

Conagra Brands, Inc.

2Q beat on SG&A/JV income; lowered FY24 financial outlook

Maintain Rating: NEUTRAL | PO: 30.00 USD | Price: 29.28 USD

2Q24 adj EPS beat of \$0.71 vs BofA estimate of \$0.66

This morning, CAG reported 2Q24 adjusted EPS of \$0.71, above our estimate and Visible Alpha consensus of \$0.66 and \$0.69. The beat was driven by lower SG&A and A&P and better Ardent Mills contribution, while both organic sales and gross margin missed. CAG also lowered its FY24 financial outlook including 1) net organic sales decrease of (1)-(2)% (prior +1%), 2) operating margin target of 15.6% (prior 16-16.5%) and 3) Adj EPS range of \$2.60-\$2.65 (BofA \$2.65, Visible Alpha consensus of \$2.68, prior \$2.70-\$2.75). While an organic sales miss/cut was largely expected following results from GIS in December, an EPS cut was less expected, which could pressure shares today. Key focus points today will be 1) CAG reporting negative price/mix – first in packaged food so far, and 2) Gross margin miss and actual decline YoY while most others have still relied on Gross Margin expansion. Maintain Neutral on supportive valuation level.

Beat on lower SG&A/A&P and better Ardent Mills

1) Reported sales of \$3.208bn were \$17mm below our estimate with downside in Grocery & Snacks largely driving the miss. Organic sales declined -3.4% vs our -2.7% estimate as volumes came in better (-2.9% vs BofAe -3.8%) while price/mix came in worse (-0.5% vs BofAe +1.2%). 2) Gross margin of 26.9% was ~43bps below our forecast. 3) Operating income of \$510mm was above our forecast of \$496mm with SG&A and A&P both lower than our model. On a segment level basis, there was upside in Refrigerated & Frozen and downside in Grocery & Snacks. 4) Below the line JV income was \$54.3mm, or \$15mm higher than our model or \$0.03/sh.

FY24 outlook: adj. EPS range lowered to \$2.60-\$2.65

CAG lowered its FY24 outlook. Updates include: 1) organic net sales decline of (1)-(2)% YoY (prior +1%). 2) Adjusted operating margin of 15.6% (prior 16-16.5%). 3) Adj. diluted EPS of \$2.60-\$2.65 (prior \$2.70-\$2.75). 4) Capital expenditures of \$450mm (prior ~\$500mm) and gross productivity savings of ~\$300mm (unchanged). 5) Interest expense of ~\$440mm (prior ~\$450mm). 6) Tax rate of ~24% (unchanged). 7) JV income of \$170mm (prior \$150mm) and pension income of ~\$0mm (unchanged). 7) Net leverage ratio of ~3.55x by end of FY24 and ~3.0x by end of FY26 (prior ~3.4x by end of FY24 and ~3.0x by end of FY26).

Maintain Neutral & \$30 PO

We maintain our Neutral rating & \$30 price objective is based on 11x our CY25 EPS estimate, which is below center-store peers given elevated leverage relative to the peer group and higher portfolio elasticity compared to its center store peers. This is offset by gross margin expansion as pricing more than offsets cost inflation.

04 January 2024

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Stock Data

Price	29.28 USD
Price Objective	30.00 USD
Date Established	6-Oct-2023
Investment Opinion	B-2-7
52-Week Range	25.16 USD - 41.30 USD
Mrkt Val (mn) / Shares Out (mn)	14,049 USD / 479.8
Free Float	99.4%
Average Daily Value (mn)	115.46 USD
BofA Ticker / Exchange	CAG / NYS
Bloomberg / Reuters	CAG US / CAG.N
ROE (2024E)	13.9%
Net Dbt to Eqty (May-2023A)	96.5%
ESGMeter™	High

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Timestamp: 04 January 2024 08:37AM EST

Variance table

Exhibit 1: 2Q24 variance table

Adj. EPS of \$0.71 above BofAe \$0.66

Variance	2Q24A	2Q24E	A vs. E	Per Share	2Q23A	% Chg.			
Sales	\$3,208.1	\$3,224.9	(\$16.8)	(\$0.03)	\$3,312.9	-3.2%	Source of EPS Upside		
Cost Of Goods	\$2,346.0	\$2,344.3	\$1.7	\$0.00	\$2,380.1	-1.4%		Sales	(\$0.03)
Gross Profit	\$862.1	\$880.6	(\$18.5)	(\$0.03)	\$932.8	-7.6%		Gross Profit	(\$0.03)
Gross margin	26.9%	27.3%	-43bps		28.2%			SG&A	(\$0.03)
SG&A	\$279.3	\$296.4	(\$17.1)	(\$0.03)	\$291.2	-4.1%		Operating Profit	\$0.02
SG&A % sales	8.7%	9.2%	-48bps		\$0.1			Interest Expense	\$0.00
A&P	\$72.5	\$88.7	(\$16.2)	(\$0.03)	\$78.8	-8.0%		Tax Rate	(\$0.00)
A&P % sales	2.3%	2.8%	-49bps		2.4%			Equity in JV	\$0.03
Operating Expenses	\$351.8	\$385.0			\$370.0			Share Count	\$0.00
Operating Income	\$510.3	\$495.6	\$14.7	\$0.02	\$562.8	-9.3%		Above the line	\$0.02
Operating margin	15.9%	15.4%	54bps		17.0%		Below the line	\$0.03	
JV income	\$54.3	\$38.2	\$16.2	\$0.03	\$49.3	10.1%	Total	\$0.05	
Interest Expense	\$113.3	\$114.4	\$1.1	\$0.00	\$100.3	13.0%			
Pretax Income	\$450.9	\$419.3	\$31.6	\$0.05	\$517.9	-12.9%			
Income Taxes	\$109.5	\$101.0	\$8.5	\$0.01	\$125.8	-13.0%			
Tax Rate	24.3%	24.1%	18bps	(\$0.00)	24.3%	0.0%			
Equity In Net Inc. Of Jv	\$0.0	\$0.0	\$0.0	\$0.00	(\$0.4)				
Net Income From Cont Ops before Items	\$341.4	\$318.2	\$23.2	\$0.05	\$391.8	-12.9%			
EPS- Continuing Ops Excluding Items	\$0.71	\$0.66	\$0.05	\$0.05	\$0.81	-12.7%			
Shares Outstanding	479.8	479.8			480.9	-0.2%			
Organic Sales									
Price/Mix	-0.5%	1.2%	-1.6%		16.9%				
Volume	-2.9%	-3.8%	0.9%		-8.3%				
Organic	-3.4%	-2.7%	-0.7%		8.6%				
FX	0.2%	0.0%	0.2%		-0.3%				
Other	0.0%	0.0%	0.0%		0.0%				
Total	-3.2%	-2.7%	-0.5%		8.3%				
Segments									
Sales									
Grocery & Snacks	\$1,295.1	\$1,322.9	(\$27.8)		\$1,349.9	-4.1%			
Refrigerated & Frozen	\$1,338.5	\$1,336.2	\$2.3		\$1,421.5	-5.8%			
International	\$279.6	\$271.6	\$8.0		\$258.7	8.1%			
Foodservice	\$294.9	\$294.1	\$0.8		\$282.8	4.3%			
Total	\$3,208.1	\$3,224.9	(\$16.8)		\$3,312.9	-3.2%			
Operating Profit									
Grocery & Snacks	\$281.9	\$293.0	(\$11.1)		\$340.9	-17.3%			
Refrigerated & Frozen	\$222.2	\$213.8	\$8.4		\$259.0	-14.2%			
International	\$40.6	\$40.7	(\$0.1)		\$36.8	10.3%			
Foodservice	\$35.4	\$35.1	\$0.3		\$28.5	24.2%			
ConAgra Brands	\$580.1	\$582.6	(\$2.5)		\$665.2	-12.8%			
Corporate expense	(\$69.8)	(\$87.1)	\$17.3		(\$102.4)	-31.8%			
Total Operating Profit	\$510.3	\$495.6	\$14.7		\$562.8	-9.3%			

Source of EPS Upside	
Sales	(\$0.03)
Gross Profit	(\$0.03)
SG&A	(\$0.03)
Operating Profit	\$0.02
Interest Expense	\$0.00
Tax Rate	(\$0.00)
Equity in JV	\$0.03
Share Count	\$0.00
Above the line	\$0.02
Below the line	\$0.03
Total	\$0.05

Source: CAG, BofA Global Research

BofA GLOBAL RESEARCH

Price objective basis & risk

Conagra Brands, Inc. (CAG)

Our \$30 price objective is based on 11x our CY25 EPS estimate, which is below center-store peers given elevated leverage relative to the peer group and higher portfolio elasticity compared to its center store peers. This is offset by gross margin expansion as pricing more than offsets cost inflation.

Upside risks: 1) inflation tapering quicker than expected, helping margin strength moving forward, 2) share gains in its respective categories and 3) service level improvement to pre pandemic levels.

Downside risks: 1) a high interest rate environment persisting longer than expected, 2) inflation to persist longer than anticipated, 3) more price elasticities and trade down to private label as consumers continue to tackle an inflationary environment.

Analyst Certification

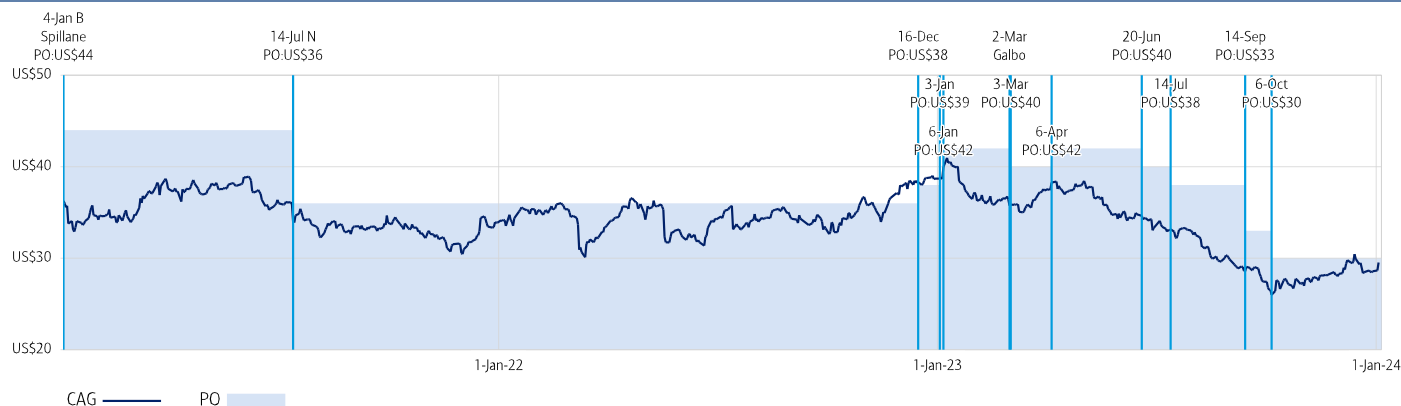
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Conagra (CAG) Price Chart



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Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	33	49.25%	Buy	16	48.48%
Hold	17	25.37%	Hold	10	58.82%
Sell	17	25.37%	Sell	8	47.06%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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