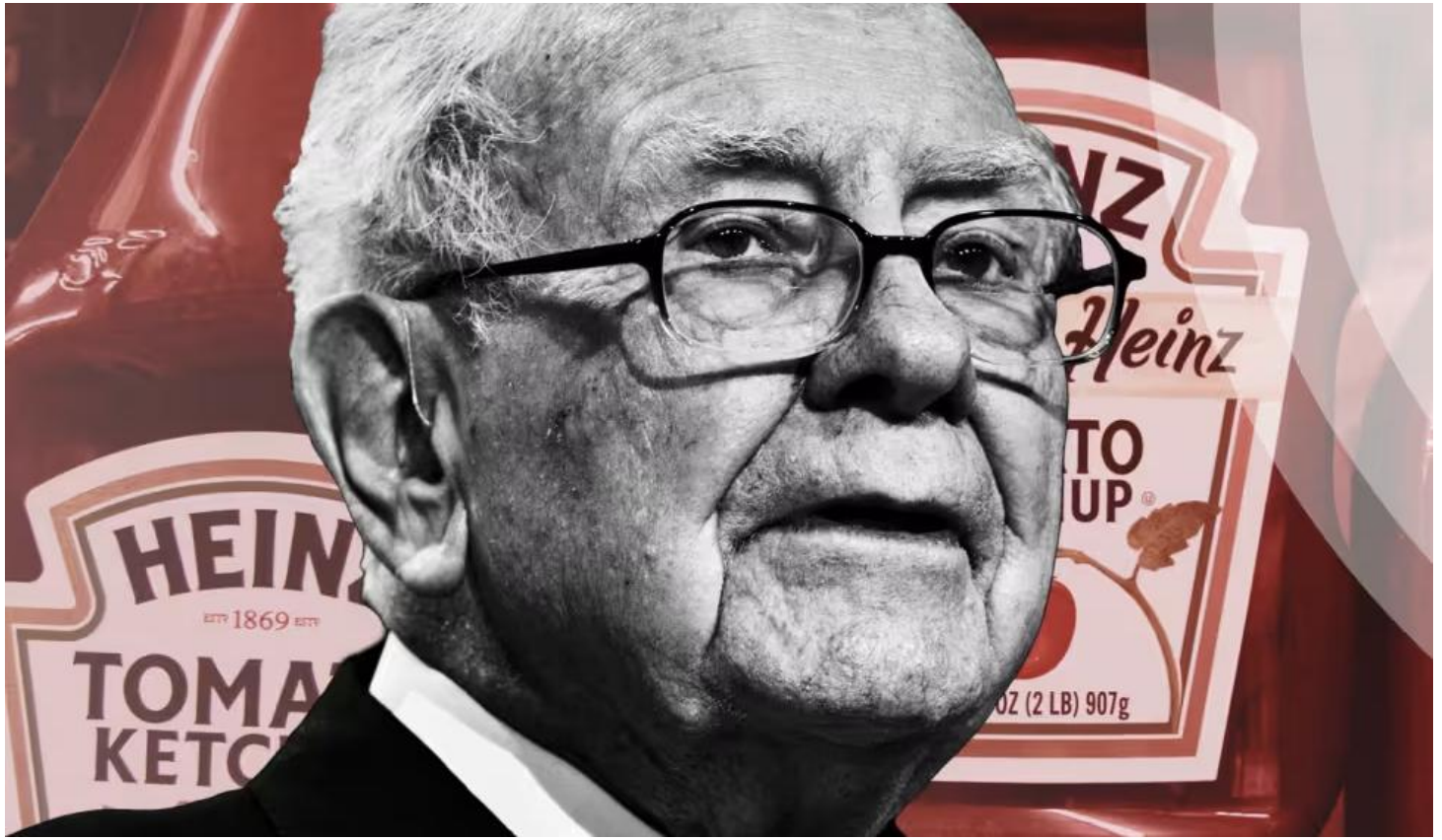

HEINZ

Group 1 - Kenneth Chan Jian Da | Nathan Tang En Ci | Yohanes Wiguna

V Divya | Wang Yilin | Olivia Tang Shu Hui

BACKGROUND & OVERVIEW

Heinz

156 Years
of History since 1869

Global Market Leader
in Food Processing Industry

60%
Revenue from International Markets in 2012

Highly Competitive Industry
High Industrial Rivalry; High Threat of Substitutes; Low Threat of New Entrants

Berkshire Hathaway and 3G Capital

Unique Strategies
Berkshire Hathaway: **Long-term value-driven** conglomerate.
3G Capital: **Aggressive cost-cutting firm** using "zero-based budgeting"

Proven Success
Consumer brands - Berkshire with Coca-Cola, 3G Capital with Burger King.

Complementary Strengths
Financial Stability from Berkshire & Operational expertise from 3G Capital.

Shared Vision
Long-term value investing

ASSESSMENT 1

REVENUE GROWTH

Total Growth Potential

4.49%

CAGR (2011-2013)

Outpaced Nestle and Mondelēz
Decline 15.2% and 8.36% respectively

Emerging Markets Growth

108.3%

Growth in 2012

Outpaced Nestle (-0.4%) and Mondelēz (+10.2%)

GDP Growth in Emerging Markets

Country	GDP Growth in 2012
China	**7.8%**
India	**5.0%**
Russia	**3.4%**
Latin America	**3.2%**

ASSESSMENT 2

COST REDUCTIONS

1

Tax Rate Reduction
by expanding overseas

1.8%

tax saving

Effective tax rate is expected to fall from 19% to 17%

2

Improve SYNERGIES between Heinz and Acquirers to drive Cost-Cutting

3.2%

Reduction in COGS

Current COGS is 66% of Sales and is expected to go to 63% and below

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ASSESSMENT 3

LIQUIDITY & SOLVENCY

Emerging Markets expansion requires **substantial** capital.

Nestle invested $320m for expansion in ID & TH in 2011 and acquiring Hsu Fu Chi for $1.7B.

Heinz's financial position has been **worsening** between 2012 and 2013

Ratios	2012	2013
Current Ratio	1.47	1.07
Quick Ratio	0.96	0.79
Debt-to-Asset Ratio	0.42	0.46
Debt-to-Equity Ratio	1.79	2.11
Interest Coverage Ratio (2011-2013)	6.19	5.86

High Potential

US$ 1.39B

Cash Flow remains **POSITIVE**

Generating cash faster than burning it and actively liquidating its non-productive assets.

US$ 1.09B

Short-Term Debt **raised**

The support from Acquirers will:

- Reduce Working Capital requirements
- Improve Credit Terms
- Increase access to the Capital Markets

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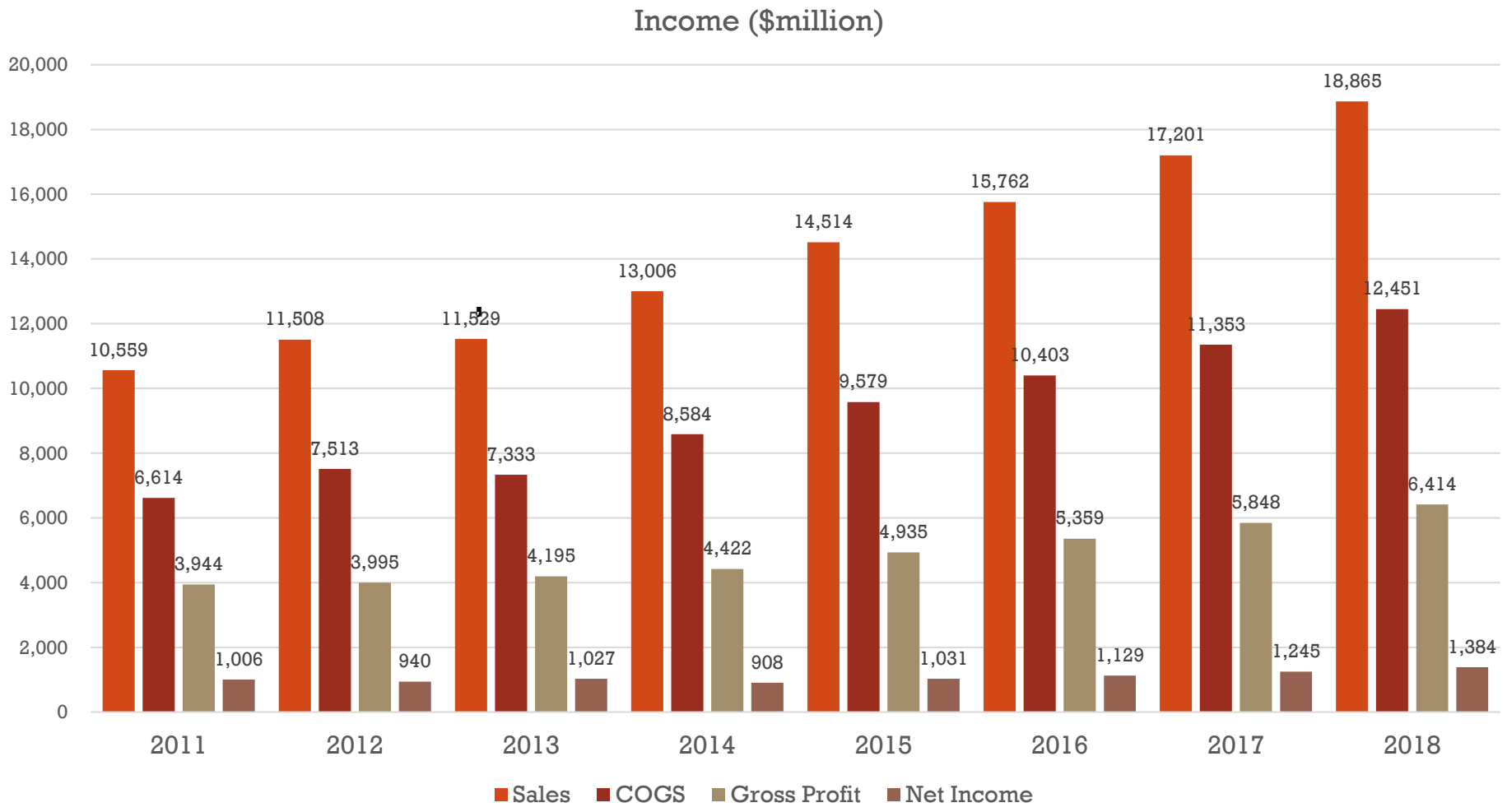
KEY ASSUMPTIONS

Area	Key Assumptions
Revenue Growth	• Heinz's sales in Europe, Asia/Pacific, North America, and the US are projected to grow at the same rate as observed between 2011 and 2012. • Growth in the 'Rest of the World' is assumed to decelerate by 20% annually from 100% to 20% over four years (i.e., 80% in 2013, 60% in 2014, etc.), followed by a constant 20% growth rate thereafter. • A 10% discount rate on sales is applied to account for exchange rate fluctuations, ensuring a prudent revenue forecast.
Cost Growth	• Cost of goods sold (COGS) and selling, general & administrative (SG&A) expenses as a percentage of sales constant at 66% and 22% of revenue respectively, in line with the highest recorded rates from 2011 to 2013. • Interest income, interest expense, and other expenses are projected using the most adverse historical values from 2011 to 2013, representing a worst-case scenario. • A flat tax rate of 18% is applied, consistent with 2013 levels, despite expectations of a lower effective tax rate as Heinz expands into regions with lower corporate tax rates than the US.
Cashflow Projection	• Net income projections are aligned with conservative revenue and cost estimates above. • Depreciation and amortization are based on the lowest historical rate from 2011 to 2013, minimizing the impact of potential future tax benefits. • Deferred tax benefits and pension contributions are projected at the highest (i.e., most negative) levels recorded from 2011 to 2013, ensuring a cautious outlook. • For other cash flow components, given the absence of forward-looking disclosures from Heinz, we apply a historical average of 2011–2013 values as a reasonable estimate.

Valuation through **EBITDA Multiple** method and **Perpetual Growth** method in three cases – Base Case, Bullish Case and Bearish Case.

FINANCIAL PROJECTION

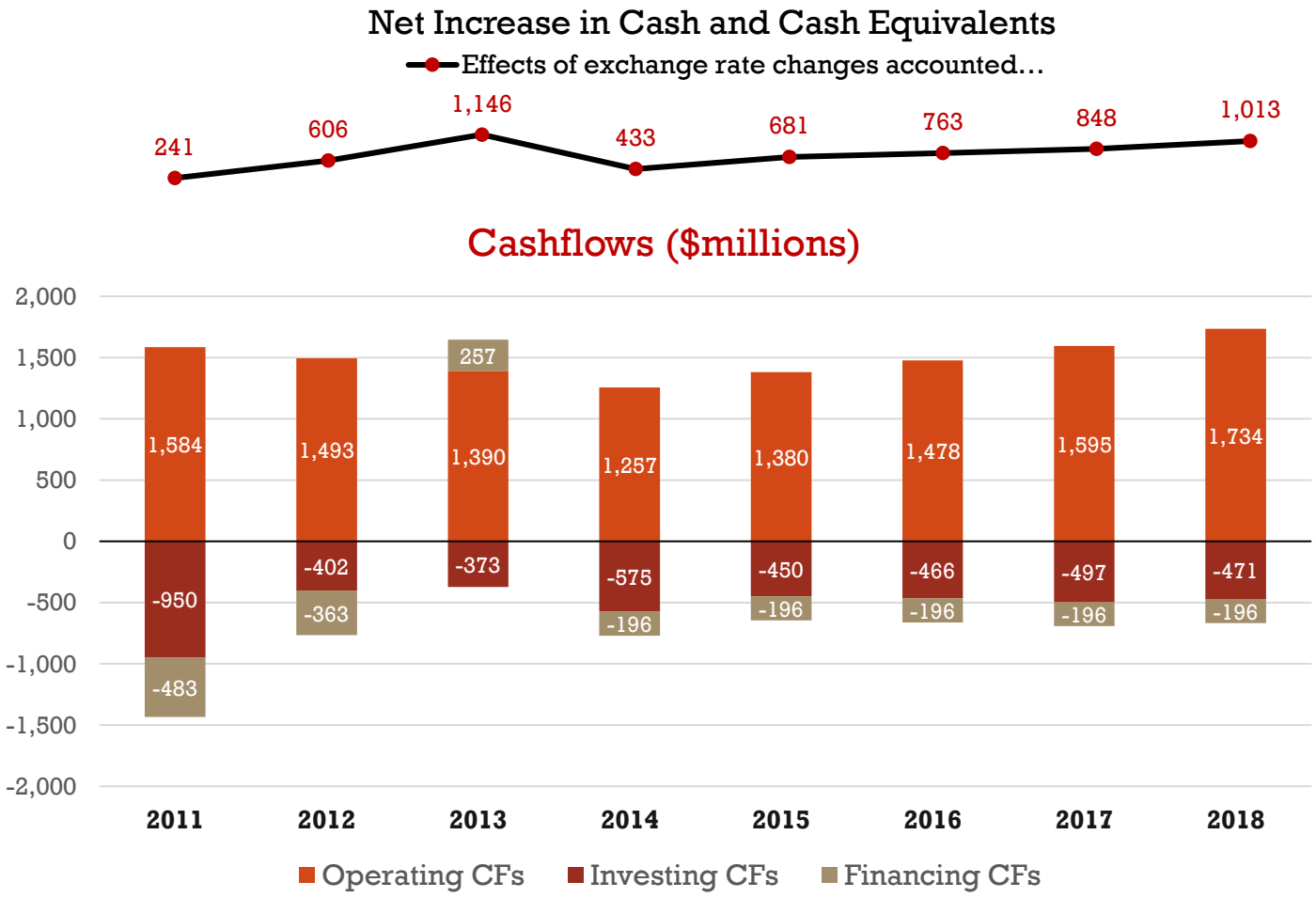
INCOME – BASE CASE



- **Sales Growth**
  Constant Growth Rate in EMEA, APAC, NA. **Declining Growth Rate from 80% to 20%** for the Rest of the World.
- **Profit Margin**
  Constant at **34%** of Sales
- **Net Income**
  Constant at **7%** of Sales
- Sales are expected to grow at a constant **sustainable growth rate.**

FINANCIAL PROJECTION

CASHFLOW – BASE CASE



- **Operating CFs** remained **Positive**
  Reflecting Heinz's ability to generate sufficient internal cash to fund operations.
- **Investing CFs** while negative, shows **Improvements**
  Indicating Heinz's ability to enhance capital efficiency while maintaining long-term growth investments.
- **Financing CFs: Outflows Reduced**
  US$1.09b of ST-debt raised resulting in net cash inflows in 2013.

VALUATION

BULLISH & BEARISH

Key Assumptions for Bullish and Bearish case

Area	Bullish Case	Bearish Case
Revenue Growth	• Same as Base Case	• Growth in the 'Rest of the World' drops to 20% annually from 2014 onwards. • Remaining same as Base Case.
Cost Growth	• COGS as a percentage of sales decreases to 63% per year from 2014 to 2018. • Effective Tax Rate as a percentage of EBT decreases to 17% per year from 2014 to 2018. • Remaining same as Base Case.	• Same as Base Case
Cashflow Projection	• Same as Base Case	• Same as Base Case

Item (Millions)	Bearish Case	Base Case	Bullish Case
EBITDA Multiple Method	$21,573.16	$26,418.47	$33,329.50
Perpetual Growth Method	$23,719.34	$35,892.31	$53,450.64
Average	$22,646.25	$31,155.39	$43,390.07
Weight	20%	60%	20%
Expected	$4,529.25	$18,693.24	$8,678.01
Overall	**$31,900.50**		

- Discount rate of 4.53%, which is the Weighted Average Cost of Capital (WACC) for Heinz.
- EBITDA Multiple of 11.3, consistent with the industry in 2013
- For the "Perpetual Growth Method", we apply a terminal growth rate of 2% for Heinz's Free Cash Flow.

RECOMMENDATIONS

FOR BERKSHIRE HATHAWAY AND 3G CAPITAL

ACQUIRE HEINZ

US$ 28B

US$ 72.50 / Share

Upside of 14%

Acquisition over Valuation

CAGR of 7.2%

Sales/Revenue Growth over 5 years

$566m reduction

COGS Reduction in Year 5

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Thank You !

Group 1

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