

## Fitch Affirms ConAgra's IDRs at 'BBB-/F3'; Outlook Stable

Written by Australian Business

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CHICAGO--( [BUSINESS WIRE](#) )--Fitch Ratings has affirmed the ratings for ConAgra Foods, Inc. (ConAgra) and its subsidiary, Ralcorp Holdings, Inc. (Ralcorp) as follows:

ConAgra Foods, Inc.

--Long-term Issuer Default Rating (IDR) at 'BBB-';

--Senior unsecured notes at 'BBB-';

--Bank credit facility at 'BBB-';

--Subordinated notes at 'BB+';

--Short-term IDR at 'F3';

--Commercial paper at 'F3'.

Ralcorp Holdings, Inc.

--Long-term Issuer IDR at 'BBB-';

--Senior unsecured notes at 'BBB-'.

Concurrently, Fitch has withdrawn the short-term IDR of 'F3' for Ralcorp.

The Rating Outlook is Stable.

**KEY RATING DRIVERS:**

Post-Acquisition Leverage is High:

ConAgra's ratings reflect the company's elevated leverage following the Jan. 29, 2013 primarily debt-financed acquisition of Ralcorp for \$6.8 billion, including assumed debt. To finance the acquisition, ConAgra utilized approximately \$550 million cash, a \$1.5 billion term loan, net proceeds from \$3.975 billion new notes, and \$269 million from the company's equity offering. The company's commitment to deleverage, free cash flow (FCF) generation, ample liquidity, and the strength of this strategic combination support the ratings.

Debt Reduction, Synergies Achievable:

ConAgra plans to prioritize its FCF to repay a total of \$1.5 billion of debt through fiscal 2015. Fitch conservatively estimates ConAgra's FCF at approximately \$500 million this fiscal year. Thus, the company may need to utilize a portion of its cash to achieve its targeted debt reduction of at least \$600 million this year. The company also plans to maintain its current dividend and keep share repurchases very modest so the focus remains on debt reduction. ConAgra also expects additional debt reduction related to the contribution of its flour milling business for a 44% equity interest in the Ardent Mills joint venture, which has a targeted closing date in late calendar 2013.

Declining Leverage Expectations:

Current leverage, which only includes seven months of Ralcorp's earnings, is high for

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the rating level due to the recent acquisition. Total debt to EBITDA was 5.2x for the latest 12 months ended Aug. 25, 2013, operating EBITDA to gross interest expense was 5.6x, and funds from operations (FFO) adjusted leverage was 6.4x. Fitch expected initial pro forma leverage at the time of the transaction announcement, including 12 months of Ralcorp's earnings, to be slightly more than 4.0x. Fitch estimates that ConAgra's leverage (total debt to EBITDA) should decline to the low 3x level or below by the end of fiscal 2015 through a combination of the debt reduction discussed above and EBITDA growth.

### Consumer Foods' Recovery Anticipated:

The ratings and Outlook factor in progress toward ConAgra's anticipated improvement in Consumer Foods' operating performance in the second half of fiscal 2014. The company is counting on volume improvement, due primarily to the impact of shifting advertising dollars to in-store merchandising, where consumers make their final purchase decisions.

ConAgra expects volumes to improve from the negative 3% results in the fiscal first quarter and end flat for the year. Improved volume and tight expense controls should also lead to operating profit growth for the year. The shift to heavier merchandising is ConAgra's short-term strategy for dealing with the highly promotional environment, particularly in frozen foods and canned pasta. However, Fitch and ConAgra are in agreement that, over the long term, brand health is best when supported by advertising and innovation.

### Growing Private-Label Scale:

ConAgra is one of the largest packaged food companies in North America, with approximately \$18 billion annual net sales. In addition to a significant branded food presence, ConAgra should benefit from greater private-label scale, as \$4.5 billion annual sales makes it the largest private-label food producer in the U.S. Although ConAgra intends to capitalize on the favorable trends in private-label growth, in the near term the company is focusing on revamping Ralcorp's salesforce and fixing price gaps. ConAgra and Ralcorp have little product overlap, and Ralcorp historically had higher margins. However, the acquisition has not broadened the company geographically to include faster growing markets.

### Ralcorp Synergies Achievable:

Annual pre-tax cost savings of \$300 million by the end of fiscal 2017 will be driven by supply chain and other efficiencies. The company expects cost savings to accelerate in fiscal 2015. The savings seem achievable based on other industry transactions. However, Fitch believes the cost to achieve the synergies is likely to outweigh benefits in the near term.

### Adequate Liquidity, Manageable Maturities:

ConAgra maintains an undrawn \$1.5 billion revolving credit facility that provides backup to its commercial paper (CP) program. The company had \$280 million CP outstanding and \$194 million cash at Aug. 25, 2013. Subsequent to the end of the quarter, ConAgra extended its revolving credit facility by two years to Sept. 14, 2018. At Aug. 25 2013, ConAgra had \$900 million outstanding on its term loan which matures Jan. 29, 2018. The company intends to pay off the balance by the end of fiscal 2015 and currently does not have amortization payments due to prepayments completed. The credit facilities have a 75% maximum debt to capital covenant for four quarters beginning Jan. 29, 2013, declining to 65% over time. ConAgra plans to refinance its \$500 million 5.875% notes due April 2014. Additional maturities include \$250 million 1.35% notes due September 2015.

### RATING SENSITIVITIES

Future developments that may, individually or collectively, lead to a negative rating action include:

--If ConAgra's planned leverage reduction falters significantly, which could occur due to shortfalls in earnings/cash flow, such that leverage (total debt-to-operating EBITDA) remains at or above the mid-3.0x range.

Future developments that may, individually or collectively, lead to a positive rating action include:

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--A positive rating action is not anticipated in the near to intermediate term. Beyond this timeframe, a positive rating action could be supported by substantial and growing FCF generation, along with leverage consistently in the mid-2x range.

--Maintenance of conservative financial policies, such as publicly stating that the company's financial strategies no longer include large acquisitions that require substantial debt financing, could also support an upgrade.

Additional information is available at '[www.fitchratings.com](http://www.fitchratings.com)'.

Applicable Criteria and Related Research:

--'Corporate Rating Methodology' (Aug. 2013).

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Corporate Rating Methodology: Including Short-Term Ratings and Parent and Subsidiary Linkage

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=715139](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=715139)

Additional Disclosure

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