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COMPANY SUMMARY
Tuesday, December 13, 2005

Speaker: Bob Cummins

Food Industry Comment:

ConAgra Foods (CAG-$20), selling at close to a 4 1/2-year low, in our opinion has minimal downside risk from here, apart from yearend tax selling, while the upside over the next few years could be substantial, as CEO Gary Rodkin carries out the strategies begun under his predecessor, Bruce Rohde, to transform CAG into one of the nation's premier branded food companies. The risk/reward ratio in our view is attractive, while the 5.4% dividend yield adds to the appeal. We consider the current weakness, which is attributable to a near-term earnings shortfall, as an attractive opportunity to establish or add to positions. We are reemphasizing our "1" (Strong Buy) rating, with a target price of $28-$30 over the next 12-24 months.

From its 2005 high of $30.24 in January, the stock declined gradually on disappointing earnings, reaching a low of $22.06 in September. Then it rallied for several weeks, before resuming its downward trend. The decline accelerated, on increasing volume, on a sell recommendation by a major brokerage firm, and then the company's announcement after the close on December 5th that earnings for F2Q (November), to be announced on December 22nd, would be below management's original expectations. Trading volume of 8.2 million shares on December 6th was at a near-record high, and disregarding a temporary downward spike in 2003, the share price is now the lowest since mid-2001. Year-end selling for tax or portfolio adjustment reasons was obviously a factor in the three-point decline since mid-November.

In line with its policy, management had not provided any specific guidance on F2Q earnings, other than to comment on the quarterly conference call in September that, while results for the August period were better than expected, the year-to-year earnings gains anticipated for the balance of the year would be seen mainly in the second half, when comparisons would be easiest. A year ago, CAG earned a record $0.47 from continuing operations in F2Q, including an estimated $0.06 from commodity trading activities, well above their normal contribution. Our estimate for this year's quarter was $0.40, but according to management, some analysts' expectations were in the $0.45 range. The actual amount, as estimated in last week's press release, is likely to be in the $0.38 area, before some nonrecurring charges totaling $0.07.

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Complete details on F2Q results are not yet available, but based on preliminary data, management in the release and on the conference call cited three reasons for the lower expectations:

(1) Lower than expected shipment volume and revenues, primarily in the Retail Products segment. Sales in that segment were down 4% in the August quarter, while volume declined 3%. For the company's top 30 brands, representing 80% of segment revenues, the sales decline was only 1%. Issues during that period affecting sales included a reaction to price increases, changes in promotional activities, continued challenges in the packaged meats area, and a deliberate reduction of low-volume, low-margin SKUs. It is not clear whether F2Q showed a larger sales decline than F1Q. However, it is important to note that a portion of the weakness to date reflects steps by management to rationalize product lines and marketing practices, and that the meat operations, after unusually weak results in F2005, are now on the road to recovery.

(2) Increased input and operating costs for fuel and energy, transportation, warehousing, and packaging materials. Cost inflation amounted to $400 million, or $0.48 per share in F2005, and an additional $50 million ($0.06) in F1Q-06. The company expects incremental cost increases for F2006 as a whole to be in the $130-$200 million ($0.16-$0.24 per share) range, less than last year but still a significant impact. This is an issue for the entire food industry, and one that managements in general were slow to react to after years of relative price stability. More recently, in response to widespread margin pressures, the food companies' net pricing has been rising across the board, through list price increases, reduced promotional allowances, or both. We are confident that a combination of higher prices and cost reduction steps will lead to a gradual restoration of normal profit margins for CAG and the whole industry.

(3) A less favorable environment for the commodity trading and merchandising operations. This unit is part of CAG's Food Ingredients segment, and is actively involved in procurement and hedging of the company's raw materials, as well as trading for profit in a wide range of commodities. Those trading profits rose sharply in the past two years as a result of unusually volatile markets. Thus, based on our estimates, compared with a more normal $70-$75 million ($0.08-$0.09 per share) in F2003, trading profits rose to $90-$95 million ($0.10-$0.11) in F2004, and twice that amount, or $185 million ($0.22) in F2005. Profits remained strong in F1Q-06, at about $47 million ($0.06), but management had cautioned all along that these earnings were unsustainable, and analysts should not have been surprised when these heady profits came to an end. We estimate that lower trading gains than a year ago represented about $0.03 of the F2Q earnings shortfall. Difficult comparisons will likely have a measurable impact on the profits of the Food Ingredients segment over the next three quarters as well.

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The December 6th conference call was Mr. Rodkin's first "public" appearance before the investment community since becoming CEO on October 1st. He expressed his confidence that CAG has the potential to be a much stronger, more profitable company, although it will take time to achieve meaningful improvement. He noted that many of the company's product lines have significant untapped growth opportunities. When asked how far CAG's transformation has progressed, he described its present status as "between games in a twi-night doubleheader," clearly acknowledging the accomplishments already achieved by CEO Rohde and his management team, and stating that the company is "on the right track," while emphasizing that a good deal more needs to be done. He also announced that the company will hold an investor meeting in New York City in March, in conjunction with its earnings release for the February quarter, to discuss its future strategies and action plans in depth. In the interim, however, as its strategies develop, the company will not hesitate to take specific actions where appropriate.

CAG also announced that while some of the factors affecting F2Q results will continue to have a negative effect over the balance of the year, management expects to report year-over-year growth in EPS in the second half of F2006, excluding nonrecurring items, in view of last year's disappointing results, especially in packaged meats. Our preliminary estimate for the May 2006 year, excluding one-time gains and charges, is $1.48, up from $1.35 last year, but slightly below the $1.51 of F2004, which included a $0.03 benefit from an extra week.

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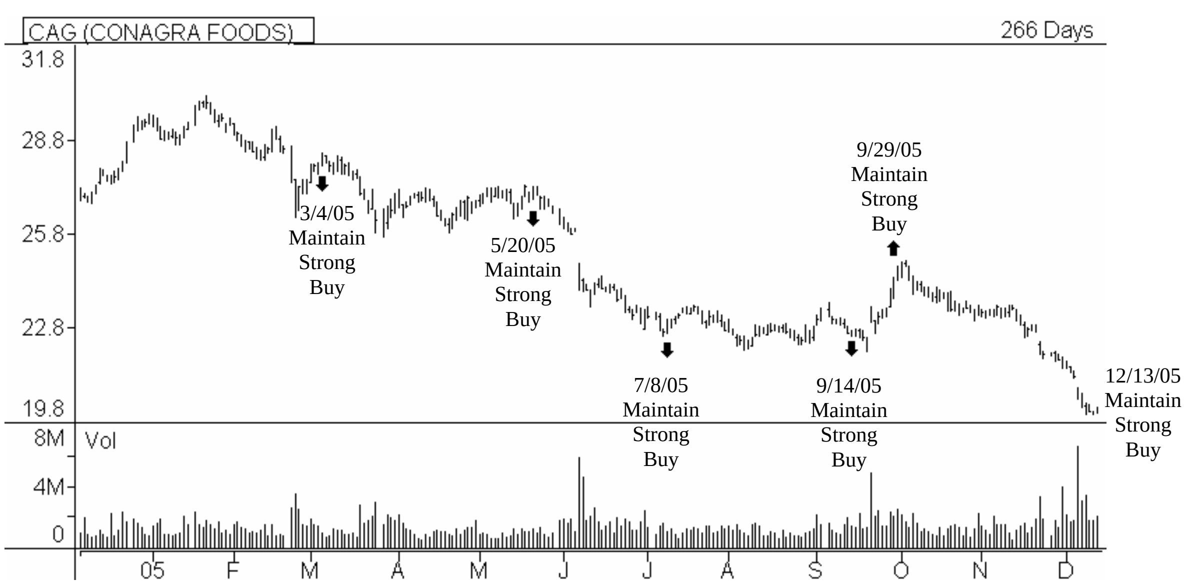

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