

Conagra Brands (CAG)

\$33.34 (As of 04/14/20)

Price Target (6-12 Months): **\$35.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/19/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:C

Value: B

Growth: C

Momentum: D

Summary

Conagra's shares have outpaced the industry in the past three months. The stock got a boost after the third-quarter fiscal 2020 earnings release, wherein management said that it expects to exceed its previously-issued forecasts for fiscal 2020. Incidentally, the company's fourth quarter to-date performance is gaining from solid shipments and consumption in the domestic retail business, stemming from coronavirus. This has helped the company counter softness in its foodservice business. Apart from this, Conagra has been benefiting from Pinnacle Foods' inclusion, focus on snacks and frozen categories, and portfolio refinement efforts. To this end, its Sold businesses, however, weighed on the third-quarter show, wherein earnings and sales fell year over year and lagged the consensus mark. Input cost inflation is also a concern.

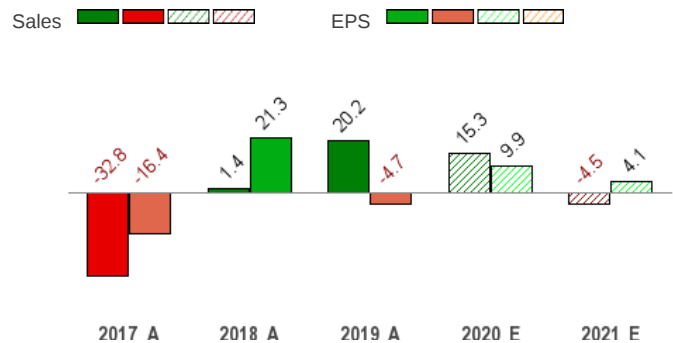
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$35.59 - \$22.83
20 Day Average Volume (sh)	5,949,907
Market Cap	\$16.2 B
YTD Price Change	-2.6%
Beta	0.76
Dividend / Div Yld	\$0.85 / 2.5%
Industry	Food - Miscellaneous
Zacks Industry Rank	Top 30% (76 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-4.1%
Last Sales Surprise	-1.0%
EPS F1 Est- 4 week change	8.7%
Expected Report Date	06/25/2020
Earnings ESP	0.0%
P/E TTM	17.6
P/E F1	15.1
PEG F1	2.2
P/S TTM	1.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	2,677 E	2,954 E	2,634 E	2,337 E	10,500 E
2020	2,391 A	2,821 A	2,555 A	3,281 E	11,000 E
2019	1,834 A	2,384 A	2,707 A	2,613 A	9,538 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.58 E	\$0.71 E	\$0.57 E	\$0.46 E	\$2.30 E
2020	\$0.43 A	\$0.63 A	\$0.47 A	\$0.68 E	\$2.21 E
2019	\$0.47 A	\$0.67 A	\$0.51 A	\$0.36 A	\$2.01 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 04/14/2020. The reports text is as of 04/15/2020.

Overview

Chicago-based Conagra Brands, Inc. (CAG) is one of the leading branded food company of North America. The company offers premium edible products, with refined focus on innovation.

The company maintains a highly dynamic product portfolio and incorporates alterations within it as per the preference pattern of the end-users. Some iconic brands of the company are Reddi-Wip, Hunt's, Healthy Choice, Frontera, Slim Jim, Blake's and Marie Callender.

Conagra currently reports results in the following segments:

Grocery & Snacks (40% of third-quarter fiscal 2020 sales): This unit includes branded, shelf stable food products sold in several retail channels in the United States.

Refrigerated & Frozen (42% of third-quarter sales): This comprises branded, temperature-controlled food products sold in many retail channels in the United States.

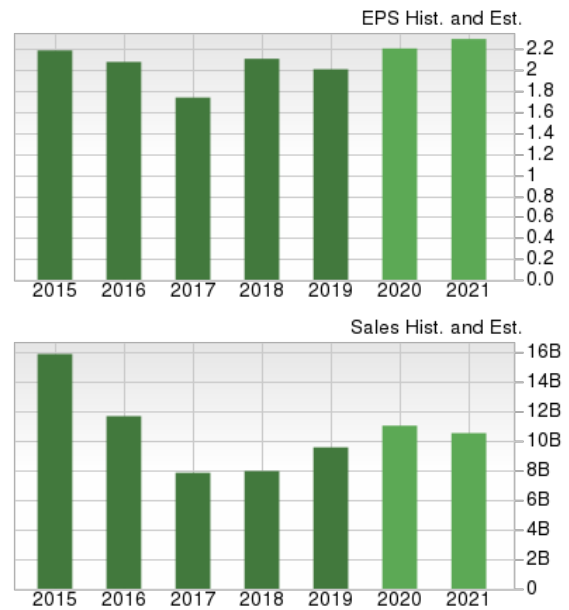
International (8% of third-quarter sales): The segment takes care of branded food products, in various temperature states, offered to various retail and foodservice channels outside the United States.

Foodservice (10% of third-quarter sales): The segment includes branded and customized food products, such as meals, entrees, sauces and a wide assortment of custom-made culinary products packaged for sale to restaurants and other foodservice setups in the United States.

Conagra acquired Pinnacle Foods in October 2018. Further, the company took over Sandwich Bros. in February 2018, which forms part of Conagra's Refrigerated and Frozen segment.

In October 2017, Conagra acquired Angie's Artisan Treats, LLC, which is a part of its Grocery & Snacks business. This segment also includes Thanasi Foods and BIGS LLC, which were acquired in April 2017.

In September 2016, Conagra bought the assets of Frontera Foods, Inc. and Red Fork LLC.



Reasons To Buy:

▲ **Guidance Aids Stock:** Shares of Conagra have slid 3.2% in the past three months as against the industry's decline of 13.1%. In fact, the stock has gained 13.4% in a month's time. Notably, the stock got a boost after management said that it expects to exceed its previously-issued sales and profit forecasts for fiscal 2020. In its third-quarter earnings release, management stated that its fourth quarter to-date performance is gaining from solid shipments and consumption in the domestic retail business, stemming from the growing spread of COVID-19. This has helped the company counter softness in its foodservice business. Despite the uncertain situation, management expects to exceed its previously-projected sales and profit targets for fiscal 2020, given an undisturbed supply-chain network.

Brand modernizing moves, stronger innovation and meaningful buyouts are driving Conagra's performance. In particular, the company focuses on strengthening capabilities of Pinnacle Foods.

Consequently, net sales growth is expected to come above the higher end of the previously-projected 10-10.5% range. Organic sales growth is likely to exceed the higher end of the flat to 0.5% up range. Further, management projects the adjusted operating margin to be greater than the higher end of the 15.8-16.2% band. Adjusted earnings for the fiscal year are now anticipated to surpass the previously-projected range of \$2.00-\$2.07 per share.

▲ **Pinnacle Foods' Buyout Aids:** Conagra acquired Pinnacle Foods in October 2018. The combination of the two companies is appropriate, given the increasing demand for frozen foods and snacks. The consolidation of these food companies has helped to create a robust portfolio of leading, iconic and on-trend brands. Further, the move is aiding to speed up innovation and exploit the long-term benefits in the frozen foods space. Notably, management is boosting some of the Pinnacle Foods business banners, especially the Gardein brand, which holds a solid position in the plant-based meat-alternatives food space.

Conagra is on track with the integration process of the buyout as well as realizing synergies from the same. The company has generated total cost synergies of \$145 billion since Pinnacle Foods' buyout. The buyout is likely to continue boosting the company's performance in the forthcoming periods. Notably, the company expects synergies of roughly \$180 million for fiscal 2020 and about \$305 million through fiscal 2022.

▲ **Focus on Refining Portfolio:** Conagra intends to boost its competency by reshaping portfolio through meaningful inorganic moves. In sync with this, the company tries to acquire high-margin generating businesses while divesting the less profitable ones. Conagra's latest development on the buyouts front includes the acquisition of Pinnacle Foods (discussed in details above). In previous instances, Sandwich Bros.' buyout (completed in February 2018) has been a valuable inclusion in Conagra's frozen business. Also, the company took over Angie's Artisan Treats, LLC (in October 2017), which is strengthening its snacks business.

Additionally, the company exited private-label brands and non-key businesses, including the Lender's bagel business, DSD snacks business, Wesson oil business, Gelit, the Trenton production facility, and the Canadian Del Monte business. The company also concluded the sale of its peanut butter manufacturing facility (in Streator) after the end of the second quarter of fiscal 2020. This move forms part of Conagra's efforts to optimize its peanut butter business. This includes exit of sale and production of private-label peanut butter. These endeavors are expected to continue aiding Conagra's transformation into a pure-play branded food company.

▲ **Efforts to Boost Frozen & Snacks Categories:** Conagra has been focused on boosting the frozen and snacks businesses. In the third quarter of fiscal 2020, both categories performed well. In fact, total snacks sales grew 2.9% during the quarter, backed by meat snacks and seeds businesses. Conagra gained market share in many of its snacks categories during the quarter. Conagra is on track with a range of innovation and brand-building efforts for exploring growth prospects in these areas. Such efforts are likely to yield results in the forthcoming periods.

Reasons To Sell:

▼ **Dismal Q3 Performance:** Conagra Brands posted dismal third-quarter fiscal 2020 results, with both top and bottom lines declining year over year and missing the Zacks Consensus Estimate. Earnings were hurt by soft sales and higher tax rate, among other factors, and sales were marred by soft organic sales as well as divestitures of the Wesson oil, Gelit, DSD Snacks and Lender's Bagel businesses along with the exit of the private label peanut butter business (together termed as "Sold Businesses"). Sales declined at all segments, with greater-than-expected category softness witnessed in January. Further, demand for foodservice products has reduced in the wake of coronavirus and the company expects foodservice organic net sales to slump 50-60% in the fiscal fourth quarter.

Conagra's performance was adversely impacted by business divestitures. It also struggles with input cost inflation.

▼ **Input Cost Inflation a Worry:** Escalated input costs have been a threat to Conagra for a while. During the third quarter of fiscal 2020, input cost inflation was one of the factors behind the 10.5% decline in adjusted gross profit. Other factors that were responsible for the decline include reduced profits from Sold businesses, greater brand-building investments related to retailers, lower sales volumes and increased inventory write-offs. Input cost inflation was a little more than 3% in the third quarter, which also weighed on the adjusted operating profit and margin. The company earlier stated that it anticipates increased levels of inflation stemming from protein for fiscal 2020.

▼ **Currency Volatility:** Conagra's international presence keeps the company exposed to the risk of adverse currency fluctuations. Volatile currency movements remain a threat to Conagra's performance.

Last Earnings Report

Conagra's Q3 Earnings & Sales Miss Estimates, Decline Y/Y

Conagra posted dismal third-quarter fiscal 2020 results, wherein adjusted earnings of 47 cents fell short of the Zacks Consensus Estimate of 49 cents. Moreover, the figure tumbled 7.5% from adjusted earnings of 51 cents reported in the year-ago quarter. The year-over-year decline was caused by reduced operating profit, escalated tax rate and a decline in equity method investment earnings.

Conagra generated net sales of \$2,555 million, which fell 5.6% year over year and missed the Zacks Consensus Estimate of \$2,580 million. The year-over-year sales decline was caused by divestiture of Sold Businesses and lower organic sales, somewhat offset by favorable currency movements.

Organic sales dropped 1.7% on lower volumes and unfavorable price/mix. Volumes were hurt by broad-based category weakness in the retail and foodservice businesses in the beginning of the quarter. Price/mix was hampered by increased promotions and higher retailer investments.

Adjusted gross profit tumbled 10.5% to \$699 million on account of lost profits from sold businesses, inflated input costs, greater brand-building investments related to retailers, reduced sales volumes and greater inventory write-offs. Productivity and cost-synergies offered some respite.

Segmental Details

Grocery & Snacks: Quarterly sales in the segment came in at \$1,022.9 million, which dropped 9.5% year over year due to divestiture of the Wesson oil and DSD snacks businesses along with exit from private label peanut butter business. Organic sales dipped 3.6% with volumes and price/mix down 1.7% and 1.9%, respectively.

Refrigerated & Frozen: Net sales slipped 1.6% to \$1,073 million thanks to Gelit and Lender's Bagel business divestitures. Organic sales inched up 0.3%, with price/mix up 0.7% but volumes falling 0.4%.

International: Net sales fell 3.2% to \$217.7 million on account of soft organic sales and divestiture of the Wesson oil business. Favorable currency movements offered some cushion. On an organic basis, net sales slipped 1.9%, as volumes dropped 0.9% and price/mix was down 1%.

Foodservice: Quarterly sales in the segment declined 8% year over year to \$233.5 million as a result of sale of the Wesson oil and Lender's Bagel business along with exit from private label peanut butter business. Organic sales also fell 2.2% with volumes down 4.6% but price/mix up 2.4%.

Other Financial Fundamentals

Conagra exited the quarter with cash and cash equivalents of \$99 million, senior long-term debt (excluding current portion) of \$8,897.8 million and total stockholders' equity of \$7,863.9 million. During the first three quarters of fiscal 2020, the company generated net cash of \$906.5 million from operating activities. During the quarter, Conagra paid out a quarterly dividend of 21.25 cents per share.

Guidance

Management is uncertain about the impact of coronavirus on Conagra's fiscal 2020 operating performance given the challenging situation. The company saw a considerable increase in demand in the retail business in the fourth quarter of fiscal 2020, till date. On the contrary, demand for foodservice products has reduced and the company expects foodservice organic net sales to slump 50-60% in fiscal fourth quarter.

In fiscal 2020, management expects to surpass its previously guided total sales and profits, considering proper functioning of its end-to-end supply chain. Net sales growth is expected to come above the high end of the previously projected 10-10.5% range. Organic sales growth is likely to exceed the high end of flat to increase 0.5% range. Further, management projects the adjusted operating margin to be greater than the higher end of 15.8-16.2% band. Adjusted earnings for the fiscal year are now anticipated to surpass the previously-projected range of \$2.00-\$2.07 per share.

Quarter Ending 02/2020

Report Date	Mar 31, 2020
Sales Surprise	-0.98%
EPS Surprise	-4.08%
Quarterly EPS	0.47
Annual EPS (TTM)	1.89

Recent News

Conagra Brands Announces Cash Bonus – March 27, 2020

Conagra Brands will give cash bonuses to employees at each of the company's production and distribution facilities in the U.S., Canada and Mexico. At the company's more than 50 facilities, full-time employees in the U.S. will receive \$500 and part-time employees will receive \$250, with similar amounts provided to employees in Canada and Mexico. This in recognition of efforts during the COVID-19 pandemic.

Valuation

Conagra shares are down 2.6% in the year-to-date period but up 10.8% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 13.3% in the year-to-date period, while the Zacks Consumer Staples sector declined 16.4%. Over the past year, the Zacks sub-industry and the sector declined 6.3% and 11.5%, respectively.

The S&P 500 index is down 14.4% in the year-to-date period and 5.5% in the past year.

The stock is currently trading at 15.14X forward 12-month earnings, which compares to 17.05X for the Zacks sub-industry, 18.62X for the Zacks sector and 18.03X for the S&P 500 index.

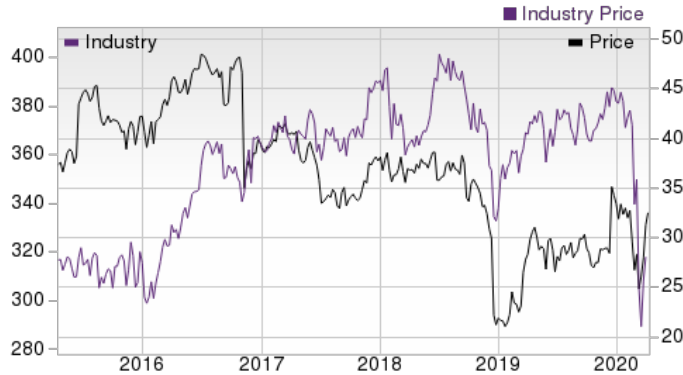
Over the past five years, the stock has traded as high as 23.24X and as low as 9.43X, with a 5-year median of 17.31X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$35 price target reflects 16.05X forward 12-month earnings.

The table below shows summary valuation data for CAG

Valuation Multiples - CAG					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	15.14	17.05	18.62	18.03
	5-Year High	23.24	22.9	22.37	19.34
	5-Year Low	9.43	14.82	16.49	15.19
	5-Year Median	17.31	18.9	19.66	17.45
P/S F12M	Current	1.55	1.55	9.02	3.04
	5-Year High	2.32	2.05	11.16	3.44
	5-Year Low	0.96	1.41	8.1	2.54
	5-Year Median	1.51	1.81	9.89	3.01
EV/EBITDA F12M	Current	10.32	13.82	34.16	12.29
	5-Year High	14.63	16.59	37.75	12.65
	5-Year Low	5.51	11.67	29.77	9.09
	5-Year Median	11.51	13.24	34.08	10.82

As of 04/14/2020

Industry Analysis Zacks Industry Rank: Top 30% (76 out of 253)



Top Peers

Ingredion Incorporated (INGR)	Outperform
B&G Foods, Inc. (BGS)	Neutral
Campbell Soup Company (CPB)	Neutral
General Mills, Inc. (GIS)	Neutral
Kellogg Company (K)	Neutral
Post Holdings, Inc. (POST)	Neutral
The J. M. Smucker Company (SJM)	Neutral
TreeHouse Foods, Inc. (THS)	Neutral

Industry Comparison Industry: Food - Miscellaneous				Industry Peers		
	CAG Neutral	X Industry	S&P 500	CPB Neutral	GIS Neutral	SJM Neutral
VGM Score	C	-	-	B	C	B
Market Cap	16.24 B	3.53 B	19.79 B	15.11 B	35.67 B	12.89 B
# of Analysts	8	3	14	6	8	7
Dividend Yield	2.55%	0.29%	2.16%	2.80%	3.33%	3.11%
Value Score	B	-	-	B	B	B
Cash/Price	0.01	0.05	0.06	0.00	0.02	0.01
EV/EBITDA	16.30	12.68	11.74	13.99	14.47	12.06
PEG Ratio	2.16	2.98	2.15	2.59	2.43	NA
Price/Book (P/B)	2.07	2.06	2.65	6.05	4.54	1.58
Price/Cash Flow (P/CF)	13.21	11.33	10.40	13.20	13.80	8.65
P/E (F1)	15.09	17.11	17.72	18.53	17.01	13.77
Price/Sales (P/S)	1.56	1.09	2.06	1.82	2.13	1.69
Earnings Yield	6.63%	5.48%	5.46%	5.39%	5.88%	7.26%
Debt/Equity	1.16	0.60	0.70	1.97	1.47	0.58
Cash Flow (\$/share)	2.52	2.75	7.01	3.79	4.26	13.07
Growth Score	C	-	-	C	D	C
Hist. EPS Growth (3-5 yrs)	-2.98%	6.16%	10.92%	-1.52%	2.74%	9.69%
Proj. EPS Growth (F1/F0)	9.89%	0.36%	-2.65%	17.47%	7.45%	-1.00%
Curr. Cash Flow Growth	10.04%	4.76%	5.93%	-12.42%	5.47%	1.65%
Hist. Cash Flow Growth (3-5 yrs)	-0.87%	5.35%	8.55%	0.50%	1.32%	11.97%
Current Ratio	0.87	1.59	1.24	0.61	0.64	0.77
Debt/Capital	53.63%	37.52%	42.36%	66.31%	59.59%	36.60%
Net Margin	7.37%	4.07%	11.64%	17.46%	12.68%	8.21%
Return on Equity	12.08%	11.20%	16.74%	50.69%	26.40%	11.70%
Sales/Assets	0.47	1.17	0.54	0.64	0.55	0.45
Proj. Sales Growth (F1/F0)	15.33%	0.00%	0.00%	-12.23%	2.16%	-2.94%
Momentum Score	D	-	-	C	C	A
Daily Price Chg	4.32%	2.04%	2.56%	3.24%	2.05%	2.52%
1 Week Price Chg	4.01%	5.37%	16.01%	-3.59%	1.22%	0.37%
4 Week Price Chg	11.88%	9.97%	11.39%	-7.00%	-1.37%	-3.48%
12 Week Price Chg	1.77%	-16.72%	-19.33%	3.11%	8.30%	4.86%
52 Week Price Chg	10.80%	-12.73%	-11.64%	26.99%	14.34%	-4.95%
20 Day Average Volume	5,949,907	291,276	3,452,738	3,388,328	6,084,017	1,404,438
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	8.67%	0.00%	-6.42%	3.78%	2.82%	0.10%
(F1) EPS Est 12 week change	3.91%	-6.77%	-8.69%	6.53%	1.94%	0.68%
(Q1) EPS Est Mthly Chg	41.77%	0.00%	-11.08%	10.32%	8.32%	0.06%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	B
Growth Score	C
Momentum Score	D
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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