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COMPANY SUMMARY

Tuesday, March 21, 2006

Speaker: Bob Cummins

Food Industry Comment:

ConAgra Foods (CAG-\$19.95) – Management’s decisions to reduce the annual dividend by 34% (to \$0.72), and to divest CAG’s refrigerated meat, seafood and cheese operations, with annual sales of \$2.8 billion, despite expected earnings dilution of \$0.25 per share (19%) in the May 2007 fiscal year, in our opinion point to less upside for the stock price in the next 12 months than we had previously expected. At the current price, the new dividend provides a 3.6% yield, higher than most other food companies, and that may be sufficient to keep the shares from declining further. On the other hand, based on management’s revised F2007 EPS estimate of \$1.10-\$1.15 from continuing operations (versus \$1.35-\$1.40 previously), the P/E ratio is a generous 17-18 times, compared with an average of 15.6 times for other major food companies for the same time period. While we believe the strategies being implemented by the new management team should make CAG a faster-growing and more profitable company over time, we are reducing our rating to “2” (Buy) from “1” (Strong Buy), and cutting our 12-month target price to \$22-\$23, down from \$28-\$30 previously.

On the morning of March 16th, the company held its long-awaited analyst meeting in New York, where its new CEO, Gary Rodkin, and five of his key executives discussed their strategies for strengthening its major brands, reducing costs, and generally improving its long-term operating performance. The presentation was both effective and convincing, but its emphasis on long-term results was somewhat overshadowed by the announcement of the dividend cut and the lower earnings guidance before the market opening. The shares declined 8%, on near-record volume of 24.2 million shares, reaching another new three-year low of \$18.85, before regaining some ground later in the day. At their current price, the shares trade 34% below their recent peak of \$30.24, reached in January of last year, and 26% lower than their closing price of \$27.07 on May 10, 2005, the day former CEO Bruce Rohde announced his intention to take early retirement.

It should be noted that the estimated \$0.25 dilution from the planned divestitures does not reflect the reinvestment of the proceeds to repurchase shares or pay down debt, nor does it include steps to reduce corporate overhead and thus offset the portion of expenses formerly absorbed by the

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See pages 3 to 5 of report for Analyst's Certification and important disclosures.

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businesses being sold, which account for 19% of CAG's annual revenues. Thus, the ultimate negative impact on EPS is likely to be less than the amount cited. On the other hand, the effect on reported earnings will be immediate, inasmuch as these activities will be reflected as discontinued operations in the income statements for the third quarter and nine months ending February, to be reported on March 23rd.

Mr. Rodkin's plans for ConAgra focus particularly on marketing, since he believes the company has many strong brands that have been under-marketed and under-exploited. These include, among others, Healthy Choice, Egg Beaters, Pam, Reddi Wip, Orville Redenbacher's, Hunt's, Hebrew National, Chef Boyardee, Banquet, Marie Callender's, and Kid Cuisine. In contrast to the past, when the company essentially spent 4% of sales on marketing for all of its brands, in the future the most promising lines will spend 9%-10% of sales, while expenditures for other brands will be limited. At the same time, the overall marketing budget will be increased from \$350 million to \$425-\$450 million a year. This \$75-\$100 million rise will be funded through an aggressive cost reduction program throughout the company.

From the revised F2007 base, management projects annual growth in F2008 and F2009 of 2%-3% in sales, and 7%-9% in EPS. Based on our calculations, that implies EPS in F2009 of \$1.26-\$1.37 (again, before allowing for any benefit from the reinvestment of divestiture proceeds). That compares with actual earnings from operations of \$1.30 for the 12 months ended November, 2005, and \$1.58 for the same period a year earlier, including in both cases the businesses that are earmarked for sale. Compared with an EBIT margin currently of 10% from continuing operations, the company expects to be earning 12% by F2009, and aims to reach the mid-teens eventually.

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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. I have a position in the shares of ConAgra Foods. 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.

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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.

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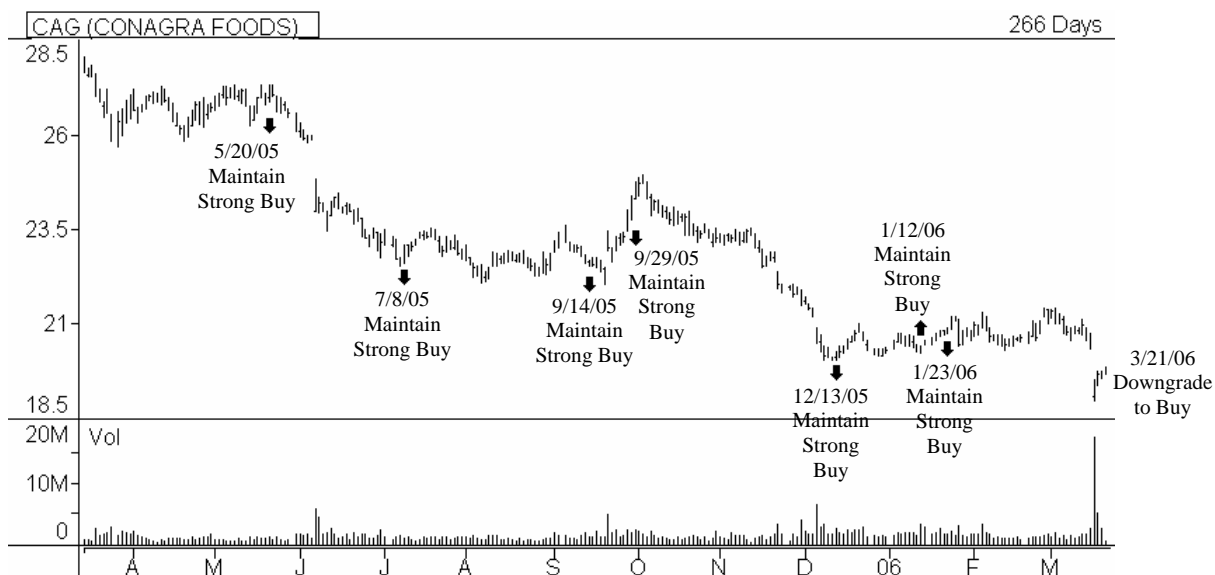
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