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COMPANY SUMMARY

Friday, July 8, 2005

Speaker: Bob Cummins

Food Industry Comment:

ConAgra Foods (CAG-\$22.70), as expected, last week reported lower earnings for F4Q (May). EPS before nonrecurring gains and charges were \$0.26, down from \$0.41 a year ago. EPS for the year were \$1.35, down from \$1.51. Of the \$0.15 decline in F4Q, \$0.06 was attributable to poor results in the important packaged meats operations, while \$0.03 reflected the absence of an extra week in the prior-year period. Lower Foodservice profits and higher corporate expense also contributed to the weakness. The Retail Products segment (60% of sales, 68% of profits) is achieving good results in most of its non-meat lines, and Food Ingredients continues to show strong gains.

After a successful first half, CAG's results in the past two quarters have clearly been disappointing. On the other hand, the performance of the stock, which is down 25% from its January high, and trades at its lowest price since 2003, more than discounts the problems, in our opinion. Management has taken decisive steps to straighten out the meat business, through changes in personnel and operating procedures and aggressive price increases, and that division appears well on the way to recovery, although the results may not start to be evident until the November quarter. The company has also undertaken several broadly-based cost reduction initiatives that should have an increasing impact on earnings as F2006 progresses. While not providing specific guidance, the company expects EPS from operations in F2006 to exceed the \$1.35 for the year just ended. We remain confident of management's ability to correct the near-term problems, and of CAG's potential for the longer term. The shares in our view are an unusually attractive buy for patient investors, and are likely to recover gradually as results improve. We reiterate our "1" (Strong Buy) rating, but have reduced our 12-month target price from \$34-\$35 to \$28-\$30 to reflect more conservative near-term earnings expectations.

ConAgra is one of the nation's leading processors and marketers of branded meat products, with well-established brands including Armour, Brown 'N Serve, Healthy Choice, Butterball, Cook's, Eckrich, and Hebrew National. This business accounts for about 25% of annual revenues for the

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

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Retail Products segment, or \$2.2 billion, and 22% of Foodservice Products sales, or \$700 million. Profits in this industry have been under pressure for more than a year due to high ingredient costs. Market prices for live hogs averaged nearly 30% higher in calendar 2004 than in 2003, and have held those gains thus far in 2005. For ConAgra, the problem was aggravated by service and manufacturing issues in Foodservice, which have now been largely resolved, and by the failure of division management to implement sufficient price increases to offset higher costs. For F2005 as a whole, CAG's total meat profits were \$150 million below those of the prior year, indicating an impact of about \$0.17 per share. Thus, the shortfall in this area and the \$0.03 impact from the absence of the 53rd week more than accounted for the \$0.16 decline in EPS for the year.

Disregarding the problems in meats, the Retail Products segment had a good year in F2005, although sales growth was stronger in the first half than in the second. Based on a comparable number of weeks, its sales rose 5% for the year, and 1% for F4Q alone. On the same basis, assuming flat earnings in the meat business, we estimate that segment operating income would have gained 4% for the year, and would have been flat for F4Q. For Foodservice Products, sales were essentially flat for both the year and the final quarter, but while profits excluding the meat issues would have been down only 1% for the year, they showed a 25% decline for F4Q alone, as the segment's culinary and seafood lines also experienced weakness. Reported earnings for both Retail and Foodservice should strengthen in F2006 as the pricing issues in packaged meats are addressed. The company's smallest segment, Food Ingredients, had a banner year in F2005, thanks to unusually favorable conditions for its trading and merchandising operations. On an adjusted basis, its sales rose 15% and earnings 43%, trends that continued in the May quarter, as profits recorded their seventh straight quarter of strong year-to-year growth. Management views the buoyant environment for trading profits as unsustainable, and is assuming lower earnings in this segment in the year ahead.

Despite the earnings pressures in the past year, CAG reduced its net borrowings by nearly \$800 million (15%), using cash from operations and divestiture proceeds. It repurchased \$180 million worth of stock, leaving \$400 million yet to be purchased under its \$1 billion buyback program. It also paid out \$550 million in dividends, reflecting a 5% increase in the quarterly rate that took effect with the December 2004 payment. In that connection, we note that the present annual dividend of \$1.09 per share, which we consider safe, at the current price provides a 4.8% yield, the highest in the food industry, and is another attractive reason to buy the stock.

To recap the long-term investment case for ConAgra, Bruce Rohde since becoming CEO has completed a dramatic divestiture program involving the elimination of commodity businesses that once contributed more than half of its sales, while strengthening its brand-name food businesses with the goal of transforming this into one of the recognized leaders in the food

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industry. Much has already been accomplished, but there continues to be significant potential for improvement, through further increases in efficiency, stepped-up product innovation, and other steps. In its June 30th earnings release, the company announced three new cost-cutting programs, SKU Reduction, General and Administrative Expense and Headcount Reduction, and Manufacturing Capacity Utilization and Productivity Improvement, to be implemented between now and F2008. The headcount reduction is expected to be largely complete by the end of August, and by itself is expected to reduce annual expenses by more than \$100 million, equal to \$0.12 per share. Management's goal for the immediate future is to increase the combined operating profit margin for the Retail and Foodservice units to at least 15% of sales, compared with 12.2% in F2005, and 13.6% in the previous two years. On the present \$15 billion sales base, that would result in earnings of \$1.72 per share, 27% higher than those for the year just ended.

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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: 3/26/04 (\$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; 5/20/05 (\$27) – Strong Buy – Target \$34-\$35.

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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.

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.

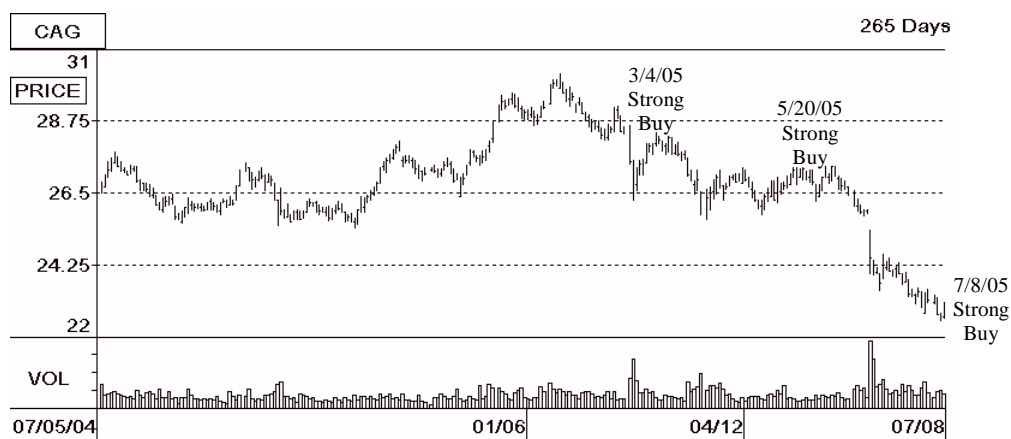
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