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COMPANY SUMMARY

Thursday, September 29, 2005

Speaker: Bob Cummins

Food Industry Comment:

Campbell Soup (CPB-\$29.50)
ConAgra Foods (CAG-\$24.30)
Del Monte Foods (DLM-\$10.70)
General Mills (GIS-\$47.40)
Heinz (HNZ-\$36.60)
Smucker (SJM-\$48.30)

For nearly two years, food companies have been pressured by inflationary cost increases for agricultural ingredients and for energy-related inputs such as fuel for their plants, packaging materials, and transportation. They have responded with selective price increases (generally with a lag), and with cost-reduction steps such as headcount reduction, consolidations of facilities, and the elimination of slow-moving or low-margin product lines. Nevertheless, profit margins have narrowed, and both earnings and stock market performances have been disappointing.

However, we see increasing signs that the worst may be over, even though oil prices remain above expectations. Agricultural commodities, including most grains, vegetable oils, meats, poultry and dairy products, are selling well below their 2004 highs. Profit margins are benefiting from the cost reduction steps the companies have instituted. Importantly, their managements, who perhaps had become somewhat complacent in prior years when costs were more stable and predictable, are now keenly aware of the importance of taking pricing action promptly when costs rise, and of following up with further increases if inflationary pressures continue.

As evidence of an improving outlook, we cite the fact that of the six food companies listed above, all of which reported quarterly earnings in the past four weeks, four (DLM, CPB, CAG and GIS) beat expectations, and their shares rallied 4%-7% on the news. Of those whose earnings remained weak, HNZ had a strong quarter domestically, and has since announced plans to divest the businesses overseas that are underperforming. SJM's shares dropped 7% on the day of its earnings release, and then recovered gradually as investors realized that ex some unusual items, its results were considerably better than they appeared.

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See pages 6 to 10 of report for important disclosures and Analyst's Certification.

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CAG, DLM, GIS, HNZ and SJM are all on our recommended list, rated "1" (Strong Buy). CAG is severely depressed, trading 19% below its 12-month high, while GIS and HNZ are down 10%-12%, and DLM and SJM 6%-8%. All of these stocks in our view have meaningful upside potential as their fundamentals strengthen. Brief comments on each appear below. Statistics on these and other food issues are presented in Table 1.

ConAgra Foods, with \$15 billion in sales, is one of America's largest brand-name food companies, and has been strengthened materially over recent years as less attractive businesses have been divested and the ongoing operations have been upgraded through efficiency gains, personnel additions, and increased marketing efforts. Earnings have been disappointing over the past year, reflecting the difficult issues facing the whole food industry, and particularly severe pressures in CAG's important packaged meats business. However, F1Q (August) EPS from operations of \$0.32, up 14% versus an expected decline, clearly were an upside surprise, and while they benefited from a lower tax rate, they demonstrate that an earnings recovery is shaping up more quickly than expected. We are also pleased by the appointment of Gary Rodkin, formerly a top executive at PepsiCo, as CEO, succeeding Bruce Rohde, who ably led the company through its restructuring phase. 12-month target price \$28-\$30, or 18 times our estimate of \$1.59 for calendar 2006. Recent reports: 9/14/05, 7/8/05, 5/20/05, 3/4/05.

Del Monte Foods, in the three years since it acquired Heinz's U.S. tunafish, pet food, soup and baby food operations, has managed those businesses well, increased operating efficiency, strengthened its management team both internally and through outside recruiting, paid off 27% of its debt and refinanced the balance, and most recently, repurchased 6% of its shares. The combined impact of those steps under normal circumstances should have led to a leveraged increase in EPS versus the \$0.80 earned by the "old" DLM, prior to the deal. Instead, annual EPS from operations have remained in a \$0.75-\$0.89 range, and are projected to remain flat at \$0.75-\$0.80 for the April 2006 fiscal year, as cost inflation, principally for steel, energy and transportation, has been only partly offset by increased volume and higher prices for most products. Nevertheless, recent results suggest that the tide may be turning. While F1Q (July) is a seasonally low period, price increases helped to drive an unusually strong 7% sales gain, and EPS of \$0.08, up 33%, exceeded management's guidance of \$0.03-\$0.07. We calculate that if DLM were to return to the 14.4% operating margin it achieved in F2004, the first full year after the acquisition, its earnings today would be about \$1.20 per share. Target price \$13-\$14, or 15-16 times estimated calendar 2006 EPS of \$0.87. Recent reports: 7/20/05, 3/4/05.

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General Mills, like the other companies in this review, experienced significant cost increases for ingredients, packaging and fuel in F2005 (May), but after a slow start in F1Q, earnings resumed strong growth in the November and February periods, thanks to higher volume, price increases, productivity gains, lower interest expense and rising joint venture income. However, investors received a shock in June, when GIS reported yearend results that showed a resumption of earnings pressure in F4Q, attributable largely to weak volume in breakfast cereals, and management stated that EPS for F2006 were likely to be slightly below the non-GAAP results of \$2.92 for F2005, as a result of continued cost increases and the absence of earnings from divested businesses. The shares declined 7% on high volume on the day of the release, and have remained depressed ever since. On the other hand, results for the August quarter, released last week, suggest that management's guidance for F2006 may prove too conservative. EPS of \$0.72 before nonrecurring items not only exceeded weak prior-year results, as expected, but were 16% above those of two years ago. Moreover, the important cereal division has regained most of the market share it lost last year. The company also reported that it had repurchased over 4% of its shares during F1Q. While earnings comparisons will be challenging over the next two quarters, we see a distinct possibility of upside surprises, which is not reflected in the still-depressed stock price. Target price \$56-\$57, representing an 18 multiple of estimated calendar 2006 EPS of \$3.10. Recent reports: 6/30/05, 3/4/05.

Heinz, despite the industry pressures discussed above, achieved healthy results in North America in the April 2005 fiscal year, with growth of nearly 8% in net sales and 9% in operating income. However, international operations were disappointing, as sales increased 5%, but profits were down 6%. Both Europe and Asia/Pacific reported 6%-7% earnings declines, while the weakness in local currencies was even greater, in view of favorable exchange rates. Excluding the impact of a lower than normal tax rate, EPS for the year increased only 1%. The trends in F1Q (July) were similar, as domestic sales and earnings increased 8% and 7%, respectively, while international operations registered an 18% profit decline, despite a 4% sales gain. EPS were down 5%, and management expects a decline in the October period as well. The good news is that on September 20th, the company announced plans to divest the three non-core, low-margin businesses in Europe and one in New Zealand that have accounted for the lion's share of the recent disappointments. Ongoing EPS, adjusted for asset sales, will be 11%-12% below management's previous guidance for F2006, but the shares after an initial dip have rallied to a price above that before the announcement, demonstrating investors' recognition that profit margins, growth potential and predictability will all be enhanced. Rated "1" (Strong Buy), 12-month target price \$39-\$40, or 17 times our estimate of \$2.20, pro forma, for calendar 2006. Recent reports: 9/22/05, 6/2/05.

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Smucker has done a good job in managing cost and pricing issues, as well as integrating the June 2004 acquisition of International Multifoods, and it achieved respectable F2005 (April) growth of 5% in sales (adjusted for the merger) and 7% in EPS from operations. However, analysts received a shock last month when SJM reported F1Q-06 results that indicated a slight decline in earnings, even after adding back restructuring, merger and integration costs, in contrast to expectations of 7%-16% growth. The shares sold off to a nine-month low on high volume, but then gradually rebounded as it became clear that there were additional one-time items in the numbers, without which EPS would have shown a 12% increase. Management continues to project 8% growth in EPS from operations for the April 2006 period, in line with previous guidance, on 6% sales growth. SJM has done an outstanding job over the past 3 ½ years in absorbing two major acquisitions that increased annual sales from \$700 million to \$2.2 billion, while also dealing effectively with the cost pressures that have affected the whole food industry. We consider this one of the most dynamic companies in the group, and maintain our "1" (Strong Buy) rating, as well as our 12-month target price of \$56-\$57, or 18 times estimated EPS of \$3.08 for calendar 2006. Recent reports: 8/25/05, 3/4/05, 1/14/05.

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Table 1: FOOD STOCK SUMMARY - Prices, Earnings, Dividends

	FY	Com. Shs. (mil.)	Price Sept. 29 2005	Price Change		12 Mos. Range	Earnings Per Share (a)			Cal. Year P/E		Ind. Divd.	Yield	Rating	12-Month Target
				2005 to Date	Since July 1		2004	2005E	2006E	2005E	2006E				
Nine Leading Packaged-Foods Companies															
Campbell Soup (CPB)	July	409.0	29.5	(1)%	(4)%	32-25	\$1.58	\$1.71 A	\$1.75	17.1	16.1	\$0.72	2.4%	3	
ConAgra Foods (CAG)	May	520.3	24	(19)	+4	30-22	1.51	1.35 A	1.51	18.2	15.1	1.09	4.5	1	28-30
General Mills (GIS)	May	366.0	47	(5)	0	54-43	2.85	2.92 A	2.98	16.2	15.2	1.32	2.8	1	56-57
Heinz (HNZ)	April	350.4	36.5	(4)	+3	41-34	2.20	2.23 A	2.13 f	15.8	15.9	1.20	3.3	1	39-40
Hershey (HSY)		246.5	56	+1	(10)	67-46	2.06	2.34	2.62	23.9	21.4	0.98	1.8	3	
Kellogg (K)		413.1	46	+3	+4	47-41	2.15	2.33	2.53	19.7	18.2	1.11	2.4	3	
Kraft Foods (KFT)		1,696.0	30.5	(14)	(4)	36-30	1.87	1.95	2.10	15.6	14.5	0.92	3.0	3	
PepsiCo (PEP)		1,679.0	57	+9	+6	57-48	2.32	2.68	2.95	21.3	19.3	1.04	1.8	1	63-64
Sara Lee (SLE) (b)	June	791.0	19	(21)	(4)	25-19	1.62	1.49 A	ne	12.8	ne	0.79	4.2	1	29-30
Average				(6)%	0%					17.8	17.0		2.9%		
Foodservice Distributors															
Performance Food Group (PFGC)		37.5	31	+15	+3	31-21	1.24	1.25 f	1.60	24.8	19.4	-	-	1	34-35
SYSCO (SYY)	June	635.7	31.5	(17)	(13)	38-29	1.37	1.49 A	1.60	20.5	18.4	0.60	1.9	1	41-42
Other Companies															
Dean Foods (DF) (g)		149.8	38	+41	+8	37-23	1.75	2.02	2.25	18.8	16.9	-	-	1	41-42
Del Monte Foods (DLM)	April	211.0	10.7	(3)	(1)	12-10	0.89	0.75 A	0.80	14.7	12.3	-	-	1	13-14
Flowers Foods (FLO)		62.7	26	+24	+10	28-16	0.81	1.08	1.20	24.1	21.7	0.40	1.5	3	
Sensient Technologies (SXT)		46.7	19	(21)	(8)	24-18	1.53	1.41	1.50	13.5	12.7	0.60	3.2	3	
Smucker (SJM)	April	58.1	48	+2	+2	52-43	2.40	2.60 A	2.85	17.2	15.6	1.08	2.3	1	56-57
TreeHouse Foods (THS)		30.8	27	-	(5)	33-27	-	1.30	1.55	20.8	17.4	-	-	2	
Shields Food Universe Average				(1)%	0%					18.5	16.9		2.7% d		
S&P 500			1225	+1%	+3%		\$67.67	\$77.36	-	15.8	-	\$22.39	1.8%		

A Actual. E Estimated. (a) Diluted. Before nonrecurring charges or gains. (b) Excludes impact of divestitures or spinoffs. (c) Continuing operations. (d) Excludes non-dividend paying companies. (f) Pro forma for divestitures and reinvestment of proceeds. (g) Adjusted for spinoff. (ne) No estimate.

Ratings: 1- Strong Buy; 2-Buy; 3-Neutral; 4-Sell; NR-Not Rated.

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(FOOD STOCK SUMMARY TABLE 1.XLS/9/29/05)

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, Del Monte Foods, General Mills, Heinz, and Smucker.

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; 7/8/05 (\$22.70) – Strong Buy – Target \$28-\$30; 9/14/05 (\$22.50) – Strong Buy – Target \$28-\$30.

Other Del Monte Foods reports issued by me are: 3/9/04 (\$11.10) – Strong Buy – Target \$14-\$15; 5/18/04 (\$11) – Strong Buy – Target \$14-\$15; 6/4/04 (\$10.50) – Strong Buy – Target \$14-\$15; 7/2/04 (\$10) – Strong Buy – Target \$14-\$15; 9/14/04 (\$10.90) – Strong Buy – Target \$14-\$15; 12/3/04 (\$10.40) – Strong Buy – Target \$13-\$14; 12/14/04 (\$10.20) – Strong Buy – Target \$13-\$14; 3/4/05 (\$11) – Strong Buy – Target \$13-\$14; 7/20/05 (\$11.20) – Strong Buy – Target \$13-\$14.

Other General Mills reports issued by me are: 2/27/04 (\$46) – Strong Buy – Target \$57-\$58; 3/19/04 (\$46.50) – Strong Buy – Target \$55-\$56; 5/18/04 (\$46) – Strong Buy – Target \$55-\$56; 6/4/04 (\$46) – Strong Buy – Target \$55-\$56; 10/8/04 (\$44.80) – Strong Buy – Target \$53-\$54; 12/14/04 (\$47) – Strong Buy – Target \$53-\$54; 12/28/04 (\$49.60) – Strong Buy – Target \$57-\$58; 3/4/05 (\$52) – Strong Buy – Target \$60-\$61; 6/30/05 (\$47) – Strong Buy – Target \$56-\$57.

Other Heinz reports issued by me are: 3/5/04 (\$38) – Strong Buy – Target \$44-\$45; 5/18/04 (\$37) – Strong Buy – Target \$44-\$45; 5/25/04 (\$37) – Strong Buy – Target \$44-\$45; 11/30/04 (\$37) – Strong Buy – Target \$44-\$45; 12/14/04 (\$38) – Strong Buy – Target \$44-\$45; 6/2/05 (\$36.50) – Strong Buy – Target \$42-\$43; 9/22/05 (\$34.50) – Strong Buy – Target \$39-\$40.

Other J.M. Smucker reports issued by me are: 4/16/04 (\$51) – Buy – Target \$60-\$61; 5/18/04 (\$49) – Buy – Target \$60-\$61; 6/4/04 (\$49) – Buy – Target \$60-\$61; 6/25/04 (\$45) – Strong Buy – Target \$60-\$61; 7/27/04 (\$42.50) – Strong Buy – Target \$60-\$61; 11/23/04 (\$44) – Strong Buy – Target \$54-\$55; 12/14/04 (\$46) – Strong Buy – Target \$54-\$55; 1/14/05 (\$46) – Strong Buy – Target \$54-\$55; 3/4/05 (\$51) – Strong Buy – Target \$56-\$57; 8/25/05 (\$47.30) – Strong Buy – Target \$56-\$57.

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.

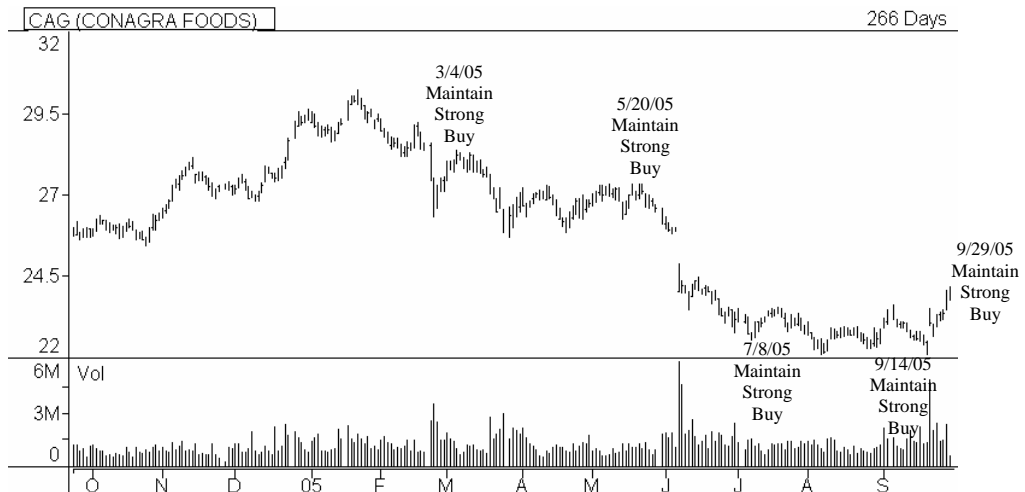
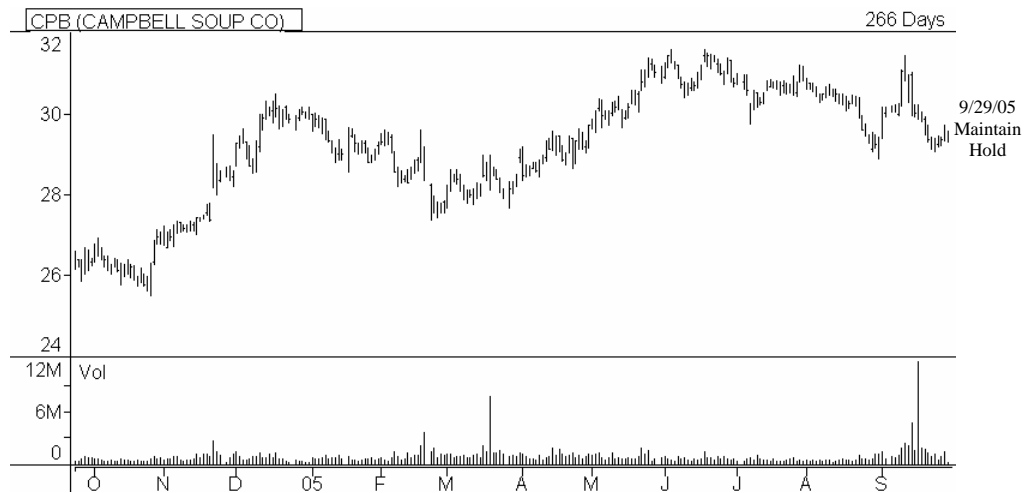
Sell ("4"). The stock's total return is expected to be below the average total return of the analyst's industry coverage universe over the next 12 months.

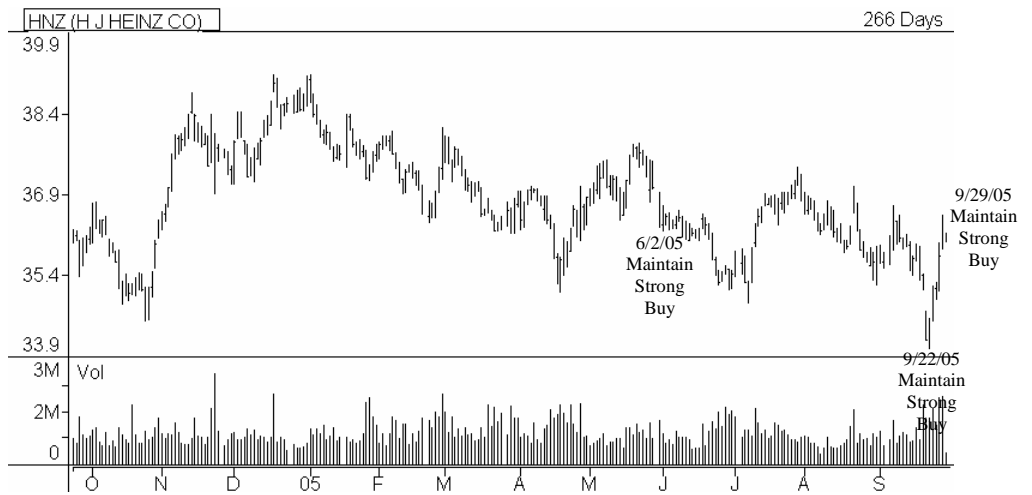
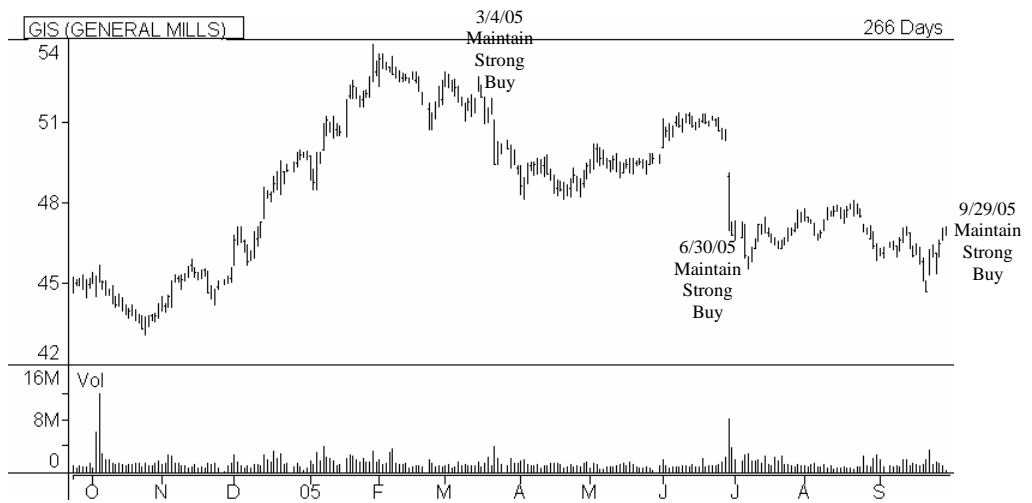
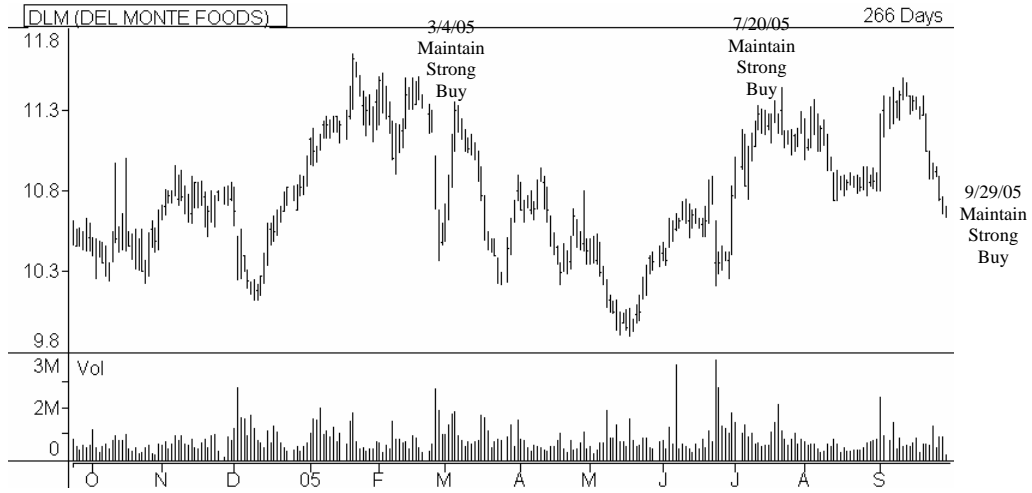
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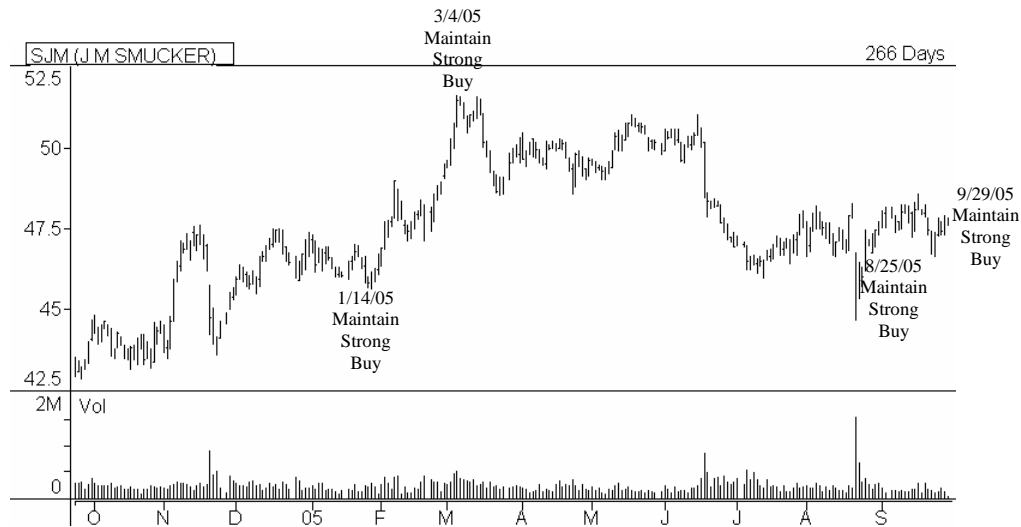
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