DSR STOCK CARD

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CONAGRA BRANDS (CAG)

Business Model

Conagra Brands is a packaged-food company that operates predominantly in the United States (92% of revenue and 94% of profits). The firm has a significant presence in the freezer aisle, with brands such as Marie Callender's, Healthy Choice, Banquet, and Birds Eye. Popular center-of-store brands include Duncan Hines, Hunt's, Slim Jim, Vlasic, Orville Redenbacher, and Chef Boyardee. While the majority of revenue is sold into the U.S. retail channel, 11% of sales were sold into the food-service channel.

The Company in a Nutshell

- Conagra cut its dividends a few years ago. Since then, the company has focus on its brands.
- After a huge clean-up of its business model, CAG raised its payout in 2017.
- The acquisition of Pinnacle Foods will help CAG becoming #2 in the domestic frozen food industry.

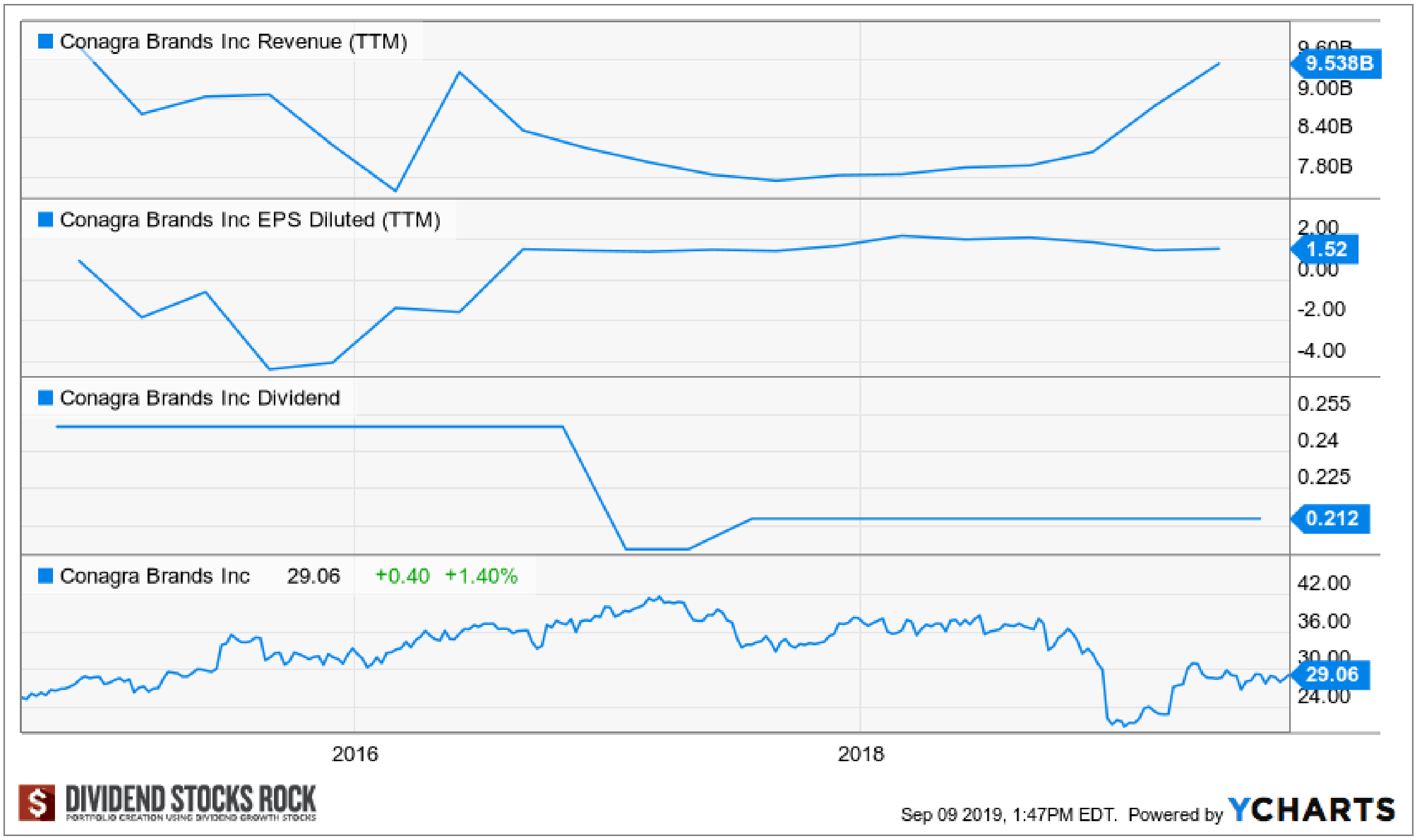
Investment Thesis

We all like a good comeback story, right? After cutting its dividends in 2016, management went "all-in" and sold various brands. It now presents a leaner and more effective company with the acquisition of Pinnacle Foods to become a major player in the frozen food business and generate over $200M in synergy by 2022. The total price paid including debt is $10.9B. This is how CAG will become #2 right behind Nestle in this industry. Management believes frozen food is the growth vector the company needs to move forward. We are a bit reluctant as we faced so many changes in so little time.

VALUATION

Dividend Growth Rate Years 1-10: 2.00% **Terminal Dividend Growth Rate:** 2.00%

	Discount Rate (Horizontal)		
Margin of Safety	10.00%	11.00%	12.00%
20% Premium	$12.97	$11.53	$10.38
10% Premium	$11.89	$10.57	$9.51
Intrinsic Value	$10.81	$9.61	$8.65
10% Discount	$9.73	$8.65	$7.78
20% Discount	$8.65	$7.69	$6.92



Potential Risks

We can see plenty of risks when we look at Conagra. First, the company recently cleaned-up its poor performing brands just to jump into a massive transaction right after. The weight of more debt, higher transportation fees, and lack of product differentiation (for many of their brands) are among the concerns we share with other investors. There is also a healthy shift where consumers are not tempted by processed food anymore. It will be difficult to post growth in the upcoming years.

Dividend Growth Perspective

Even before its dividend cut announcement, Conagra has never been a strong dividend grower. The company kept the same payout between 2012 and 2016. Keep in mind the company has also cut its dividends back in 2006 (dividend cut of 34%). Therefore, we have used a moderate growth rate going forward. In fact, management hasn't touched its dividend payment since mid 2017. With this new acquisition, chances are cash flow will be spent on the debt and on marketing expenses first.