

## Conagra Brands, Inc.

CONSUMER STAPLES | MIRANDA ROST & JACK MURPHY  
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Ticker: CAG

Stock Exchange: NYSE

Sector: Consumer Staples

Current Price: \$27.15

Industry: Packaged Foods

Valuation Date: October 18, 2019

### INTRODUCTION

Conagra Brands, Inc. (CAG) is an American based company that manufactures and markets packaged foods. They have one of the largest footprints of any company in the industry with products in 53 grocery segments which fall into four main categories: refrigerated and frozen meals, snacks and sweet treats, condiments and enhancements, and shelf stable meals and sides. Refrigerated and frozen meals account for the majority at 45% of total dollar sales. Conagra is an international company, but around 90% of their revenue comes from the United States.

The company was founded in 1919 as Nebraska Consolidated Mills (NCM) and operated as four flour mills. Over the next 100 years, they expanded through acquisitions and innovation, picking up household brands and, ultimately, turning into what is today known as Conagra Brands – a leader in the frozen and packaged foods industry. Conagra most recently acquired Pinnacle Foods, expanding their market share, especially in frozen foods.

Because of the steps that past and current management have taken, Conagra Brands, Inc. is the fourth largest food/beverage company in America by total dollar sales.

### RECOMMENDATION

We recommend a **BUY** for Conagra Brands, Inc with a target price of \$38.58, which is an upside of 42.11% from the Friday, October 18, 2019 price of \$27.15. The following reasons support this recommendation:

- Diversified product portfolio that is continuously being reinvented
- Innovation that is based on demand science, which has led the company to focus on wellness trends and emerging and authentic flavors
- Updated branding strategy, which involves the Conagra Connect platform that supports mass personalization
- Corporate social responsibility shown through their citizenship pillars
- High dividend yield of 3.16, which is above the industry average and similar competitors
- Undervalued compared to the industry average and similar competitors

## INVESTMENT THESIS

The main drivers for Conagra are a diversified product portfolio, innovation, their branding strategy, and their corporate social responsibility.

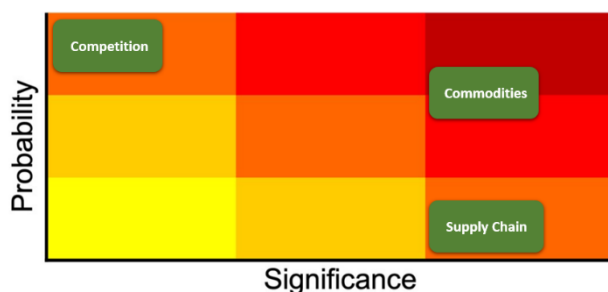
**DIVERSIFIED PRODUCT PORTFOLIO:** Conagra has many brands throughout their company. Their largest revenue channel is frozen and refrigerated meals which accounts for 45% of their revenue. Within that is two brands that account for over a billion dollars each in annual revenue. They have also increased their position in the market for snacks and sweet treats.

**INNOVATION:** Conagra's goal of innovation is broken down into two parts: modern wellness demands and emerging and authentic flavors. Modern wellness is about how people want to be healthy, and everyone has different dietary needs that Conagra can cater to. The company is working on increasing flavors and taste through their seasonings.

**BRANDING STRATEGY:** The company's goal of their branding strategy is to keep the well-known brands that have been successful for many years and modernize their packaging as well as set them up for continued success. They have less price-based promotions for their products and have stabilized prices because of the quality of their products. People are willing to pay a little more for that quality. They have also done a better job with their omni-commerce to make it easier to interact with customers.

**CORPORATE SOCIAL RESPONSIBILITY:** Conagra values their employees as well as their consumers. They always strive for integrity when they are developing and engaging their people. Along with caring about their people, they also care about the environment. Their packaging reflects their care for the environment; one of their biggest brands, Healthy Choice, has moved to compostable bowls.

## RISKS



The major risks for Conagra start with the price of commodities. Price of agriculture poses a risk because it is their main supply used to complete their product; however, that would affect all companies in the same sector. Steel is another commodity that poses a risk for the company that could raise their packaging costs. There is a lot of competition in this market because of how many companies are in the sector, which gives the

consumer more power in deciding on brands. Another risk for Conagra is if they were to lose relationships with their large purchasers or if their sales began to slip which – due to how large they are – is unlikely.

## MANAGEMENT

Conagra Brands Inc. has 24 members on their management team. There are 11 on the board and 14 in management. The Chief Executive Officer and President, Sean Connolly, is the only one on both the board and in a management position. In the chart below, you can see the average age, average tenure, number of women directors, as well as some additional information about the board and management.

	Board	Management
Number of Directors	11	14
Women Directors	3	5
Average Age	62	53
Age Range	42-71	46-61
Average Tenure (Years)	6	10
Number of Directors > 5	6	7
Number of Directors > 10	2	5

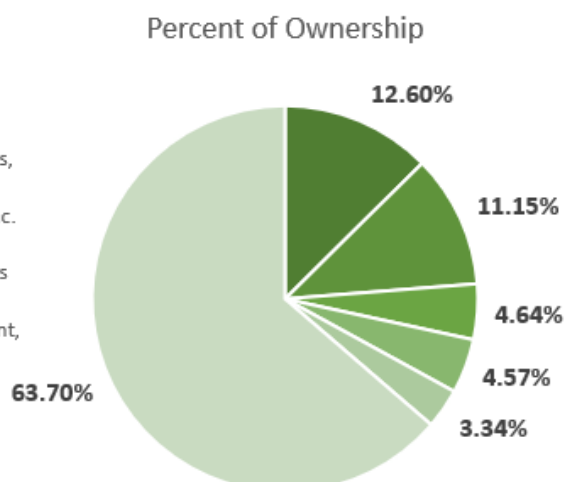
Sean Connolly, the CEO and President has been with Conagra for four years. Prior to becoming the CEO and President of Conagra in 2015, he was the CEO of Sara Lee and Hillshire Brands Co., the VP for Campbell's Soup Co., and the Principal for Procter and Gamble. He brings many years of experience within the industry and with similar positions. The CFO of the company, Dave Marberger, has been with the company for three years. Prior to coming to Conagra, he was the CFO of Prestige Brands. Dave Serrao is the Co- Chief Operating Officer and has been for the past four years. Before coming to Conagra, he oversaw New Business Development at Campbell Soup Co. Tom McGough is the other Co- Operating Officer. Tom has been with Conagra Brands for the past 12 years. This management group has worked well together and has innovated and found a clear path of ideas for the future of the company.

The Board consists of 11 people. Richard Lenny is the Non-Executive Chairman, and he has been with the company for ten years. He was previously the President of Hershey Co. and has been at the head of the board of six other companies, including McDonalds Corp. and Evans Food Group Ltd. The CEO and President, Connolly, is also on the board as well as 9 Independent Directors.

#### OWNERSHIP OF SHARES

Total Shares Held: 486.7 M	
Institutional Holdings	89.24%
Insider Holdings	.24%
Unknown Holdings	10.52%

- T. Rowe Price Associates, Inc
- The Vanguard Group, Inc.
- BlackRock Fund Advisors
- SSgA Funds Management, Inc.
- Capital Research & Management Co.
- Other



## VALUATION

To determine our target price, we did a combination of two methods – a discounted cash flow and a multiples method. Below is a brief explanation of how we used each.

**DISCOUNTED CASH FLOW:** For the WACC for our DCF, we used 6.5%, which some may see as conservative because, according to Bloomberg, their current WACC is 5.8%. However, historically it has exceeded this multiple times sometimes reaching above 7.0%. So, it is a fair assumption to make that their WACC will increase especially with their initiatives to de-leverage the company with the acquisition of Pinnacle Foods. For our perpetual growth rate, we used 2.0% to be more conservative. Then, we adjusted Conagra's revenues in a manner that we think accurately reflects their position with an upcoming recession as well as how they will recover years after. From this, we got a target price of \$49.99.

**MULTIPLES METHOD:** For our multiples method, we decided to use four companies to compare to Conagra: Tyson Foods Inc., Mondelez International Inc., J.M. Smucker Co., and Campbell Soup Co. We did this because Conagra can be split up into four main domains: Frozen & refrigerated meals, snacks & sweet treats, condiments & enhancers, and shelf stable meals & sides. We thought each of these companies was a good comparison to each of these domains, respectively. We used the Price/Book ratio for our relative measure. We then took the percentage of total dollar sales that Conagra had in each category to figure out the weight of that price we arrived at in each category. Of their total dollar sales, 45% were from frozen & refrigerated meals, 19% were from snacks & sweet treats, 23% were from condiments & enhancers, and 13% were from shelf stable meals & sides. We then summed up these prices from their relative competition and portion to get a target price of \$35.73.

Rather than weighting our DCF and multiples equally, we decided to weight our DCF at 20% and our multiples at 80%. We thought the multiples method better reflected Conagra due to the time and effort we put into finding a company that best matched each of their domains and how we went about using their percent of sales for each to weight the price. By doing this, we calculated an end target price of \$38.58 which represents an upside of 42.11%.

## PEER ANALYSIS

There are many companies to compare to Conagra's performance and place in the industry. Because of Conagra's many categories of revenue, we used a specific competitor for each category. Conagra has a market cap similar to that of many of their competitors. Their Price to Book ratio is lower than the industry average showing the company is undervalued. Conagra's ROE is in line with many of their competitors. Although it appears Campbell Soup Co. is much higher than Conagra, it is because their company is much more leveraged than Conagra. Conagra has a very large dividend yield compared to the industry average and competitors.

Company	Market Cap (Millions)	P/Book	ROE	Dividend Yield
Conagra Brands Inc.	13,213	1.9	12.3%	3.16%
Tyson Foods Inc.	29,480	2.01	17.28%	1.26%
Mondelez International Inc.	1,442	2.42	12.21%	1.79%
J.M. Smucker Co.	12,274	1.91	9.68%	2.44%
Campbell Soup Co.	14,324	10.72	39.37%	2.8%
Industry Average		2.54	14.97%	2.81%