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Conference Call Transcript

CAG - ConAgra Foods at Consumer Analyst Group of New York Conference

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CORPORATE PARTICIPANTS

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ConAgra Foods - CFO

PRESENTATION

Unidentified Speaker - CAGNY - Analyst

Okay. If we could all try and find our seats, we'll get on with the next presentation. (Inaudible) we do in the back of the ballroom, right back there by the AV booth there, we've got a charging station for laptops. So if you get the blinking light, you can head back there and charge it up. So it's now my pleasure to welcome the Management of ConAgra Foods. Speaking are Gary Rodkin, CEO; Andre Hawaux, President of Consumer Foods; John Gehring, recently named Chief Financial Officer; and we've got Chris Klinefelter up on the (inaudible) as well from Investor Relations, who many of you know.

CAGNY would again like to thank ConAgra for a wonderful reception last night, the great new products that were served and the opportunity to meet many members of the ConAgra Foods leadership team. So thank you very much, again, Gary.

Gary Rodkin - ConAgra Foods - CEO

Thank you.

Unidentified Speaker - CAGNY - Analyst

Now, as background, ConAgra Foods has made a great deal of important changes as a company over the last few years since Gary became the new leader, a few of which are significantly changing its portfolio by divesting lower margin commodity operations, bringing in significant new talent, radically changing the culture to focus on simplicity, accountability, and collaboration, and significantly reducing operating costs, segmenting the portfolio to focus where the biggest opportunities are, and most importantly, building an innovation pipeline and improving marketing to better strengthen the portfolio.

Today, you're going to hear an update from several members of the senior management team at ConAgra Foods on the major elements of its strategic plans and its financial outlook, and I'll turn it over to Gary, CEO. Thanks, Gary.

Gary Rodkin - ConAgra Foods - CEO

Thank you, Andrew. Good morning. It was great to see many of you at our reception last night and I'm delighted to have the chance to talk to you today about ConAgra Foods. It has been an eventful year for ConAgra, our customers, and our consumers since we were last together. Unprecedented input cost inflation, rapid subsequent deflation of some commodities, and a fundamental adverse shift in the economy, have combined to test all companies' capabilities as never before.

For my part, I'm certain that the changes and the progress at ConAgra Foods in the past three years have put us in a far better position to be able to deliver quality results in this environment. A clear indication of this is our unchanged EPS guidance for the fiscal year of slightly more than \$1.50 on a comparable basis. This reflects operations that I believe have turned the corner on executing against our objectives in a high quality way.

With me today to talk to you are Andre Hawaux, who now leads our consumer business, and John Gehring, our former Controller, who took over from Andre as CFO last month. This is our obligatory note on forward-looking statements, and I would ask you to please take everything that we say in this context.

With the sale of our trading group, we now have a total focus on food - not fertilizer, not ethanol - just food - iconic brands that people have loved for years, like Orville Redenbacher and Healthy Choice. We know who we are and we have a clear strategy for winning. That's what we'll be talking about this morning. As we look forward the key is a stronger brand foundation. We're in a much stronger position today than we've been before. Our real value is in unlocking the power of our brand portfolio. We've worked very hard these past few years behind the scenes and have built a much more solid foundation.

Prior to 2006, ConAgra was a holding company. It was built over several decades by dozens of acquisitions. But unlike most major competitors, there was no strategy to integrate. The company grew much bigger, but developed no scale leverage. It was characterized by independent operating companies and functional silos. In large part, its success or failure was deal driven. And there was a mandate that all businesses, all brands must grow and were handed resources without much segmentation or prioritization.

I joined ConAgra Foods in the fall of '05 knowing that there were major opportunities to fix or build the fundamentals, basics like forging a winning culture based on a few core operating principles that have really changed how we work as a company, like designing an organization that connected the dots leading to far better alignment.

But maybe what I'm most proud of is the progress that we've made on our supply chain infrastructure working through some very tough issues. We intensified our focus on upgrading our food safety and our technical resources. We've invested \$25 million in people and training, new processes and research dedicated to food safety leadership. We've invested \$170 million in upgrading our manufacturing infrastructure to get more automated, more modernized, and more efficient. One of the most important aspects of our changed culture is a relentless focus on food safety.

So we asked ourselves, what more could we do? What we did was assemble a highly respected Food Safety Advisory Board to be our external eyes and ears to help us be even more forward-looking and proactive in this important issue. Our strides towards operating excellence have accelerated our cost savings in part by leveraging scale, yielding a continuing runway of productivity. We're much better at planning, product management, and execution. This plays a big role in building a robust innovation pipeline which has begun delivering results in the marketplace. It's also enabled us to dramatically improve our entire innovation cycle end to end from idea through commercialization. And we've dramatically upgraded our marketing to ensure that we're spending our resources wisely. In fact, Andre and I will show you some examples. And finally, we've taken a very proactive stance on focusing the portfolio through some big divestitures. So these seven buckets you see on this slide represent much of what we've been doing for the past three-plus years.

As we look ahead, we're confident in our foundation and in our abilities to accelerate our progress as a strong operating company. Our strategy is based on solid, economic analyses to help direct our focus. Having clarity and alignment will help us prioritize our finite resources. Our strategic plan is a roadmap that will help guide decisions like capital spending, R&D resources, how we allocate our marketing spend, and will help us evaluate any potential fill-in acquisitions.

This evolution in our strategic planning may seem fairly basic, but it's critically important for an organization with a portfolio as broad as ours. The keys for us to deliver sustainable profitable growth are, one - fewer, bigger, better innovation. You will never hear us say we're introducing hundreds of SKUs this quarter. Why not? It's because we're not playing that game. We're interested in a much higher batting average. We're developing platforms and protectable innovation as our top priority. Number two, our marketing has gotten much better by being insights driven against both the consumer and the customer. And three, if we're going to create all of this pull through with innovation and marketing, we must have supply chain excellence. This will give us capability to deliver great products with great service at advantage cost.

A better way of thinking about our portfolio is breaking it into five strategic priorities. These priorities were built on a fact based analytical framework. Factors included market growth attractiveness, our ConAgra market positions, our operational leverages and synergies, and a much more granular economic analysis. These priorities will direct our focus and investment toward the areas with the most growth potential.

Our strategic priorities start with convenient meals, both frozen and shelf stable. And by the way, just for visual clarity, we've only listed selected brands on this slide, but our entire portfolio is grouped under these five priorities. Our second priority is potatoes, where we play huge in food service and have more than a foothold at retail. Snacks is our third priority, where we are a major player on the warehouse side. So we're going to focus our discussion today on these top three priorities, because that's where we expect the majority of the growth to be generated. But let me just spend a minute on the remaining two groups. Meal enhancers are products that augment the meal preparation. It's led by Hunt's, the branded

leader in tomatoes. It also includes strong niche players like Rotel diced tomatoes, an extremely popular ingredient for homemade queso dip and chilis, and Rosarita, the market leader in refried beans. We expect good growth from brands like these.

And moving all the way to the right is our specialty businesses. There are many good brands and businesses in here with the common thread being that they are relatively finite in nature. In other words, they're self contained, like ConAgra Mills or Egg Beaters, which has its own plant and basically is its own category.

Not all brands in here are created equal. Some will be advertised, like Pam. In fact, Andre will show you a spot from our new campaign. And some will be expected to show strong growth, like Hebrew National Hot Dogs. But as a whole, the mission for this group is to provide a stable source of funds for our growth priorities. And let me make it very clear, this--while we will always look for ways to optimize our portfolio, these businesses and brands are not a list of businesses that we want to sell. That's not our strategy. These are good businesses. They're not just--not our highest priority investment.

But convenient meals, on the other hand, is the top priority platform for ConAgra Foods. As I said, we're declaring our playing field to be both frozen and shelf stable. We have a strong portfolio of brand equities and supply chain infrastructure to serve as our foundation for growth. From a segmentation standpoint, we cover the bases quite well. Healthy Choice has a strong equity in health and wellness and has transitioned successfully into shelf stable with Healthy Choice Fresh Mixers.

Marie Callender's represents restaurant quality home cooking as people shift their away from home eating into at home. Banquet and Chef Boyardee play big in value, which is obviously more important than ever. And Kid Cuisine and Chef Boyardee, again, are major players in kid's meals where mom is looking for well balanced, hot meals.

Let's start with Healthy Choice where we launched our first innovation platform. Our objective was to dramatically improve the quality of frozen meals. Our outstanding team of chefs and food scientists developed a revolutionary way to cook in the microwave that significantly improved taste, texture, and convenience. It validated our concept of a new platform that could be built on protectable technology, which is a big shift in our thinking toward intellectual property that will be tough to replicate. In stark contrast to other steaming products in the market, ours is based on separation, a very different conceptual approach. The result was a home run new product, Healthy Choice Caf  Steamers, which became the best selling new product in the entire food and beverage industry in the first half of calendar 2008. When combined with our launch of Healthy Choice Asian Steamers, we're on a run rate of \$140 million in our sales dollars.

Last summer is when we launched Asian Steamers, and they have been largely incremental. While the base Caf  Steamers line has continued its strong volume and repeat, now the top two overall SKUs are from the Asian line. That is not your normal line extension dynamic. I'll come back to frozen in a few minutes, but let me stay on Healthy Choice. Our R&D team went to work to see if we could transfer our steaming concept and learning to shelf stable. Our objective was to bring takeout quality to a convenient portable lunch product. Office workers live in fear of their lunch being poached from the office refrigerator, so we created a high quality, healthy meal that you could store in a desk drawer. Healthy Choice Fresh Mixers was launched last fall with a true 360-degree marketing effort, including viral marketing, PR, interactive, and some very breakthrough advertising. Let's take a look at two of the spots.

(VIDEO)

That's good stuff, isn't it? Healthy Choice Fresh Mixers is off to a very good start. It's highly incremental to our franchise and to the microwave meals category. Shelf stable steaming is now another platform for growth. So let's go back to frozen. In the middle of our Q1, about six months ago, we stepped back to assess the landscape in our largest consumer category, frozen meals. Inflation was roaring and competition was being extremely aggressive on price discounting. Frankly, I was very dissatisfied with the situation and with our numbers. I inserted myself and several other senior functional leaders directly into the battle alongside our frozen business team. I firmly believe that this has helped us cut cycle times, improve our marketing, and our innovation productivity, and accelerate our margin improvement opportunities.

So back to the frozen business, we drew a line in the sand. We were determined to transform the business through more aggressive and creative innovation, marketing, and selling on our three power brands - Healthy Choice, Marie Callender's, and Banquet. And we wanted all of it in the market by the start of Q4, which was only six months away. That put a very focused sense of urgency into the entire organization. On Healthy Choice we were looking to do a total makeover of a great brand equity. On Marie Callender's, we have a brand with a lot of momentum with an opportunity to move it beyond Grandma's kitchen. And on Banquet, it's all about value.

We had underleveraged Healthy Choice, a great brand that had invented healthier eating in the frozen case 20 years ago. It had lost its leadership position, but still had very strong brand awareness. We had allowed the brand to get pigeon-holed into an older, more male-oriented target on a

diet. Frankly, we had allowed our competitors to run right past us. We agreed a significant opportunity existed to reposition Healthy Choice for a younger, more female target, or the heaviest users of the healthy segment. This target is looking for better nutrition without a taste tradeoff and for more contemporary lighter entrees, versus a more traditional meat and potatoes dinner. We knew we could get there because of our success on steamers. The first basic building block was the package. Our Healthy Choice graphics had the same basic look for many years. We needed more than just an incremental tweak. Here's the same product with a new package - brighter, bolder, more appetite appeal, positive nutrition messaging, and a new signature exclamation point - a clear--very clear change that we know will be noticed in the highly trafficked freezer case.

On the product side we attacked four key pieces. Our core line of complete dinners were all renovated to include the quality and the nutritional content. We did the same with our entrees, significantly contemporizing their profile. On our very successful steamers line, we made some product enhancements to our lowest quartile SKUs, and finally, we developed a line of all natural meatless entrees. This meatless line is probably our most forward leaning moving. We know a younger and more progressive target is looking for less processed, more real food - no additives, no preservatives, proactive nutrition like whole grains and antioxidants, not just weight loss. And they're looking for more contemporary diverse offerings.

And finally, while most of our target are not vegetarians, many people in this target are looking to reduce their consumption of meat. Thus we're introducing varieties like Sweet Asian Pot Stickers and Pumpkin Squash Ravioli, which I hope you had a chance to try last night. This line is shipping to stores as we speak. To complete this major makeover, we'll have some big impact marketing that we believe will definitely break through the clutter and change consumers' perspectives on Healthy Choice. The introductory advertising campaign will launch at the end of March, so stay tuned.

Frozen power brand number two is Marie Callender's. For the past five years, Marie Callender's has grown at a 13% compound annual growth rate, a true star performer. We get a lot of consumer feedback on the quality and the loyalty Marie Callender's engenders. I told you how steaming was a platform for innovation. Bringing steaming to Marie Callender's was a very easy decision. We know how well quality pasta offerings have done in the market. We also know that Italian food is extremely popular and broad based. When we put these elements together, we created Marie Callender's Pasta al Dente. In-home product testing yielded the highest scores ever in ConAgra history exceeding consumer expectations on every single dimension, including value, liking, and uniqueness. I hope that you got a chance to try these last night. I am totally hooked.

As good as Healthy Choice Steamers have been, Marie Callender's Pasta al Dente scores were even higher on every measure, a very tough benchmark. This product line began shipping nationally last week.

We're also taking Marie Callender's into meals for two, dual serve meals. Marie Callender's Signature Saut  s is truly chef inspired. Again, I hope you had a chance to try them with our chefs last night. Consumer feedback to us is that this is every bit as good as a higher end restaurant which is another way to look at value. Our customers are all looking to capture some of those occasions when people would have dined out. We're in a limited rollout, [course correcting] any elements before a national rollout in fiscal '10.

Our third power brand in frozen is Banquet. Banquet is the dominant leader in the single serve economy segment. It's a \$1 billion brand at retail, it's a major traffic driver for our customers; and Banquet significantly reduces the need for private label in frozen dinners. Banquet penetration, loyalty, and value, make it a very important brand for our customers. Our underlying advantage on Banquet is manufacturing scale. With the former granular analysis now enabled by better tools at our hands, we understand our costs and margins much better. We also learned how critical the \$1 price point is to the Banquet equation when we raised our prices due to intense cost of goods inflation. So the third leg of our frozen transformation was really based on working backwards from the \$1 opening price point.

Last September, our R&D team was tasked with reengineering our Banquet line to hit that \$1 merchandising price point at acceptable margins for our customers and for us. There was no compromise on quality allowed - let me repeat that - no compromise on quality allowed, so they went to work, eliminated a number of SKUs, renovated and right sized another group. One example was removing a brownie and adding more mashed potatoes and gravy, which was actually a big win with consumers. R&D also created a number of new SKUs that could work at \$1. So within 30 days we had locked and loaded on a totally transformed line of Banquet dinners and they are also hitting the retail stores as we speak.

This is a great example of a win-win-win. Consumers win because they get the product that they want at the price they want to pay. Customers win because the \$1 Banquet meals draw a lot of foot traffic. And ConAgra Foods wins because we'll have a high velocity business with acceptable margins. I'm very proud of our entire team that helped make this frozen transformation a reality. It's a big deal and early customer response is very positive.

Our second strategic priority is potatoes. Lamb Weston is our single biggest brand at ConAgra Foods, over \$2 billion. And Alexia is our premium all natural brand at retail. Lamb Weston's primary channel is food service with a blue chip list of customers including almost every major quick

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serve restaurant. Lamb Weston is recognized as one of the premier food service brands across all categories of food and beverage because of its outstanding customer service and innovation. No one in the world sells a consistently higher quality product. One of the reasons Lamb Weston stands out with customers is because we are continually unlocking ways to help them grow.

We try to know as much as possible about consumer behavior in their restaurants to bring insights, which will create more demand. One area of opportunity is appetizers where Lamb Weston can bring us outstanding R&D capabilities to bear and become more of a one-stop supplier for a restaurant's needs. Lamb Weston has enviable manufacturing scale. It's 13 plants mostly centered near its raw potatoes source run close to capacity and run extremely well. The net result is a system that annually produces more than 7.5 billion pounds of incoming potatoes very efficiently.

Lamb Weston has been a rock solid performer in the ConAgra portfolio. Sales have more than doubled since 2000. And the financial performance metrics are equally impressive. Lamb Weston has outperformed the industry year in and year out, sometimes by taking market share from other players or getting an innovation to develop a new product for a chain or perhaps opening a new export market or by making a smart acquisition. Net-net, Lamb Weston capitalizes on opportunities and manages through difficult environments as well as any company could.

While Lamb West has a \$200 million retail business primarily in private label, we play on the premium end of the retail category with Alexia. Alexia's all natural products are chef created and deliver outstanding quality across an array of interesting flavors. Alexia is on track for very strong double digit sales growth. We're estimating it will be up more than 50% in the back half of the year. We're very happy with our Alexia acquisition. It fits well with our strategic priorities and it will help drive growth not only in potatoes, but in our priority--third priority snacks, as Andre will discuss. Many of you may remember Andre as our CFO. Well, he has gone through a metamorphosis and turned into an operator and a very good one at that. So I'm pleased to welcome Andre Hawaux, our new President of Consumer Foods. Andre?

Andre Hawaux - ConAgra Foods - President of Consumer Foods

Thanks, Gary. Thanks for that really nice introduction. And it's good to see you all here in Boca. And I was thinking last night when I was talking to many of you that I hadn't seen for a while, I was selling like a banshee. I was going around going, look at what's at that station, look at what's at that station. And I just remembered last night when I went back to my room how much fun I had last night and how much sometimes this occasion is not so much fun for CFOs, so John, have at it.

Well, it's my pleasure to discuss our third strategic priority - snacks. As you can see behind me, these are all very, very well known brands. And our snack business is a scale business representing about \$1.1 billion in annual net sales. Now the primary focus is popcorn, both microwave and ready to eat, seeds, and meat sticks. We also have a strong private label of grain bar and fruit snack business as well. Now, these brands are leaders in their categories, categories that are growing, and we continue to gain share. Now, we believe that snacking is a core and growing part of today's lifestyle and our snacks provide a platform to expand healthy, better for you offerings.

Now, Orville Redenbacher is clearly a power brand for us. We believe in this economy as people stay home more and movie night becomes a family magnet that brings people together, that Orville Redenbacher is well positioned for a strong growth rate, both top and bottom line. When you think of how healthy popcorn is and that for \$0.75 a bowl you can serve your family, it's a pretty compelling proposition in this economic environment. And what the heck? At \$0.75 a bowl, why don't you make two bowls?

Now, this year we took some deliberate actions to fix our mix and reposition our brand equities in the microwave popcorn categories. As you know, Orville Redenbacher is our premium and Act II plays in the value segment. Now, this mix shift was done selectively and only with a few retailers. The net result was we've taken a short term volume hit, but our popcorn profits are up double digits year to date.

Now, what I'd like to do now is show a couple of spots. This first spot we're actually going to preview to you. This has not yet run. This is a spot we call "Tea Party" and the way I'll set it up is it really--it talks about what microwave popcorn and what the aroma does in terms of bringing people together. So I'd like to see your reaction. Watch.

(VIDEO)

If you were at our frozen station last night, I think "napkins, napkins" was an operative word. The second spot I'd like to talk to you about is one that we actually do have running right now and it's our integration with NBC on making Friday night family night. Take a look at this.

(VIDEO)

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Now, our private label and store brands business is also a strong platform for us and continues to grow above category growth rates. Retailers are aware of a very strong manufacturing and R&D capabilities and they often seek us out to help them drive growth in these key categories for them.

And I want to now shift gears and talk to you about some breakthrough snack innovations we have rolling out soon. I saw many of you trying this product last night and like me you were hovering around those snack bowls way too long. As Gary mentioned earlier, we believe the Alexia brand has some very broad shoulders and we believe the brand will play very well in snacks. The brand stands for premium, great taste, and has an all natural appeal. It's made from real vegetables. It has exceptional taste and texture, which I think you found out last night, and it's healthier than regular chips. As a matter of fact, it's 25% less fat than regular chips. It's starting to roll out in the fourth quarter. Our first ship date is 2/23 and we'll progressively build from there. Customer reaction to this product has been absolutely fantastic.

Now, to our wild and spicy side - Slim Jim. Now, this brand's bull's-eye is teens, not unlike Mountain Dew and Volt in the soft drink space. Our presence in C stores is very strong and we're building the business in the grocery channel as well. Now, I want to show you a spot here that was most--just actually hit the top 10 most liked commercials in calendar year 2008 according to Nielsen. We call this spot "Wedding." Remember, our target here is teens, so you all may not appreciate this, but I'm sure if you had your children here, they certainly would appreciate this.

(VIDEO)

I told you. You'd have to bring your kids. Now, before I turn it over to John, who I know is who you really came here to hear, I want to leave you with two spots we are currently running and one spot that will start next week. They are indicative of what Gary means when he says fewer, bigger, better, and insight driven marketing.

It also reflects what you'll see us invest behind our brands in the back half of fiscal year 2009 and obviously beyond. The first commercial is a Chef Boyardee spot targeted at Mom. The insight was we never gave Mom a nutritional reason to serve up Chef Boyardee, but with a full serving of vegetables in every can she can feel good about what she serves her child. We have always known that kids love Chef Boyardee. Now, we have Mom there as well. We call this shot--it's actually running now. We call this "Noise."

(VIDEO)

The next ad is for Hunt's. The insight here is that Hunt's truly has a point of difference. It's all natural and steam-peeled. We believe in the current cook at home environment it's being well received and it builds off the campaign we launched last year for Hunt's. And as you'll recall, Hunt's had been a brand we probably hadn't advertised in about 20 years. So let's watch.

(VIDEO)

On Hunt's, our equity scores have never been stronger, so this campaign continues to resonate with people throughout the marketplace.

The last ad I'll share with you is for Pam. Pam is the category leader for cooking spray. And in this new environment of dining in, we realize that the home cook may not have the confidence in the kitchen as generations before previously had. So Pam is a helpful friend and a confidence builder. Now, let's watch.

(VIDEO)

Thank you very much. And with that, I'd like to now introduce John Gehring, CFO for ConAgra Foods. Take it away, John.

John Gehring - ConAgra Foods - CFO

Thank you, Andre. Good morning, everyone. I'm excited to be here and although I've not spent much time with most of you, I do look forward to a productive dialogue with you on our business and I appreciate the opportunity to be here today. Now, since I am the new finance guy, Gary and Andre told me I wasn't allowed to show any commercials, because apparently only operators can show commercials. So I'm going to center my comments today really in three areas I know are of interest to you.

First, I want to review our financial priorities that we believe will help us to balance prudent financial management and sound returns to our investors, while at the same time help us to drive sustainable, profitable growth. Second, I will discuss the economic environment and how it

impacts our business and how we are combating those negative pressures. Finally, I will provide some comments on our financial outlook for the balance of 2009 and beyond.

Okay. Let's get started with our financial priorities. Our current financial priorities are consistent with the path we've been following. I believe it's the right path. Our first priority is to maintain a healthy balance sheet along with good liquidity. I think we would all agree that in the current environment, balance sheet strength and liquidity are more important than ever. In that regard we are committed to a strong investment grade credit rating and with respect to liquidity we have been continuing to access the commercial paper markets as needed. And while the commercial paper markets and the rates are currently very attractive, we do expect our commercial paper requirements to decline over the balance of this year consistent with our working capital trends.

In addition to commercial paper, we have a \$1.5 billion revolving credit facility that is in place until December of 2011. The facility is with a good group of banks led by JP Morgan and Bank of America. Our second priority is operating cash flow and we are intensely focused on improving operating cash flow. This improvement will be driven by increasing margin dollars, primarily in the consumer business to support both earnings growth and continued investment in our brands and innovation.

As we fine-tune and execute our operating plans, we expect to narrow the spread between our consumer foods operating margins and those of our competitors. Improved return on invested capital will result from this margin growth, along with improved working capital efficiency and CapEx discipline.

Now, what about our dividend? We are committed to maintaining a top tier dividend payout. We know that a healthy dividend is important to many investors and we believe that we will generate sufficient cash flow to meet this dividend objective, to fund our working capital needs, and to make the capital innovation and marketing investments we need to grow our business.

Now, on to the economy. How do we at ConAgra Foods see the current economic environment, and more importantly, its impact on our business? First, I should tell you that I left my crystal ball in Omaha and this time of year it tends to look like a bit of a snow globe anyway. So it's very difficult to predict with certainty the impact of this economic environment on our business. However, I am certain that to win in this economy we need to deliver on the opportunities that Gary and Andre discussed, particularly with regard to value brands and affordable innovation. In addition, we have to deal successfully with three key elements in this current economic environment - inflation, cost control, and pricing.

First on inflation, things are obviously better than they were a year ago, but please keep in mind that while inflation is moderating, we are still experiencing a year over year increase in inflation in fiscal 2009. For the full year, we expect inflation of approximately \$500 million. Now, what about inflation in 2010? Well, as we look at 2010 the outlook is certainly more favorable than it was a year ago, but somewhat mixed. We are planning for lower commodity costs across many key inputs such as edible oils, energy, and grains. However, we currently expect aggregate inflation in the low single digits for fiscal 2010, driven by continued pressure on key inputs, such as protein, vegetables, and steel. To be clear, we are not planning for net deflation, but rather lower rates of inflation.

In response to this significant inflationary environment, cost control has been a central focus for the entire organization. Three years ago we told you we had a long runway of opportunities in this area, and that continues to be the case today, notwithstanding the success we have had. We have fundamentally changed the talent and structure of our supply chain organization and it has yielded good results, particularly in the consumer food segment. We have developed and demonstrated our capability to achieve sustained supply chain savings. In fact, for the three fiscal years ending this May, we will achieve cumulative savings of approximately \$750 million, including projected savings in excess of \$250 million for fiscal 2009, which is ahead of our plans.

Further, we expect to continue that progress in fiscal 2010 as we are targeting savings of \$225 million and we expect to capture additional benefits in future years. Overall, we are confident that our supply chain capabilities and the related opportunities compare favorably with those of our peer group.

In addition to our supply chain savings, we have also maintained consistent pressure on controlling our core SG&A costs, which exclude unusual items, marketing investments, and incentives. Over the past several quarters we have implemented streamlining efforts across many areas of our company, as we drive a culture that embraces zero overhead growth as a way of life, and we are seeing positive results in our fiscal 2009.

Let me now touch on our SAP implementation. Since 2006, we have been on a real winning streak relative to our SAP initiatives. During this time, we have experienced nearly flawless implementation of SAP financials, upgraded order to cash and trade management systems, and we have delivered on core supply chain functionality, such as demand in production planning, warehouse management, procurement, and recipe

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management. While the implementation is still in process we have already seen tangible benefits in support of our cost savings initiatives and we expect these and other benefits to increase over time. These increased benefits will be driven by continued process improvement, better visibility to cost, and back office efficiencies. Overall, ConAgra's SAP efforts continue to proceed on time, on budget, and with benefits that meet or exceed our expectations.

Now, to the third element, pricing. We can't discuss the current economic environment without a discussion of pricing. And like nearly all of our peers, we have taken strong list pricing actions over the past four quarters. However, as we look ahead, given the current economic environment, we believe that pricing will play a limited role in fiscal 2010. Also, given our aggressive pricing actions and the subsequent need to optimize volume and price dynamics, we have sharpened our focus on better execution of promotion and merchandising. We have made surgical net pricing adjustments and continue to evaluate additional actions. For many brands, specific merchandising price points in stores is critical and we are driving those price points that will provide us acceptable returns.

We are also fine-tuning trade spending strategies, and are focused on promotional events that provide wins for both us and our customers. As we have said before, we are not chasing volume by supporting price points that undermine brand quality or events that make no economic sense to us. To be very clear, even after merchandising and promotion adjustments, fiscal 2009 results will reflect significant price increases on a year over year basis.

In our commercial businesses, such as Lamb Weston, ConAgra Mills, and Gilroy Foods and Flavors, we have been very successful in pricing to recover inflation. While these businesses tend to have more pricing that is indexed to commodities, the management teams in these businesses have also done a great job of being proactive with their suppliers and their customers to protect their dollar margins.

Now, on our outlook - so how do we see the balance of fiscal 2009? First, with respect to our full year outlook, we are reiterating our earnings per share guidance of slightly above \$1.50 per share for fiscal 2009 on a comparable basis. Based on the first two quarters, this [solves] to delivering \$0.80 in the second half of the year. Consistent with our prior expectations, fourth quarter earnings per share will be higher than third quarter earnings per share. For those of you with estimates on our quarterly performance, please take note of this. This weighting towards the fourth quarter is driven by several factors. First, as we said last quarter, most of the consumer foods operating profit improvement will be concentrated in the fourth quarter. And within consumer foods, Banquet and Weston profit recovery will be stronger in the fourth quarter. Next, we will see more benefit in the fourth quarter from moderating inflation and finally we have the benefit of the 53rd week in the fourth quarter.

Now, let's turn our attention to next year. As we look forward to fiscal '10, we are planning for healthy earnings per share growth. We expect consumer foods profit growth reflecting moderating inflation, continued cost control, strong innovation, and a portfolio that has brands with strong value appeal. We believe these value brands should perform well in this difficult economy.

We are currently in the process of developing our fiscal 2010 operating plan. Given the current economic environment, there are several factors that we are continuing to evaluate that will impact our plan. One of these factors is the challenging food service environment and its impact principally on our commercial foods businesses. Another factor is the volatile financial environment, which will likely have adverse impact on our foreign exchange and our pension costs. We will be providing more information relative to our 2010 outlook later in this fiscal year.

Now, let me touch on our long term goals. As we have discussed, these are uncertain times. However, we are not changing our bottom line objective of an earnings per share growth rate averaging in the range of 8 to 10%. To be clear, we are now talking about our three to five-year long term planning horizon. In addition, we expect that CapEx will trend lower with an increasing concentration of investment in innovation, growth, and cost reduction. And finally, we expect improvement in our working capital efficiency. As a result of these factors, we expect to drive return on invested capital toward the range of 12 to 13% over time.

Okay, so let's summarize. First, our financial priorities. We are committed to a healthy balance sheet, operating cash flow improvement, and an attractive dividend. Second, we are operating in a very challenging economic environment, but inflation is moderating, and we believe our cost control efforts and pricing strategies are properly focused to help us win. Finally, we expect to deliver slightly above \$1.50 per share for fiscal 2009 on a comparable basis, and we will be updating you later this year on our outlook for 2010.

At this point, let me turn it back over to Gary. Thank you for your time and interest in ConAgra Foods.

Gary Rodkin - ConAgra Foods - CEO

(Inaudible) take questions? Andrew?

QUESTION AND ANSWER**Unidentified Speaker - CAGNY - Analyst**

Gary and Andre, can you talk a little bit about where you've made some of these surgical pricing adjustments and trade spend adjustments? Are there certain characteristics that are consistent in categories where you've done that? Is it a market share issue? Is it driven by the nature of the category in some way? Or is it just category by category without that kind of consistency?

Gary Rodkin - ConAgra Foods - CEO

It's--surgical is the right term. I'd say some of the places would be where we have very high market shares and our primary competitor could be private label. So in a place like cooking spray, Pam is a great example, where we've got a very high margin product. But with the pricing actions that we took, took the price gaps out of line, bringing it back down into the realm of where it can work gives us a somewhat slightly lower margin. Still a very good one, but more volume. That would be an example. Other places it's driven by competition. As you know, in frozen we had some pretty aggressive competition. We didn't choose to go all the way down, but we did go selectively on an interim basis down to a midpoint which has been pretty successful for us. So it really is category by category by category. In no way, shape, or form, Andrew, do we take a look and say, we're going to take a wholesale price decline.

Andre?

Andre Hawaux - ConAgra Foods - President of Consumer Foods

The other thing I'd add to that Andrew, to the frozen question, is actually we didn't take our list price down. We just basically changed the merchandising mix and the merchandising price points, so that's the only qualification I'd make of that.

Unidentified Audience Member

With the trend towards dining in, I was wondering if you could comment on the performance of the Hunt's line in terms of Hunt's overall category growth for the tomato segment, how Hunt's is performing, the price between Hunt's and private label, the outlook over the next year for the category growth? Do you think this trend of dining in will continue?

Gary Rodkin - ConAgra Foods - CEO

Yes. Let me take the first part. I think since last year, since we started really investing behind the project to revitalize Hunt's, which included the [AMP], we've seen growth very substantial growth, both at the top line and bottom line. The category itself, and I know many of you get IRI or Nielsen, you have to take a look at that and that's about 50% of our business. Our business in clubs, our business at Wal-Mart, and other non-measured channel has been very, very strong. Private label though is the largest, as I recall, the largest share of this segment, has done also very well in this environment. We think the category will grow. We think Hunt's will continue to grow and we have great plans for Hunt's.

Unidentified Audience Member

On the pricing front, I mean, it seems clear you guys will show positive pricing this year. My concern is about next year. I mean, granted Nielsen doesn't measure everything, but it does show the category slowing, the frozen category. And there's been some talk that it's become kind of a price point issue with some of your higher--the Marie Callender's and Healthy Choice certainly. Do you see deflation in that segment next year and given it's size, could that give you a deflationary element in terms of pricing as you look into next year?

Gary Rodkin - ConAgra Foods - CEO

[Jerry], I think there's two sides to that story. There clearly is a large group of people looking for extreme value and that's the Banquet story and that's why the dollar price point, the dollar merchandising price point, the initiative that we went through to make certain that we would be able to deliver that to our customers and to ourselves at a very acceptable margin, is so important. So we expect to see good growth in that side of the business.

On the more premium brands, like a Healthy Choice or a Marie Callender's, that's why we chose to say we will have a very responsible pricing plan next year, meaning we're kind of playing it down the middle in terms of where we think competition is going to go, certainly not up. But we've got that built in. But more importantly is the poll side, and that's why all the innovation that we showed last night is extremely important and the marketing that we'll be doing, including things like changing the packaging - we feel as though this transformation that we've put together on our frozen foods is a huge deal. Our customers see it that way and we expect consumers will respond there as well, so we feel very, very good about where we're going on frozen. And that innovation pipeline, very importantly, is extremely robust behind it.

Unidentified Audience Member

Thank you. Two questions. I guess the first, commercial foods, Gary, as you noted, has been incredibly successful over the years, but it sounds like you maybe want us to be a little bit more cautious in the outlook. I'm just kind of wondering how from the outside we can try to judge all the businesses that are in there? And then, second, I think you mentioned something about operating cash flow with margin dollars and then a percentage margin gap versus competition. And I think last time you spoke with us it was kind of more about the dollars and less about the margin percentage. So maybe you can just kind of tell us exactly where you--where we should be focused.

Gary Rodkin - ConAgra Foods - CEO

I'll tackle the first one and I'll turn the second over to Andre and John. On the commercial side, the commercial businesses particularly are Lamb Weston, the potatoes business, and our ConAgra Mills, flour mills, have had extraordinary years and actually have performed extremely well over a number of years, particularly Lamb Weston, and I'd say have more than carried their weight in terms of our performance. We expect to see next year that flip. We expect to see significantly better performance from consumer and a more moderating performance from commercial. Put that together, and we feel very good about our algorithm, but we'll see a flip-flop in that direction. It's still good performance, but it won't carry the load like it has over the last few years.

Andre Hawaux - ConAgra Foods - President of Consumer Foods

I'll just start on the margin concern. I think what we said last year, as you'll recall, in the kind of inflation environment we were in, that when you just did the math just a lot of the numbers were that we wanted to bring margin dollars certainly to the bottom line, which we do. But you're going to get a percentage issue. When you do the math, actually the percentages--percent margin will actually decline. I think as we go forward, and again, John mentioned that we did not have our fiscal '10 algorithm. I think you'll see a combination in the new space where actually we'll be driving margin dollars and the bet is where we're seeing inflation come in we'll actually see a movement upward in our margin percentage.

Unidentified Speaker - CAGNY - Analyst

Okay, we're going to unfortunately have to cut it off there.

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