\$130.1	\$125.1	\$165.7	\$146.0
Diluted Shares	492.8	512.4	520.5	521.4	520.5	521.4
EPS	\$0.35	\$0.26	\$0.25	\$0.24	\$0.32	\$0.28
% of Sales						
Gross Profit	24.4%	24.7%	25.1%	24.2%	21.6%	20.2%
SG&A Expenses	14.2	14.9	14.6	14.4	12.7	11.4
Oper. Profit	10.2	9.8	10.5	9.8	8.9	8.8
Effective Tax Rate	34.9%	36.7%	39.7%	40.2%	32.1%	40.9%
November						
Net Sales	\$3,511.0	\$3,068.7	\$3,002.0	\$3,118.2	\$3,810.2	\$4,009.1
Cost of Goods Sold	2,546.9	2,278.4	2,270.6	2,311.3	3,003.0	3,108.1
Gross Profit	964.1	810.3	731.4	806.9	807.2	901.0
SG&A Expenses	519.2	445.1	431.4	406.8	440.2	433.4
Operating Profit	444.9	365.2	300.0	400.1	367.0	467.6
Interest Expense, Net	64.3	52.1	68.6	85.8	62.2	85.8
Income Before Taxes	380.6	313.1	231.4	314.3	304.8	381.8
Income Taxes	143.2	117.2	87.6	126.1	114.1	151.3
Income After Taxes	237.4	195.9	143.8	188.2	190.7	230.5
Equity Earnings	23.1	8.6	7.3	15.1	7.3	15.1
Net Income	\$260.5	\$204.5	\$151.1	\$203.3	\$198.0	\$245.6
Diluted Shares	490.7	511.3	521.0	517.5	521.0	517.5
EPS	\$0.53	\$0.40	\$0.29	\$0.39	\$0.38	\$0.47
% of Sales						
Gross Profit	27.5%	26.2%	24.4%	25.9%	21.2%	22.5%
SG&A Expenses	14.8	14.4	14.4	13.0	11.6	10.8
Oper. Profit	12.7	11.8	10.0	12.8	9.6	11.7
Effective Tax Rate	37.6%	37.4%	37.9%	40.1%	37.4%	39.6%

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Table 1: (Continued)

	Continuing Operations			
	F2008	F2007	F2006	F2005
February		(b)		
Net Sales	\$2,918.4	+2%	\$2,861.8	+4%
Cost of Goods Sold	2,076.7	+16	724.4	+2
Gross Profit	841.7		405.7	+2
SG&A Expenses	453.2	+22	318.7	+2
Operating Profit	388.5	+33	249.9	+7
Interest Expense, Net	56.1	+36	86.4	+8%
Income Before Taxes	332.4		163.5	
Income Taxes	109.7		8.4	
Income After Taxes	222.7		\$171.9	
Equity Earnings	9.6		520.9	
Net Income	\$232.4		\$0.33	
Diluted Shares	506.7	(3)%	\$0.37	+9%
EPS	\$0.43E	+36	\$0.34	
% of Sales				
Gross Profit	28.8%		25.3%	21.5%
SG&A Expenses	15.5		14.2	11.8
Oper. Profit	13.3		11.1	9.7
Effective Tax Rate	33.0%		34.6%	36.4%
May		(b)		
Net Sales	\$3,332.5	+13%	\$2,944.4	(2)%
Cost of Goods Sold	2,437.3	+25	2,227.5	+5
Gross Profit	895.2		716.9	
SG&A Expenses	557.0	+17	427.8	+14
Operating Profit	338.2	+23	289.1	+22
Interest Expense, Net	59.4	+26	62.2	+29
Income Before Taxes	278.8		226.9	
Income Taxes	99.7		85.1	
Income After Taxes	179.1		141.8	
Equity Earnings	20.0		5.6	
Net Income	\$199.1		\$147.4	
Diluted Shares	498.2	(4)%	519.1	-
EPS	\$0.40	+43	\$0.28	+22%
% of Sales				
Gross Profit	26.8%		24.3%	22.8%
SG&A Expenses	16.7		14.5	14.3
Oper. Profit	10.1		9.8	8.5
Effective Tax Rate	35.8%		37.5%	41.0%

(a) Excludes nonrecurring gains and charges.

(b) Excludes charge for product recall.

Table 2: ConAgra Foods, Inc. - Quarterly Segment Results (millions) (a)

	F2008	F2007	F2006	F2005
Aug. - Net Sales:				
Consumer Foods	\$1,567.3	\$1,509.6	\$1,499.5	\$1,549.3
Food & Ingredients	908.7	831.5	770.5	728.1
Trading & Merchandising	327.9	205.4	260.0	222.9
International Foods	151.7	142.1	143.8	130.3
Total	\$2,955.6	\$2,688.6	\$2,673.8	\$2,630.6
	+3%	+1%	+1%	+2%
	+11	+8	+6	(3)%
	+60	(21)	+17	+6
	+5	(1)	+10	+17
	+10%	+1%	+2%	+10
Operating Profit:				
Consumer Foods	\$175.9b	\$206.6	\$166.4	\$187.0
Food & Ingredients	120.2	106.3	96.4	88.8
Trading & Merchandising	69.3	15.6	53.5	34.6
International Foods	11.3	13.1	17.3	12.2
Segment Total	\$376.7	\$341.6	\$333.6	\$322.6
General Corp. Expense	74.4	76.8	72.9	63.6
Company Total	\$302.3	\$264.8	\$260.7	\$259.0
	(16)%	+24%	(11)%	(11)%
	+15	+10	+9	+9
	+344	(71)	+55	+42
	(14)	(24)	+42	+42
	+10	+3	+3	+3
	(3)	+5	+15	+15
	+14%	+2%	+1%	+1%
Operating Margin:				
Consumer Foods	11.2%	13.7%	11.1%	12.1%
Food & Ingredients	13.2	12.8	12.5	12.2
Trading & Merchandising	21.1	7.6	20.6	15.5
International Foods	7.4	9.2	12.0	9.4
Segment Total	12.7	12.7	12.5	12.3
General Corp. Expense	(2.5)	(2.9)	(2.7)	(2.5)
Company Total	10.2%	9.8%	9.8%	9.8%
	+2%	+10%	(8)%	(8)%
	+84	(1)	-	-
	+13	(1)	(4)%	(4)%
	+14%	+3%	+3%	+3%
	(17)%	+29%	(24)%	(24)%
	+45	-	+4	+4
	+323	38.9	32.7	49.6
	+1	14.2	14.9	17.2
	+24	\$459.8	\$384.1	\$477.1
	+43	94.6	84.1	77.0
	+20%	\$365.2	\$300.0	\$400.1
Nov. - Net Sales:				
Consumer Foods	\$1,794.8	\$1,752.2	\$1,753.2	\$1,898.0
Food & Ingredients	995.0	885.7	805.3	750.3
Trading & Merchandising	545.5	297.3	288.6	315.0
International Foods	175.7	153.5	154.9	154.9
Total	\$3,511.0	\$3,088.7	\$3,002.0	\$3,118.2
	+2%	-	(8)%	(8)%
	+14	+3	(8)	(8)
	+84	(1)	-	-
	+13	(1)	(4)%	(4)%
	+14%	+3%	+3%	+3%
	(17)%	+29%	(24)%	(24)%
	+45	-	+4	+4
	+323	38.9	32.7	49.6
	+1	14.2	14.9	17.2
	+24	\$459.8	\$384.1	\$477.1
	+43	94.6	84.1	77.0
	+20%	\$365.2	\$300.0	\$400.1
Operating Profit:				
Consumer Foods	\$261.0	\$314.7	\$244.6	\$321.7
Food & Ingredients	131.3	92.0	91.9	88.6
Trading & Merchandising	164.5	38.9	32.7	49.6
International Foods	14.7	14.2	14.9	17.2
Segment Total	\$571.5	\$459.8	\$384.1	\$477.1
General Corp. Expense	126.6	94.6	84.1	77.0
Company Total	\$444.9	\$365.2	\$300.0	\$400.1
	(17)%	+29%	(24)%	(24)%
	+45	-	+4	+4
	+323	38.9	32.7	49.6
	+1	14.2	14.9	17.2
	+24	\$459.8	\$384.1	\$477.1
	+43	94.6	84.1	77.0
	+20%	\$365.2	\$300.0	\$400.1
Operating Margin:				
Consumer Foods	14.5%	18.0%	14.0%	16.9%
Food & Ingredients	13.2	10.4	11.4	11.8
Trading & Merchandising	30.2	13.1	11.3	15.7
International Foods	8.4	9.3	9.6	11.1
Segment Total	16.3	14.9	12.8	15.3
General Corp. Expense	(3.6)	(3.1)	(2.8)	(2.5)
Company Total	12.7%	11.8%	10.0%	12.8%

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Table 3: ConAgra Foods, Inc. - Quarterly Sales Trends for Major Consumer Foods Brands

	F2008		F2007	
	Brands Growing	Brands Declining	Brands Growing	Brands Declining
August:	Banquet Blue Bonnet Chef Boyardee DAVID Egg Beaters Healthy Choice Hebrew National Hunt's Kid Cuisine Libby's Marie Callender's Manwich Orville Redenbacher's Reddi-wip Rosarita Rotel Snack Pack Van Camp's Wesson	ACT II Crunch N Munch Knott's Berry Farm PAM Parkay Slim Jim Swiss Miss	Banquet Chef Boyardee DAVID Hebrew National Hunt's Kid Cuisine Marie Callender's Orville Redenbacher's PAM Reddi-wip Rosarita Rotel Slim Jim Snack Pack	ACT II Egg Beaters Healthy Choice LaChoy Manwich Parkay Swiss Miss VanCamp's Wesson
November:	Blue Bonnet Chef Boyardee Egg Beaters Healthy Choice Hebrew National Libby's Marie Callender's PAM Reddi-wip Rosarita Rotel Slim Jim Snack Pack Wesson Wolf	Act II Crunch N Munch DAVID Kid Cuisine Knott's Berry Farm Manwich Orville Redenbacher's Parkay Pemmican Swiss Miss	DAVID Egg Beaters Healthy Choice Hebrew National Hunt's Kid Cuisine Marie Callender's Manwich Orville Redenbacher's PAM Parkay Peter Pan Reddi-wip Rosarita Slim Jim Swiss Miss Wesson Wolf	Act II Banquet Blue Bonnet Chef Boyardee Knott's Berry Farm LaChoy Libby's VanCamp's

(Continued)

Table 3: (Continued)

	F2008		F2007	
	<u>Brands Growing</u>	<u>Brands Declining</u>	<u>Brands Growing</u>	<u>Brands Declining</u>
<u>February:</u>			(a) Blue Bonnet Chef Boyardee DAVID Egg Beaters Hebrew National Hunt's Marie Callender's Manwich Orville Redenbacher's PAM Rosarita Rotel Snack Pack Wolf VanCamp's	Act II Banquet Healthy Choice Kid Cuisine Knott's Berry Farm LaChoy Libby's Parkay Reddi-wip
<u>May:</u>			(b) Blue Bonnet Chef Boyardee DAVID Egg Beaters Hebrew National Kid Cuisine Libby's Marie Callender's Manwich Orville Redenbacher's Reddi-wip Rosarita Slim Jim Swiss Miss Wesson	Act II Knott's Berry Farm LaChoy Parkay Rotel VanCamp's Wolf

(a) Sales for Slim Jim and Wesson were in line with prior-year amounts.

(b) Sales for Hunt's, PAM, Healthy Choice and Banquet were in line with prior-year amounts.

Analyst's Certification

I Robert J. Cummins certify that the views expressed in this research report accurately reflect my personal views about the subject companies and their securities. I also certify that I have not been and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendations in this report. Other ConAgra Foods reports issued by me are: 3/4/05 (\$28) – Strong Buy – Target \$34-\$35; 5/20/05 (\$27) – Strong Buy – Target \$34-\$35; 7/8/05 (\$22.70) – Strong Buy – Target \$28-\$30; 9/14/05 (\$22.50) – Strong Buy – Target \$28-\$30; 9/29/05 (\$24.30) – Strong Buy – Target \$28-\$30; 12/13/05 (\$20) – Strong Buy – Target \$28-\$30; 1/12/06 (\$20.20) – Strong Buy – Target \$28-\$30; 1/23/06 (\$20.85) – Strong Buy – Target \$28-\$30; 3/21/06 (\$19.95) – Buy – Target \$22-\$23; 10/19/06 (\$25.70) – Buy – Target \$28-\$29; 1/9/07 (\$27.40) – Buy – Target \$31-\$32; 3/28/07 (\$24.60) – Strong Buy – Target \$31-\$32; 7/17/07 (\$27) – Strong Buy – Target \$31-\$32; 9/26/07 (\$25.50) – Strong Buy – Target \$31-\$32.

Important Disclosures

Guide to Investment Ratings and Target Prices:

Strong Buy ("1"). The stock's total return is expected to exceed significantly the average total return of the analyst's industry coverage universe over the next 12 months.

Buy ("2"). The stock's total return is expected to exceed the average total return of the analyst's industry coverage universe over the next 12 months.

Hold (Neutral) ("3"). The stock's total return is expected to equal the average total return of the analyst's industry coverage universe over the next 12 months.

Sell ("4"). The stock's total return is expected to be below the average total return of the analyst's industry coverage universe over the next 12 months.

Analyst's Ratings Distribution

		% Investment Banking
Buy*	71%	0%
Hold	29%	0%
Sell	0%	0%

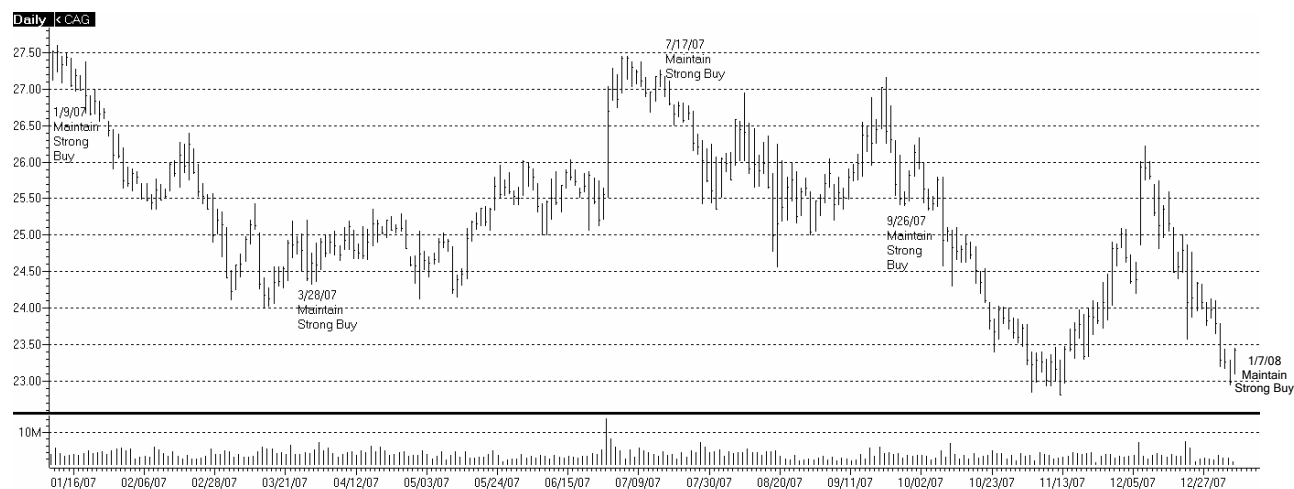
*Includes companies rated "Strong Buy" and "Buy."

Unless otherwise specified, the time frame for price targets included in this report is 12 months.

Our target prices are based on projected earnings for the following calendar year, and an assumed price/earnings ratio in line with the company's historical valuation or those of other companies with similar businesses and prospects.

The principal risks to the achievement of our price targets, in addition to general market trends, are disappointing earnings and a lower than expected price/earnings ratio.

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