

# FINAL TRANSCRIPT

**Thomson StreetEvents<sup>SM</sup>**

## **CAG - ConAgra Foods at Consumer Analyst Group of New York 2008 CAGNY Conference**

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## CORPORATE PARTICIPANTS

**Gary Rodkin**

*ConAgra Foods - CEO & President*

**Greg Smith**

*ConAgra Foods - EVP, Supply Chain*

**Andre Hawaux**

*ConAgra Foods - EVP & CFO*

## CONFERENCE CALL PARTICIPANTS

**Ken Goldman**

*Bear Stearns - Analyst*

**Eric Serotta**

*Merrill Lynch - Analyst*

## PRESENTATION

**Unidentified Participant**

Just one brief housekeeping announcement. For those of you who may have missed it, we have Bloomberg machines out by the registration, and the logon instructions are there. I know some of you are going to use them to check your e-mail with, but please log back on if you can so that everybody can have access to the market information.

You know just a few years ago that the trends that took place in the food industry were getting to be pretty much the same from almost every presenter. We had to put in a program for cost savings. We have to monitor our pricing, and innovation will be the key to protect our margins.

The differentiating factor, however, was how well you executed on those buzzwords and were they indeed a plan that could accompany the verbage.

It was just two years ago that the new ConAgra took precedent, meeting in New York that was about split between analysts and every investment banker that had a set of suspenders and a flip phone. It is where Gary Rodkin stood up and said that these are our plans going forward. We plan to change the personnel, we plan to change the culture, and we plan to change the portfolio. This is a two-year update, how well this has been accomplished, and his team will give us that update.

I think it is important to note that when we look at companies across the food industry ConAgra spans the gamut. It is how do you manage the disparate parts to get the focus, to get the results, to execute the plan?

Gary, you are on. And, by the way, thank you very, very much for the wonderful reception last night. We are all the better for it, although morning did come a little earlier. Thank you again.

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**Gary Rodkin** - *ConAgra Foods - CEO & President*

Thank you, [Lenny]. Thank you. It was really good to catch up with many of you at the reception last night, and it's good to see you all there today. Today we will first have an overview from me, followed by our EVP of Supply Chain Greg Smith, and then we will finish up with our CFO Andre Hawaux, and sitting next to Andre many of you know are Investor Relations Head Chris Klinefelter.

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This morning we took up our Q3 earnings estimate. Our Trading and Merchandising operation has overdelivered again and our Food and Ingredients business is again posting another of many strong quarters. Our Consumer Foods business is showing good topline performance, but is still pressured by big input cost inflation. Obviously there will be much more to come in our March 27 earnings call.

And my favorite slide, which I'm sure you all have memorized. As Lenny said, we laid out a game plan two years ago with the objective of delivering sustainable profitable growth by becoming a true operating company. That is what we call the new ConAgra Foods. The longer I'm here and the more that I dig in, the more convinced I am that we have a strong group of businesses and brands. In fact, 96% of households use one or more ConAgra Foods from Healthy Choice to Egg Beaters to Orville Redenbacher's. So we had a lot of very what I would call favorite brands.

We have made some real progress on resurrecting these brands, breathing new life into latent equities. Our portfolio has significantly more potential than we have historically demonstrated. My job is to unlock that potential. I believe we have done and that we are doing a lot to set the foundation for sustainable profitable growth.

Since the issue was more about how we ran the business than the business itself, it started with dramatically changing the culture. We have driven three operating principles -- simplification, accountability and collaboration -- deep into the fabric of the Company, and you can see that culture revolution in how the people act and how they talk about the Company, and you can see it quantitatively in our survey work on engagement two years in a row. It is real, it is very tangible, and it has built a foundation upon which ConAgra Foods will become a much better operating company.

The second element of the game plan was the rewiring of the organization. We were a collection of independent operating units built over the years by dozens and dozens of acquisitions. Never integrated. We built our new vision around the word, one.

Making that transition is difficult. Our rewiring work is now focused on ensuring every single management job is truly value-add, nonduplicative and tightly linked together. When the rewiring is completed this spring, we will be a leaner fighting machine focused on results, not activities. I will speak a bit later about how these changes are reflected in my everyday role.

Part three of the plan was optimizing the portfolio. Our quick divestitures of meats, seafood and cheese businesses in 2006 were big moves in the right direction. We then segmented our consumer businesses into priority and enabler brands and changed how we managed those two segments differently.

In the most recent three quarters, topline growth has accelerated in Consumer Foods. Part of that is more effective marketing. Part is a robust innovation pipeline, which has already delivered great results.

And number four was to attack our cost structure to build our margins. We made great progress quickly as we plucked a lot of low hanging fruit. We then hit some big speed bumps over the past 12 months -- two recalls, manufacturing inefficiencies from overtaxing our capabilities with too many simultaneous projects and unprecedented cost inflation. These were major obstacles when you add them altogether, particularly for a Company just starting to turn things around.

But you know what? We are still standing tall. There are not many companies that have ever gone through the gauntlet the way that we did in the last year. And I am just as confident in our potential as I was 12 months ago. We have learned a lot. We are a lot smarter, we are a lot stronger, and we are better equipped for the road ahead. We have taken many steps to ensure that we're now an industry leader in food safety and quality. We have revamped and strengthened our quality organization with top drawer talent from the industry. We have made major investments in our infrastructure, and we have enforced much stricter requirements on our suppliers and implemented the most rigorous sanitation policies and procedures.

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So, as we look forward, we have a lot of things that I would tell you are going to make a big difference in this Company. Clearly the left side of this chart will continue, but we have now reached a point where I know that we can become best-in-class on innovation.

I will talk more about that in a few minutes. We have started to demonstrate some marketing prowess and have more confidence in our ability to grow the topline consistently. And while it has taken us longer than I would have preferred due to all the distractions that I just talked about, we have gotten our act together to get our fair share on pricing to counterbalance the extraordinary input cost inflation that the industry is experiencing.

As I have said consistently, you will see some sequential pricing improvement in Q3 in March, and you will see significantly more in our Q4 numbers.

We have also rewired our supply chain, the whole organization we have rescoped and repaced our infrastructure transformation projects, and we have begun improving our service levels as a result. So when I step back and I think about where we started in the fall of 2005; how much progress we made in those first 16 months; what we have been through these past 12 months; some of it self-inflicted and what we have done to right the ship, I feel very bullish about our future. Of course, I have the advantage of being on the inside of most of these adjustments and improvements that we have and that we're making, but I hope that today you will take away a better perspective and hold me accountable for delivering the results. I'm confident that we have more upside than any other Company in our space. There is nothing more important to me than proving our case in the quarters and the years ahead.

Make no mistake, we're very focused on delivering a balanced algorithm that starts with sustainable topline growth. I'm confident we can do this.

Why? Three key topline drivers.

We expect our innovation to be what we call sticky. That means not just filling the pipeline but growing those brands that we introduce in years two and three and beyond. Our mantra is fewer, bigger, better, faster. We're employing much more of an ROI mentality on all of our marketing spend. We expect organic growth in large part to be driven by high impact consumer and customer marketing.

The third leg is smart pricing. It is a combination of surgical list advances by product and category with a very keen eye towards competitive price gaps. It is also about being more effective and efficient with our trade spending. We're being more granular now as we develop our merchandising strategies customer by customer.

And finally, smart pricing, particularly with a portfolio like ours, is about optimizing the mix.

I'm quite pleased with the portfolio of businesses and brands that we have across this Company. You can see a number of strong category positions ranging from our \$2 billion frozen portfolio of Healthy Choice, Marie Callender's, Banquet and Kids Cuisine, to our category defining cooking spray, PAM. We have a number of latent equities, well-known brands, that are present as I said in so many US households. And we're starting to demonstrate that with a little bit of attention, a little tender loving care grounded by clear insights that we can grow these brands.

In fact, this group of well-known brands have each grown at least 5% or more for the past nine months. Again, good evidence of new life in the ConAgra portfolio.

So how do we continue this topline growth?

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Despite some bumps in the road to sustainable growth, I do believe there are some areas we have made some great progress, and our innovation turnaround is at the top of the list. There is absolutely no comparison to where we started two years ago, period.

A number of you visited with us last summer to get a taste of our new product pipeline. Well, we have begun to deliver on the potential that you saw and tasted. What we call our Grade A innovation meets all three of these dimensions. It starts, of course, as any food product needs to with amazing taste. It fits consumer's desire for health and wellness, and it is very user-friendly, what we call extreme convenience.

Our Grade B innovation meets at least two of these criteria.

Healthy Choice was our most underleveraged brand equity from an inconsistent marketing approach and clearly from a lack of breakthrough innovation. Our team of chefs and food scientists were already expert at delivering good taste within the most stringent nutritional guidelines because when you use the word healthy in your brand name, you are held to strict government caps on calories, fat and sodium.

As I just said, our number one requirement for innovation was amazing taste. Our objective on Healthy Choice was to raise the bar on frozen dinner tastes and texture. In other words to significantly close the gap with restaurant meals. This was achieved in a proprietary manner with what consumers believed to be a superior cooking method, steaming. We are on track to \$100 million -- that is in our sales dollars -- in our first full year. And this is even more remarkable given that this product's demand outstripped its supply, and for several months we had to go on allocation. And very importantly, we have developed a platform that will continue to grow as we look forward.

Let's take a look at our introductory spot.

(Shows video.)

If any of you have not tried this product yet, please, please do because I think you will agree with me, there's no comparison to other frozen dinners.

We also introduced another Healthy Choice product, Paninis, and it has been a good addition to our Healthy Choice franchise, especially at the lunch occasion. One of the reasons that I personally am a big consumer of Healthy Choice paninis is a concept that we call nutrient density. So, for example, here that is the ability to consume about 25 grams of protein for only 300 calories and about four grams of fat. That is a pretty filling and nutritional lunch compared to most alternatives.

Importantly, the Healthy Choice brand has reversed its trend with the introduction of steamers and paninis. Net sales are up 19% for the first eight months of our fiscal year '08, market share in measured channels is up, and all of this with an average price up 8%. I can tell you unequivocally Healthy Choice has real momentum.

Another of our key platforms as snacks. And one of our best equities is Orville Redenbacher, by far the number one brand of microwave popcorn. Popcorn is already a healthy snack from a calories, fat and fiber standpoint, but we wanted to go further. Previous attempts at adding bold flavors required a two-step process for the consumer. We wanted to stick to our premise of extreme convenience and make that happen in one step.

We also challenged ourselves to make the product even healthier by making it all natural. We have accomplished all three of our objectives -- amazing taste, health and wellness and extreme convenience. Take a look at our Orville Redenbacher Naturals introductory commercial that began airing a month ago.

(Shows video.)

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That is Orville Naturals. Innovation is a very important growth driver, but I hope you will also see that we have improved our overall marketing impact. The combination is a good one.

Hunt's is an important franchise for us, the number one player in tomatoes. Our first move in revitalizing the brand was to freshen up our package graphics across the whole line. Our next step in setting a foundation for growth was to make Hunt's a top what we call gold store priority for our sales team, a big focus for them.

Over the past two years, our sales team has done a terrific job resetting the tomato category section on many of our key customers' shelves.

This fall we introduced fire roasted to the Hunt's line and it has done extremely well in its first few months.

The final piece of this plan giving consumers growing understanding of just how healthy tomatoes really are, we decided as the category leader that it was time to go back on television for the first time in many years. We have gotten very strong response. Our topline this fiscal year is up 5% with over a full share point gain, and since we went on the air, we are up 9% with a 2 point gain. Here is one of those spots.

(Shows video.)

Not bad for an old brand. We have gotten some amazing comments, responses on that campaign.

Chef Boyardee is a \$500 million brand that owns the lion's share of its category. It's a very strong name with moms and kids. We decided to take the franchise into a close quick value meal adjacency macaroni and cheese. It has been a nice addition, and it has helped grow our business this year by 6.5%.

Renovation is not quite as sexy as pure innovation, but we're looking across all of our priority brands to improve or to renovate our total product offering. I just told you holistically what we did on Hunt's, and another good example brand I just talked about Chef Boyardee, we have reduced our sodium content by 40% over the last two years and launched a new ad campaign for kids.

Well, Egg Beaters is a brand that truly defines its category. It is an outstanding real egg products that delivers amazing nutritional superiority to shell eggs. Our hurdle for further household penetration is that true egg lovers have been unwilling to make any taste trade-off. So, again, back to the drawing board. With our amazing taste requirements, we challenged our R&D team and our chefs, and they have delivered, and we have just launched a new Egg Beaters version with a touch of yoke. And, as you can see on the numbers on this chart, we still have great nutritional advantage over shell eggs, less than a third of the fat, less than a quarter of the cholesterol and about half of the calories. But now with taste parity, quantitatively tested taste parity to shell eggs, it is an outstanding product. This product has had great trade acceptance. It is flowing onto the refrigerated shelves as we speak, and it's giving us valuable incremental shelf space.

Take a look of the advertising we just developed that will break next week.

(Shows video.)

Again when you see this product on the shelves, give it a try. Give it a blind taste test; it is terrific.

In thinking about logical adjacencies for strong brand equities, we saw an opportunity in the market for a great tasting light snack and one that might have better taste in nutritional than our very successful rice cakes.

As a testament to our doctrine of faster to market, this product went from idea to shelf in about three months. That is less than half of the time, much less than half of the time that it used to take. When you eat 100 calorie snacks, most snacks, the portion is consumed virtually instantaneously. Right?

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Our product portion is about 15 silver dollar sized pieces for less than 100 calories, very low in fat and very low in sodium. We have just launched this product at Wal-Mart. We're going to monitor its performance, make any adjustments to optimize and look to expand further later in fiscal '09.

I think you can see that we have dramatically dialed up our innovation. We have cut our cycle time in half with much more discipline, much tougher prioritization and a true funneling of choices. It starts with an eyes wide-open external focus. Those ideas are vetted quickly at a senior level with a blend of many years of experience in the food industry.

Prototypes are rapidly built and put into targeted consumers' hands and mouths. After course correcting and optimizing basis iterative feedback, if the products are worthy, we then move into final testing to ensure a successful launch.

The bottom line, we are operating with a mantra as I said of fewer, bigger, better and faster to market, and I can tell you it is working.

As we look into the next 12 months, two of our key focus areas are snacks and meals. Unfortunately for competitive reasons, I am not ready to divulge any more details, but I can tell you I am very excited.

I believe our biggest marketing leverage is to continue improving our effectiveness. I hope that you have seen some things today that demonstrate our progress in doing just that. Beyond the Healthy Choice, Orville Redenbacher, Chef Boyardee, Hunt's and Egg Beaters cases that I just talked about, we have also put big points on the board with a holistic approach, holistic marketing approach in the last two years on brands like Hebrew National, Marie Callender's and Slim Jim. Our target spending on marketing for Consumer Foods is about 6% to 7% of net sales, and that equates to about 8% to 9% of our priority brands. That is what we have built into our algorithm, and it is what I believe will enable us truly to get the job done, particularly as I directly oversee the consumer operating groups and put my thumbprint on all the significant expenditures.

I know some companies may plan to spend more, but I am not sure if that is always the right move or even necessary.

Among the short list of ConAgra-wide priorities that warrant my direct touch is pricing. As I said earlier, we were too slow to the dance this year, but we have made good progress, particularly in the past few months. As it said in our release this morning, you will see sequential improvement in our Q3 results, and the latest pricing round that we have just announced will be effective March 24. It is very broad. It is across 95% plus of our portfolio and will have a significant impact on our Q4 results.

We have had our margin challenges this year in our consumer segment, but in our \$5 billion commercial operations, we're having another excellent year. In our Food and Ingredients segment made up of Lamb Weston potatoes, Gilroy and Spicetec ingredients and ConAgra flour mills, our top line is up 13% and our bottom line up 14%. Our teams have done an excellent managing in a difficult cost environment. And in our Trading and Merchandising segment, the numbers are eye-popping.

Our traders have very shrewdly taken advantage of volatile markets in food commodities, energy and fertilizer.

I would like to speak for a minute about a big business that I'm very proud of, Lamb Weston. It is the number one potato company in North America and number two worldwide. Our three-year CAGR on net sales is greater than 8% with net profit even better. Beyond being a major partner on potatoes with almost every key restaurant and food service operator, Lamb Weston has developed a growing business in appetizers as well, and they have partnered very well with some other parts of our business like Gilroy Vegetables, ConAgra Mills to develop products like McDonald's very popular Breakfast Burrito.

Lamb Weston has an outstanding reputation as a high-quality and product and service organization and brand. And, in fact, it is our largest brand at ConAgra. And very importantly, it's margin and ROIC accretive to our total Company.

Our Trading and Merchandising unit generates its profits primarily from energy trading on things like oil and natural gas futures from the merchandising of agricultural commodities like wheat and corn and as a wholesaler of fertilizer. As I have said consistently,

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we have very strong risk management that flows up through our Treasurer and ultimately through our CFO Andre Hawaux. The VARs or values at risk limits are very tightly controlled, meaning we are not rolling the dice in Vegas.

And finally, before I turn the podium over to Greg Smith, as part of our rewiring, we're making some organizational changes as we speak, and part of that is my direct leadership of Consumer Foods. I have four general managers that are managing the portfolio with me as the player coach. I strongly believe this is the right thing to do. I can leverage my 29 years in the food business at a time when I think it is most needed. We're changing the work. We're sharpening the priorities, and we're using our resources in a value-added critical mass impact way. There is much more to it, but the most important takeaway for you is that each of our executives, including me, have the sleeves rolled up, not just on strategy but on execution as well. And I feel very strongly that we are on the right path.

So with that, I would like to turn the podium over to Greg Smith, our EVP of Product Supply. He has had 23 years of experience in the food business, 11 of those at Quaker Oats, five with private equity and the last six and a half with ConAgra Foods. He has led our food operations group, or the operations for our grocery group I should say, and then was promoted to President of that division. And for the last two years, he ran our logistics and procurement across our entire supply chain until recently being named EVP of Supply Chain for ConAgra Foods.

Greg?

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**Greg Smith** - ConAgra Foods - EVP, Supply Chain

Thank you, Gary. Good morning. It is a pleasure to be here today and to be the new leader of supply chain for ConAgra Foods. Recently we have rebranded our organization from what was product supply to supply chain. The key driver of that was the inexplicable linkage of everyone of the functions within this organization. In order for us to achieve our priorities and to maximize the deliverables against our organization, it is critical that we not only plan and execute very effectively in each of the functions of procurement, manufacturing, logistics and customer service, but as if not more importantly across each of the areas together. We call that end-to-end supply chain. It is critical to our success, and it is critical to making sure that we deliver against our expectations. It is also the way that we will maximize delivering the lowest total delivered cost.

So a question, what is -- what are our priorities as a supply chain organization? First and foremost is food safety and quality. You heard Gary speak to some of the challenges that we have had this year. We have a very focused and a very robust initiative underway on food safety. We have changed our expectations with our supply base with new specifications in place. We are putting additional resources and requirements into each of our manufacturing facilities. To make absolutely sure that we have everything buttoned up, we have the processes and the resources in place.

In addition to that, we're making significant investment in new assets and also in plant infrastructure this year and in the years to come.

We have also established a Food Safety Advisory Council, which are eight key industry leaders in microbiology and also in food safety to ensure that we stay not only up to but ahead of what is coming toward us. Our objective in food safety is to not only be effective but to be a leader in the industry.

Our second priority is around customer service. We have had some challenges this past year in customer service. A good portion of those related to transformational projects where we hit bumps in the road which resulted in an interruption in the supply to our customer base. Our objective in supply chain is to ensure that we have the right products, the right place not at a time but every time consistently so that we can not only deliver against our customers' expectations, but we can also deliver against our top-line expectations and also deliver our innovation with excellence.

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The good news is that in the last 120 days we have made significant progress across our plants. We're seeing our service levels restored back to a position of our targets and the expectations of our customers.

The third area, third priority, is around cost management. I am going to spend the balance of my time with you today talking about costs. This is an area that we've made significant progress in, but we still have a significant amount of runway in which to achieve.

In the past when we have spoken to you, we have talked about the cost of goods sold for the entire Company. Today for simplicity purposes and because of the lion's share of our opportunities in cost savings come out of our Consumer Foods group, I'm going to talk to you solely about Consumer Foods. Our Consumer Foods business has a cost of goods sold of roughly \$5 billion or over 50% of our total cost as a company. That is made up in three primary areas, the largest by far is in our procurement area, followed by manufacturing, and third, around logistics.

Our focal point to be able to deliver end-to-end supply chains as well as maximize in each of these functional areas. The key priorities and impacts are as follows.

First, from a procurement standpoint, our primary focus is to reduce the complexity of our buy, leverage our sizable scale as an organization and to ensure that we get the best prices and the best costs that we can by leveraging that scale.

From a manufacturing standpoint, key focus is on improving our operational equipment effectiveness. What that means is it means the best mechanical efficiencies out of our facilities, reducing waste, reducing inefficiency and reducing loss. This is an area that we have tremendous upside to. We have developed one ConAgra program called ConAgra Performance Systems that we are implementing consistently across all of our platforms to be able to harness this opportunity.

In our logistics area, very focused on touches and miles. Today the majority of our products are produced in one manufacturing facility. We then transport that product across country. What our focus focus in going forward is, is as we reduce our complexity as an organization is to be able to broaden our manufacturing footprint so that we can enable our facilities to produce products more broadly in a region, allowing us to be closer to customers to take miles out and to go direct to the customers, therefore bypassing our mixing centers and warehouses.

And then lastly is around our end-to-end initiatives. So I'm going to give you some examples of end-to-end initiatives. Really what that is are opportunities that we identify and implement that go across all three of our cost centers between procurement, manufacturing and logistics.

The first example that I will share with you is vendor supply chain synchronization. Not only are we focusing on synchronizing our supply chain, but we are also focused on synchronizing with a supply chain of our suppliers. We know by doing this we can take complexity out, we can take waste out, we can take cost out, which allows us to procure at a lower price. It also allows us to reduce waste and take over all costs down.

The way this plays out is as we synchronize the supply chain, we then get the ability to plan forward and be able to be more planful in what we do. From a procurement standpoint, we have the opportunity then to be able to increase our contracted volumes, so it reduced our spot buys at lower cost. It also allows us to take safety stock out. We today carry duplicate safety stock in a number of areas between our facilities and that of our suppliers. We also then are capable of maximizing our inbound transportation costs. A sizable component of our procurement costs today are in transportation. So it allows us to then fill the trucks and also eliminate the expedited trucks so that we can take meaningful cost out of that component of procurement.

From a manufacturing standpoint, then it allows us to optimize our plant-based run strategies. So we schedule what we planned further in advance. We are able to stick to that. We have less unscheduled changeovers, which results in higher operational effectiveness.

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And then logistics, the majority of the inventory that we carry across our system today is safety stock. And as we get more linked with our suppliers, have better predictable service, we can reduce those safety stocks, and at the same time, we can improve customer service to be more consistent.

The size of this opportunity, although it is multi-year, it will take us over the next three years to fully implement. We anticipate this project alone or this end-to-end opportunity alone is worth roughly \$50 million. When I show you numbers in several slides to come, this is one of the initiatives that we have baked in for FY '08 through FY '10 planning.

A second example of end-to-end supply chains is around component consolidation and rationalization. Because we have had so many disparate business and so many acquisitions over time, we have not fully leveraged all of our products to take advantage of the scale and to reduce the complexity.

What our intent is, is to go after on multiple front opportunities to reduce the number of components we have, therefore, reducing our complexity and leveraging that buy.

An example of one, a number of our products are canned in canning platforms. Today we have 100 different cans that we use across our platform. We're in the process now in working to reduce that to 20. What that allows us to do is have better leverage on the buy, but also allows us to go to a broader supply base to be able to supply those cans.

From a manufacturing standpoint, we then reduce the number of changeovers because the complexity is significantly reduced, and more importantly, we then are able to take the capacity in our facilities and more adapt a smaller less complex platform across multiple facilities that allows us to start producing within a region closer to our customer base.

What that then allows us to do is standardize our pallets, increase the cubed utilization and weight of our trucks and our warehouses, and just by this initiative alone, we can take 15% of the total miles out of our logistics network, at the same time increasing the direct plant shipments directly to our customer, taking out touches which for us is significant cost for each time we touched the product.

This initiative alone is one of roughly a dozen that we are working today, and this initiative alone is worth \$20 million that we again will implement over the next level years.

So overall cost savings. As Gary said, against our consumer foods business of \$5 billion, we came out of the gates very strong. Very solid savings of \$275 million in FY '07. In FY '08 we are on plan and on track to deliver \$225 million of cost savings in consumer foods, which is roughly 4% to 5% of our total cost. We have plans in place for FY '09 to deliver the same, and we are planning and see the runway and the capability to be able to deliver the same in FY '10.

The source of these savings will be logistics, procurement, as well as manufacturing which includes the fixed and variable size of manufacturing. So these savings are all-in.

We have had an enemy with inflation, which is running roughly \$400 million this year or 8% of our total cost base. We anticipate we will have the same headwinds of inflation in FY '09. But you can see with these savings, which we believe are very realistic, it will allow us to deliver on our cost algorithms, our financial algorithms, as well as to be able to offset a good portion of the inflation that is upon us.

Thank you. With that, I would like to introduce to you our Executive Vice President and our CFO Andre Hawaux.

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**Andre Hawaux** - ConAgra Foods - EVP & CFO

Thanks, Greg, and thanks for the promotion. I really appreciate that.

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Good morning, everyone. You know I always assumed that Wall Street was getting younger, but last night I think you brought out some of the youngest analysts you have in the country for sure. I would ask you to check on one thing, though. Really check on their work ethic because none of them are here this morning, and I all saw them going to the beach and/or to the pool this morning. So I think they have something on all of you.

Well, what I would like to do in closing in this morning's formal presentation is to tell you what this means financially for ConAgra Foods.

First, as we look at our financial outlook, you will notice that our EPS guidance for both the near and the long-term remains unchanged from our discussion last year as does our return on invested capital. We have changed our guidance on net sales from 2% to 3% as previously discussed to 4% plus in the near-term and 4% in the long-term.

Now you may be asking yourself, why are we so bullish? Well, really there are four things -- innovation that Gary talked about both in terms of process and pipeline; strong performance in our Food and Ingredients business; accelerated pricing; more effective A&P spend. We're targeting 6% to 7% of consumer foods sales, which when you layer that on to our priority brand, it gets you to about 8% to 9%.

Now Gary has talked about our innovation process and the margin accretive nature of these new products, and he has shared with you some of our early advertising wins. So I'm going to focus on pricing.

We believe there are three key levers to pull with any effective pricing strategy. One is list price. Two is trade spending effectiveness. That is the depth and frequency of your promotions. The other is portfolio management mix. Not all products are created equal.

An example for us on our premium frozen line like Healthy Choice is the movement away from 10 for 10s to 5 for 10 and now in many markets 4 for 10. This coupled with the innovation you saw on steamers and panini and marketing have significantly strengthened our Healthy Choice business and brand equity.

We're also building and using new tools to better understand a brand's lift under different pricing scenarios. Now we paid a lot of tuition in Q1 and Q2 for not getting our pricing right. In hindsight, however, we were not in a position of strength with our customers due to service-related issues. We are much further along on all of these dimensions, and our focus on pricing runs all the way to the top of the house with Gary.

What it is also making us feel confident in our topline is our Food and Ingredients segment that has posted six of six consecutive quarters of high single digit net sales growth driven by leadership in their respective categories be it potato, onion and garlic; innovation things like Ultragrain and Sustagrain in our ConAgra Mills business, and unparalleled customer service with key foodservice operators.

When you talk to these key foodservice operators, names like Lamb Weston, Gilroy, Spicetec and ConAgra Mills, roll to the top of the list of best-in-class service providers.

We also believe that getting from a 4% topline through the pricing of the initiatives I just mentioned gets you to an 8% to 10% bottom-line. That the EPS of 8% to 10% is achievable. When you combine things like mix, the cost productivity that Greg just described in Supply Chain, core for expenses at zero growth. This is using the investments we have been making very successfully behind SAP to really drive that as an enabler of getting corporate expenses to be flat year on year and a strong focus on capital allocation.

Now with respect to other numbers that are important to our financial results, you will see that our capital spending over the next three years is targeted to be about \$450 million a year with an order of focus on the following. Quality and food safety number one, closely behind innovation and then productivity spending as well. Depreciation looks like it is going to net out

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about \$350 million over this timeframe. We see ourselves continuing to use share buyback as a benchmark of capital allocation and have plenty of room with \$0.5 billion authorization to do so.

We also believe we have a much more balanced algorithm at play going into both the near-term and the long-term. It is an algorithm that does rely on the topline both pricing and innovation-led. It relies on mix. It relies on productivity, much of which we have discussed this morning, and it requires core cost saves. And it has got solid balance sheet stewardship embedded in the mix as well.

Now EPS goals are 8% to 10%. For those of you who follow us, you know that after Q4 we normalized our Trading and Merchandising profits to determine the appropriate annual EPS. But to be very clear, we expect that after we normalize, we're still committed to delivering 8% to 10% EPS over the long-term.

One last item before I close. Many of you no doubt saw our news release this morning. Q3 is coming in better than planned due to better Trading and Merchandising results, solid Food and Ingredients business ahead of expectations, pricing and consumer starting to come in in Q3 with more coming in Q4, solid Q3 consumer volumes. Margins, however, are still pressured due to the inflation we've talked about.

This Q3 means we will be -- this performance in Q3 means we will be slightly north of \$1.55 for fiscal year 2008. Q3, though, is not yet closed. We will provide full details during our Q3 earnings release on March 27.

This concludes our formal presentation. I want to thank you all for your interest in ConAgra foods. Thank you very much.

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## QUESTIONS AND ANSWERS

**Gary Rodkin** - *ConAgra Foods - CEO & President*

And at this time, we would be happy to entertain any questions. Chris, do you want to monitor for me?

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### Unidentified Audience Member

So based on normalized Trading and Merchandising and looking at the profit performance from consumer foods this year, which, of course, was a tough year down in profit in fiscal 2008, this would imply a dramatic improvement in consumer foods profitability in fiscal '09 in order to maintain an 8% to 10% run-rate from that '07 normalized base that you guys gave out awhile back.

First off, would you agree with my characterization that, in fact, that is how the components work out. Consumer food profitability needs to improve dramatically in FY '09?

And then basically what gives you the confidence that this is reasonable? Is this a function of the price increases that you have taken and that we should see a substantial lift in margins as a result?

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**Gary Rodkin** - *ConAgra Foods - CEO & President*

David, I would tell you that I expect our consumer foods performance next year to be significantly better than this year, so you are correct on point one. We're very confident in our algorithm. We think it is a balance because we have got good topline based on pricing, innovation, more effective marketing. We do believe that there's a significant amount of productivity. A lot of that already very specifically plan as Greg outlined, and we have organizational efficiencies to spread as well.

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So when I think about that, along with very importantly as we highlighted today, the consistency of the excellent performance in our Food and Ingredients business which is sizable, a \$4 billion business. There combined with the most recent three quarters and continuing consumer foods topline growth, when I put that whole picture together, it does give me strong confidence that we can make that algorithm that Andre outlined of 4 plus on the topline at eight to 10 next year.

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**Unidentified Audience Member**

Gary, can you expand a little bit in terms of the marketing spending? You were talking about -- looking at Kraft, they took about 10%, (inaudible) as well 12%. You're talking about 6% to 7%, and the numbers I gave for Kraft and (inaudible) are (inaudible) for you. Now obviously you seem very confident that you have the right number and that maybe you don't need to spend as much. Just more quarter data would help.

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**Gary Rodkin - ConAgra Foods - CEO & President**

Well, again remember as we take pricing and the sales dollars go up, the percentages work differently. But I really do believe that that 6% to 7% which translates to 8% to 9% for our priority brands that we're very very disciplined about that. I believe that 8% to 9% spent with the effectiveness that we're seeing well clearly enable us to deliver.

So what other folks do clearly is up to them. I believe that we have a very balanced algorithm and that those funds will clearly drive the topline that we outlined.

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**Unidentified Audience Member**

Again, one quick follow-up. We always go back to the operating margins in consumer foods. Where do you see your numbers adjusted for corporate expenses, and how do you compare them to say again Kellogg, Heinz, General Mills? Just give us a sense of how do you benchmark yourselves there, and how much can you aspire doing potential margin expansion over time?

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**Gary Rodkin - ConAgra Foods - CEO & President**

Well, I will take 15 seconds on that and let Andre comment. First of all, our comp companies are folks we would consider like Kraft and General Mills, Heinz, etc., and there we clearly do have a gap. But we do believe that we are on the path that at some point in the foreseeable future I cannot tell you how many years that is exactly, but we believe that we will reach the peer average. Andre?

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**Andre Hawaux - ConAgra Foods - EVP & CFO**

Yes, I would not add a whole lot more to that, other than in these inflationary times, I think looking at margin percentage is a little -- it gets you a little disjointed in terms of how the math moves. Our goal is to drive margin dollars, and clearly over the long-term to close that gap that we have currently today with our peers.

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**Ken Goldman - Bear Stearns - Analyst**

Ken Goldman, Bear Stearns. A question on promotional spending. You have been criticized a little bit in the past by some of the investors and some of your competitors actually on your level of promotional spending. I'm just wondering where you see it going from here? What will it take to go down? If you could talk about that a little bit.

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**Gary Rodkin** - ConAgra Foods - CEO & President

Yes, we clearly see that as an opportunity. So when we talk about net pricing, it really is a combination of list price, more effective and efficient trade spending and mix, and that middle piece is very important. We're working very hard on that. We are being much more granular than we have been in the past. We are operating at a much more customer by customer, quarter by quarter level in great detail to determine the lifts. We now have better modeling tools to do that, and we have an extremely high-priority put against our sales force to act as general managers to spend smartly. When I put that altogether, we are holding the bar up for our sales team to reduce the trade to sales ratio next year.

**Eric Serotta** - Merrill Lynch - Analyst

Merrill Lynch. Gary, you have been pretty candid that a lot of the wounds from the first half were self-inflicted. Could you comment in a little bit more detail on some of them, particularly in terms of pricing and the manufacturing issues that with all that you have on your plate in the second half of the year, that the organization is not stretched too thin here? And particularly with the continued rollout of SAP and trade promotion management, that you won't run into the issues that previous administrations run into?

**Gary Rodkin** - ConAgra Foods - CEO & President

Well, first I can tell you that SAP, the pieces of SAP that have been implemented this year, have gone almost I hate to say it flawlessly, but that is actually helping us not hurting us. So that is a big plus.

From a manufacturing standpoint, we put too much on our plate as I've said before. We have gone back at a specific project by project basis under Greg's leadership and we have repaced and re-resourced each of those big transformational projects, and we are in line now to see improvement. Already the service levels are improving there.

The recalls were a major distraction for us. It was student body left, particularly in an organization as young as ours growing. That threw us for a loop. That is behind us now. So as we look forward, we feel as though we have really got our act together, and the last piece was on pricing. With all of those distractions and what it meant at the customer level, we clearly did not get there as fast as we would like to. But it is now top of the house, meaning me, priority that is aligned all the way through the operating organization. And I think you will see the evidence of that shortly.

**Unidentified Participant**

If we could break it right here and continue in the breakout session. Again, I would like to thank you and your entire team for the wonderful reception last night and for your candid answers to our questions. We will be back here promptly for Kraft as noted in the program.

Thank you very much, ConAgra.

**Gary Rodkin** - ConAgra Foods - CEO & President

Thank you.

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