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COMPANY SUMMARY

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Speaker: Bob Cummins

Food Industry Comment:

ConAgra Foods (CAG-\$27) reported strong results for F4Q (May), a fitting end to a year in which the company completed its strategic program of divesting volatile, low-margin commodity businesses in order to concentrate on expanding and strengthening its large, broadly-based brand-name food operations, where margins are higher and profits more predictable. We continue to view CAG as one of the most rapidly improving companies in the food industry, with attractive earnings potential over the next several years as management strives to enhance profitability by concentrating on product mix, marketing, operational capabilities, and cost reduction. The company is gradually gaining recognition from investors, and at their April peak the shares sold at their highest price since 1998. Now trading 10% below that level, they remain reasonably priced at 16 times likely earnings of \$1.60-\$1.65 in F2005. Moreover, the \$1.04 dividend provides a 3.9% yield, the highest in the food industry, and a healthy increase is likely in September. CAG is rated "1" (Strong Buy), with a 12-month target price of \$32-\$33.

After adjusting for divestitures and nonrecurring gains and charges, fourth-quarter EPS increased 32%, to \$0.41 versus \$0.31, on a 12% sales gain. Excluding an extra week in the period, which added \$0.03, EPS would have increased 23%, on an estimated 4% rise in sales. For F2004 as a whole, EPS from ongoing operations, before one-time items, were \$1.49 versus \$1.36, up 10%, on 5% higher sales.

Having divested its former beef, pork, chicken, tunafish, cheese and agriproducts operations, CAG is now reporting based on three business segments: Retail Products (58% of sales, 69% of segment operating profit), Foodservice Products (26% and 20%), and Food Ingredients (16% and 11%). In F4Q, the latter two areas were the strongest. The **Foodservice** segment, with annual sales of \$3.7 billion, is one of the nation's largest manufacturers of food products for the restaurant industry, selling directly to chains as well as through distributors. Its performance was sluggish over the first nine months, but it turned up sharply in F4Q, with sales and earnings gains of 13% and 37%, respectively. **Ingredients**, which sells to other food manufacturers, had poor results in F2003, but showed a healthy recovery in the past year, with sales up 23% and profits 95% in the final period. Besides the strong earnings gains in these two segments, F4Q results also benefited from lower general corporate expense and higher joint venture earnings, partly offset by increased interest costs due to a change in accounting for leases.

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See last page of report for important disclosures and Analyst's Certification.

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The \$8.4 billion **Retail Products** segment, one of the largest producers and marketers of brand-name consumer foods, increased sales 8% in the May quarter, but operating income declined 3%, despite the extra week. Among its major brands that achieved growth, based on a comparable number of weeks, CAG cites Banquet, Blue Bonnet, Chef Boyardee, DAVID, Egg Beaters, Hebrew National, Hunt's, Kid Cuisine, La Choy, Manwich, Marie Callender's, PAM, Peter Pan, Reddie-wip, Slim Jim, Snack Pack, and Wesson. Declines were seen for ACT II, Armour, Butterball, Cook's, Eckrich, Healthy Choice, Orville Redenbacher, Parkay and Swiss Miss. It is no coincidence that four processed meat brands and two popcorn brands appear on the list of underperformers, since both product areas have faced both competitive and operational problems over the past year. However, CAG appears confident that the issues are being dealt with effectively, including a management change for popcorn, a high-margin product whose sales decline has been particularly painful. The 14.6% operating margin in Retail Products for F2004 as a whole was respectable by food industry standards, but 70 basis points below a year ago. However, we are optimistic that the coming year will see a recovery, and that there is sizable upside margin potential over the next several years.

More broadly, the retail food operations are under pressure from industry-wide cost inflation in ingredients, packaging and energy. CAG has raised prices on about 25% of its retail portfolio, and further increases will be taken as necessary. Despite higher costs, management is bullish on earnings prospects for F2005. All three segments had a weak F1Q last year, although the impact was partly offset by a \$0.12 tax credit. Excluding that and other one-time items, EPS of \$0.23 were extremely depressed, and we expect that a strong F1Q rebound this year should set the stage for good progress throughout F2005.

Based on net income from continuing operations, plus depreciation and amortization, less capital expenditures, CAG generated over \$1 billion of excess cash from operations, or nearly \$2.00 per share, in F2004. Divestiture proceeds added to its liquidity. It paid out \$537 million in dividends, reduced net borrowings by \$346 million (6%), and repurchased 15 million shares (3% of the total) for \$419 million. Share buybacks are expected to continue in F2005, and when the board reviews the dividend in September, we believe the increase could exceed last year's 5%.

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 reports issued by me are: ConAgra Foods (\$28) 6/4/04-Strong Buy; General Mills (\$46) 6/4/04-Strong Buy; PepsiCo (\$54.60) 4/23/04-Strong Buy; SYSCO Corporation (\$39) 3/26/04-Strong Buy; Sara Lee (\$23.60) 4/27/04-Strong Buy; Sensient Technologies (\$21.50) 4/20/04 -Buy; Performance Food Group (\$27) 6/25/04- Strong Buy; Dean Foods (\$35) 5/7/04- Strong Buy; Heinz (\$37) 5/25/04-Strong Buy; J.M. Smucker (\$45) 6/25/04; Del Monte Foods (\$10) 7/2/04.

Guide to Investment Ratings:

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.

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.

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