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OCTOBER 19, 2006

COMPANY SUMMARY
Thursday, October 19, 2006

Speaker: Bob Cummins

Rating: Buy

Food Industry Comment:

ConAgra Foods (CAG-$25.70)

	F2006	F2007E	F2008E	Dividend/ Yield	Shares Out. (mil.)	12-Mo. Range	12-Mo. Target
EPS (a)	$1.16	$1.22	$1.40	$0.72	510	$26-$19	$28-$29
P/E	-	21.1x	18.4x	2.8%			

(a) Continuing operations, excluding one-time items. May fiscal years.

One year after Gary Rodkin's appointment as CEO, the company's major businesses are performing well, although in fairness we should note that many of the initiatives that are contributing to the improved results were begun by the previous management team. The two principal business segments, Consumer Foods and Food and Ingredients, accounting for 85% of annual sales and 86% of operating profits, on a combined basis achieved year-to-year earnings gains, before nonrecurring items, of 17% in F4Q-06 (May), and 19% in F1Q-07 (August), and we expect another strong comparison in the November quarter, which was weak last year.

Meanwhile, the sale on October 2 of CAG's packaged meat and turkey lines to Smithfield Foods completes the program of strategic divestitures that began under former CEO Bruce Rohde in 2002, and we expect the proceeds of $571 million to be used largely for share repurchases. The company's plant rationalization and overhead reduction programs are expected to provide ongoing savings to finance its investment in increased marketing and product innovation, and thereby insure continued sales and earnings growth. We are pleased by Mr. Rodkin's success to date and his plans for the future, and are bullish on earnings prospects for the next several years.

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On the other hand, at its highest price since June, 2005, CAG's valuation of 21-22 times estimated F2007 EPS of $1.17-$1.22 already discounts continued progress to some extent. For this reason, we are maintaining our "2" (Buy) rating, instead of "1" (Strong Buy), but would consider raising it on any pullback in the shares.

In the company's largest business segment, **Consumer Foods**, with annual sales of $6.5 billion, management has instituted a policy of emphasizing the "high-focus" brands, which represent more than two-thirds of division sales, and are deemed to have the greatest potential. These lines as a group generated 4% sales growth in the August quarter. Sales of the lower-priority brands were down, as expected, thus division sales overall increased less than 1%, but operating profit rose by an impressive 24%, while the margin increased 260 basis points to 13.7% of sales, up from 11.1% last year and 12.1% in F1Q-05.

By emphasizing the most promising product lines, as well as achieving increased efficiency, management expects to achieve continued margin expansion in Consumer Foods over the next several years. Results in this segment were unusually weak in last year's November quarter, with sales and profits down 8% and 24%, respectively. We look for a healthy rebound in the current period, despite an expected increase in advertising and promotional expenditures.

Food and Ingredients, accounting for sales of $3.3 billion a year, manufactures products for the restaurant industry and for other food manufacturers rather than consumers. Its largest component, estimated to account for half of total sales, is the highly successful Lamb Weston, the leading supplier of frozen potato products to fast-food chains and other restaurant customers throughout the world. The segment also includes Gilroy Foods, a manufacturer of dehydrated garlic, onions and other seasonings for food manufacturers, and ConAgra Mills, one of the leading flour millers and the company's original business when it was founded in 1919. Profits in Food and Ingredients are rising, reflecting steady sales growth for Lamb Weston and improved industry conditions for Gilroy. In F1Q-07, sales increased 8% and operating profit 10%, on top of favorable results a year ago, and the segment margin was a healthy 12.8% of sales, up 30 basis points.

Trading and Merchandising, with annual sales in the $1 billion range, is CAG's commodity division, engaging in procurement, storage, shipping and trading of such basic products as grains, fertilizers, natural gas and crude oil. Profits are highly volatile, depending on commodity market trends and trading opportunities, and at the moment they are declining. In F2006, this segment earned $189 million before corporate expense and taxes, down 5% from $198 million a year earlier, but quarterly results were uneven, varying from a 55% increase in F1Q to declines of 34% in F2Q and 25% in F4Q.

In the August 2006 period, operating profit for the trading segment declined 71%, from $54 million to $16 million. This profit erosion, equivalent to $0.04 per share after taxes, was the principal reason that EPS in this year's first quarter increased only 4% (to $0.26 versus $0.25), despite the strong earnings progress in CAG's two largest business segments, as well as lower

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interest expense, a lower tax rate, and 2% fewer shares outstanding. Management is not making a specific forecast for F2007 as a whole, but appears cautious about near-term prospects for the division. Nevertheless, it is worth noting that on balance this has been a highly lucrative business over the years.

The fourth and smallest business segment, **International Foods**, has annual sales of $600 million, or only 5% of the total, and is reported separately for regulatory reasons. Its operations are mainly in Canada and Mexico, and it generates steady profits, although F1Q results were down, versus strong earnings a year ago. CAG's international representation is far below that of most other large food companies, but a major expansion of this business is not a near-term priority.

As mentioned, management's goal for the Consumer Foods segment is to accelerate the growth of CAG's most promising product lines while reducing expenses, and thereby strengthen profitability. In that regard, CAG's profit margins are below normal among the major packaged-foods companies. In the 12 months ended August, its U.S. Consumer Foods operating margin was 14.6% of sales. While that represented a modest improvement on the 14.4% of a year earlier, it was well below the 18.9% average (with a range of 16.4% to 22.4%) for the U.S. food operations of five other leading packaged-foods companies. Moreover, CAG's segment profits are calculated before general corporate expense, which in the past four quarters averaged 3.5% of sales, while for the other food companies most if not all of corporate expenses are allocated to the divisions. Thus, there clearly is potential for margin enhancement as the company builds its most profitable businesses and reduces costs.

CAG is financially strong, and free cash flow from operations, coupled with the proceeds from divestitures, has allowed the company to reduce debt significantly, while also repurchasing shares. Total debt, net of cash, at the end of August amounted to $2.9 billion (compared with CAG's current equity market value of $13.2 billion), down from $4.0 billion in August, 2005, and $5.3 billion in August, 2004. A 20% year-to-year decline in net interest expense in the latest quarter contributed nearly $0.02 to EPS.

Over the past three years, the company has also spent $797 million on share repurchases, leading to an 8.5% reduction of shares outstanding. Following this month's sale of the packaged meat and turkey operations, the board approved a $500 million increase in the funds authorized for share repurchases, bringing the total available to about $650 million. At the current market price, that would allow for the purchase of 25.3 million shares, representing a further 5% reduction of shares outstanding. We are not aware of plans for any more major divestitures, but we estimate the company's annual net free cash flow from operations, after allowing for capital expenditures and dividend payments, at about $300 million, which at the current price would allow CAG to repurchase up to 11.7 million shares annually, or 2.3% of the total currently outstanding.

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.

Important Disclosures

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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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Analyst's Ratings Distribution

		% Investment Banking
Buy*	65%	0%
Hold	35%	0%
Sell	0%	0%

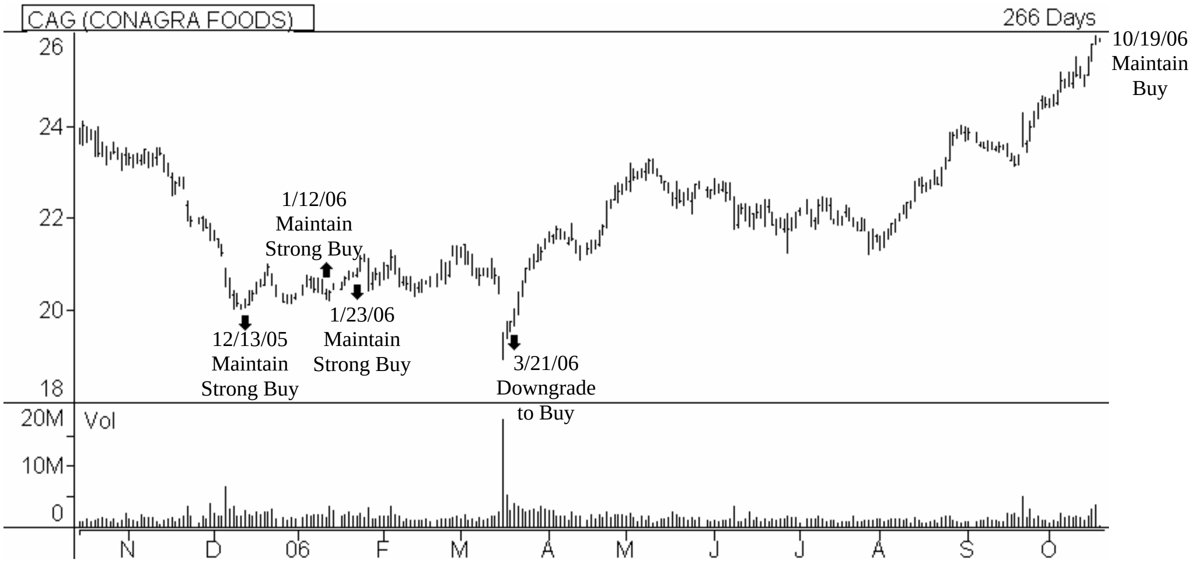
*Includes companies rated "Strong Buy" and "Buy."

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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