

Kraft Heinz Company

4Q23 sales missed; margins beat, guide in line

Maintain Rating: BUY | PO: 42.00 USD | Price: 36.13 USD

4Q23 adj. EPS of \$0.78 above BofAe of \$0.75

This morning, KHC reported 4Q23 adjusted EPS of \$0.78 beat our forecast of \$0.75 and Visible Alpha consensus of \$0.77. The beat was driven by better margins and a favorable tax rate. KHC introduced its FY24 financial outlook.

Key takeaways from press release

Key takeaways from the press release: 1) Organic sales decreased -0.7% compared to our estimate of +2%. Both pricing and volumes came in lower: pricing contributed +3.7% (vs our estimate of +4.6%) while volumes were down -4.4% YoY (vs our -2.6% estimate). Global foodservice grew +7% while North America foodservice grew 5%. The biggest driver of the volume miss was North America as it was impacted by trade timing and a retail inventory de-load, driving a 150bps gap vs US retail consumption. Both are isolated to 4Q and expected to be a one-time occurrence. 2) Adjusted gross margins of 34.8% came in 50bps above our estimate of 34.3%. 3) Adjusted EBITDA of \$1.65bn was \$6mm lower than our forecast. 4) Below the operating profit line contributed \$0.01 of the beat driven by a favorable tax rate of 19.8% vs 21% estimate, while interest expense and other income were both largely in-line.

FY24 outlook largely in-line with consensus

1) Organic sales growth of flat to +2% which compares to our current estimate of +0.9%. Price is expected to be positive through the year, while volume inflection to growth is expected in 2H24. 1Q24 is expected to look similar to 4Q23, and gradually move towards its long-term algorithm through the year. 2) Gross margin expansion of +25-75bps which assumes moderating but still inflationary input costs. 3) Adj. operating income to grow +2-4%, with SG&A only slightly increasing YoY. KHC moving forward will provide guidance for adj. operating income instead of adj. EBITDA. 4) Adj. effective tax rate of 20-22%. 5) Adj. EPS in the range of \$3.01-\$3.07, including a ~\$0.03 hit from a \$45mm unfavorable impact YoY in interest and other expense/(income) driven by FX headwinds and debt refinancing. The current guidance does not include the possibility of additional share buyback in the year.

Maintain Buy & \$42 PO

Maintain Buy & \$42 price objective is based on 13.5x P/E multiple on our CY25 EPS estimate. KHC's current valuation is un-demanding with ability to meet/exceed earnings estimates greater than center-store peers, in our view. KHC's self-help initiatives and more conservative approach set up shares to outperform peers simply by executing.

14 February 2024

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Stock Data

Price	36.13 USD
Price Objective	42.00 USD
Date Established	15-Dec-2023
Investment Opinion	B-1-7
52-Week Range	30.68 USD - 41.47 USD
Mrkt Val (mn) / Shares Out (mn)	44,621 USD / 1,235.0
Free Float	64.0%
Average Daily Value (mn)	293.91 USD
BofA Ticker / Exchange	KHC / NAS
Bloomberg / Reuters	KHC US / KHC.OQ
ROE (2023E)	7.3%
Net Dbt to Eqty (Dec-2022A)	38.9%
ESGMeter™	High

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Timestamp: 14 February 2024 08:14AM EST

Variance table

Exhibit 1: 4Q23 variance table

4Q23 adj. EBITDA of \$1.65bn came in slightly below our \$1.656bn estimate

Income Statement	4Q23A	4Q23E	A vs E	Per Share	4Q22	% Chg	Source of EPS Upside
Net sales	\$6,860.0	\$7,053.2	(\$193.2)	(\$0.12)	\$7,381.0	-7.1%	Net Sales
Cost of Goods	\$4,476.0	\$4,637.5	(\$161.5)	(\$0.10)	\$5,007.0	-10.6%	COGS
Gross Profit	\$2,384.0	\$2,415.7	(\$31.7)	(\$0.02)	\$2,374.0	0.4%	Gross Profit
Gross profit margin	34.8%	34.3%	50 bp		32.2%	259	Depreciation and amortization
Adjusted EBITDA	\$1,650.0	\$1,655.5	(\$5.5)	(\$0.00)	\$1,743.0	-5.3%	Equity award
Adjusted EBITDA margin	24.1%	23.5%	58 bp		23.6%	44 bp	Operating Profit
	\$1,009.0	\$1,051.6	(\$42.6)				Interest expense
Depreciation & amortization	\$243.0	\$253.9	(\$10.9)	(\$0.01)	\$246.0	-1.2%	Other expense (income)
Equity award compensation expense	\$32.0	\$37.5	(\$5.5)	(\$0.00)	\$41.0	-22.0%	Tax rate
Operating income	\$1,375.0	\$1,364.1	\$10.9	\$0.01	\$1,456.0	-5.6%	NI to NCI
Operating income margin	20.0%	19.3%	70 bp		19.7%	32 bp	NI to KHC
Interest expense	\$229.0	\$229.2	(\$0.2)	\$0.00	\$243.0	-5.8%	Preferred div
Other expense (income)	(\$38.0)	(\$36.0)	(\$2.0)	\$0.00	(\$20.0)	90.0%	Share count
Pre-tax income	\$1,184.0	\$1,170.9	\$13.1	\$0.01	\$1,233.0	-4.0%	Above the line
Taxes	\$234.0	\$245.4	(\$11.4)	(\$0.01)	\$200.0	17.0%	Below the line
Tax rate	19.8%	21.0%	(\$0.0)	(\$0.00)	16.2%	21.8%	Total Upside (downside)
NI attributable to NCI	\$0.0	\$0.0	\$0.0	\$0.00	(\$3.0)	NM	\$0.02
NI attributable to KHC	\$964.0	\$925.5	\$38.5	\$0.02	\$1,036.0	-6.9%	
Preferred dividend	\$0.0	\$0.0	\$0.0	\$0.00	\$0.0	NM	
NI attributable to common shareholders	\$964.0	\$925.5	\$38.5	\$0.02	\$1,036.0	-6.9%	
Adjusted diluted EPS	\$0.78	\$0.75	\$0.03	\$0.00	\$0.84	-6.9%	
Diluted shares	1,232.0	1,235.0	(\$3.00)	(\$0.00)	1,233.0	-0.1%	
Organic Sales	4Q23A	4Q23E	A vs E		4Q22	% Chg	
Volume/mix	-4.4%	-2.6%	(180)ppt		-4.8%		
Price	3.7%	4.6%	(88)ppt		15.2%		
Organic net sales growth	-0.7%	2.0%	(267)ppt		10.3%		
Divestitures	-6.2%	-6.4%	22ppt		2.5%		
Currency	-0.2%	0.0%	(16)ppt		-2.9%		
Net sales growth	-7.1%	-4.4%	(261)ppt		10.0%		
Segment info	4Q23A	4Q23E	A vs E		4Q22	% Chg	
North America	\$5,167	\$5,337	(\$170)		\$4,860	6.3%	
International	\$1,693	\$1,716	(\$23)		\$1,697	-0.2%	
Total sales	\$6,860	\$7,053	(\$193)		\$6,557	4.6%	
North America	\$1,495	\$1,468	\$27		\$1,362	9.8%	
International	\$290	\$288	\$2		\$284	2.1%	
General corporate expenses	(\$135)	(\$101)	(\$34)		(\$91)	48.4%	
Adjusted EBITDA	\$1,650	\$1,656	(\$6)		\$1,555	6.1%	
Segment margins	4Q23A	4Q23E	A vs E		4Q22	Bp chg	
North America	28.9%	27.5%	142 bp		28.0%	92 bp	
International	17.1%	16.8%	33 bp		16.7%	39 bp	
General corporate expenses	-2.0%	-1.4%	-54 bp		-1.4%	-58 bp	
Total Adjusted EBITDA	24.1%	23.5%	58 bp		23.7%	34 bp	

Source: KHC, BofA Global Research

BofA GLOBAL RESEARCH

Price objective basis & risk

Kraft Heinz Company (KHC)



Our \$42 price objective is based on 13.5x P/E multiple on our CY25 EPS estimate. KHC's current valuation is un-demanding with ability to meet/exceed earnings estimates greater than center-store peers, in our view. KHC's self-help initiatives and more conservative approach set up shares to outperform peers simply by executing.

Upside risks are 1) continued improvement in market share trends and services levels, 2) topline strength driving organic sales growth led by pricing actions and better than expected elasticities, 3) and pricing strength protecting margins could be supported by quicker than expected tapering in inflation.

Downside risks are 1) high inflation to persist longer than expected which pressures margins, 2) if elasticities worsen while pricing simultaneously tapers off organic sales growth could be sandbagged, 3) greater trade down to private label.

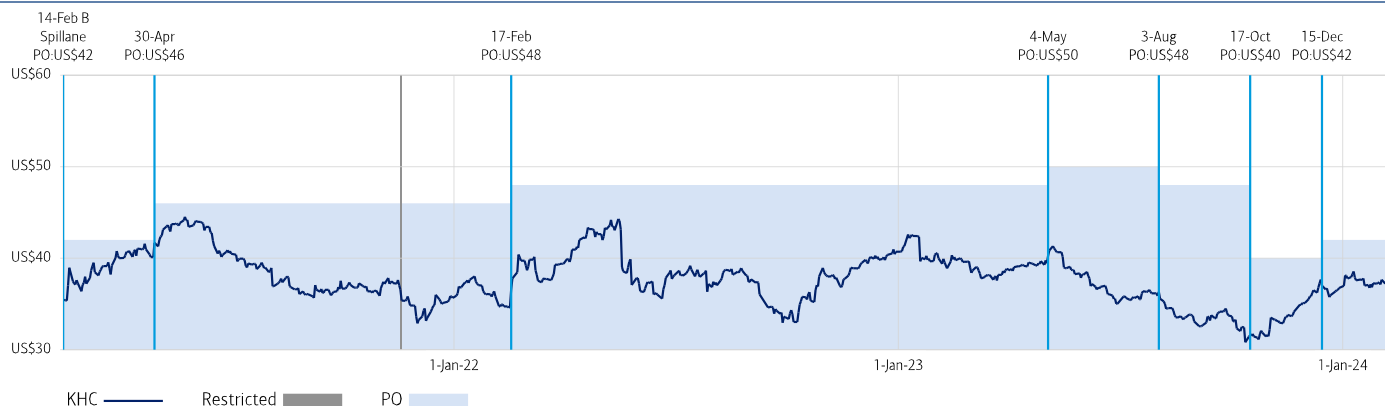
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Kraft Heinz (KHC) Price Chart



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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%

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Sell	807	22.84%	Sell	383	47.46%

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