



140 BROADWAY NEW YORK, NY 10005

ROBERT J. CUMMINS, CFA
(212) 651-0815

TRADING DESK
(212) 320-3001

MAY 20, 2005

COMPANY SUMMARY

Friday, May 20, 2005

Speaker: Bob Cummins

Food Industry Comment:

ConAgra Foods (CAG-\$27) last week announced that Chairman and CEO Bruce Rohde had formally asked the Board of Directors to form a search committee to choose his successor. This announcement came as a surprise, since he is only 56 years old, but in retrospect it is a logical strategic step at this stage of the company's development. A lawyer by profession, Mr. Rohde had served as CAG's outside counsel and a member of the Board for many years when he became CEO in September, 1997. Since then, he has dramatically transformed the company from a highly decentralized food industry conglomerate, deriving over half of its sales from commodity businesses, such as meat packing, poultry production, and the distribution of agricultural chemicals, to a highly focused packaged-foods manufacturer, with more than 80% of sales attributable to value-added, brand-name products. In his view, the time has come to turn the reins over to an operations-oriented executive, either from within or outside the company, to take full advantage of CAG's enhanced opportunities for top-line growth and increased profitability. We continue to believe in CAG's potential to become one of the premier packaged-foods companies, and would take advantage of the 10% selloff from its high, due to a temporary earnings setback, to add to positions. Rated "1" (Strong Buy), 12-month target price \$34-\$35.

CAG has gained increasing respect from investors both for its far-reaching and successful divestiture program and for the extensive reorganization and upgrading of its ongoing food operations. As evidence of that rising confidence, at this year's high of \$30.24, reached in January, the shares sold at their highest price in almost six years, having more than doubled from their 2000 low. The subsequent selloff reflects disappointing earnings in the February quarter, for reasons that in our view have little bearing on the long-term prospects.

On December 22, 2004, the company reported strong sales and earnings for F2Q (November), and on the conference call management expressed optimism about prospects for the second half, based on price increases to offset rising costs and on benefits from the company's ongoing productivity programs. By February, however, the outlook had deteriorated, and at the annual

(Continued)

See pages 4 to 6 of report for important disclosures and Analyst's Certification.

(Continued)

CAGNY conference, management outlined three factors that would reduce F3Q EPS by an estimated \$0.10, or 22%: (1) Continued margin pressures for packaged meat products due to sharply increased raw material costs that could not be fully passed along for competitive reasons; (2) Shortages of some products as a result of disruptions stemming from the company's plant consolidation program; and (3) Inefficiencies during the transition to a new company-wide SAP information system, Project Nucleus. The company noted that the cost problem in meats accounted for half of the shortfall, and likely would remain an issue for a while, but that the other two situations were steadily improving, and were unlikely to affect F4Q results to the same extent.

The F3Q earnings release, issued on March 24th, clearly demonstrated the impact of these problems. Total sales increased only 1%, compared with 8% increases in F1Q and F2Q, while EPS excluding nonrecurring gains and charges were \$0.34 versus \$0.42, down 19%, versus increases of 17% and 4% in the two earlier quarters. In the key Retail Products segment, which accounts for 60% of annual sales and 70% of profits, F3Q sales were 1% below a year ago (real volume was down 3%), in contrast to strong 9% growth in the first two periods. Operating income declined 12%, compared with increases of 5%-6% previously.

In the March release and on the conference call, CEO Rohde and his associates provided an update on the issues that affected the quarter. They emphasized the short-term nature of the manufacturing and information systems problems, stating that both had been "mostly resolved," and reemphasizing that their impact in F4Q would be less than in F3Q. In the case of meat products, they noted that the company had initiated further price increases, as well as product line rationalization steps that would lead to increased efficiency. Meat profits are expected to be down again in F4Q, year-to-year, but to a lesser degree than in F3Q. On an overall basis, EPS in the May quarter, excluding one-time items, are expected to "modestly exceed" the \$0.34 of F3Q. Last year's F4Q earnings of \$0.41 included an estimated \$0.03 contribution from an extra week. Thus, based on normalized prior-year EPS of \$0.38, any decline in this year's quarterly results seems likely to be minimal compared with the 19% drop in the February period. While it is early to make accurate forecasts for fiscal 2006, we are confident of a resumption of earnings growth.

The March release also included some cautionary comments involving an expected restatement of past years' results that ultimately proved less ominous than they seemed initially. A review of historical financial data following the appointment of a new CFO, Frank Sklarsky, last November, led to the discovery that CAG owed additional income taxes for prior years, principally F2003 and F2004. At the time, the company estimated that its additional liability would be in the \$150-\$200 million range. Subsequently, on April 13th, the company refined its estimate to \$105 million (equal to \$0.20 per share), and provided additional information on the nature of the errors. The understatement relates entirely to historical events, and resulted

(Continued)

(Continued)

primarily from a miscalculation of the cost basis for the former beef and pork operations, which were divested in F2003, and to a lesser extent on an overstatement of foreign tax credits, which led to an underpayment of U.S. taxes. Inasmuch as these issues were discovered by ConAgra Foods personnel and voluntarily reported to the IRS, and since the underpayments were unintentional, management does not expect that CAG will be subject to any legal charges.

Some analysts have suggested that a new CEO would likely reduce ConAgra's \$1.09 dividend, which represents a 74% payout of estimated F2005 EPS of \$1.47. We disagree, for several reasons: (1) Current earnings are depressed, and the ratio will decline as they recover and go on to new highs. (2) Even at the current earnings level, CAG generates excess cash after dividend payments. (3) Capital expenditures are above normal, reflecting the realignment of the manufacturing and distribution infrastructure, and as they decline free cash flow should increase significantly. (4) Changes in the tax laws have made dividends more attractive to investors, and most companies are increasing their payout ratios rather than reducing them. (5) The 4% dividend yield is helping to support the stock during this challenging period, and a meaningful dividend cut would clearly lead to a sharp decline in price.

SHIELDS AND COMPANY, ITS AFFILIATES AND SUBSIDIARIES AND/OR THEIR OFFICERS AND EMPLOYEES MAY FROM TIME TO TIME ACQUIRE, HOLD OR SELL A POSITION IN THE SECURITIES MENTIONED HEREIN. WHILE THIS REPORT HAS BEEN PREPARED FROM ORIGINAL SOURCES AND DATA WE BELIEVE TO BE RELIABLE, WE MAKE NO REPRESENTATIONS AS TO ITS ACCURACY OR COMPLETENESS, AND OUR OPINION IS SUBJECT TO CHANGE WITHOUT NOTICE. ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST

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: 3/26/04 (\$26.70) – Strong Buy – Target \$32-\$33; 5/18/04 (\$28) – Strong Buy – Target \$32-\$33; 6/4/04 (\$28) – Strong Buy – Target \$32-\$33; 7/2/04 (\$27) – Strong Buy – Target \$32-\$33; 9/24/04 (\$26) – Strong Buy – Target \$32-\$33; 12/14/04 (\$27) – Strong Buy – Target \$32-\$33; 12/31/04 (\$29.30) – Strong Buy – Target \$34-\$35; 3/4/05 (\$28) – Strong Buy – Target \$34-\$35.

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.

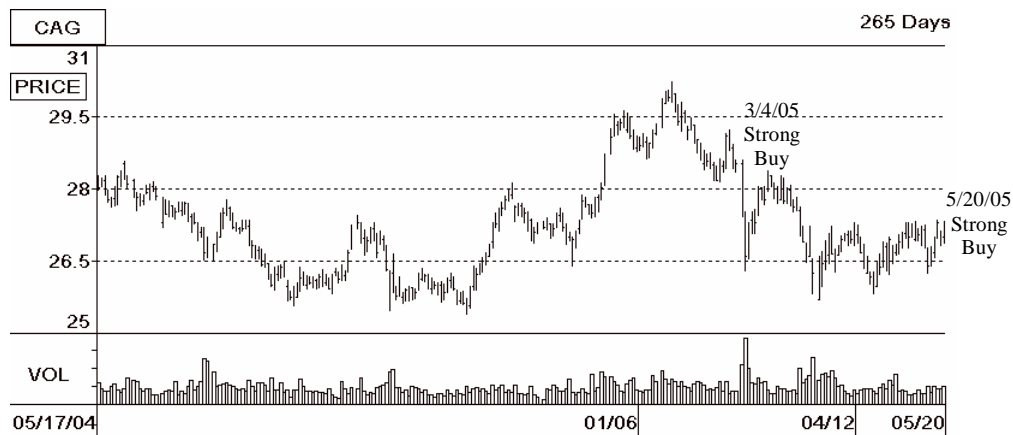
Sell ("4"). The stock's total return is expected to be below the average total return of the analyst's industry coverage universe over the next 12 months.

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

Among the stocks we follow, 63% are rated Strong Buy, 6% Buy, 31% Neutral, and 0% Sell.

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.



Other Important Disclosures:

This research report and recommendations agree with the personal opinion of the analyst who prepared this report.

Any financial interest that the research analyst or member of the analyst's household or any other individual directly involved with the preparation of this report has in the subject company(ies), has been disclosed in the analyst's disclosure section.

To the best of the research analyst's and the firm's knowledge, no holdings of the firm exceed 1% of the outstanding shares of any class of securities of the subject company(ies) mentioned in this report.

Shields & Company has no investment banking activities and, as such, the analyst who prepared this report has not received any compensation based on investment banking revenues.

To the best of the research analyst's knowledge, neither Shields nor a director, officer or the research analyst has provided services to the subject company(ies) during the past 12 months.

Shields & Company does not make a market in the securities of the company(ies).

To the best of the research analyst's knowledge, no officer, director, employee or research analyst of the firm, or a member of the research analyst's household, is an officer, director or employee of the subject company(ies), nor does any officer, director, employee or research analyst of the firm or member of the research analyst's household serve in any advisory capacity to the company(ies).

Shields & Company is not aware of any actual material conflicts of interest for the research analyst, which the research analyst knows or has reason to know in the preparation of this report.

Investing is a risky activity and can lead to substantial losses. This report does not provide individually tailored investment advice. It has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The securities discussed in this report may not be suitable for all investors. Shields & Company recommends that investors independently evaluate particular investments and strategies, and encourages investors to seek the advice of a financial adviser. The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives.

This report is not an offer to buy or sell any security or to participate in any trading strategy. Shields & Company and/or its employees not involved in the preparation of this report may have investments in securities or derivatives of securities of companies mentioned in this report, and may trade them in ways different from those discussed in this report. Derivatives may be issued by Shields & Company or associated persons. The firm does not make a market in the shares of the companies mentioned, has no relationship with them, and has not received any compensation from them.

Other Important Disclosures (Continued):

Shields & Company makes every effort to use reliable, comprehensive information, but we make no representation that it is accurate or complete. We have no obligation to tell you when opinions or information in this report change apart from when we intend to discontinue research coverage of a subject company.

Reports prepared by Shields & Company and its research personnel are based on public information. Facts and views presented in this report have not been reviewed by, and may not reflect information known to, professionals in other business areas.

Shields & Company research personnel conduct site visits from time to time but are prohibited from accepting payment or reimbursement by the company of travel expenses from such visits.