

THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

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

EVENT DATE/TIME: FEBRUARY 21, 2012 / 2:15PM GMT



CORPORATE PARTICIPANTS

Gary Rodkin *ConAgra Foods, Inc. - CEO*

Andre Hawaux *ConAgra Foods, Inc. - President, Consumer Foods*

John Gehring *ConAgra Foods, Inc. - EVP, CFO*

CONFERENCE CALL PARTICIPANTS

Andrew Lazar *Barclays Capital - Analyst*

PRESENTATION

Andrew Lazar - *Barclays Capital - Analyst*

Good morning, everyone. Before introducing ConAgra Foods, please join me in thanking ConAgra for their very generous support of CAGNY and for hosting last night's great opening reception. This has been a very interesting and busy year for ConAgra, not only managing through very tough industry conditions and successfully putting through a significant amount of pricing, but also looking to take a more aggressive stance with respect to its capital allocation, and using its balance sheet flexibility for potential acquisitions. And here to kick it off for us and to give us some additional insight into these actions, some of ConAgra's key operating initiatives, is CEO Gary Rodkin.

Thanks for being with us today, Gary. Over to you.

Gary Rodkin - *ConAgra Foods, Inc. - CEO*

Thank you, Andrew. Good morning. Today is the start of Mardi Gras -- Fat Tuesday. We tried to give you an early start on it last night with our reception, and we really do thank you for being here this morning and joining us last night. We really did, as always, enjoy talking with you and we hope that you enjoyed the food and the company.

During today's remarks, we'll make some forward-looking statements. Please refer to this language to better understand the risks and uncertainties that go along with them.

Today, we are going to discuss the areas that we are focusing on for growth. We'll talk about our strategic plan, which we call our Recipe For Growth. This blueprint, which we developed about a year ago, gives us a more forward-leaning posture on growth and value creation. As a result of this plan, we are focusing on a few key promising areas. We've been very thoughtful and decisive about where we'll play, whether that's through acquisitions or organic, so that we provide the best returns for our investors. Andre Hawaux, President of our Consumer Foods business, will share with you some examples of our operational successes. Our plans to build on those successes are centered on a comprehensive set of initiatives called Customer Connect. Customer Connect largely focuses on strategic partnerships with customers, optimal pricing practices, and joint business planning. Customer Connect, along with a continued focus on productivity, helps drive our margin dollar growth.

John Gehring, our CFO, will provide a financial update, including a review of our capital allocation approach and our long-term algorithm. Our long-term EPS goal has not changed from the 6% to 8% annual growth we shared with you a year ago.

Just to ground you on some basics of ConAgra Foods, for those of you who are new to our Company, our revenue for our current fiscal year is expected to approach \$13 billion. About two-thirds of that comes from the Consumer Foods segment with our retail brands. And about one-third of that comes from our Commercial segment; that's mostly food service and B2B. We expect our operating cash flow to be about \$1.3 billion this year. And our current annualized dividend is \$0.96 per share, for current dividend yield of about 3.5%.

When we look at the progress we made over the last few years, we've spent a good deal of time and energy on strengthening the operating foundation of our business. We've truly improved the core elements of ConAgra Foods over a multiyear period by making important changes to



the business. Everything from organizational wiring and culture, marketing, innovation, cost structure and portfolio. We've discussed that with you extensively before. We'd like you to think of that as phase 1. We are in a much better place today on all counts because of the work that took place in that first phase.

We are now in phase 2. We've got greater capacity as an organization, as well as financially, to grow organically and to pursue acquisition opportunities that make sense. We are in a position to leverage that foundation for growth, driven by the focus areas I'll talk about today as part of our strategic plan. I'd sum this up by telling you I think about us as a team that was seen as the underdog, without a rich tradition of winning. Like everyone else, we need to work our way through the inflationary pressures and tough customer and consumer environment. But when the smoke clears a bit, we'll be in a much better place.

As I mentioned last spring, we went through an extensive strategic planning process with deep analytics to better chart our course forward. We know what our core competencies are and what we need to do to grow. That planning process resulted in the Recipe For Growth that I'm discussing today. Our Recipe is rooted in focusing on three key areas for growth, as well as goals for corporate citizenship and being among the top 100 best places to work.

I'm going to spend most of my time focusing on the first three elements of the Recipe -- growth from our core, primarily via faster growing adjacencies; growth internationally, particularly in emerging markets; and growth in private label. We believe that the three most important elements of growing our core are innovation, pricing, and marketing.

Starting with innovation, we have been successful in leveraging our strong R&D capabilities in creating platforms for growth. Those platforms, as an example, include steaming platform and Micro-Rite trays in our frozen operations. When I say platform innovation, I mean transformational innovation that serves as a launching pad for more applications using the same fundamental technology. And we really do practice open innovation where we take our knowledge and combine it with the expertise of one of our core partners to create these platforms. Our intent is to innovate with products that have sustainable growth, patent protection, and meaningful impact -- products like Healthy Choice Steamers, Orville Redenbacher's Pop Up Bowl, and Marie Callender's multi-serve meals with Micro-Rite trays. You've heard us talk about these before. They're very good examples of platforms for innovation and of the types of wins that we all want. Our objective is to align our insights and resources to make an even bigger impact when we commercialize our new products. That's obviously important to us. But it's also important to our customers, who very much need to find sources of new growth. So it's a win-win.

Second is pricing -- there's no question. This is a very challenging cost environment across the industry. Our core competency in pricing is more important than ever before in both our Commercial and our Consumer businesses. Our goal is to strike the right balance between a consumer who is holding her dollars very dearly; a customer who needs to drive category profitability; and us, the manufacturer, who needs to maintain margins.

And a third critical element to success in core is marketing. We really worked hard to raise the bar on our messaging, to ensure that it's driven by relevant insights. This is particularly critical in our economy, where consumers are demanding more for their dollars. And we have to be very clear about how our products deliver on their expectations, and what's different about our products versus alternatives.

I'll share a couple of examples to show what I mean. The first is our Pam cooking spray spot, where we've clearly articulated the advantages of Pam. And the second is our Hebrew National Better-Than-A-Hotdog spot, where you can see that we are communicating the difference very clearly between Hebrew National and other hot dogs.

(video playing)

Some of you may have recognized that last voice. And who would've thought that Batman loves kosher hot dogs so much?

So with those three elements -- great marketing, effective pricing and strong innovation, we have the power to take our core businesses into strategic adjacencies. I'll start in frozen, with dessert pies. This is a great story of organic innovation and strategic acquisition. The frozen dessert pie category is obviously adjacent to the frozen dinner category, where we have considerable scale and strength with our three big brands --



Banquet, Healthy Choice, and Marie Callender's. The frozen dessert category is growing faster than frozen meals, and we began to take advantage of that a couple of years ago by creating Banquet single-serve dessert pies.

Then, in fiscal '11, we added the acquisition of Marie Callender's dessert business, which has performed very well. Our net sales are up more than 25% year to date for our Marie Callender's dessert pie business. If we just look at the critical three-month holiday period of October through December, which is a great insight into the brand strength, our year-over-year sales growth is more than 35%. We continue to innovate here with our new Marie Callender's cream pies, new flavors and new sizes.

Next is sweet potatoes, adjacent to our frozen french fry business both at retail and in food service in restaurants. US sweet potato consumption has grown more than 50% over the last 10 years. We are the driving force in this trend because of our leadership position and our commitment to category growth. Sweet potato fries are appearing more and more on restaurant menus. And in the freezer aisle, our premium Alexia line of frozen potatoes was up over 20% in the last calendar year, driven by sweet potato fries.

Whole-grain flours are another adjacency that's important to us, and this is a logical extension of our ConAgra Mills product lines. Whole grains are increasingly popular with consumers, and a very fast growing part of the ConAgra Mills business. Importantly, they are a great way to improve mix and margins. This adjacency is a natural for us. We established ourselves as a leader in the whole-grain market in 2004, with the game-changing introduction of our patented Ultragrain flour, and we are now the largest whole-grains miller in the US. We created the whole-grain white flour category, and this has been very successful for us. We have experienced rapid growth in our higher-margin whole-wheat products, with our Ultragrain product growing 20% in the last calendar year.

I think you can see that there are many ways to grow our core businesses. And with our focus on where we play -- meaning moving into faster-growing categories -- we are confident of this strategy for growth.

Moving on to the next focus area for growth, international. Last year at CAGNY, we gave you an introductory look at our international business. Our international sales are about 10% of our total sales as reported. Our global reach is actually larger than that, because it doesn't count our portion of international joint ventures or the recent acquisition of Del Monte Canada, which collectively represent another \$500 million of sales. Our international business is growing in strategic importance for us. In our Commercial Foods operations, our biggest international markets are Europe and Asia, with a strong presence around the world. And our Consumer Foods international operations are primarily in Canada, Mexico, the Caribbean, and India. We are comfortable that there are enough high-quality growth opportunities globally that we have challenged our team to double our international business over the next five years, but will only do that in a fiscally responsible way with the right assets. We feel confident we can do that through a combination of organic growth and acquisitions.

Let's take a closer look at the international side of one of our largest operations, Lamb Weston frozen potatoes. If there is one product that is universally loved almost anywhere on the planet, it's french fries. Our Lamb Weston operations have a strong international presence -- this year, about \$800 million in net sales. That includes sales from our portion of joint ventures and represents over 25% of Lamb Weston's annual net sales. We currently sell frozen potato products in nearly 100 countries. In fact, we are the market leader in Japan, Korea, China, the Middle East, and a number of Latin American countries. Lamb Weston's frozen potato business is a very good foothold in emerging markets. In those markets, we are growing at a double-digit pace with well-known food service operators around the globe. At Lamb Weston, international sales growth has been strong as we've capitalized on our opportunities. Year-to-date results are impressive, as you can see here on this chart.

Our growth and opportunities with Lamb Weston are truly worldwide. As you can see here, per capita consumption of frozen potatoes is significantly lower outside North America and Europe, which speaks to our huge opportunity to continue growing internationally. We are focused on growth in Asian markets, where per capita consumption of frozen potato products is less than 1 pound per capita versus 27 and 10 pounds per capita in the US and Europe.

A very compelling fact for our growth prospects in Asia -- McDonald's plans to expand its China operations to 2000 stores by 2013, up from its current 1300. That's about two new stores opening per day. Yum added 600 locations in China in the past year alone, bringing its total store count to 4200. We've been growing and selling potatoes in China for over 10 years, and we see big growth opportunities there following the quick-serve restaurant expansion of these very important partners as well as others.

Whether it's in Asian markets or elsewhere, we are intent on capitalizing on regional tastes, and we have the innovation and infrastructure to do so. In fact, over 10 years ago we introduced the concept of potato wedges on pizza, and it has been a hit. It's actually like a dream come true. Pizza and french fries, together as one. Big hit -- and it's now found on most Asian pizza chain menus. This innovation alone drives 10 million pounds of business for Lamb Weston each year in Asia. So, finding new ways to use frozen potatoes is almost limitless. Our Consumer Foods presence internationally isn't as broad geographically, but we have strong growth prospects in strategic markets.

For instance, in India, we recently became majority owner of Agro Tech Foods, a company where we had a significant stake for many years. Agro Tech is a well-managed Indian company with a portfolio that has improved its mix and moved towards higher-margin, value-added products. Sundrop oil, for example, through formulation changes, has become a nutrition-oriented premium product and, consequently, has recently doubled its margin. The better-for-you new oil blend and strong benefit advertising were the catalysts for this margin improvement. ACT II Popcorn distribution has increased very significantly in India. And that growth has allowed Agro Tech Foods to continue to invest in new products like Sundrop Peanut Butter, which will be made in India at a new plant Agro Tech Foods is opening this summer.

Our theme of bolstering the margin structure of our international businesses continues in Canada. Now, I'm sure you know that Canada isn't growing anything like India. But, for us, this market has been a source for both top-line and bottom-line growth. In Canada, we have introduced some real winners in the frozen meals category in the way of Healthy Choice Gourmet Steamers, which, over the course of just two years, has become the market leader in the frozen meals health and wellness category. We've also had strong results for this fiscal year's launch of VH Steamers, which is a full-flavored Asian line. Last month, we announced the acquisition of Del Monte Canada. As you know, we are the branded leader in the canned tomato category in the US with Hunts. And the Del Monte Canada business gives us category leadership with the Aylmer brand of canned tomatoes. This acquisition also gets us into the packaged fruit and fruit snack business, which are attractive growth segments.

As I think you can see, we are serious about our international growth. And we intend to double our revenues from outside the US in the next three to five years.

On to our third focal point of our Recipe For Growth -- private label. We have a very unique position in the food industry with our combination of our retail, commercial, and private-label businesses. We strongly believe private label will continue its growth momentum. We start with a strong base in infrastructure in private label, and one that we will invest more in because of the growth opportunities. The studies we see suggest private-label market share of packaged foods could reach into the low 20s within the next five years, up from the high teens today. While we believe brands will continue to dominate overall market share with packaged foods, private label will play an important role in overall growth. We see private-label growth as a long-term strategy, not just one dependent on economic downturns.

Consumers have been conditioned to look for value everywhere. They've had positive experiences buying private-label products, in part, because retailers have continuously strengthened their value offerings via their private label. In fact, you may have seen in the Wall Street Journal last month, 28% of shoppers didn't even cite price as a factor in choosing private label. Instead, there was loyalty and positive experience, with private label driving those purchasing decisions. Because of higher-quality offerings made by known and trusted food makers, consumers are returning to private label again and again as viable alternatives. Private label is more upscale than ever before. Think Costco, Trader Joe's, or Loblaw's in Canada. Importantly, we are not interested in all private-label categories, but only in value-added categories where we can leverage our CPG capabilities and where we see a clear path of profitable growth.

One example of that is the bars category. We've grown our private-label bar business 18% per year including acquisitions over the last four years. We bring strong innovation capabilities, and we work closely with retailers to deliver solutions that bolster the category. We recently launched a line of nutrition bars created specifically for a couple of big customers. These bars are very high-quality and appeal to the health-conscious consumer. We worked closely with the retailers to make sure that these bars are more accessible to everyday consumers than the traditional health and nutrition bar. This is a great category. Protein and meal-replacement bars alone are now a billion-dollar category, growing 11% per year. We have the consumer insights, R&D capabilities, operations, and customer relationships to take advantage of consumer demand and accelerate that growth.

Beyond cereal, snack, and nutrition bars, we are also excited about another space in private label, the salty snacks category. In November we acquired National Pretzel Company, which adds about \$200 million in net sales to our private-label business, and gets us into the salty snacks category that's new for us. Salty snacks are projected to grow in the marketplace 15% over the next four years. And with the projected private-label



growth, we think that's a good combination for private-label pretzels. Our insights tell us that pretzels are perceived as a healthy snack, have strong appeal to women, and the innovation prospects here fit well with our capabilities. Last night, some of you probably tried our peanut butter-filled pretzels. Hard to stop once you start. And there are many other great opportunities for value-added products for this category.

Back to the Recipe as a whole, I would be remiss if I didn't share a bit with you on two other key components -- being a great corporate citizen and a great employer. Facets of both have been around for some time, but when we put our new strategic plan together we wanted to really clarify and push for greater achievements in these areas. Our first goal was to make the Dow Jones Sustainability Index listing, and I'm pleased to say that we accomplished that last fall. We also believe that by striving to be one of the top 100 places to work, we can drive higher employee engagement. And that has all kinds of impact on our business success, from lower costs, through better retention, to bigger and better ideas for everything.

So, in closing, I want to knowledge of the fact that the economic environment, particularly the input cost inflation that we've experienced during the past few years, has been very challenging. We all know it. We continue to see it and deal with it every day. The current marketplace dynamics have made it more difficult to deliver growth. But I'm confident that we've built the capabilities and strategies that we need for long-term growth.

And as John will discuss in more detail, we also have a much stronger financial foundation that we can leverage to drive growth. We have a strong balance sheet and have built a strong track record of cash flow generation over the past several years.

So, I will leave you with a reiteration of confidence in our long-term growth prospects and our specific Recipe for achieving them. We feel very good about our areas of focus over the next five years. They're based on what we are good at, and where we have the right to win. We have balanced the practicality of today's market conditions and consumer purchasing realities with aspirations for reasonable growth at ConAgra Foods. That's why we are reaffirming our long-term EPS algorithm of 6% to 8%.

John will say more about that after Andre walks you through our operational improvements, with a focus on Customer Connect and supply chain. We are excited about the future, and will continue to drive our Recipe For Growth. Thank you for your time and interest in ConAgra Foods.

And now, I will turn it over to Andre.

Andre Hawaux - ConAgra Foods, Inc. - President, Consumer Foods

Thanks, Gary. And thanks to all of you for joining us this morning. Last night, I hope you sampled some of our exciting new products. Judging from the serving tables and how they were left last night, my sense is that you did. I did have one housekeeping note this morning, though. The hotel staff has asked me -- those of you who took the Manwich back to the rooms, they would like it back. They actually discourage cooking in the rooms in this hotel. I would tell you, though, similar to the fire alarm, ignore that. Please take that home and enjoy with your families.

Our Company's Recipe For Growth, which you just heard about from Gary, guides our focus in Consumer Foods. Everything we are working on fits under that broad umbrella. Today I'm going to focus on the specific initiatives that drive total margin management for ConAgra Foods. At the core of total margin management, our approach are two broad initiatives. One you are very familiar, with and that's our supply chain work that we labeled Fuel several years ago.

The other, just recently started, is Customer Connect. Now, before I get into the details of Customer Connect, I want to highlight the improvements we've already made in the eyes of our customers. The [can talk] power ranking report listed its top 10 food makers as ranked by retailers. This year, we moved up a notch within the top 10, making specific improvements in the following categories -- growth in profitability, best sales force, best customer teams, most innovative marketing approach, consumer insights and category leaderships. The rankings are an important validation of the progress we are making in our journey of delivering everyday food in extraordinary ways. It's great to improve and to be recognized. But, actually, we want more, which brings me back to Customer Connect.

At the core of Customer Connect, there are five key objectives -- presenting one ConAgra Foods voice; joint business planning; driving category growth; pricing and trade practices; customer profitability focus. These areas can be boiled down to three strategies that our teams work on each



and every day. It's a customer-facing organization -- how we interface with that customer; the customer development capabilities -- what skills and capabilities do we bring to the table; and joint business planning. We've tightened the linkage to our customers by redesigning the customer-facing portion of our organization, moving decision-making closer to the customers. We've accomplished this by stripping away layers out of the sales organization and rewiring critical capabilities as needed to drive growth.

It's critical we present one ConAgra Foods voice. We have bridged all the key cross-functional touch points to bring complete category growth solutions to our customers. These changes enable our customer teams to go from sales leads to general managers, with objectives for not only sales but also for profits. This is a significant step forward for our organization and the one that requires focused change management. In light of the volatility in the commodity markets, this change to focus on not only sales, but also to profits, is essential as sales leaders are forced to more frequently make adjustments to both mix and promotion calendars. Our team members now have real-time tools in which to do that, something they did not have before.

We knew that to create a truly best-in-class customer- and shopper-focused organization, some roles and functions needed to be combined into one integrated organization. The creation of the new customer development organization brings category planned commercialization, revenue growth management, customer insights and analytics, shopper marketing and in-store experience together under one roof. This integration will enable ConAgra Foods to bring holistic growth strategies to our customer teams.

Now, time won't allow me to go deep into each one of these. So I'm going to focus on revenue growth management, something that I know is very near and dear to your heart, and also mine. The revenue growth management team is focused on pricing and customer funding strategy and commercialization, bringing that to life. They are a focused team using consistent and repeatable processes based on analytics, insights and category dynamics to drive proactive pricing decisions in collaboration with our brands. This team wakes up every morning thinking about how we optimize brand pricing and trade funding to drive total margin management. We're shifting from reactive and short-term to long-term and strategically focused.

Now, given the commodity volatility I just mentioned, we have built better processes and tools ensuring that our pricing strategies reflect critical supply chain procurement information, such as open commodity and raw material positions, our hedging strategies, and market inflation trends. Getting the right pricing and trade architecture in place is part science and also part art. The swings in the commodity prices add to that challenge. With a team of dedicated folks and disciplined analytics in place, I feel much better about where we are today. The rigor of our new processes has allowed us to make substantial strides with our pricing, as the chart behind me shows.

Since the current wave of inflation began back in fiscal year 2011, we have touched and analyzed 100% of our consumer portfolio, and this is ongoing. Our team is constantly and continually modeling different pricing approaches to make sure we are making the best choices based on consumer behavior, competitive actions, input cost, category dynamics, and the strength of the brand we are talking about. The team also reviews the quality of our trade promotions to ensure they are having the desired effect in the marketplace. In other words, are we getting what we paid for? Overall, I feel great about the progress we've made in this area.

The last aspect of Customer Connect I'm going to focus on is joint business planning, where we've made big strides with our customers. Our attention is on growing categories where we compete, not just our slice of the pie. Our aim is on strategic multiyear plans that deliver results for our customers. Joint business planning is a two-way dialogue, focusing on growing categories to jointly create value. It's also presenting one ConAgra Foods voice, including our Consumer Foods branded business, private label, Lamb Weston, and ConAgra Mills where appropriate. Now this is a clear departure from the past. We also need to be much more strategic by offering multiyear plans and a tailored approach that best meets their customer needs. We no longer offer a one-size-fits-all approach or an annual plan based on our fiscal calendar. Instead, will plan and align on the customer's fiscal year and strategically plan two or three years into the future. Again, the customers' voice will be a bigger part of our plans and deliverables moving forward.

Lastly, and I really want to emphasize this point, joint business planning is a cross-functional process that engages our full organization. This is a significant shift in mindset for us. Our new joint business planning teams will be engaging the entire organization to leverage everything we have to offer -- our insights, our innovation, our marketing plans, analytics, supply chain, literally everything under our roof.



Now, the group in Consumer Foods that has had the most success in bringing our Recipe to life and delivering early wins with Customer Connect has been frozen. The numbers on this chart certainly bring my points to life, in terms of everything they've been able to do. Frozen has been innovative -- if you think about steaming platform and Micro-Rite tray, many of the things you saw last night. They've also done a great job with adjacencies -- think Marie Callender multi-serve bakes, Marie Callender fruit and cream pies. This has enabled them to post some excellent numbers in a very, very difficult category.

Now, speaking of pies, this acquisition has caused me to put on about five pounds. And John Gehring has hit the treadmill so hard at work that we've had to replace a few of those belts on those treadmills, so he can maintain his svelte figure. But all kidding aside, this has been a fantastic acquisition for us. As you can see, we clearly won the 12-week holiday period by growing the category, gaining share, and generating incremental margin dollars for both ourselves and the retailer. And if I took this chart and expanded it -- before, I actually added before, and also after, you see similar types of numbers. We also brought one of our core brands to the table and generated more margins for the retailer in ConAgra. This has also provided significant merchandising opportunities. Now, let's take a look.

(video playing)

Now, while retailers want you to think long-term, they also don't want you to miss out on short-term trends. We are really excited about going into another adjacency with a product that is unlike anything out there today. Greek yogurt has been a growing trend in the marketplace, and we're going to take advantage of that, but in a different way than anyone else. Our innovation team has come up with a unique new product that we'll market under the Healthy Choice brand. It's a frozen Greek yogurt with the nutrition benefits that you would expect from Healthy Choice. If you tried this last night, I think you can see how different it is from refrigerated yogurt. We are showing this to customers now and we have received very positive feedback. We expect it to be on store shelves in the beginning of fiscal year '13.

Again, capitalizing on category trends is our work on healthy nutrition bars. You will recall that we made a strategic acquisition of Elan Nutrition in fiscal year 2010 just so we could get this kind of capability. We believe in this category's potential. And we are just getting started with these two store-brand offerings, with more to come.

Now if I could summarize Customer Connect transformation, it looks a little bit like this. We've gone from an organization that was speaking multiple brand languages to one that is speaking in one ConAgra voice; short-term plans to now, a multiyear strategic approach with customers; very brand-centric to one that is now focused on category growth; a tactical, reactive pricer at best to now, one that is putting strategic pricing and trade to the forefront; and a sales quota-driven organization that's now really P&L-focused, sales leaders and general managers that we are developing in the marketplace. I'm very encouraged by the progress we're making on this very critical initiative for ConAgra Foods.

Another very important aspect of our business in terms of total margin management is our supply chain productivity, a program we labeled Fuel. This is something that has delivered significant cost savings for the last six years. We have shared with you our supply chain productivity progress in terms of quarterly savings and annual goals. Currently, we are on track to deliver another \$275 million this fiscal year in cost reduction. That puts us well over \$1.7 billion in cumulative savings since fiscal year 2007. Keep in mind, those savings have been achieved at the same time we've made investments in our supply chain to bolster food quality, employee safety and innovation. It's important to know that these results come from very programmatic and disciplined approach around the seven programs you see here. These seven programs cover all aspects of creating an advantaged supply chain; one that we have proven can deliver world-class safety, quality, service, and cash conversion cycle results while continuing to drive productivity.

We are particularly proud of the work we are doing in the area of employee safety, where we have driven a 55% reduction in our total incident rate since 2007. These results have been driven through a combination of behavioral assessments, focused safety training and, most importantly, employee engagement in safety leadership activities. Cash conversion cycle is another area of our supply chain where we enjoyed continued success, driving \$400 million in working capital reductions over the last three years. Going forward we see reductions at a slower pace as we optimize across all cycle components.

Looking forward, our projections for productivity savings will continue to deliver very strong results. We've examined what's realistic over the next three years, and we project savings in the \$200 million to \$250 million range, reflecting where we are in our efficiency cycle. Those are productivity



numbers, and they are very important in dealing with inflation and also driving dollar margin growth. Supply chain productivity anchors the financial side of the discussion, but I don't want to lose sight of another important area where we've demonstrated operating leadership.

We've made significant investment in dollars and resources towards quality, putting us in a position where we are today, producing safe, high-quality products. Our commitment to quality earned us the recognition as an industry leader and we were awarded Manufacturer of the Year by the Safe Quality Food Institute. Early and widespread adoption of food safety certification SQF2 in all of our plants led to this recognition.

In summary, before I turn it over to John, I want you to come away with a few key points from the comments I've made this morning. Customer Connect is a critical initiative, allowing us to develop stronger, more strategic and mutually profitable relationships with our customers. Strong customer linkage driven by joint business planning is adding to our innovation pipeline. Our goals for continually improving dollar margins are rooted in the work of Customer Connect and strong supply chain productivity. This is hard work, but we are excited about the specific direction we've laid out in our Recipe For Growth. And we are confident in our progress.

I'll now turn it over to John Gehring, our Chief Financial Officer. John?

John Gehring - ConAgra Foods, Inc. - EVP, CFO

Thank you, Andre. And good morning, everyone. It's great to be here in Florida again, and I appreciate the opportunity today to update you on our business. In the year since I last spoke with you, a lot has happened. But that has not changed our focus on growth and on sharpening our fundamentals. While the macro environment has been challenging, and we have undergone some changes to our business, our fundamental financial priorities have remained consistent.

Today I'm going to start with a brief overview of our long-term algorithm, which is unchanged. Next, I want to update you on our financial policies, including our M&A criteria, which we use to guide our business decisions and position us for the sustainable long-term growth that is reflected in our algorithm. And I'll close with some comments confirming our view of this year's -- this fiscal year's guidance. Before I go any further, I would like to remind you that our reconciliations for Regulation G purposes are included in the appendix to the slides for this presentation.

So, let's take a quick look at our algorithm. As you can see here, these targets are consistent with our view from a year ago. We are targeting topline growth of 3% per year over the long term. We also expect fully diluted earnings per share, adjusted for items impacting comparability, to grow in the range of 6% to 8% over the long-term. And, finally, with respect to return on invested capital, we expect return on invested capital on a comparable basis to be in the range of 13% to 14%. We are in the midst of planning for fiscal 2013. And we will provide you with more specifics about our expectations for next year as part of our year-end earnings release in June.

Now let's cover the financial priorities, which serve as a foundation for our business plans and our performance. Now I'm going to do my best today to make this discussion as exciting as possible. But I have a couple of things working against me. First of all, I am the finance guy. And I'm afraid if I'm too entertaining, I'm going to make my colleagues and probably more than a few of you nervous. Second, and probably more importantly, for several years now we have followed a very consistent set of financial strategies. So I really don't have a lot of new material to work with today. So here are the financial priorities that we continue to believe are important to our stakeholders.

Number one, strong earnings and cash flows. Number two, a healthy balance sheet and strong liquidity. And number three, high return capital allocation, including our commitment to a top-tier dividend. Next I'm going to cover each of these in a little more detail.

Operating cash flow continues to be a central focus for us. And over the past several years, we have consistently delivered strong operating cash flows, which is the fuel for our investments in growth as well as profit improvement. For fiscal 2012, we expect cash flows from operating activities to be approximately \$1.3 billion. And that's excluding the impact of any discretionary pension contributions. And we are targeting similar levels over the next three years. The formula for our strong operating cash flow performance is pretty simple. First, we need to execute on the fundamentals. Topline growth, effective pricing, cost savings, and SG&A discipline. These will drive long-term annual EPS growth in line with our algorithm of 6% to 8%. And from Gary's comments and Andre's comments, it's clear that we have the opportunities, the plans and resources to succeed on our topline and total margin management initiatives.



On the SG&A front, we have maintained consistent pressure on controlling our core selling general and administrative costs. And I'm confident that our culture of zero overhead growth will result in an SG&A model that will add leverage to our operating results going forward.

The second ingredient for strong operating cash flows is working capital efficiency. We continue to make progress on our key working capital and cash conversion cycle metrics. In fact, over the last three years, we have reduced our cash conversion cycle by over 20%. And while growth investments should increase our working capital somewhat, we believe that our continued focus on working capital efficiency will help to offset these increases. With respect to capital expenditures, we currently expect our base capital expenditures to be approximately \$450 million per year for the next three years. Importantly, we expect the mix of that spend to be weighted more towards growth and cost reduction investments.

So we've talked about cash flows. But what other financial priorities do we have? Well, we remain very focused on the importance of a healthy balance sheet, including an investment grade credit rating and strong liquidity. So how are we positioned for the next few years? Well, first, we have improved key balance sheet ratios. And these strong metrics support our investment-grade credit rating. We also have very good liquidity, starting with a strong cash position. In fact, we had over \$700 million of cash on hand at the close of our second quarter, and no outstanding commercial paper borrowings. And that's after repaying about \$345 million of debt earlier in the fiscal year. And while we have not had any recent commercial paper borrowings, we continue to have access to those markets.

And in our third quarter this year, we began to put some of our cash to work. We funded our National Pretzel transaction and increased our investment in Agro Tech Foods, our India affiliate. We also plan to fund our Del Monte Canada acquisition, which is expected to close in the fourth quarter out of cash on hand. Also, earlier this fiscal year we refinanced our \$1.5 billion revolving credit facility. The new \$1.5 billion facility has a term of five years and provides us with a great source of liquidity to support our business plans.

Next, I would also note that we have very manageable debt maturities. So when it comes to our balance sheet and liquidity, we have made significant progress. And I believe we are well-positioned to support the growth of our business in the future. Before I move on, let me comment briefly on one other popular topic -- balance sheet topic right now, and that is pensions. While we are comfortable with our pension funding levels, the continuing low interest rate environment is impacting funding strategies for nearly all pension sponsors. We continue to monitor the markets and assess potential impacts to our business. And we will update you on our position and our plans during our fourth-quarter earnings release in June.

Now, let's cover our capital allocation priorities. We remain committed to a top-tier dividend payout. We know that a healthy dividend is important to many investors, and we increased our dividend again this fiscal year. This is a reflection of both our commitment to a strong dividend policy as well as our confidence in our ability to generate strong cash flows in the future. We are also focused on growth and profit enhancement investments. These include investments in new products and capacity expansions, as well as investments to support our supply chain efficiency initiatives. And as you have heard us say consistently over the past several quarters, and as evidenced by our actions, we continue to pursue growth through acquisitions where there is a strategic fit and good financial benefits. From a strategic fit standpoint, we have to be comfortable with the assets and the category and how our competencies can be used to drive long-term growth and create synergies and operating leverage. From a financial performance perspective, we are looking for businesses that, over time, are accretive to both sales and earnings growth and provide attractive returns. As we have demonstrated, we are ready and willing to leverage our capabilities and our balance sheet to create value by investing for growth. And we will do so with discipline.

On share repurchases, we do expect to acquire shares from time to time, funded by cash flows from operations. As we said before, it is not our practice to add leverage or change our capital structure to fund buybacks. We did purchase about 4 million shares during our second quarter for approximately \$95 million. And in December, our Board of Directors approved a \$750 million increase to our share repurchase authorization. As a result, we had approximately \$780 million of available share repurchase authorization as of our second quarter earnings release. And we expect to utilize that authorization over the next two to three years.

Now, on to our outlook. So how do we see the balance of fiscal 2012? First, with respect to our full-year outlook, we are reiterating our guidance that diluted earnings per share from continuing operations, adjusted for items impacting comparability, will grow at a rate in the low- to mid-single-digits from our fiscal 2011 comparable base of \$1.75 per share. Our fiscal 2012 full-year earnings estimate reflects net sales growth in the mid-single-digits; strong performance in our Commercial Foods segment; pricing and mix improvements; as well as strong cost savings in our



Consumer segment, which should essentially offset the impact of about 10% inflation and somewhat higher corporate costs this fiscal year, driven by higher incentive compensation and pension costs. And, as I noted previously, we expect operating cash flows of approximately \$1.3 billion.

I would also note that we continue to expect EPS growth in the second half of the fiscal year to be concentrated in the fourth quarter. And this is principally due to significant inflation pressures in the third quarter; a cautious view of volumes, given our necessary pricing actions; and a very strong prior-year third quarter that we are lapping in our flour milling business.

And now, let me circle back quickly again and recap our long-term goals. We project sales growth of approximately 3% per year over the next several years. Further, we expect diluted earnings per share, adjusted for items impacting comparability, to grow in the range of 6% to 8% over the long-term planning horizon. And, finally, we expect return on invested capital to be in the range of 13% to 14% on a comparable basis.

Let me summarize a few key takeaways. First, we have executed well on a consistent set of financial priorities -- good earnings and operating cash flows; a strong balance sheet and liquidity position; and high return capital allocation. Second, we have a balanced approach to capital allocation. We will continue to support our strong dividend and make investments necessary to drive growth and strengthen our business model. Third, we expect to deliver earnings per share consistent with our current guidance through fiscal 2012. And finally, we expect to grow our earnings at 6% to 8% annually over the long term.

In closing, the ConAgra Foods story is pretty straightforward. We have established clear priorities to drive growth. We continue to strengthen our operating capabilities. And we have the financial strength and flexibility to support our future growth objectives. We are excited about the opportunity that lays ahead of us, and we look forward to updating you in the years to come.

At this point, let me turn it back over to Andrew for the Q&A session. Thank you for your time and your interest in ConAgra Foods.

QUESTIONS AND ANSWERS

Unidentified Audience Member

Thanks for the guidance reiteration. I wanted to probe just a little bit further. So many companies have been reporting weak volumes in the December and January period. Obviously, it seems like a good news that you've been able to reiterate your guidance. But can you discuss the volume trends in December and January? And if you know anything about February, that as well? Can you discuss that a little bit? And how are you able to maintain the guidance in the face of this pressure that we've heard from so many other companies?

Gary Rodkin - ConAgra Foods, Inc. - CEO

I'll start with that, David, and let John or Andre add to it. We'll speak in the context of the total industry. So, the same numbers that you all are seeing, we are seeing as well. It's important to note that we see that across companies, across categories, across retailers. And it is very difficult to pinpoint a real, specific, singular issue as to why that sharp slowdown post-Thanksgiving. But it's clearly an industry-wide issue that we're all seeing.

And our best stab at rationale is probably the cumulative impact on pricing that's taken place across the last six or nine months, finally having a full impact of elasticity. So we do see across the industry. And, again, I will reiterate in terms of the guidance that we provided, we believe as we started the year that we were realistic, that we would have a fairly challenging year. And, therefore, our low-to-mid single digits on EPS growth -- it's gotten even a bit tougher as time has gone on. But we see in the second half, again, as John has reiterated, our growth really concentrated in Q4. That's why we've stuck where we are. Anything else, John?

John Gehring - ConAgra Foods, Inc. - EVP, CFO

No. Do you have a question, Ken?



Unidentified Audience Member

Good morning. Gary, you highlighted that you are only going to get involved in high opportunity private-label categories that allow you to leverage your capabilities. A couple of questions around that. First, what would be an example of a category that may not fit this profile? And, second, does this statement in any way signal that at this point -- or given what you've experienced in the past year -- you'd rather tack on smaller assets like you've been doing lately, rather than go out and buy a larger private-label company with maybe a broader portfolio that has some assets you don't necessarily want?

Gary Rodkin - ConAgra Foods, Inc. - CEO

Ken, I would say that first we are -- we don't have a specific size in terms of what our target is. So we will utilize our strong balance sheet. And if it makes good economic sense, we'll move forward. Example of something we wouldn't do -- our categories, businesses, where it's totally about price. So what we don't want is to be in low-growth segments where it comes up for bid every six months and then it goes to the lowest-price bidder. Will intend to be in categories, like we've done with Elan and National Pretzel, that are value-add, where we can leverage our capabilities and our infrastructure -- for instance, innovation -- and drive top- and bottom-line growth, so it's not an acquisition strategy per se. It's the specific assets that we're interested in.

Unidentified Audience Member

John, I wanted to ask you, you kind of focused on the 6% to 8% compounded growth in earnings. And yet your cash flow -- I think you said it was going to stay at, like, around \$1.3 billion. So why isn't cash flow growing with earnings? Is there something else going on within the cash flow statement that's limiting that growth?

John Gehring - ConAgra Foods, Inc. - EVP, CFO

There is obviously a number of factors in the cash flow statement. And some of those things can fluctuate. What we've attempted to do is talk about a band of probably \$1.2 billion to \$1.4 billion. Certainly over time, if we add significant earnings, I would expect the cash flows to increase ratably. But over the next few years, we do see a number of factors that should keep us in that band of \$1.2 million to \$1.4 million.

Unidentified Audience Member

Thank you. I had a question just regarding the frozen category broadly. I know obviously entrees is a lot of interest, but you have a lot of innovation coming into that category. Do you see better conditions ahead? And, again, I'm talking frozen in general. You've got, again, a lot of common to Healthy Choice as well as other -- Marie Callender's and other products like that.

John Gehring - ConAgra Foods, Inc. - EVP, CFO

Chris, we absolutely do. And I think the area that we talked about the most is really around adjacencies. We see both desserts growing, and you saw some innovation that we're bringing to bear there. We also see frozen breakfast as an interesting category that we've sort of dabbled in a little bit. We're doing some things with breakfast pot pies. And also some of the Marie Callender's bakes, multi-serve bakes that you saw, with a breakfast bake. We think there is a lot of categories within frozen that are actually growing, more so than convenient meals. We do see that category coming back. We've seen a lot of changes in that category, largely driven by the economy. We believe as the economy gets slightly stronger, we'll see some growth there as well.

Andrew Lazar - *Barclays Capital - Analyst*

I think we've got time for one more, Rob?

Unidentified Audience Member

Thanks. Could you help me clarify that the comments on Lamb Weston? I think you called it an \$800 million business. Is that just your 25% share of the business internationally? And what are your opportunities for either buying out your partners -- I think you've already announced something, actually. Is there a big step-up by doing that? Thanks.

Gary Rodkin - *ConAgra Foods, Inc. - CEO*

Rob, to clarify, the 25% is what portion of our overall Lamb Weston sales are from international sales. So, the \$800 million is the international portion. It's about a \$3 billion business, Lamb Weston is. And, as I'm sure you know, we never comment on anything prospectively.

Andrew Lazar - *Barclays Capital - Analyst*

Okay, why don't we cut it off there, and head over to the breakout. Thanks again to ConAgra for sponsoring last night, and today's presentation.

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2012, Thomson Reuters. All Rights Reserved.