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COMPANY SUMMARY

Wednesday, March 28, 2007

Speaker: Bob Cummins

Rating: Strong Buy

Food Industry Comment:

ConAgra Foods (CAG-\$24.60)

	<u>F2006</u>	<u>F2007E</u>	<u>F2008E</u>	<u>Dividend/ Yield</u>	<u>Shares Out. (mil.)</u>	<u>12-Mo. Range</u>	<u>12-Mo. Target</u>
EPS (a)	\$1.16	\$1.43	\$1.58	\$0.72	506.7	\$28-\$21	\$31-\$32
P/E	-	17.2x	15.6x	2.9%			

(a) May fiscal years. Excludes nonrecurring items.

Upside earnings surprises for a number of major packaged-foods companies over recent quarters suggest that managements in this industry have learned to cope with the inflationary cost trends for raw materials, packaging, energy and transportation that have been evident for the past three years. A recent dramatic example is ConAgra Foods, which last week reported growth of 2% in sales and 36% in EPS from operations (versus our estimate of +9%) for F3Q ended February. The strong earnings growth, against a reasonably good quarter a year ago, reflects cost reductions and other management strategies implemented by CEO Gary Rodkin since his arrival in August, 2005, as well as the use of excess cash to pay down debt and repurchase shares. That rate of growth is obviously not sustainable, especially since results in last year's May quarter were strong. Nevertheless, we have raised our earnings estimates for F2007 and F2008, and are raising our rating from "2" (Buy) to "1" (Strong Buy). The shares, down 13% from their 12-month high, are valued at just 15.6 times our F2008 estimate of \$1.58, well below those of other major food companies, with an above-average 2.9% dividend yield. Our 12-month target price range is \$31-\$32.

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See page 8 for Analyst's Certification, pages 8-9 for Important Disclosures and pages 9-10 for Other Disclosures and Disclaimers

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F3Q earnings growth of \$0.12 per share (to a record \$0.45 versus \$0.33), before nonrecurring gains and charges, included a \$0.09 contribution from increased operating profits, reflecting about \$0.04 each from the two largest business segments, Consumer Foods and Food & Ingredients, and a combined impact of \$0.01 from increased profits for Trading & Merchandising and International, plus lower general corporate expense. The remaining \$0.03 per share was attributable about equally to lower interest expense, a lower tax rate (33.0% versus 34.6%), and a 3% decline in average shares outstanding.

Consumer Foods is by far CAG's most important business segment, accounting for 56% of sales and 58% of profits for F2007 to date. In F3Q, sales were down 1.5%, reflecting the company's new strategy of reducing marketing support for lower-priority product lines and eliminating unproductive price promotions. Major brands that showed increased sales in the February quarter included (alphabetically) Blue Bonnet, Chef Boyardee, David, Egg Beaters, Hebrew National, Hunt's, Manwich, Marie Callender's, Orville Redenbacher's, Pam, Rosarita, Rotel, Snack Pack, VanCamp's and Wolf. Sales for Slim Jim and Wesson were flat. Brands showing declines (in some cases by design) included Act II, Banquet, Healthy Choice, Kid Cuisine, Knott's Berry Farm, LaChoy, Libby's, Parkay and Reddi-wip.

Under the new management team, Consumer Foods has now achieved four consecutive quarters of double-digit profit growth and significant margin expansion. In the latest period, segment profits excluding nonrecurring items increased 11%, and the operating margin rose 210 basis points, from 15.9% to an impressive 18.0% of sales. The margin for the first nine months was 16.6%, up from 13.7% a year ago, and as far as we can determine the highest in the history of the company. We expect continued profit growth for Consumer Foods in F4Q, although the year-to-year comparisons from now on will be more difficult, and advertising and marketing expenditures will continue to increase.

The second largest segment is **Food & Ingredients**, accounting for 30% of sales and 28% of profits. Its products are sold to business customers in the foodservice, food manufacturing and industrial areas. The largest unit by far, and the principal source of growth, is Lamb Weston, the leading supplier of potato products to fast-food and other restaurant customers in the U.S. and overseas. It also includes flour milling, CAG's original business, going back to the 19th century, and dehydrated vegetables, seasonings and flavors for the food industry. This segment has a record of consistent sales and earnings growth and double-digit profit margins over the years. In the November quarter, profits before a one-time gain were flat, despite 10% sales growth, as flour margins narrowed due to higher input costs, but results accelerated in F3Q, as profits rose 36% to a new high, on an 8% sales increase. The operating margin for the period was 12.8%, up from 10.2%, and for the nine months it was 12.0% versus 11.3%, while profits for the year to date are up 15%. As in Consumer Foods, this segment faces a more difficult comparison in the May quarter.

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The other two segments are considerably smaller. **Trading & Merchandising** (9% of sales, 7% of earnings) is the company's most volatile business, engaging in the "sourcing, merchandising, trading, marketing and distribution of agricultural and energy commodities." As a rough benchmark, management expects that the segment will earn \$100 million (\$0.13 per share after taxes) in a bad year and \$200 million (\$0.26) in a good year, depending on commodity market conditions. Ironically, F2007 has seen both the worst quarter in the past three years – F1Q, when the segment earned only \$15.6 million, reflecting unfavorable trading conditions in energy and agricultural commodities and lower selling prices in its wholesale fertilizer operations – and the best quarter in history, F3Q, when profits were \$62.3 million, 3% above the previous high a year earlier. Management regards this earnings level as unsustainable, but evidently results have continued favorable thus far in F4Q. Segment profits in this quarter a year ago were \$42.0 million, down from \$56.0 million in F4Q-05.

Finally, the **International Foods** segment, accounting for 5% of sales and 4% of profits, sells branded retail food products in North America, Europe and Asia, but CAG is a minor international player compared with other large U.S. food companies, with annual sales of only \$600 million. Operating profits increased 17% in F3Q, on minimal sales growth, while the margin increased from 9.6% to 11.0%. At some point, the new management will probably look to expand the international business, most likely through acquisitions, but for the present the emphasis is likely to remain on the U.S.

As mentioned, cash flow from operations and divestitures has provided funds to pay down debt and repurchase shares. At the end of F2006, total debt net of cash was about \$3.3 billion, down more than \$1 billion, or 24%, from a year earlier. Thus far in F2007, net debt has declined by another 8%, to just under \$3 billion. Net interest expense for the 39 weeks ended February, 2007, was 21% below a year ago. Average diluted shares outstanding in F3Q were 506.7 million, down 14.2 million, or just under 3%, compared with a year earlier. The company purchased 7.4 million shares during the February quarter, at a cost of \$197 million, or an average price of \$26.62 per share. At the end of the quarter, \$300 million was available for further repurchases. Capital expenditures in F2007 are estimated at \$400 million, up from \$263 million a year ago.

While much has been accomplished in the short time since the new management team took charge, ConAgra Foods is still a "work in progress." We expect that the company will continue to emphasize operating efficiencies, as well as revitalizing the brands that are not yet realizing their full potential. Increased product innovation and expanded marketing budgets are also likely. In our opinion, CAG has the potential to be one of the most interesting and rewarding companies in the food industry over the next several years.

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

	Continuing Operations							
	F2007		F2006		F2005	F2006		F2005
August								
Net Sales	\$2,688.6	+1%	\$2,673.8	+2%	\$2,630.6	\$3,362.9	(1)%	\$3,383.2
Cost of Goods Sold	2,025.6		2,003.1		1,995.1	2,635.4		2,700.4
Gross Profit	663.0	(1)	670.7	+6	635.5	727.5	+7	682.8
SG&A Expenses	398.2		391.0		376.5	427.0		386.1
Operating Profit	264.8	(5)	279.7	+8	259.0	300.5	+1	296.7
Interest Expense, Net	58.0		72.4		73.4	68.1		73.4
Income Before Taxes	206.8	-	207.3	+12	185.6	232.4	+4	223.3
Income Taxes	75.8		82.3		74.6	74.6		91.4
Income After Taxes	131.0	+5	125.0	+13	111.0	157.8	+20	131.9
Equity Earnings	2.2		5.1		14.1	7.9		14.1
Net Income	\$133.2	+2%	\$130.1	+4%	\$125.1	\$165.7	+13%	\$146.0
Diluted Shares	512.4	(2)%	520.5	-	521.4	520.5	-	521.4
EPS	\$0.26	+4	\$0.25	+4%	\$0.24	\$0.32	+14%	\$0.28
% of Sales								
Gross Profit	24.7%		25.1%		24.2%	21.6%		20.2%
SG&A Expenses	14.9		14.6		14.4	12.7		11.4
Oper. Profit	9.8		10.5		9.8	8.9		8.8
Effective Tax Rate	36.7%		39.7%		40.2%	32.1%		40.9%
November								
Net Sales	\$3,088.7	+3%	\$3,002.0	(4)%	\$3,118.2	\$3,810.2	(5)%	\$4,009.1
Cost of Goods Sold	2,278.4		2,270.6		2,311.3	3,003.0		3,108.1
Gross Profit	810.3	+11	731.4	(9)	806.9	807.2	(10)	901.0
SG&A Expenses	445.1		431.4		406.8	440.2		433.4
Operating Profit	365.2	+22	300.0	(25)	400.1	367.0	(22)	467.6
Interest Expense, Net	52.1		68.6		85.8	62.2		85.8
Income Before Taxes	313.1	+35	231.4	(26)	314.3	304.8	(20)	381.8
Income Taxes	117.2		87.6		126.1	114.1		151.3
Income After Taxes	195.9	+36	143.8	(24)	188.2	190.7	(17)	230.5
Equity Earnings	8.6		7.3		15.1	7.3		15.1
Net Income	\$204.5	+35%	\$151.1	(26)%	\$203.3	\$198.0	(19)%	\$245.6
Diluted Shares	511.3	(2)%	521.0	+1%	517.5	521.0	+1%	517.5
EPS	\$0.40	+38	\$0.29	(26)	\$0.39	\$0.38	(19)%	\$0.47
% of Sales								
Gross Profit	26.2%		24.4%		25.9%	21.2%		22.5%
SG&A Expenses	14.4		14.4		13.0	11.6		10.8
Oper. Profit	11.8		10.0		12.8	9.6		11.7
Effective Tax Rate	37.4%		37.9%		40.1%	37.4%		39.6%

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Table 1: (Continued)

	Continuing Operations							
	F2007		F2006		F2005	F2006		F2005
February	(b)							
Net Sales	\$2,918.4	+2%	\$2,861.8	+4%	\$2,756.3			\$3,569.9
Cost of Goods Sold	2,076.7		2,137.4		2,046.1			2,803.5
Gross Profit	841.7	+16	724.4	+2	710.2			766.4
SG&A Expenses	453.2		405.7		397.6			420.9
Operating Profit	388.5	+22	318.7	+2	312.6			345.5
Interest Expense, Net	56.1		68.8		68.1			68.1
Income Before Taxes	332.4	+33	249.9	+2	244.5			277.4
Income Taxes	109.7		86.4		92.1			101.0
Income After Taxes	222.7	+36	163.5	+7	152.4			176.4
Equity Earnings	9.6		8.4		7.0			3.6
Net Income	\$232.4	+35%	\$171.9	+8%	\$159.4			\$180.0
Diluted Shares	506.7	(3)%	520.9	-	520.3			517.5
EPS	\$0.45	+36	\$0.33	+6%	\$0.31	\$0.37	+9%	\$0.34
% of Sales								
Gross Profit	28.8%		25.3%		25.8%			21.5%
SG&A Expenses	15.5		14.2		14.5			11.8
Oper. Profit	13.3		11.1		11.3			9.7
Effective Tax Rate	33.0%		34.6%		37.7%			36.4%
May								
Net Sales			\$2,944.4	(2)%	\$2,998.6			\$3,706.4
Cost of Goods Sold			2,242.5		2,313.8			2,960.5
Gross Profit			701.9	+2	684.8			745.9
SG&A Expenses			407.8		430.9			470.8
Operating Profit			294.1	+16	253.9			275.1
Interest Expense, Net			62.2		67.7			67.7
Income Before Taxes			231.9	+25	186.2			207.4
Income Taxes			87.0		76.4			81.8
Income After Taxes			144.9	+32	109.8			125.6
Equity Earnings			5.6		10.0			9.9
Net Income			\$150.5	+26%	\$119.8			\$135.5
Diluted Shares			519.1	-	521.0			521.0
EPS			\$0.29	+26%	\$0.23	\$0.32	+23%	\$0.26
% of Sales								
Gross Profit			23.8%		22.8%			20.1%
SG&A Expenses			13.8		14.3			12.7
Oper. Profit			10.0		8.5			7.4
Effective Tax Rate			37.5%		41.0%			39.4%

(a) Excludes nonrecurring gains and charges.

(b) Excludes \$48 million (\$0.06 per share) charge for product recall.

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

	<u>F2007</u>		<u>F2006</u>		<u>F2005</u>
Aug.- Net Sales:					
Consumer Foods	\$1,509.6	+1%	\$1,499.5	(3)%	\$1,549.3
Food & Ingredients	831.5	+8	770.5	+6	728.1
Trading & Merchandising	205.4	(21)	260.0	+17	222.9
International Foods	142.1	(1)	143.8	+10	130.3
Total	<u>\$2,688.6</u>	+1%	<u>\$2,673.8</u>	+2%	<u>\$2,630.6</u>
Operating Profit:					
Consumer Foods	\$206.6	+24%	\$166.4	(11)%	\$187.0
Food & Ingredients	106.3	+10	96.4	+9	88.8
Trading & Merchandising	15.6	(71)	53.5	+55	34.6
International Foods	13.1	(24)	17.3	+42	12.2
Segment Total	<u>\$341.6</u>	+3	<u>\$333.6</u>	+3	<u>\$322.6</u>
General Corp. Expense	76.8	+5	72.9	+15	63.6
Company Total	<u>\$264.8</u>	+2%	<u>\$260.7</u>	+1%	<u>\$259.0</u>
Operating Margin:					
Consumer Foods	13.7%		11.1%		12.1%
Food & Ingredients	12.8		12.5		12.2
Trading & Merchandising	7.6		20.6		15.5
International Foods	9.2		12.0		9.4
Segment Total	<u>12.7</u>		<u>12.5</u>		<u>12.3</u>
General Corp. Expense	(2.9)		(2.7)		(2.5)
Company Total	<u>9.8%</u>		<u>9.8%</u>		<u>9.8%</u>
Nov.- Net Sales:					
Consumer Foods	\$1,752.2	-	\$1,753.2	(8)%	\$1,898.0
Food & Ingredients	885.7	+10%	805.3	+7	750.3
Trading & Merchandising	297.3	+3	288.6	(8)	315.0
International Foods	153.5	(1)	154.9	-	154.9
Total	<u>\$3,088.7</u>	+3%	<u>\$3,002.0</u>	(4)%	<u>\$3,118.2</u>
Operating Profit:					
Consumer Foods	\$314.7	+29%	\$244.6	(24)%	\$321.7
Food & Ingredients	92.0	-	91.9	+4	88.6
Trading & Merchandising	38.9	+19	32.7	(34)	49.6
International Foods	14.2	(5)	14.9	(13)	17.2
Segment Total	<u>\$459.8</u>	+20	<u>\$384.1</u>	(19)	<u>\$477.1</u>
General Corp. Expense	94.6	+12	84.1	+9	77.0
Company Total	<u>\$365.2</u>	+22%	<u>\$300.0</u>	(25)%	<u>\$400.1</u>
Operating Margin:					
Consumer Foods	18.0%		14.0%		16.9%
Food & Ingredients	10.4		11.4		11.8
Trading & Merchandising	13.1		11.3		15.7
International Foods	9.3		9.6		11.1
Segment Total	<u>14.9</u>		<u>12.8</u>		<u>15.3</u>
General Corp. Expense	(3.1)		(2.8)		(2.5)
Company Total	<u>11.8%</u>		<u>10.0%</u>		<u>12.8%</u>

(Continued)

Table 2: (Continued)

	F2007		F2006		F2005	
Feb.- Net Sales:						
Consumer Foods	\$1,619.0	(2)%	\$1,644.4	+1%	\$1,625.7	
Food & Ingredients	851.9	+8	789.8	+8	733.4	
Trading & Merchandising	293.3	+5	278.3	+7	259.3	
International Foods	154.2	+3	149.3	+8	137.9	
Total	<u>\$2,918.4</u>	+2%	<u>\$2,861.8</u>	+4%	<u>\$2,756.3</u>	
Operating Profit:						
Consumer Foods	\$291.2b	+11%	\$261.2	+1%	\$258.3	
Food & Ingredients	109.3	+36	80.2	+4	76.9	
Trading & Merchandising	62.3	+3	60.6	+5	57.6	
International Foods	16.9b	+18	14.3	+5	13.6	
Segment Total	<u>\$479.7</u>	+15	<u>\$416.3</u>	+2	<u>\$406.4</u>	
General Corp. Expense	90.9	(7)	97.6	+4	93.8	
Company Total	<u>\$388.8</u>	+22%	<u>\$318.7</u>	+2%	<u>\$312.6</u>	
Operating Margin:						
Consumer Foods	18.0%		15.9%		15.9%	
Food & Ingredients	12.8		10.2		10.5	
Trading & Merchandising	21.2		21.8		22.2	
International Foods	11.0		9.6		9.9	
Segment Total	<u>16.4</u>		<u>14.5</u>		<u>14.7</u>	
General Corp. Expense	(3.1)		(3.4)		(3.4)	
Company Total	<u>13.3%</u>		<u>11.1%</u>		<u>11.3%</u>	
May- Net Sales:						
Consumer Foods			\$1,607.3	(1)%	\$1,642.4	
Food & Ingredients			823.0	+6	774.0	
Trading & Merchandising			358.9	(16)	427.1	
International Foods			155.2	-	155.1	
Total			<u>\$2,944.4</u>	(1)%	<u>\$2,998.6</u>	
Operating Profit:						
Consumer Foods			\$241.1	+14%	\$211.4	
Food & Ingredients			100.1	+26	79.6	
Trading & Merchandising			42.0	(25)	56.0	
International Foods			22.6	+15	19.7	
Segment Total			<u>\$405.8</u>	+11	<u>\$366.7</u>	
General Corp. Expense			111.7	(1)	112.8	
Company Total			<u>\$294.1</u>	+16%	<u>\$253.9</u>	
Operating Margin:						
Consumer Foods			15.0%		12.9%	
Food & Ingredients			12.2		10.3	
Trading & Merchandising			11.7		13.1	
International Foods			14.6		12.7	
Segment Total			<u>13.8</u>		<u>12.2</u>	
General Corp. Expense			(3.8)		(3.7)	
Company Total			<u>10.0%</u>		<u>8.5%</u>	

(a) Continuing operations. Excludes nonrecurring gains and charges.

(b) Excludes charge for product recall.

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.

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.

Important Disclosures, continued



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