The Kraft Heinz Company (KHC)

Transfer of Coverage to HY: Five Years Later, Back to HY – Cash Flow, Rel Val and Index Positioning

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Key points: 1) we initiate KHC HY ratings with an OW for 2030 and shorter bonds and MW for 2032 and longer; 2) KHC is unlikely to grow into its cap structure near term, but size and diversity offer options; 3) we affirm our OW on Food/Bev Index post-inclusion; 4) 57% of the bonds are long bonds.

Hale Holden
+1 212 412 1524
hale.holden@barclays.com
BCI, US

Edward Brucker
+1 212 526 4435
edward.brucker@barclays.com
BCI, US

Scott Schachter
+1 212 526 9716
scott.schachter@barclays.com
BCI, US

Priya Ohri-Gupta, CFA
+1 212 412 3759
priya.ohrigupta@barclays.com
BCI, US

Key Points:

- **Initiate KHC 10y and In at Overweight:** We initiate coverage of all the HNZ bonds 2030 and in with an Overweight rating. Given the company's size, its FCF/debt, and the optionality of the company's portfolio, combined with the scarcity value of the front end (versus the total structure), we believe there will continue to be strong demand for this part of the structure. Please see our previous note on KHC (link).

- **Initiate Long Bonds at Market Weight:** With spreads ranging from 275 to 325bp, or yields at ~5%, we do not see significant value in the long end. We do, however, believe there are significant longer-term risks, including no clear path to deleveraging (or back to IG), flexible covenants, and structural brand pressure.

- **Index Inclusion:** Kraft Heinz will be roughly 1.8% of the Barclays Bloomberg HY Index and would be the third-largest issuer behind the potential combined Sprint/T Mobile entity and Charter. Some ETFs, such as JNK, are benchmarked to indices that include a maximum duration of 15y. As a result, many of the longer-dated KHC bonds will not be included in some ETFs.

- **Main Focus Points for the KHC Credit Story:** Given the large dividend payout, it will be difficult for the company to deleverage organically to its below-4.0x target without asset sales or an inflection in EBITDA. We are modeling EBITDA roughly flat to 2020 in 2021, after a $500mn decline in 2020. With regards to asset sales, we believe there is the potential for smaller brand divestitures, but large transactions are unlikely. Kraft has a deep brand portfolio, but many of the brands had a deeper relevance years ago.

- **SEC and Layering Events:** Two notable concerns we have in the credit story is the potential for structural layering and the ongoing SEC investigations. Like other fallen angels, the legacy (and flexible) IG covenants leave current bonds open to a layering event. The SEC investigations remain ongoing, and KHC remain vulnerable to litigation and headline risk.

KHC and The High Yield Index

Following index inclusion at the start of the month, Kraft Heinz will be roughly 1.8% of the Barclays Bloomberg HY Index (below the 2% level common for capped indices) and would be the third-largest issuer behind the potential combined Sprint/T Mobile USA entity (which should have new investment grade-rated and loan issuance) and Charter. As we have noted previously, the duration of the HY index is near all-time lows, at roughly 3.1, well below the 4.0 at the start of 2019. Much of this shortening can be attributed to the level of call-constrained bonds in the high yield index, with nearly 70% of bonds trading above their next call price. In contrast, the KHC debt structure is heavily weighted to longer-duration bullets, with an average duration of almost 10 for the company. Additionally, the lack of traditional high yield call provisions provides more attractive convexity to investors.

There are no duration or maturity restrictions on the Bloomberg Barclays HY Index; therefore, 19 bonds will be included in the US HY Index. However, some ETFs, such as JNK, are benchmarked to indices that include a maximum duration of 15y. As a result, many of the longer-dated KHC bonds will not be included in some ETFs.

Considering only bonds with 10 years or more to maturity, KHC would represent over 18% of the entire $81bn in this universe. Filtering down to bonds with 20 years or more to maturity, KHC would represent over a quarter of the weight of this bucket.

The Barclays Strategy team has previously found fallen angels tend to underperform investment grade before the downgrade but have a bounce in the six months after the downgrade, with spreads of fallen angels tightening roughly 60bp to the high yield index . This is even more pronounced for larger capital structures (Large Angels Fall Harder but Bounce Higher). The best fallen angel HY performers are priced below $98 and have less than 10y to maturity.

Kraft Heinz is, in our view, a unicorn compared with the peer group. Historically, long bonds in our coverage universe have lagged and been somewhat yield capped, with an absolute level above investors are less willingly to buy ,or, alternatively, trade on dollar price. KHC is seemingly trading neither with dollar price constraints or absolute yield restrictions, with the long bonds generically ~300bp spread.

HY Food/Beverage Index

Post-inclusion, KHC will comprise over 40% of the Bloomberg Barclays HY Food and Beverage Index. It will expand the weighting to the HY index to over 4% from 2.4% and improve the average rating more than one notch (from close to B+ to roughly BB-). We affirm our Overweight rating on the Food/Beverage index, which is in line with our ratings on KHC intermediate notes. For our IG KHC and IG food Index thoughts, please see our note from last week: Kraft Heinz: The BBBubble is Bursting

JBS USA, Pilgrim's and Post Holdings on a combined base account for 54% of the current Food/Beverage index (pre-KHC inclusion). On a stand-alone basis, JBS is 26%, Post is 22%, and PPC is 6%.

Given the improving credit trajectory of JBS, leverage well below KHC's, protein ratings migrating upwards, and the potential for credit-positive corporate action we do not recommend selling JBS or Pilgrim's Pride to fund a KHC purchase. We view JBS as on a positive path, while

KHC guidance is for EBITDA to be down 8% this year, with limited confidence in an improvement in 2021. We place fair value for KHC 2030s at 50bp or tighter through Post. Both companies will have similar FYE leverage profiles, but KHC's FCF before dividends provides more flexibility, and we expect the company to be a net seller of assets, while Post is likely to remain a buyer. We have Market Weight ratings on Post. We do not expect KHC to become cheap enough to warrant swapping out of Post into KHC.

FIGURE 1. **KHC Inclusion in the HY Index**

	Current HY				With KHC			
	% of Food and Bev	% of US HY	Market Value ($ bn)	Amount Outstanding ($ bn)	% of Food and Bev	% of US HY	Market Value ($ bn)	Amount Outstanding ($ bn)
KHC	0.0%	0.0%	0.00	0.00	41.58%	1.75%	23	22
Food and Bev		2.5%	32.85	30.97		4.21%	56	53
US HY			1,320.88	1,282.91			1,333	1,295

Source: Bloomberg Barclays Indices, Barclays Research

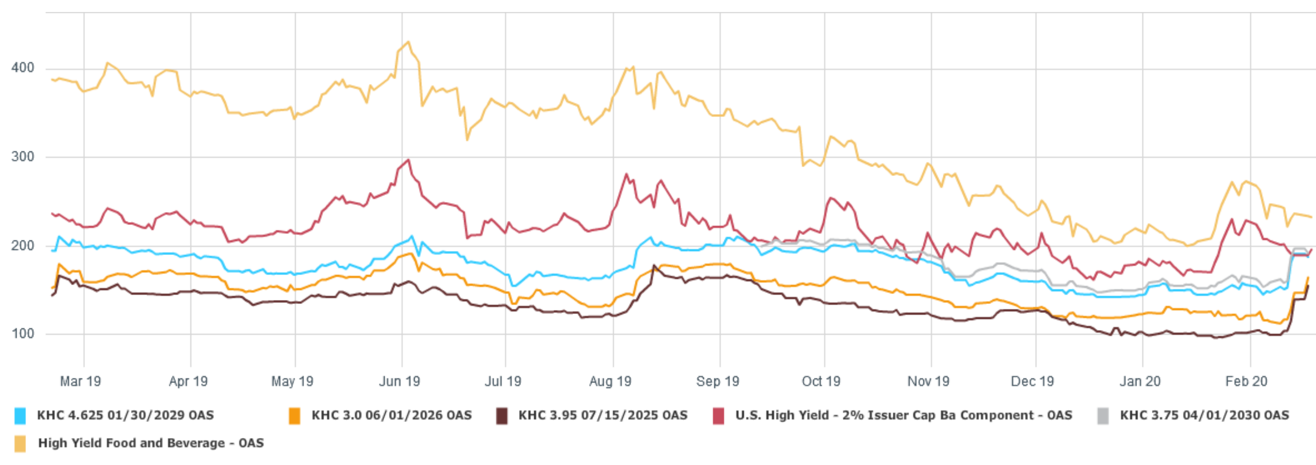
KHC Ratings & Recommendation

10y and Shorter: Initiate at Overweight

We transfer coverage of all the HNZ bonds 2030 and shorter with an Overweight rating. As noted above, all these bonds are ETF weighted and there just are not that many of them relative to the capital structure; ie, only 36% of the bonds are 2030 and shorter. Given the company's size, its FCF/debt, and the optionality of the company's portfolio, combined with the scarcity value of the front end (versus the total structure), we believe there will continue to be strong demand for this part of the structure .

KHC 2029s and 2030 are trading at a an OAS 187s. This compares with the Ba index at 196bp (with much shorter duration) and the HY Food/Beverage index at 232bp. We view the notes as near fair value, but believe there is room to grind tighter into the company's investor presentation in May, particularly given the potential for further asset sales.

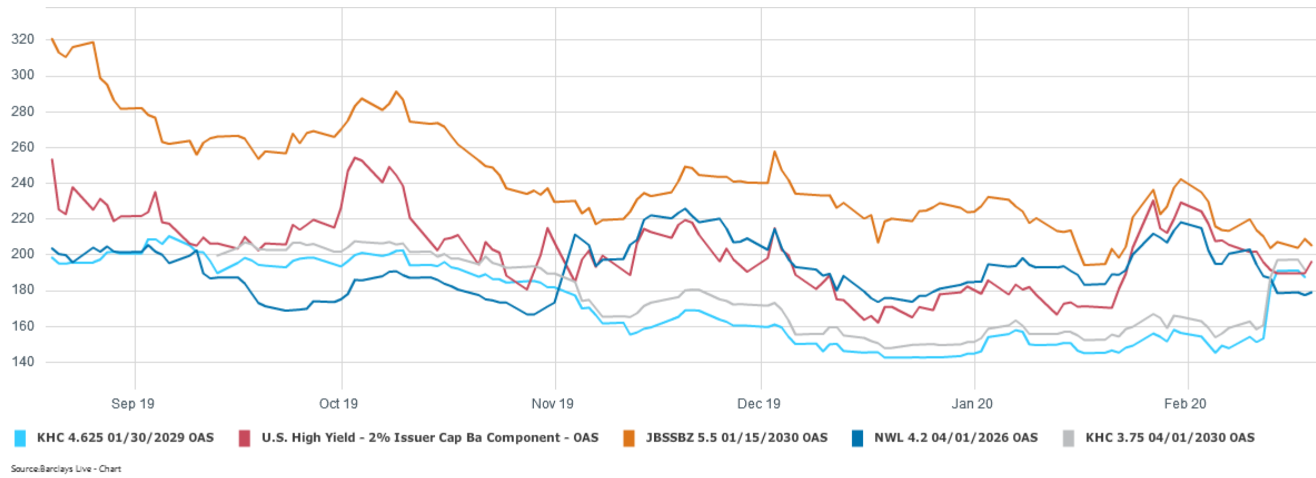
FIGURE 2. **KHC 2026s, 2029s, 2025s and 20230s OAS vs. the HY Ba Index and HY Food & Bev OAS, LTM**



Source: Barclays Live; Chart Link

KHC 2029s at an OAS of 187 and the 2030s at 191bps compare with JBS USA 30s at 205bp and Newell 2026s 179bp. We have Overweight ratings on JBS and Newell Brands. We view JBS as perhaps having faster credit and rating improvement than KHC. However, JBS results can be volatile on commodity protein swings, and we believe KHC may tighten vs. JBS.

FIGURE 3. KHC 2029s, JBS 2030s, NWL 2026s, KHC 2030s OAS vs. HY Ba Index OAS, last 6 months



Source: Barclays Live; Chart Link

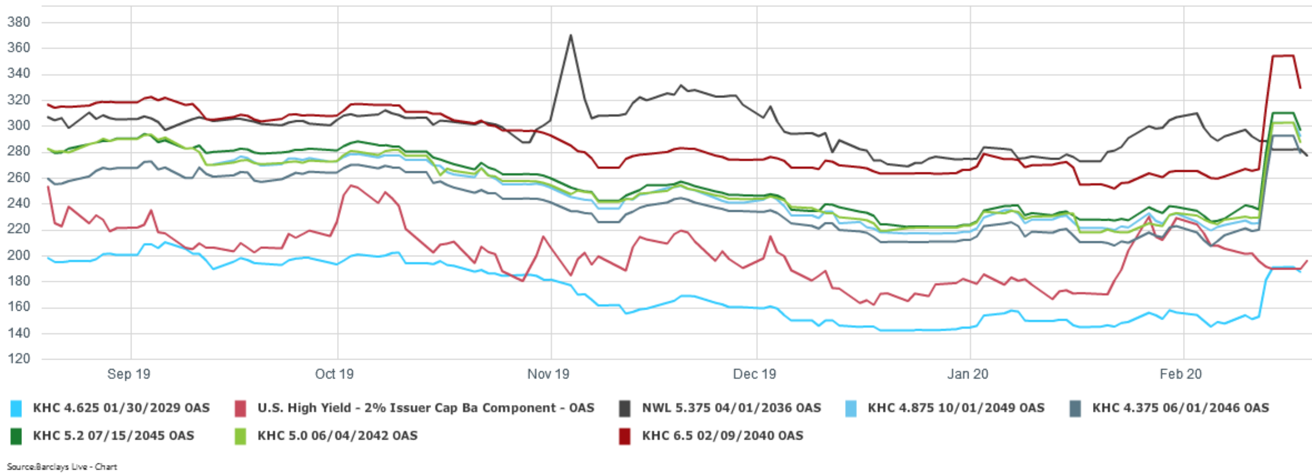
Long Bonds: Initiate at Market Weight

With spreads ranging from 275 to 325bp (depending on dollar price), or yields at ~5%, we do not see significant value in the long end. We do, however, believe there are significant longer-term risks, including:

- There is no clear path to organically deleveraging/growing into the capital structure. There is some risk, in our view, that EBITDA does not stabilize in 2021. The decline over the past three years has been material, and it will require significant work to bend the curve back to flat.
- The covenants offer significant flexibility for further layering of new priority debt should the company choose not to pay off near-term maturities with cash on hand and cash generation.
- We believe there will be long-term structural pressures on the company's brand portfolio.
- We do not expect a near-term (ie, next three years) return to investment grade index eligibility. While the lack of call features offers upside should that occur, it is well outside our rating definition.

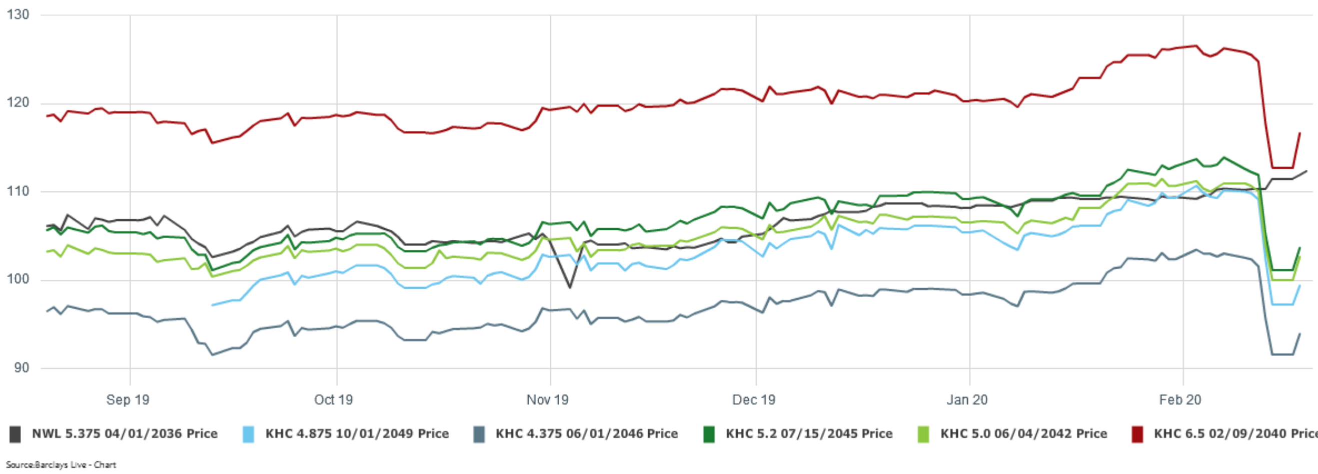
As noted, KHC long bonds range from a OAS of 275 - 325bps based largely on dollar price/coupon, with the lower dollar-priced bonds trading at tighter spread. That compares with NWL 2036s at 277bps.

FIGURE 4. KHC Long-Dated Notes OAS vs. NWL, last 6 months



Source: Barclays Live; Chart Link

FIGURE 5. KHC Long-Dated Dollar Price, last 6 months

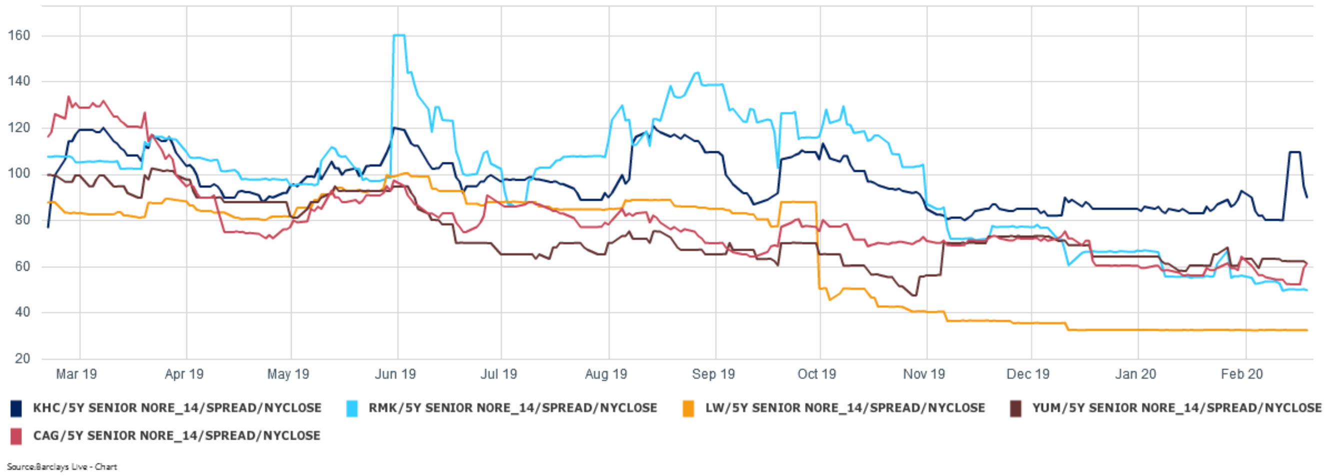


Source: braclays Live; Chart Link

5y CDS: Not That Exciting

Kraft Heinz (KHC / HNZ)CDS is quoted 85/95bp and had been pricing in a larger risk than the cash bonds into the downgrade (in our view), particularly versus IG peers, with Conagra at 65bp. KHC is wide to some peers, with Yum! Brands at 60bp, Lamb Weston at 32bp, and Aramark at 49bp. Levi remains quoted at 117bp and fairly illiquid. Given the options the company has in terms of liquidity and the longer-dated weighting of the capital structure, we believe the path of least resistance is tighter. Although we do not believe there is the potential for more than 10-15bp of tightening in KHC 5y CDS, we recommend selling it.

FIGURE 6. KHC 5y CDS vs. CAG, ARMK, LW, and YUM, LTM



Source: Barclays Live; Chart Link

KHC Key Pressure Points and a Few Positives

Stable EBITDA vs. Perpetual Decliner

Given the large dividend payout, without asset sales it will be difficult for the company to deleverage organically to its below-4.0x target without an inflection in EBITDA. KHC has guided to an 8% decline in 2020 EBITDA, noting ~$460mn in discrete one-time items. The company expects underlying EBITDA (excluding the one-time drags) to be relatively flat. This follows a 20% decline from 2017.

The EBITDA decline up to year-end 2019 was driven largely by a combination of supply chain inefficiencies, cost inflation in excess of pricing, and core volume declines. Much of the volume declines have come from distribution losses in key categories such as cheese and cold cuts that have fallen out of favor in the US and have been used as loss leaders by select retailers. The company has also had a large degree of management and marketing turnover (see Investment Sciences: Marketing Department Churn is Bad for Consumer Products Sales & Bond Returns), which it has addressed on recent calls. That said, KHC is a large company, and we believe it will take significant time to turn.

What is changing in 2020 is the step-up in advertising. The company is increasing working media this year by 30%, but will hold absolute marketing flat by finding efficiencies in non-working media. It is also partly funding this with supply chain efficiency initiatives to target net productivity gains and fund investments. The uncertainty is the company's ability to hold margins flat while it increases brand spend and volumes trail negative. A typical CPG or retail playbook would have a dip in margins potentially ahead of sales growth.

We are modeling EBITDA roughly flat in 2021 y/y, driven by slower declines in the core business from easier comps and targeted innovation and continued cost control. However, there is significant uncertainty on the company's ability to stabilize the core and return to potential growth in 2021. Near term, we expect the long bond performance to be driven by market technicals. However, if KHC does not have a credible plan to stabilize EBITDA in 2021, we expect the curve to become much steeper and long bond support to require a much larger discount.

Given the $2bn in cash use for the dividend and the potential for limited to flat EBITDA growth in 2021, organic deleveraging towards the company's below-4.0x leverage target might prove difficult near term.

Asset Sales

Regarding the potential for further asset sales, CFO Paulo Basilio noted that KHC "will continue to evaluate those that are consistent with our strategy. We are in no rush and will maintain price discipline, as always." When discussing its geographic and product portfolios, CEO Miguel Patricio noted, "Not all countries, we have great talent and plans to grow." On brands, he noted "We have...three types of brands. Brands that are doing very well and with growth and high margin. We have a second group of brands that ... do not do well but have amazing equity and have huge potential to be repositioned....and we have a third group of brands that are less exciting because they are in categories that are not growing and have less potential potential for growth. "

Unpacking these comments, we believe there is the potential for smaller brand divestitures and/or further country exits when the company announces its strategic plan at the May investor day. In mid-2019, for example, the company, stopped marketing Maxwell House, Ore-Ida, Breakstone's, and Plasmon.[1] However, we do not anticipate a large, multi-billion dollar asset sale program. We give a breakdown of recent notable M&A transactions in Figure 7.

The company does, however, have large, durable brands, some of which we believe could be sold at high single-digit (or better) multiples, including Oscar Mayer, Ore-Ida, or possibly Smart Ones. Regardless whether the company sells brands, we think the credit market will increasingly view the portfolio as a providing an asset value backstop.

FIGURE 7. **Notable Food and Beverage M&A Transactions**

($ in millions)				EV / LTM	
Date	Acquirer	Target	EV	Net Sales	EBITDA
12/19/2019	Act II	Merisant and Mafco	$575	2.1x	9.1x
8/28/2019	EBRO FOODS SA	Tilda	$342	1.7x	13.7x
8/27/2019	Hershey	ONE Brands	$397	4.0x	19.9x
8/21/2019	Simply Good Foods Company	Quest Nutrition	$1,000	2.9x	20.0x
8/2/2019	KKR	Arnott's and certain of Campbell's Intl Ops	$2,200	2.5x	14.3x
7/19/2019	PepsiCo	Pioneer Foods Group	$1,700	1.2x	11.0x
5/15/2019	B&G Foods	Clabber Girl	$85	1.2x	NA
5/2/2019	Post Holdings	TreeHouse Foods RTE cereal business	$110	0.4x	NA
4/1/2019	Ferrero	Keebler Cookies	$1,300	1.4x	12.0x
12/18/2018	Richardson International Ltd	Wesson Oil (CAG)	$180	0.8x	6.0x
11/29/2018	Kraft Heinz	Primal Nutrition, LLC	$200	4.0x	NA
10/24/2018	Zydus Wellness&Cadila Healthcare	Heinz India	$625	4.2x	20.8x
9/12/2018	Hershey	Pirate's Brands (BGS)	$420	4.4x	16.5x
7/9/2018	Brynwood Partners VIII LP	Smucker's U.S. baking business	$375	1.0x	7.5x
6/27/2018	Conagra	Pinnacle Foods	$10,900	3.5x	16.1x
6/4/2018	Nomad Foods	Aunt Bessie's Ltd	$240	2.0x	10.4x
5/7/2018	Nestlé	Starbucks consumer/foodservice	$7,150	3.6x	15.0x
1/17/2018	Nomad Foods	Goodfella's Pizza	$225	2.5x	22.5x
1/16/2018	Ferrero	Nestle U.S. Confectionery	$2,800	3.1x	NA

[1] 7/24/19 CNBC: Kraft Heinz pulls back on asset sales as it seeks to fix a broken business.

($ in millions)				EV / LTM	
Date	Acquirer	Target	EV	Net Sales	EBITDA
12/18/2017	Campbell Soup	Synder's-Lance	$6,100	2.8x	20.0x
12/18/2017	Hershey	Amplify Snack Brands, Inc.	$1,600	4.3x	18.8x
12/15/2017	KKR	Unilever Spreads	$6,825	2.3x	10.0x
10/6/2017	Kellogg	Chicago Bar Company LLC	$600	5.0x	13.0x
9/19/2017	Post Holdings	Bob Evans Farms, Inc.	$1,500	3.4x	15.4x
8/20/2017	B&G Foods	Back to Nature Foods Company	$163	2.0x	9.6x
7/18/2017	McCormick	Reckitt Benckiser Food	$4,200	7.2x	19.5x
7/6/2017	Campbell Soup	Pacific Foods	$700	3.2x	NA
5/30/2017	J.M. Smucker	Wesson Oil (CAG)	$285	1.2x	9.5x
3/28/2017	Post Holdings	Weetabix	$1,400	3.4x	11.7x
1/9/2017	Mars, Inc.	VCA, Inc.	$9,009	3.2x	16.2x
12/2/2016	B&G Foods	Victoria Fine Foods	$70	1.7x	7.8x
11/29/2016	McCormick	Enrico Giotti SpA	$127	2.3x	12.0x
10/13/2016	Kellogg	Ritmo Investimentos	$428	2.3x	NA
9/21/2016	B&G Foods	Spices and seasonings business of ACH Food	$282	1.3x	7.2x
7/7/2016	Danone	Whitewave Foods (WWAV)	$12,500	2.9x	21.3x
5/18/2016	Hormel Foods	Justin's	$216	2.2x	NA
12/22/2015	Hain Celestial	Orchard House Foods Limited	$135	1.0x	6.0x
12/7/2015	JAB-led investor group	Keurig Green Mountain	$14,292	3.2x	13.3x

Source: Company filings, Barclays Research

Room to Layer

Kraft Heinz expects to generate $500mn in free cash flow in 2020 after dividends and capital expenditures. KHC noted in its 10K filing that it had paid down the February 2020 $405mn maturity (presumably with cash on hand). The company has CAN$500mn in notes and USD$200mn in notes maturing in July 2020. Kraft stated in its 10k that it expects to repay them with cash on hand and cash generated from operations.

One of the primary risks for any large cap fallen angel is the potential to layer additional guaranteed or higher-priority debt for maturity extensions. For Kraft Heinz, we believe this is the largest structural risk to the long-dated bonds.

As is typical for fallen angels, the company has a fairly permissive investment grade covenant structure. The liens test is restricted to principal facilities (of which the company discloses it had none) or shares of capital stock in restricted facilities that own a principal facility. Principal facilities are defined as real property, plant, and equipment (PPE) in the US that constitutes any manufacturing plant of distribution facility where its net book value exceeds 2% of net tangible assets (NTA). KHC also has no meaningful asset sale or restricted payment limits.

The company's notes do include a change of control ratings-based trigger, although 3G Capital and Berkshire Hathaway are carved out as permitted holders in certain instances.

The structure includes 2025 second-lien notes (legacy holdovers from the previous trip to HY) that have covenants that step back up. The notes are issued by H.J. Heinz Company and guaranteed by H.J. Heinz Holding Corp (both legacy pre-Kraft issuers). Upon the downgrade, the 2L covenants on RPs and limitation of guarantees, among others, spring back. Even with these provisions, we view the covenant restrictions as limited. The company is now subject to a 2.0x FCCR ratio test, and non-guarantors are capped at incurring 3.5% of total assets or $1.1150mn. However, the credit facility carve-out starts at $14.250mn. The issuance of the 2L's caused a spring in security for the 6.25% 2030 H.J. Heinz Finance Company UK Plc GBP notes that remains as long as the 2Ls are outstanding and remain pari passu with the 2025s. The 2025s also contain a 4.0x pro forma consolidated total leverage ratio for unlimited dividends. Above that, the builder basket and multiple carve-outs provide ample flexibility. With the bonds trading at the call, we see value in the RP covenant, but actually view it as more of a risk, potentially accelerating the company's need to come to market should it become tighter on RP capacity.

KHC also has a $4bn unsecured revolver that can be upsized to $5bn. As long as the company does not engage in acquisitions, continues to pay down near-term maturities with cash on hand and free cash flow generation, and does not face further restructuring costs with the May strategic plan, there should be no need to enter the HY market. We believe that should KHC want to issue, it would receive a generally favorable reception for further unsecured notes. However, should the rate environment or primary access change for the worse, we believe the company would likely pursue lowest cost financing options, which could involve structurally layering the current unsecured notes.

Zooming Out…So These Brands…

Kraft has a deep brand portfolio. However, many of the brands had deeper relevance a number of years (or decades) ago than today. Jell-O, Kool-Aid, Stove-Top, Heinz Vinegar, and Crystal Light are not what we would classify as growth brands. KHC management has been focused on "fewer but bigger" innovation, with an admission that past product extensions ended up being cannibalistic. For example, the introduction of Heinz Mayonnaise and Srirachi Ketchup likely did not increase category volume so much as it shifted purchases from Kraft Mayonnaise and Heinz 57 Ketchup.

For HY packaged food and consumer, the model of trying to hold a subset of lower growth brands flat (while generating cash flow) to invest in fewer innovations or M&A for growth is fairly well trodden, with examples being Pinnacle Foods (prior to the acquisition by Conagra), B&G, Post Holding (in some form), Prestige Health, Flora Foods, Boulder Brands.

The concern is that in the past 18-24 months, that model has largely broken down. While it has been more acute in HY credits, several IG names have faced a similar issue. It has become difficult to keep the core flat in terms of volume, which has caused a negating effect on any growth achieved. B&G Foods (Underweight rated) has become the poster child for these issues. Conagra has also had recent growth issues in select legacy brands.

The standard packaged food playbook to accelerate category growth includes a combination of innovation, improving relevance to consumers, improved packaging and design, and targeted brand support. Even with that roadmap, though, innovation can prove difficult, given the increased combination of retail outlets, shelf space declines in the core, and increased importance of private label offerings to retailers.

Kraft Heinz's plans to fund this revolves around reducing unproductive SKUs. The company noted that 2019 was first year of reducing SKUs in the US (since completing the Kraft Heinz transaction) and intends to accelerate SKU reduction to below 2016 levels. Based on Nielsen data, 50% of KHC's SKUs account for the last 0.5% of US sales. KHC expects the reduction to help drive supply chain productivity savings (potentially over $1bn in capture over the next three years) to help fund the innovation to lift growth. During the third-quarter 2019 presentation, the company noted that 60% of the EBITDA decline since 2017 was due to gross margin weakness tied to inflation in the supply chain.

There is no reason this model cannot work. It can, however, lead to shelf space losses and potentially reduced distribution if not handled deftly. While a more discrete example, Fage's decision to pull back on flip cup SKUs earlier in 2019 in order to launch new products (eg, sour cream) later in the year has not arrested market share losses in the core.

In addition, KHC has been active in portfolio management over the past two years. In January 2019, it purchased 100% of Primal Nutrition (a better-for-you brand focused on condiments and sauces) for $201mn. In March 2018, the company purchased Cerebos Pacific (an Australian Food & Beverage company) for $244mn. In the third quarter of 2018, the company bought both Ethical Bean Coffee Company (Canadian based) and Wellio (meal preparation technology US start-up) for $27mn. In the company's 10K, it disclosed a $55mn pending cash sale of a brand (the name of the brand sold was not disclosed). In 2018, it sold its Indian unit for $655mn and in November 2018 sold it Canadian natural cheese division for $1.2bn. While asset sales are possible (as noted earlier), one of our concerns is that in the company's cash flow bridge, there is limited room for further M&A. We think the company will likely continue to explore bolt-ons.

ESG Considerations

According to ESG score providers, the Kraft Heinz Company is considered to be at high risk of experiencing material financial effects from ESG factors, due largely to the industry in which it operates (Food Products). Major areas of concern include the effect of its products and services, product governance and resource use. While Kraft Heinz claims it follows best practice in food safety management across its value chain, it has limited disclosure of its policies and performance against KPIs. As a result, it scores poorly on QMS certifications, and the company has been implicated in a number of controversies, although this is not unusual in the Food Products sector. There is room for improvement on environmental factors such as resource use, biodiversity and atmospheric emissions. Disclosure on this front could be more comprehensive, although there are some positive attributes, such as having an environmental policy and making progress at reducing its water consumption.

Kraft Heinz has also experienced high-severity governance controversies related to business ethics, including an SEC probe into its accounting policies and procedures. The company does not appear to link executive remuneration to Corporate Social Responsibility (CSR) performance objectives and does not seem to allocate responsibility on CSR issues within the board. This could improve, as we understand it is working on a new CSR strategy plan. Policies regarding the prevention of corruption are a bright spot in the governance category.

Overall, Kraft appears to be performing poorly on ESG considerations relative to Investment Grade peers, although it compares more favorably than its new High Yield peer group from an ESG perspective.

SEC Investigation

Background

In February 2019, KHC announced that it has received a subpoena in October 2018 from the SEC, investigating the company's procurement area, including the accounting policies, procedures, and internal controls, specifically in relation to agreements with vendors. At the time of the release, the company recorded a $25mn increase to COGS as an out-of-period correction. It also said it was implementing improvements to internal controls and fully cooperating with the SEC. It did not believe the investigation to be material to the financial statements. As a result, the company filed a late filing notification for the FY18 10-K and 1Q19 and 2Q19 10-Qs, which caused some market uncertainty during that period.

Latest Update (from the FY19 10-K)

In the most recent 10-K, Kraft noted that is has received additional subpoenas seeking information into its financial reporting and internal controls in connection with the previous investigation and confirmed that the United States Attorney's Office for the Northern District of Illinois (USAO) is also reviewing the matter, after receiving materials from the SEC. The investigations have not been resolved, and the company says that any future investigations or additional lawsuits may have a material adverse effect on the business or financial conditions (which was not a change from the second- or third-quarter language).

The 10-K also described six additional derivative lawsuits filed between October 2019 and February 7, 2020, alleging 3G engaged in insider trading using KHC's MNPI.

The SEC investigations have not been front in center in terms of credit investor concerns. Given prior companies that have had similar issues (the investigation being broader than the SEC makes this a bit more unusual), we expect the company eventually to move past it, although we expect it to remain a back ground risk for some time.

Impairment Losses

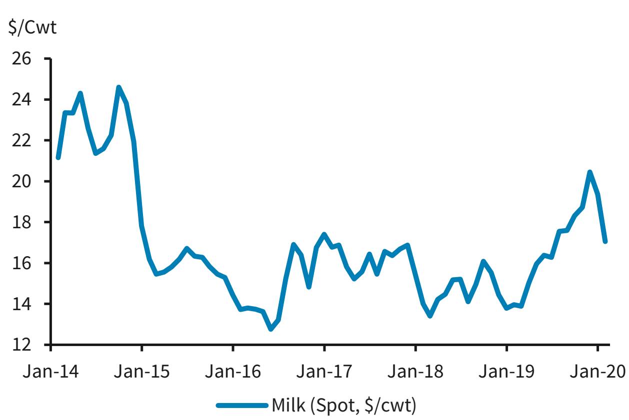
Kraft has had a number of impairment losses over the past two years. The company recognized $7.0bn of goodwill impairment losses and $8.9bn of indefinite lived intangible asset impairment losses in 2018, while in 2019 the losses were $1.2bn and $687mn, respectively. In the 10k, Kraft specifically notes that as a result of the strategic review process and 5-year operating plan (to be laid out in 2020), there could be impairments of one or more of the reporting units in the future.

Commodity Exposures

Our equity colleagues (note link) believe that the overall large cap packaged food universe will see a 70bp y/y rise in input costs for CY20, with Kraft expected to experience a 1.4% rise in inflation (unhedged) for the year. The largest ingredient affecting inflation this year is likely to be dairy, but Kraft has exposure to a number of other commodities, such as coffee, sugar, plastic, and steel. More broadly, 50% of the company's cost of goods sold are ingredients, with packaging at 18% and energy at 10%. The largest ingredient exposure is, unsurprisingly, cheese, which accounts for 7% of COGS. On the packaging side, boxboard accounts for 8% and plastic accounts for 7%. Natural gas is 8% of COGS, the highest among energy commodities.

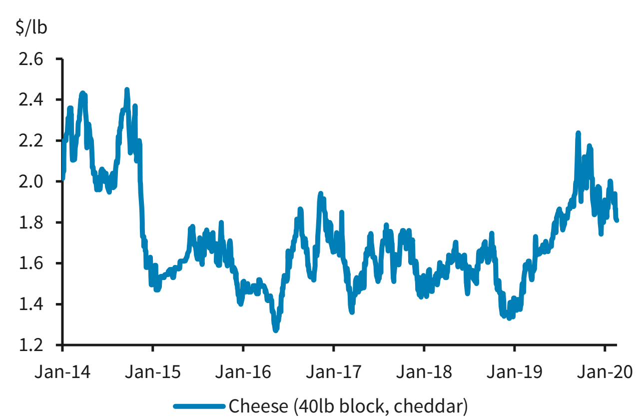
Dairy

FIGURE 8. **Milk - Class III, USDA**



Source: Bloomberg

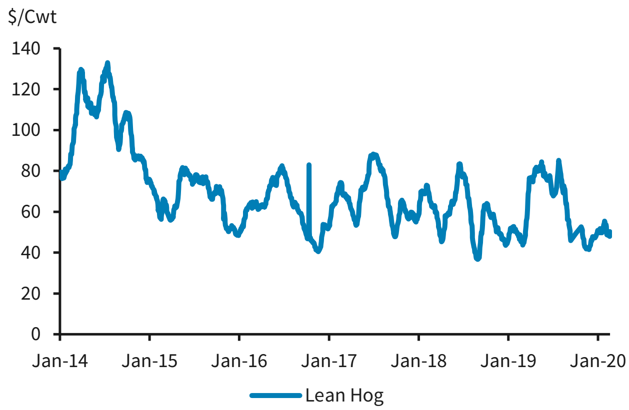
FIGURE 9. **Cheese - CME, 40lb Block, Cheddar**



Source: Bloomberg

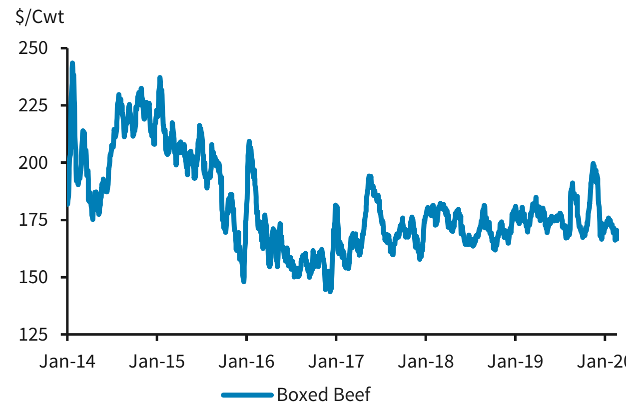
Meat

FIGURE 10. Lean Hog - USDA Western Markets, 51-52%



Source: Bloomberg

FIGURE 11. USDA Boxed Beef Cutout, 750-900lbs, Choice Cut



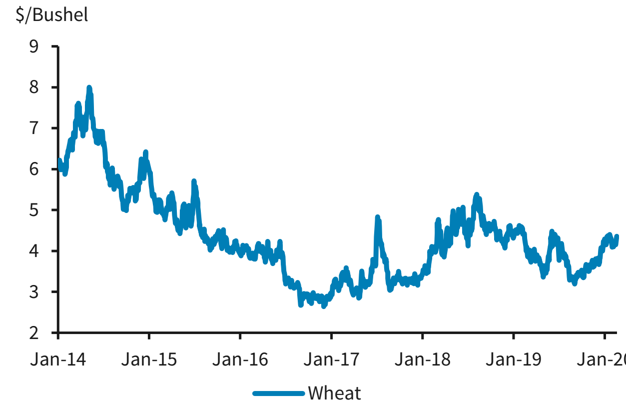
Source: Bloomberg

Sugar & Wheat

FIGURE 12. Sugar, NY ICE

Source: Bloomberg

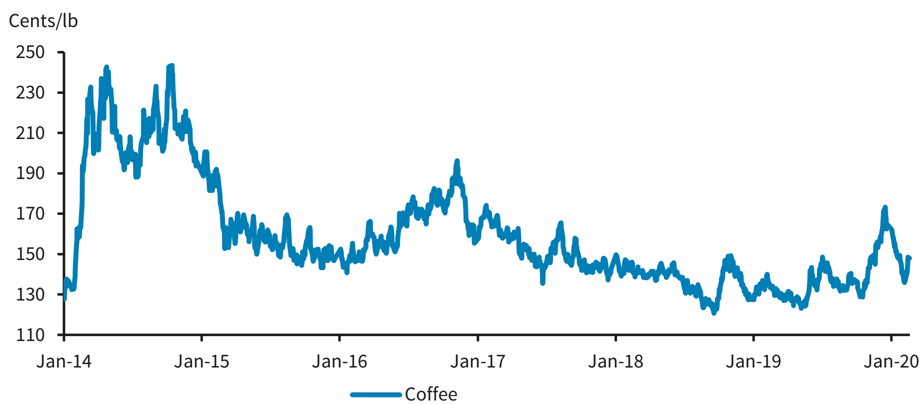
FIGURE 13. Wheat, USDA No. 1 Hared Red Winter Wheat



Source: Bloomberg

Coffee

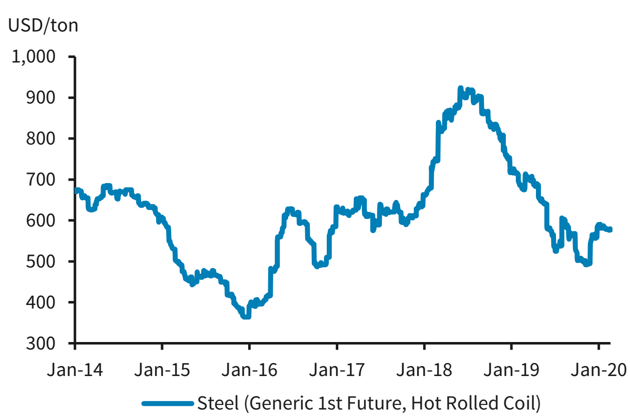
FIGURE 14. Coffee - ICO Avg, Other Mild Arabicas



Source: Bloomberg

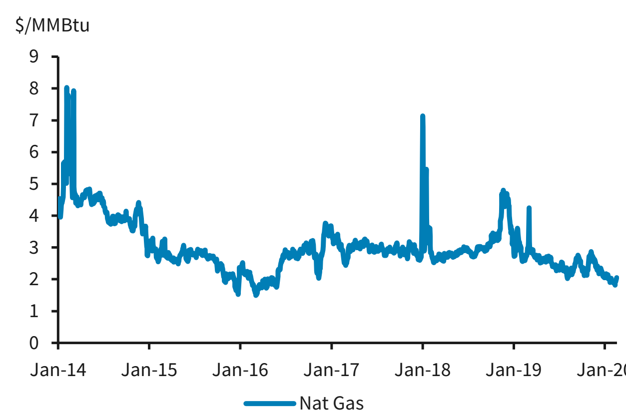
Steel and Natural Gas

FIGURE 15. Steel - Hot Rolled Sheets



Source: Bloomberg

FIGURE 16. Natural Gas - Henry Hub, LA

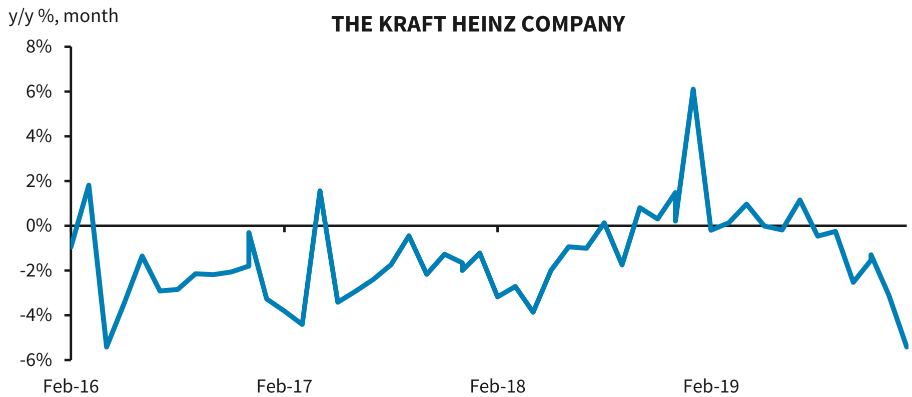


Source: Bloomberg

Nielsen

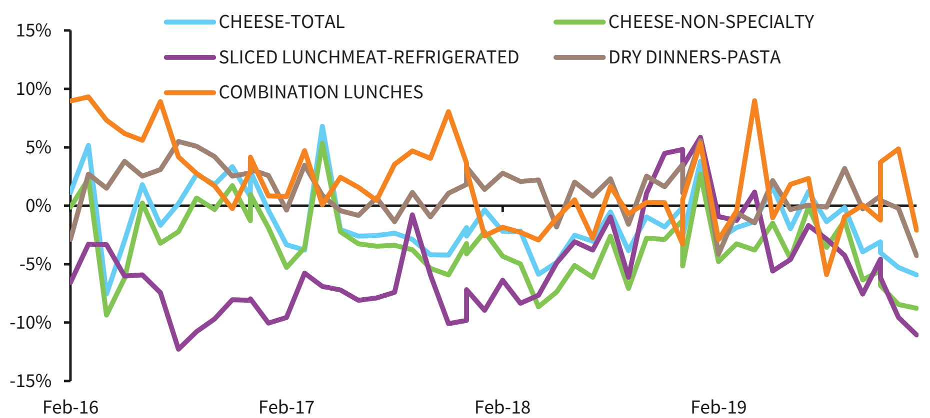
Kraft as a whole has gone from flat to small growth at the beginning of 2019 to declining low single digits in the past few Nielsen reports. This has been led by some share losses in a few large categories, but more importantly, volumes have declined, which the company has not been able to offset by increases in pricing.

FIGURE 17. KHC Total Sales - Monthly, y/y %



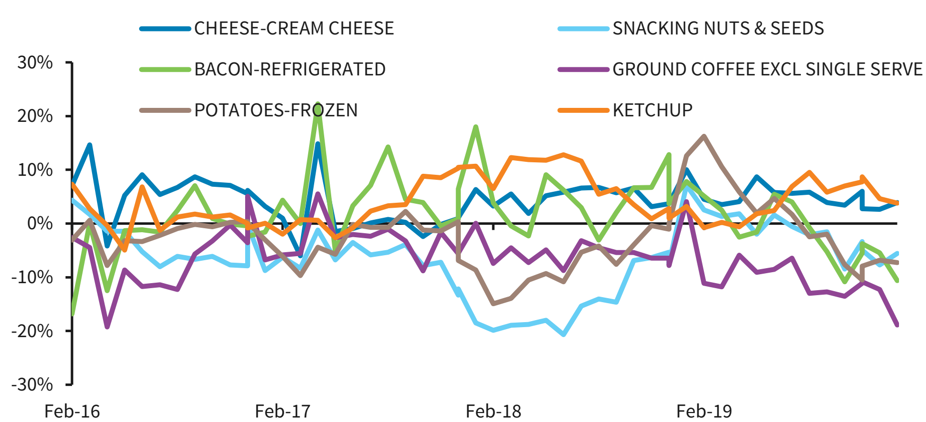
Source: Nielsen Data

FIGURE 18. Five Largest Nielsen Segments (as of January 25, 2020), Sales



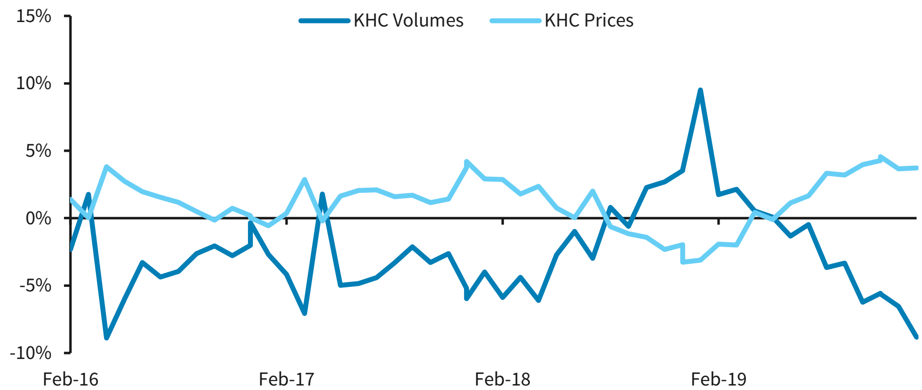
Source: Nielsen Data

FIGURE 19. Other Notable Segment Sales



Source: Nielsen Data

FIGURE 20. **KHC Volumes versus Prices**



Source: Nielsen Data

Operational & Balance Sheet Highlights

Balance Sheet/Credit Overview

As of December 28, 2019, cash stood at $2.3bn, a decrease of $36mn sequentially, and the company had full access to the $4.0bn senior unsecured undrawn revolving credit facility. As of December 28, 2019, Kraft Heinz had total debt outstanding of $29.2bn. The company disclosed that after the end of the quarter in February, it had repaid $405mn of maturing notes (we assume with cash on hand), leaving ~$600mn maturing this year and $1bn in 2021.

Gross leverage decreased 0.1x, to 4.8x, and net leverage decreased 0.2x, to 4.4x, as total debt declined $1.4bn sequentially.

Free cash flow was $886mn, versus $702mn in 4Q18, as capex and dividends were lower by $45mn and $273mn, respectively, partially offset by a $134mn decrease in cash from operations. LTM free cash flow was $831mn, owing to the seasonal cadence in the company's cash flow generation. Cash returned to shareholders totaled $489mn through dividends, as the company continues not to repurchase shares.

Guidance

Closing out FY19, Kraft Heinz provided the following outlook for FY20:

- The company expects 50% fewer projects in 2020. It is now less focused on brand extensions (or land expansions) versus new launches that are true brand expansions.
    - It expects to redirect funds disproportionately towards supporting flagship brands.
- Net sales are expected to face a 300bp headwind vs. 2019, due to divestitures and business exits (175bp), commodities, distribution and supply chain (65bp), and FX (60bp).
- Adjusted EBITDA is expected to be $460mn (or 8% lower y/y), due to a $110mn hit from divestitures and business exits; a $140mn hit from incentive compensation; a $150mn decrease due to commodities, distribution, and supply chain; and a $60mn decline due to FX.
- The company also expects an ~$0.38 decrease to adjusted EPS vs. 2019, due to a $110mn hit from stock-based compensation, a $270mn decrease due to other income, and an ~22% effective tax rate.

- The company expects to increase its spend in working media by 30%.
- It will maintain its $0.40/share dividend.
- Target leverage is expected to be below 4x "as soon as practical."

4Q19 Operational Highlights

KHC reported adjusted EPS for 4Q19 of $0.72, above the consensus of $0.68, aided by below-the-line items, as sales were a bit weaker than the consensus, while EBITDA was in line. Management acknowledged that 2019 had been a difficult year for the company.

- Net revenues of $6.5bn were down 5.2% y/y and $69mn below the consensus, while organic net sales decreased 2.2%, worse than the consensus of down 1.33%.
- US organic net sales declined 2.7%, as pricing rose 3.1%, due to higher list prices and key commodity costs. Volume/mix decreased 5.8%, due to a decrease in cheese, coffee, cold cuts, and bacon shipments, which was partially offset by growth in condiments and sauces.
- Canada organic net sales declined 2.5%, due to a negative 21.4% effect from Canadian natural cheese divestiture. Pricing was down 5%, due to unfavorable trade expense, as well as higher promotional activity around the holidays. Volume/mix was up 2.5%, due to consumption growth in peanut butter and pasta sauce, which was partially offset by lower cheese shipments, coupled with continued weakness in coffee.
- EMEA organic net sales increased 0.3%, due to favorable pricing, led by the UK, which was partially offset by lower pricing in Russia. Volume/mix grew 0.2%, as the condiments and sauces segment grew in Russia.
- Rest of the World organic net sales decreased 1.6%, as pricing grew 0.7%, due mainly to higher pricing in Latin America and China, partially offset by lower pricing in Australia. Volume/mix decreased 2.3%, due to lower shipments in Australia and New Zealand, partially offset by growth in Indonesia and Brazil.
- Gross margin was down 40bp, to 32.1%, due to supply chain costs and low project preparation of SKUs.
- Operating margin increased 80bp, to 20.0%, as a result of gains from cost savings initiatives, as COGS and SG&A expenses decreased $211mn and $19mn, respectively, coupled with a $355mn decline in total revenue.
- EBITDA for the quarter totaled $1.56bn, a decrease of 6.6% y/y, but $13mn above the consensus, resulting in LTM EBITDA of $6.1bn.

3Q19 Operational Highlights

Kraft Heinz reported adjusted EPS of $0.69, versus the Bloomberg estimate of $0.53, with revenue of $6.08bn, short of the Bloomberg estimate of $6.13bn.

- US organic net sales declined 1.6%. Pricing increased 1.5pts, due mainly to increases across Oscar Mayer cold cuts and Philadelphia cream cheese. Volume/mix decreased 3.1pts, driven by lower retail takeaway in cold cuts, natural cheese, and Lunchables and unfavorable changes in retail inventory levels.
- Canada organic net sales declined 0.5%. Pricing declined 2.6pts, due to increased promotional activity and unfavorable trade expenses in cheese. Volume/mix increased 2.1 points, due to increased promotional support in cheese and pasta sauce, coupled with the partial recovery of retail inventory levels.

- EMEA organic net sales increased 0.4%. Pricing increased 0.2pts, due primarily to higher pricing in the UK. Volume/mix increased 0.2pts, with favorable shipment timing and growth across most food service regions.
- Rest of the World organic net sales grew 0.2%. Pricing increased 0.9pts, due to price increases in Latin America and highly inflationary markets, offset by lower pricing in Asia-Pacific. Volume/mix was 0.7pt higher, due to weakness in China infant nutritional products offsetting growth from condiments and sauces.
- Gross margin declined 80bp y/y, to 32.4%, leading to operating margin contraction of 90bp y/y, to 20.2%.
- EBITDA declined 7.8% y/y (down $125mn), resulting in LTM EBITDA of $6.2bn.

FY20 and FY21 Earnings Expectations

Kraft gave relatively specific guidance for FY20 last quarter. We believe that the outlook for 2021 is likely more important, especially given the one-time items in 2020 that caused the base to reset. In FY20, the company expects a 300bp headwind versus 2019 on the top line from divestitures, commodities, and distribution. We are in line with the company's view and expect sales to be $24.2bn in FY20. Kraft also believes that adjusted EBITDA will be $460mn lower than 2019, but we are a bit lower. We expect FY20 adjusted EBITDA of $5.56bn, versus $6.06bn in 2019.

More important, we expect sales to continue slowly to decline in FY21, given that the remaining portfolio is likely to remain under pressure. We think declines are likely to slow compared with FY20, though, due to easier comps and better targeted SKU marketing and innovation, which have been initiatives at the company. We expect $24.0bn in sales for FY21. We think EBITDA declines could stabilize after a trough in FY20 and expect $5.57bn for the year. Although we do not expect the company to recover the one-time items, slower sales declines and continued cost controls (the supply chain outside of the US is low-hanging fruit) could help EBITDA stabilize. Still, significant execution and brand risk remains.

Ratings Agency Overview

S&P (Outlook: Negative; Senior Unsecured: BB+)

On February 14, S&P lowered KHC's long-term issuer credit and senior unsecured rating to BB+ from BBB- and its short-term commercial paper rating to B from A-3. The small tranche of senior secured notes will remain rated BBB-. S&P now projects that adjusted leverage will remain above 4x through FY2021, absent material asset sales, and the agency had previously stated that leverage needed to be below 4x by mid-2021 to maintain the BBB- primary rating.

For the credit rating to go back to IG, the leverage ratio would need to approach 3.5x (now lower than the prior 4x target) and management would need to indicate clearly that it can manage the cost structure. In a follow-up conference call, the agency implied a return to IG ratings was unlikely near term. The threshold for a downgrade is leverage at the high 4x level, while a reduction to the low 4x range could result in a revision to a stable outlook.

Moody's (Outlook: Negative; Senior Unsecured: Baa3)

On February 14, the agency affirmed the Baa3 senior unsecured rating of KHC and revised the rating outlook to negative from stable. Moody's has highlighted the strategic review scheduled for May as a key milestone in considering its longer term view.

The agency differs from S&P and Fitch by giving the company more credit for its global scale, strong product diversity and leading brands. Additionally, it has highlighted the margin profile.

Fitch (Outlook: Stable; Senior Unsecured: BB+)

Also on February 14), Fitch downgraded KHC to HY, with the LT issuer default rating going to BB+ from BBB-, the ST rating to B' from F3, while the outlook remains stable. The agency believes that KHC's leverage will remain above 4x for a prolonged period, due to the ongoing EBITDA challenges (8% forecast decline for FY20) and limited near-term debt reduction potential. Fitch has noted that the company would have to divest significant assets to reduce leverage below 4x.

FIGURE 21. **Kraft Heinz Model**

Kraft Heinz Co.	FY17*	FY18*	1Q	2Q	3Q	4Q	FY19	1QE	2QE	3QE	4QE	FY20E	1QE	2QE	3QE	4QE	FY21
Income Statement Data ($ in millions)	12/30/17	12/29/18	3/30/19	6/30/19	9/28/19	12/29/19	12/29/19	3/30/20	6/30/20	9/30/20	12/31/20	12/31/20	3/30/21	6/30/21	9/30/21	12/31/21	12/31/21
Total Revenues	**26,076.0**	**26,268.0**	**5,959.0**	**6,406.0**	**6,076.0**	**6,536.0**	**24,977.0**	**5,750.4**	**6,245.9**	**5,924.1**	**6,307.2**	**24,227.6**	**5,692.9**	**6,183.4**	**5,864.9**	**6,244.2**	**23,985.3**
YOY Growth (%)	*-0.9%*	*0.7%*	*-5.5%*	*-4.2%*	*-4.8%*	*-5.2%*	*-4.9%*	*-3.5%*	*-2.5%*	*-2.5%*	*-3.5%*	*-3.0%*	*-1.0%*	*-1.0%*	*-1.0%*	*-1.0%*	*-1.0%*
Cost of Sales	16,561.0	17,128.0	3,968.0	4,328.0	4,108.0	4,435.0	16,839.0	3,857.9	4,238.5	4,034.9	4,286.1	16,417.4	3,830.7	4,190.0	3,982.8	4,230.7	16,234.2
Gross Profit	**9,515.0**	**9,140.0**	**1,991.0**	**2,078.0**	**1,968.0**	**2,101.0**	**8,138.0**	**1,892.6**	**2,007.3**	**1,889.2**	**2,021.2**	**7,810.2**	**1,862.3**	**1,993.4**	**1,882.0**	**2,013.4**	**7,751.1**
Margin	*36.5%*	*34.8%*	*33.4%*	*32.4%*	*32.4%*	*32.1%*	*32.6%*	*32.9%*	*32.1%*	*31.9%*	*32.0%*	*32.2%*	*32.7%*	*32.2%*	*32.1%*	*32.2%*	*32.3%*
Marketing, Research and SG&A	2,807.0	3,035.0	794.0	731.0	742.0	792.0	3,059.0	816.2	762.7	773.5	814.3	3,166.7	808.0	755.1	745.7	776.1	3,085.0
Operating Profit	**6,708.0**	**6,105.0**	**1,197.0**	**1,347.0**	**1,226.0**	**1,309.0**	**5,079.0**	**1,076.4**	**1,244.6**	**1,115.7**	**1,206.9**	**4,643.5**	**1,054.2**	**1,238.3**	**1,136.3**	**1,237.3**	**4,666.1**
Margin	*25.7%*	*23.2%*	*20.1%*	*21.0%*	*20.2%*	*20.0%*	*20.3%*	*18.7%*	*19.9%*	*18.8%*	*19.1%*	*19.2%*	*18.5%*	*20.0%*	*19.4%*	*19.8%*	*19.5%*
Growth	*0.1%*	*-9.0%*	*-25.6%*	*-21.4%*	*-9.1%*	*-8.7%*	*-16.8%*	*-10.1%*	*-7.6%*	*-9.0%*	*-7.8%*	*-8.6%*	*-2.1%*	*-0.5%*	*1.8%*	*2.5%*	*0.5%*
D&A Expense	907.0	919.0	234.0	253.0	243.0	255.0	985.0	205.8	226.7	236.9	246.1	915.5	203.8	224.4	234.6	243.6	906.3
EBITDA	**7,664.0**	**7,024.0**	**1,431.0**	**1,600.0**	**1,469.0**	**1,564.0**	**6,064.0**	**1,282.2**	**1,471.3**	**1,352.7**	**1,453.0**	**5,559.0**	**1,258.0**	**1,462.7**	**1,370.9**	**1,480.9**	**5,572.5**
Margin	*29.4%*	*26.7%*	*24.0%*	*25.0%*	*24.2%*	*23.9%*	*24.3%*	*22.3%*	*23.6%*	*22.8%*	*23.0%*	*22.9%*	*22.1%*	*23.7%*	*23.4%*	*23.7%*	*23.2%*
Growth	*1.2%*	*-8.4%*	*-20.8%*	*-17.9%*	*-7.8%*	*-6.6%*	*-13.7%*	*-10.4%*	*-8.0%*	*-7.9%*	*-7.1%*	*-8.3%*	*-1.9%*	*-0.6%*	*1.3%*	*1.9%*	*0.2%*
Net Interest Expense	1,234.0	1,284.0	321.0	316.0	310.0	326.0	1,273.0	315.0	315.0	315.0	315.0	1,260.0	300.0	300.0	300.0	300.0	1,200.0
Other income (expense)	514.0	445.0	134.0	133.0	140.0	65.0	472.0	50.0	50.0	50.0	50.0	200.0	50.0	50.0	50.0	50.0	200.0
Pre-tax Income before acctng. & extra items	**5,988.0**	**5,266.0**	**1,010.0**	**1,164.0**	**1,056.0**	**1,048.0**	**4,278.0**	**811.4**	**979.6**	**850.7**	**941.9**	**3,583.5**	**804.2**	**988.3**	**886.3**	**987.3**	**3,666.1**
Extraordinary Revenues (Expenses)	(154.0)	(16,127.0)	(362.0)	(599.0)	121.0	(721.0)	(1,561.0)	(390.3)	(390.3)	(390.3)	(390.3)	(1,561.0)	(350.0)	(350.0)	(350.0)	(350.0)	(1,400.0)
Restructuring Charges	(384.0)	(460.0)	(27.0)	(14.0)	(15.0)		(56.0)	(10.0)	(10.0)	(10.0)	(10.0)	(40.0)	0.0	0.0	0.0	0.0	0.0
Pre-tax Net Income	**5,450.0**	**(11,321.0)**	**621.0**	**551.0**	**1,162.0**	**327.0**	**2,661.0**	**411.1**	**579.3**	**450.5**	**541.6**	**1,982.5**	**454.2**	**638.3**	**536.3**	**637.3**	**2,266.1**
(Income Taxes)	5,482.0	1,067.0	(217.0)	(103.0)	(264.0)	(144.0)	(728.0)	(90.4)	(127.5)	(99.1)	(119.2)	(436.2)	(99.9)	(140.4)	(118.0)	(140.2)	(498.5)
Tax Rate	*-100.6%*	*9.4%*	*34.9%*	*18.7%*	*22.7%*	*44.0%*	*27.4%*	*22.0%*	*22.0%*	*22.0%*	*22.0%*	*22.0%*	*22.0%*	*22.0%*	*22.0%*	*22.0%*	*22.0%*
Net Income From Continuing Operations	**10,932.0**	**(10,254.0)**	**404.0**	**448.0**	**898.0**	**183.0**	**1,933.0**	**320.7**	**451.9**	**351.4**	**422.5**	**1,546.4**	**354.3**	**497.9**	**418.3**	**497.1**	**1,767.6**
Reported Net Income	**10,932.0**	**(10,254.0)**	**404.0**	**448.0**	**898.0**	**183.0**	**1,933.0**	**320.7**	**451.9**	**351.4**	**422.5**	**1,546.4**	**354.3**	**497.9**	**418.3**	**497.1**	**1,767.6**
Less: net income attributable to noncontrolling interests	(9.0)	(62.0)	(1.0)	(1.0)	(1.0)	1.0	(2.0)	(1.0)	(1.0)	(1.0)	(1.0)	(4.0)					0.0
Net Income Attributable to HJ Heinz Co	**10,941.0**	**(10,192.0)**	**405.0**	**449.0**	**899.0**	**182.0**	**1,935.0**	**321.7**	**452.9**	**352.4**	**423.5**	**1,550.4**	**354.3**	**497.9**	**418.3**	**497.1**	**1,767.6**
Recurring Net Income	**4,300.8**	**4,831.7**	**658.1**	**947.4**	**817.1**	**585.5**	**3,109.6**	**633.9**	**765.1**	**664.6**	**735.7**	**2,799.2**	**627.3**	**770.9**	**691.3**	**770.1**	**2,859.6**
Diluted Shares	1,218.0	1,219.0	1,224.0	1,222.0	1,223.0	1,225.0	1,224.0	1,223.0	1,222.0	1,221.0	1,220.0	1,220.0	1,220.0	1,220.0	1,220.0	1,220.0	1,220.0
EPS ($)	**8.98**	**(8.36)**	**0.33**	**0.37**	**0.74**	**0.15**	**1.58**	**0.26**	**0.37**	**0.29**	**0.35**	**1.27**	**0.29**	**0.41**	**0.34**	**0.41**	**1.45**
Recurring EPS	**3.53**	**3.964**	**0.54**	**0.78**	**0.67**	**0.48**	**2.541**	**0.52**	**0.63**	**0.54**	**0.60**	**2.294**	**0.51**	**0.63**	**0.57**	**0.63**	**2.344**

Kraft Heinz Co.	FY17*	FY18*	1Q	2Q	3Q	4Q	FY19	1QE	2QE	3QE	4QE	FY20E	1QE	2QE	3QE	4QE	FY21
Income Statement Data ($ in millions)	12/30/17	12/29/18	3/30/19	6/30/19	9/28/19	12/29/19	12/29/19	3/30/20	6/30/20	9/30/20	12/31/20	12/31/20	3/30/21	6/30/21	9/30/21	12/31/21	12/31/21
Operating Measures	**12/30/17**	**12/29/18**	**1Q**	**2Q**	**3Q**	**4Q**	**12/29/19**	**1QE**	**2QE**	**3QE**	**4QE**	**12/31/20**	**1QE**	**2QE**	**3QE**	**4QE**	**12/31/21**
EBITDA	7,615	7,024	1,431	1,600	1,469	1,564	6,064	1,282	1,471	1,353	1,453	5,559	1,258	1,463	1,371	1,481	5,572
EBITDA Margin	*29.2%*	*26.7%*	*24.0%*	*25.0%*	*24.2%*	*23.9%*	*24.3%*	*22.3%*	*23.6%*	*22.8%*	*23.0%*	*22.9%*	*22.1%*	*23.7%*	*23.4%*	*23.7%*	*23.2%*
LTM EBITDA Interest Coverage (x)	6.2x	5.5x	5.2x	4.9x	4.9x	4.8x	4.8x	4.7x	4.6x	4.5x	4.4x	4.4x	4.4x	4.5x	4.6x	4.6x	4.6x
Pretax Coverage (x) (ex charges)	5.9x	5.1x	4.1x	4.7x	4.4x	4.2x	4.4x	3.6x	4.1x	3.7x	4.0x	3.8x	3.7x	4.3x	4.0x	4.3x	4.1x
Operating Margin	*25.7%*	*23.2%*	*20.1%*	*21.03%*	*20.2%*	*20.0%*	*20.3%*	*18.7%*	*19.93%*	*18.8%*	*19.1%*	*19.2%*	*18.5%*	*20.03%*	*19.4%*	*19.8%*	*19.5%*
Gross Margin	*36.5%*	*34.8%*	*33.4%*	*32.4%*	*32.4%*	*32.1%*	*32.6%*	*32.9%*	*32.1%*	*31.9%*	*32.0%*	*32.2%*	*32.7%*	*32.2%*	*32.1%*	*32.2%*	*32.3%*
Pretax Margin	*23.0%*	*20.0%*	*16.9%*	*18.2%*	*17.4%*	*16.0%*	*17.1%*	*14.1%*	*15.7%*	*14.4%*	*14.9%*	*14.8%*	*14.1%*	*16.0%*	*15.1%*	*15.8%*	*15.3%*
Recurring net income margin	*16.5%*	*18.4%*	*11.0%*	*14.8%*	*13.4%*	*9.0%*	*12.4%*	*11.0%*	*12.2%*	*11.2%*	*11.7%*	*11.6%*	*11.0%*	*12.5%*	*11.8%*	*12.3%*	*11.9%*
Net Margin	*41.9%*	*-39.0%*	*6.8%*	*7.0%*	*14.8%*	*2.8%*	*7.7%*	*5.6%*	*7.2%*	*5.9%*	*6.7%*	*6.4%*	*6.2%*	*8.1%*	*7.1%*	*8.0%*	*7.4%*
Kraft Heinz Co.	**FY17***	**FY18***	1Q	2Q	3Q	4Q	**FY19**	1Q	2Q	3QE	4Q	**FY20E**	1Q	2Q	3QE	4Q	**FY21**
Cash Flow Analysis	**12/30/17**	**12/29/18**	3/30/19	6/30/19	9/28/19	12/29/19	**12/29/19**	3/30/20	6/30/20	9/30/20	12/31/20	**12/31/20**	3/30/21	6/30/21	9/30/21	12/31/21	**12/31/21**
Net Income	**10,932.0**	**(10,254.0)**	**404.0**	**448.0**	**898.0**	**183.0**	**1,933.0**	**321.7**	**452.9**	**352.4**	**423.5**	**1,550.4**	**354.3**	**497.9**	**418.3**	**497.1**	**1,767.6**
Depreciation & Amortization	1,031.0	983.0	239.0	255.0	243.0	257.0	994.0	205.8	226.7	236.9	246.1	915.5	203.8	224.4	234.6	243.6	906.3
Deferred Taxes	(6,495.0)	(1,967.0)	(67.0)	27.0	(100.0)	(153.0)	(293.0)	(73.3)	(73.3)	(73.3)	(73.3)	(293.0)	(73.3)	(73.3)	(73.3)	(73.3)	(293.0)
Other (from operations)	(1,603.0)	15,875.0	233.0	463.0	(213.0)	668.0	1,151.0	287.8	287.8	287.8	287.8	1,151.0	287.8	287.8	287.8	287.8	1,151.0
Operating Cash Flow	3,865.0	4,637.0	809.0	1,193.0	828.0	955.0	3,785.0	742.0	894.1	803.8	884.0	3,323.9	772.5	936.8	867.4	955.2	3,531.9
Change in Working Capital	(3,364.0)	(2,063.0)	(505.0)	(172.0)	(163.0)	607.0	(233.0)	(400.0)	(200.0)	(150.0)	500.0	(250.0)	(300.0)	(150.0)	(100.0)	500.0	(50.0)
Cash From Operations	**501.0**	**2,574.0**	**304.0**	**1,021.0**	**665.0**	**1,562.0**	**3,552.0**	**342.0**	**694.1**	**653.8**	**1,384.0**	**3,073.9**	**472.5**	**786.8**	**767.4**	**1,455.2**	**3,481.9**
Capital Expenditures	(1,194.0)	(826.0)	(249.0)	(199.0)	(133.0)	(187.0)	(768.0)	(187.5)	(187.5)	(187.5)	(187.5)	(750.0)	(187.5)	(187.5)	(187.5)	(187.5)	(750.0)
Dividends	(2,888.0)	(3,183.0)	(488.0)	(488.0)	(488.0)	(489.0)	(1,953.0)	(488.0)	(488.0)	(488.0)	(489.0)	(1,953.0)	(488.0)	(488.0)	(488.0)	(489.0)	(1,953.0)
Free Cash Flow	**(3,581.0)**	**(1,435.0)**	**(433.0)**	**334.0**	**44.0**	**886.0**	**831.0**	**(333.5)**	**18.6**	**(21.7)**	**707.5**	**370.9**	**(203.0)**	**111.3**	**91.9**	**778.7**	**778.9**
Acquisitions	0.0	(248.0)	(200.0)	0.0	1.0	0.0	(199.0)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Asset Sales	0.0	0.0	640.0	0.0	1,235.0	0.0	1,875.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Equity Injections	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Share Repurchases	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other (from financing and investing)	2,446.0	1,202.0	(40.0)	7.0	(12.0)	609.0	564.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash Flow Available for debt reduction	(1,135.0)	(481.0)	(33.0)	341.0	1,268.0	1,495.0	3,071.0	(333.5)	18.6	(21.7)	707.5	370.9	(203.0)	111.3	91.9	778.7	778.9
Net Debt Add (subtract)	(1,351.0)	(152.0)	(1.0)	15.0	(410.0)	(1,531.0)	(1,927.0)	0.0	0.0	0.0	(715.0)	(715.0)	0.0	0.0	(50.0)	(750.0)	(800.0)
Net Cash Flow	**(2,486.0)**	**(633.0)**	**(34.0)**	**356.0**	**858.0**	**(36.0)**	**1,144.0**	**(333.5)**	**18.6**	**(21.7)**	**(7.5)**	**(344.1)**	**(203.0)**	**111.3**	**41.9**	**28.7**	**(21.1)**
Cash at Period Beginning	4,255.0	1,769.0	1,136.0	1,102.0	1,458.0	2,316.0	1,136.0	2,280.0	1,946.5	1,965.0	1,943.3	2,280.0	1,935.9	1,732.9	1,844.2	1,886.1	1,935.9
Cash at End of Period	1,769.0	1,136.0	1,102.0	1,458.0	2,316.0	2,280.0	2,280.0	1,946.5	1,965.0	1,943.3	1,935.9	1,935.9	1,732.9	1,844.2	1,886.1	1,914.8	1,914.8
FCF % Total Debt	*-11.4%*	*-4.6%*	*-3.7%*	*1.1%*	*2.1%*	*2.8%*	*9.5%*	*3.2%*	*2.1%*	*1.9%*	*1.3%*	*1.3%*	*1.8%*	*2.1%*	*2.5%*	*2.8%*	*2.8%*
FCF % Total Debt (before Dividend)	*5.4%*	*10.9%*	*1.8%*	*3.9%*	*2.6%*	*6.0%*	*14.8%*	*1.8%*	*3.0%*	*2.9%*	*5.5%*	*13.4%*	*2.3%*	*3.4%*	*3.4%*	*5.9%*	*15.3%*

Kraft Heinz Co.	FY17*	FY18*	1Q	2Q	3Q	4Q	FY19	1QE	2QE	3QE	4QE	FY20E	1QE	2QE	3QE	4QE	FY21
Income Statement Data ($ in millions)	12/30/17	12/29/18	3/30/19	6/30/19	9/28/19	12/29/19	12/29/19	3/30/20	6/30/20	9/30/20	12/31/20	12/31/20	3/30/21	6/30/21	9/30/21	12/31/21	12/31/21
Capex % Sales	*4.6%*	*3.1%*	*4.2%*	*3.1%*	*2.2%*	*2.9%*	*3.1%*	*3.3%*	*3.0%*	*3.2%*	*3.0%*	*3.1%*	*3.3%*	*3.0%*	*3.2%*	*3.0%*	*3.1%*
Balance Sheet Measures	**12/30/17**	**12/29/18**	**3/30/19**	**6/30/19**	**9/28/19**	**12/29/19**	**12/29/19**	**3/30/20**	**6/30/20**	**9/30/20**	**12/31/20**	**12/31/20**	**3/30/21**	**6/30/21**	**9/30/21**	**12/31/21**	**12/31/21**
Total Debt	**31,503.0**	**31,168.0**	**31,110.0**	**31,131.0**	**30,672.0**	**29,244.0**	**29,244.0**	**29,243.0**	**29,223.0**	**29,223.0**	**28,515.5**	**28,515.5**	**28,510.5**	**28,510.5**	**28,460.5**	**27,710.5**	**27,715.5**
Total Debt/ EBITDA (x)	**4.1x**	**4.4x**	**4.7x**	**4.9x**	**5.0x**	**4.8x**	**4.8x**	**4.9x**	**5.1x**	**5.2x**	**5.1x**	**5.1x**	**5.2x**	**5.2x**	**5.1x**	**5.0x**	**5.0x**
Net Debt/ EBITDA (x)	**3.9x**	**4.3x**	**4.5x**	**4.7x**	**4.6x**	**4.4x**	**4.4x**	**4.6x**	**4.7x**	**4.8x**	**4.8x**	**4.8x**	**4.8x**	**4.8x**	**4.8x**	**4.6x**	**4.6x**
EBITDA/Interest Expense (x)	6.2	5.5	5.2	4.9	4.9	4.8	4.8	4.7	4.6	4.5	4.4	4.4	4.4	4.5	4.6	4.6	4.6
LTM FCF % of Total Debt	-11%	-5%	-4%	1%	2%	3%	3%	3%	2%	2%	1%	1%	2%	2%	2%	3%	3%

Source: Company filings, Barclays Research

Summary of Ratings

Bloomberg Barclays U.S. Credit Index		
	Old	**New**
U.S. HG Food and Beverage	Market Weight	Market Weight
KRAFT HEINZ FOODS CO	Underweight	**Coverage Dropped**

Bloomberg Barclays U.S. High Yield 2% Issuer Capped Credit Index		
	Old	**New**
U.S. HY Food and Beverage	Overweight	Overweight
KHC 2.8 07/02/20		**Overweight**
KHC 2.85 03/01/22		**Overweight**
KHC 3 06/01/26		**Overweight**
KHC 3 1/2 06/06/22		**Overweight**
KHC 3 1/2 07/15/22		**Overweight**
KHC 3 1/8 09/12/21		**Overweight**
KHC 3 3/8 06/15/21		**Overweight**
KHC 3.75 04/01/30		**Overweight**
KHC 3.95 07/15/25		**Overweight**
KHC 4 06/15/23		**Overweight**
KHC 4 3/8 06/01/46		**Market Weight**
KHC 4 5/8 01/30/29		**Overweight**
KHC 4 5/8 10/01/39		**Market Weight**
KHC 4 7/8 02/15/25		**Overweight**
KHC 4 7/8 10/01/49		**Market Weight**
KHC 5 06/04/42		**Market Weight**
KHC 5 07/15/35		**Market Weight**
KHC 5.2 07/15/45		**Market Weight**
KHC 6 1/2 02/09/40		**Market Weight**
KHC 6 3/4 03/15/32		**Market Weight**
KHC 6 3/8 07/15/28		**Overweight**
KHC 6 7/8 01/26/39		**Market Weight**
KHC 7 1/8 08/01/39		**Market Weight**
KHC FLOAT 02/10/21		**Overweight**
KHC FLOAT 08/10/22		**Overweight**

Source: Barclays Research

Analyst(s) Certification(s):
We, Scott Schachter, Hale Holden, Priya Ohri-Gupta, CFA and Edward Brucker, hereby certify (1) that the views expressed in this research report accurately reflect our personal views about any or all of the subject securities or issuers referred to in this research report and (2) no part of our compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

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Primary Issuers/Bonds
KRAFT HEINZ FOODS CO, Coverage Dropped, A/CD/D/J/K/L/M

Valuation Methodology: Coverage Dropped

Risks that May Impede Achievement of the Rating: Coverage Dropped

Representative Bond: KHC 4 5/8 01/30/29 (USD 108.52, 19-Feb-2020)

KHC 4 3/8 06/01/46, Market Weight (USD 95.60, 19-Feb-2020)

KHC 4 5/8 10/01/39, Market Weight (USD 100.14, 19-Feb-2020)

KHC 4 7/8 10/01/49, Market Weight (USD 100.56, 19-Feb-2020)

KHC 5 06/04/42, Market Weight (USD 103.34, 19-Feb-2020)

KHC 5 07/15/35, Market Weight (USD 109.17, 19-Feb-2020)

KHC 5.2 07/15/45, Market Weight (USD 104.52, 19-Feb-2020)

KHC 6 1/2 02/09/40, Market Weight (USD 118.10, 19-Feb-2020)

KHC 6 3/4 03/15/32, Market Weight (USD 124.87, 19-Feb-2020)

KHC 6 7/8 01/26/39, Market Weight (USD 122.39, 19-Feb-2020)

KHC 7 1/8 08/01/39, Market Weight (USD 125.48, 19-Feb-2020)

Valuation Methodology: Our Market Weight reflects levels that are fair in our view, convexity, continued EBITDA declines and the potential for structural layering

Risks that May Impede Achievement of the Rating: Risks to our Market Weight include the potential for either a faster than anticipated upgrade to IG or stabilization in EBITDA near term. Alternatively a larger than expected decline in cash flow or debt financed M&A could result in lower levels

KHC 2.8 07/02/20, Overweight (USD 100.14, 19-Feb-2020)

KHC 2.85 03/01/22, Overweight (USD 100.45, 19-Feb-2020)

KHC 3 06/01/26, Overweight (USD 99.90, 19-Feb-2020)

KHC 3 1/2 06/06/22, Overweight (USD 102.43, 19-Feb-2020)

KHC 3 1/2 07/15/22, Overweight (USD 102.50, 19-Feb-2020)

KHC 3 1/8 09/12/21, Overweight (USD 100.76, 19-Feb-2020)

KHC 3 3/8 06/15/21, Overweight (USD 101.62, 19-Feb-2020)

KHC 3.75 04/01/30, Overweight (USD 102.45, 19-Feb-2020 05:00 GMT, Barclays)

KHC 3.95 07/15/25, Overweight (USD 104.94, 19-Feb-2020)

KHC 4 06/15/23, Overweight (USD 104.49, 19-Feb-2020)

KHC 4 5/8 01/30/29, Overweight (USD 108.52, 19-Feb-2020)

KHC 4 7/8 02/15/25, Overweight (USD 102.60, 19-Feb-2020)

KHC 6 3/8 07/15/28, Overweight (USD 116.82, 19-Feb-2020)

KHC FLOAT 02/10/21, Overweight (USD 99.87, 19-Feb-2020)

KHC FLOAT 08/10/22, Overweight (USD 99.74, 19-Feb-2020)

Valuation Methodology: Our Overweight on KHC short bonds reflects the company's size, diversity of assets, and healthy cash generation before dividends.

Risks that May Impede Achievement of the Rating: Risks to our rating include further fundamental declines in volume, debt financed M&A, or structural layering

Materially Mentioned Issuers/Bonds
JBS USA LUX SA / JBS USA FINANCE INC, A/CD/D/E/J/K/L/M/N

JBSSBZ 5 3/4 06/15/25, Overweight (USD 103.25, 19-Feb-2020)

JBSSBZ 5 7/8 07/15/24, Overweight (USD 102.63, 19-Feb-2020)

JBSSBZ 6 3/4 02/15/28, Overweight (USD 111.25, 19-Feb-2020)

Valuation Methodology: We rate JBS USA Overweight. We remain favorable on JBS USA underlying fundamentals as well as a benefit from ASF and continue to view it as a core holding. The credit has been a large outperformer and further spread performance could now be more difficult. However, we still think it looks cheap compared to the BB index and the IPO is targeted for H1 2020.

Risks that May Impede Achievement of the Rating: There remains headline risks related to last year's issues, which could include the Brazilian Attorney General's investigation into breaches of the Leniency Agreement of J&F, and further settlements with various government agencies remain possible.

JBS USA LUX SA / JBS USA FOOD CO / JBS USA FINANCE INC, A/CD/D/E/J/K/L/M/N

JBSSBZ 5 1/2 01/15/30, Overweight (USD 109.50, 19-Feb-2020)

JBSSBZ 6 1/2 04/15/29, Overweight (USD 112.75, 19-Feb-2020)

Valuation Methodology: We rate JBS USA Overweight. We remain favorable on JBS USA underlying fundamentals and continue to view it as a core holding. The credit has been a large outperformer and further spread performance could now be more difficult. However, we still think it looks cheap compared to the BB index and the IPO is targeted for H1 2020.

Risks that May Impede Achievement of the Rating: There remains headline risks related to last year's issues, which could include the Brazilian Attorney General's investigation into breaches of the Leniency Agreement of J&F, and further settlements with various government agencies remain possible.

NEWELL BRANDS INC, CD/CE/D/J/K/L/M/N

NWL 3.85 04/01/23, Overweight (USD 104.59, 19-Feb-2020)

NWL 3.9 11/01/25, Overweight (USD 101.82, 19-Feb-2020)

NWL 4 12/01/24, Overweight (USD 104.74, 19-Feb-2020)

NWL 4.2 04/01/26, Overweight (USD 106.12, 19-Feb-2020)

Valuation Methodology: Our Overweight reflects current levels, which look attractive when adjusting for the coupon change on April 1 and the discount to the Ba index.

Risks that May Impede Achievement of the Rating: Risks include in ability to execute on fundamentals and any change to balance sheet / leverage approach.

POST HOLDINGS INC, A/CD/CE/D/E/J/K/L/M/N

POST 5 08/15/26, Market Weight (USD 104.00, 19-Feb-2020)

POST 5 1/2 12/15/29, Market Weight (USD 106.13, 19-Feb-2020)

POST 5 3/4 03/01/27, Market Weight (USD 106.25, 19-Feb-2020)

POST 5 5/8 01/15/28, Market Weight (USD 106.00, 19-Feb-2020)

Valuation Methodology: Our Market Weight rating reflects the market position of Bellring combined slightly better growth is likely to make the market struggle in the near term with share repurchases and the active M&A pipeline.

Risks that May Impede Achievement of the Rating: Risks to our thesis include further leveraging acquisitions, a meaningful slowdown of operating trends, and a reduction of equity cushion.

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K: Barclays Bank PLC and/or an affiliate has received non-investment banking related compensation (including compensation for brokerage services, if applicable) from this issuer within the past 12 months.

L: This issuer is, or during the past 12 months has been, an investment banking client of Barclays Bank PLC and/or an affiliate.

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O: Not in use.

P: A partner, director or officer of Barclays Capital Canada Inc. has, during the preceding 12 months, provided services to the subject company for remuneration, other than normal course investment advisory or trade execution services.

Q: Barclays Bank PLC and/or an affiliate is a Corporate Broker to this issuer.

R: Barclays Capital Canada Inc. and/or an affiliate has received compensation for investment banking services from this issuer in the past 12 months.

S: This issuer is a Corporate Broker to Barclays PLC.

T: Barclays Bank PLC and/or an affiliate is providing equity advisory services to this issuer.

U: The equity securities of this Canadian issuer include subordinate voting restricted shares.

V: The equity securities of this Canadian issuer include non-voting restricted shares.

Explanation of the Barclays Research Corporate Credit Sector Rating System
Overweight (OW):
For sectors rated against the Bloomberg Barclays U.S. Credit Index, the Bloomberg Barclays Pan-European Credit Index, the Bloomberg Barclays EM Asia USD High Grade Credit Index or the Bloomberg Barclays EM USD Corporate and Quasi-Sovereign Index, the analyst expects the six-month excess return of the sector to exceed the six-month excess return of the relevant index.

For sectors rated against the Bloomberg Barclays U.S. High Yield 2% Issuer Capped Credit Index, the Bloomberg Barclays Pan-European High Yield 3% Issuer Capped Credit Index excluding Financials, the Bloomberg Barclays Pan-European High Yield Finance Index or the Bloomberg Barclays EM Asia USD High Yield Corporate Credit Index, the analyst expects the six-month total return of the sector to exceed the six-month total return of the relevant index.

Market Weight (MW):
For sectors rated against the Bloomberg Barclays U.S. Credit Index, the Bloomberg Barclays Pan-European Credit Index, the Bloomberg Barclays EM Asia USD High Grade Credit Index or the Bloomberg Barclays EM USD Corporate and Quasi-Sovereign Index, the analyst expects the six-month excess return of the sector to be in line with the six-month excess return of the relevant index.

For sectors rated against the Bloomberg Barclays U.S. High Yield 2% Issuer Capped Credit Index, the Bloomberg Barclays Pan-European High Yield 3% Issuer Capped Credit Index excluding Financials, the Bloomberg Barclays Pan-European High Yield Finance Index or the Bloomberg Barclays EM Asia USD High Yield Corporate Credit Index, the analyst expects the six-month total return of the sector to be in line with the six-month total return of the relevant index.

Underweight (UW):
For sectors rated against the Bloomberg Barclays U.S. Credit Index, the Bloomberg Barclays Pan-European Credit Index, the Bloomberg Barclays EM Asia USD High Grade Credit Index or the Bloomberg Barclays EM USD Corporate and Quasi-Sovereign Index, the analyst expects the six-month excess return of the sector to be less than the six-month excess return of the relevant index.

For sectors rated against the Bloomberg Barclays U.S. High Yield 2% Issuer Capped Credit Index, the Bloomberg Barclays Pan-European High Yield 3% Issuer Capped Credit Index excluding Financials, the Bloomberg Barclays Pan-European High Yield Finance Index or the Bloomberg Barclays EM Asia USD High Yield Corporate Credit Index, the analyst expects the six-month total return of the sector to be less than the six-month total return of the relevant index.

Sector definitions:
Sectors in U.S. High Grade Research are defined using the sector definitions of the Bloomberg Barclays U.S. Credit Index and are rated against the Bloomberg Barclays U.S. Credit Index.

Sectors in U.S. High Yield Research are defined using the sector definitions of the Bloomberg Barclays U.S. High Yield 2% Issuer Capped Credit Index and are rated against the Bloomberg Barclays U.S. High Yield 2% Issuer Capped Credit Index.

Sectors in European High Grade Research are defined using the sector definitions of the Bloomberg Barclays Pan-European Credit Index and are rated against the Bloomberg Barclays Pan-European Credit Index.

Sectors in Industrials and Utilities in European High Yield Research are defined using the sector definitions of the Bloomberg Barclays Pan-European High Yield 3% Issuer Capped Credit Index excluding Financials and are rated against the Bloomberg Barclays Pan-European High Yield 3% Issuer Capped Credit Index excluding Financials.

Sectors in Financials in European High Yield Research are defined using the sector definitions of the Bloomberg Barclays Pan-European High Yield Finance Index and are rated against the Bloomberg Barclays Pan-European High Yield Finance Index.

Sectors in Asia High Grade Research are defined on Barclays Live and are rated against the Bloomberg Barclays EM Asia USD High Grade Credit Index.

Sectors in Asia High Yield Research are defined on Barclays Live and are rated against the Bloomberg Barclays EM Asia USD High Yield Corporate Credit Index.

Sectors in EEMEA and Latin America Research are defined on Barclays Live and are rated against the Bloomberg Barclays EM USD Corporate and Quasi Sovereign Index. These sectors may contain both High Grade and High Yield issuers.

To view sector definitions and monthly sector returns for Asia, EEMEA and Latin America Research, go to https://live.barcap.com/go/research/EMSectorReturns on Barclays Live.

Explanation of the Barclays Research Corporate Credit Rating System
For all High Grade issuers covered in the US, Europe or Asia, and for all issuers in Latin America and EEMEA, the credit rating system is based on the analyst's view of the expected excess return over a six-month period of the issuer's index-eligible corporate debt securities* relative to the expected excess return of the relevant sector, as specified on the report.

Overweight (OW): The analyst expects the six-month excess return of the issuer's index-eligible corporate debt securities to exceed the six-month expected excess return of the relevant sector.

Market Weight (MW): The analyst expects the six-month excess return of the issuer's index-eligible corporate debt securities to be in line with the six-month expected excess return of the relevant sector.

Underweight (UW): The analyst expects the six-month excess return of the issuer's index-eligible corporate debt securities to be less than the six-month expected excess return of the relevant sector.

Rating Suspended (RS): The rating has been suspended temporarily due to market events that make coverage impracticable or to comply with applicable regulations and/or firm policies in certain circumstances including where the Investment Bank of Barclays Bank PLC is acting in an advisory capacity in a merger or strategic transaction involving the company.

Coverage Suspended (CS): Coverage of this issuer has been temporarily suspended.

Not Covered (NC): Barclays' fundamental credit research team does not provide formal, continuous coverage of this issuer and has not assigned a rating to the issuer or its debt securities. Any analysis, opinion or trade recommendation provided on a Not Covered issuer or its debt securities is valid only as of the publication date of this report and there should be no expectation that additional reports relating to the Not Covered issuer or its debt securities will be published thereafter.

For all High Yield issuers (excluding those covered in EEMEA or Latin America), the credit rating system is based on the analyst's view of the expected total returns over a six-month period of the rated debt security relative to the expected total return of the relevant sector, as specified on the report.

Overweight (OW): The analyst expects the six-month total return of the debt security subject to this rating to exceed the six-month expected total return of the relevant sector.

Market Weight (MW): The analyst expects the six-month total return of the debt security subject to this rating to be in line with the six-month expected total return of the relevant sector.

Underweight (UW): The analyst expects the six-month total return of the rated debt security subject to this rating to be less than the six-month expected total return of the relevant sector.

Rating Suspended (RS): The rating has been suspended temporarily due to market events that make coverage impracticable or to comply with applicable regulations and/or firm policies in certain circumstances including where the Investment Bank of Barclays Bank PLC is acting in an advisory capacity in a merger or strategic transaction involving the company.

Coverage Suspended (CS): Coverage of this issuer has been temporarily suspended.

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Where a recommendation is made at the issuer level, it does not apply to any sanctioned securities, where trading in such securities would be prohibited under applicable law, including sanctions laws and regulations.

*In EEMEA and Latin America (and in certain other limited instances in other regions), analysts may occasionally rate issuers that are not part of the Bloomberg Barclays U.S. Credit Index, the Bloomberg Barclays Pan-European Credit Index, the Bloomberg Barclays EM Asia USD High Grade Credit Index or Bloomberg Barclays EM USD Corporate and Quasi Sovereign Index. In such cases the rating will reflect the analyst's view of the expected excess return over a six-month period of the issuer's corporate debt securities relative to the expected excess return of the relevant sector, as specified on the report.

Distribution of ratings assigned by Barclays Corporate Credit Research at the issuer level:
27% have been assigned an Overweight rating which, for purposes of mandatory regulatory disclosures, is classified as a Buy rating; 59% of issuers with this rating category are investment banking clients of the Firm; 77% of the issuers with this rating have received financial services from the Firm.

46% have been assigned Market Weight rating which, for purposes of mandatory regulatory disclosures, is classified as a Hold rating; 60% of issuers with this rating category are investment banking clients of the Firm; 83% of the issuers with this rating have received financial services from the Firm.

27% have been assigned an Underweight rating which, for purposes of mandatory regulatory disclosures, is classified as a Sell rating; 47% of issuers with this rating category are investment banking clients of the Firm; 80% of the issuers with this rating have received financial services from the Firm.

Distribution of ratings assigned by Barclays Corporate Credit Research at the bond level:
21% have been assigned an Overweight rating which, for purposes of mandatory regulatory disclosures, is classified as a Buy rating; 50% of bonds with this rating category are investment banking clients of the Firm; 71% of the issuers with this rating have received financial services from the Firm.

53% have been assigned Market Weight rating which, for purposes of mandatory regulatory disclosures, is classified as a Hold rating; 56% of bonds with this rating category are investment banking clients of the Firm; 77% of the issuers with this rating have received financial services from the Firm.

26% have been assigned an Underweight rating which, for purposes of mandatory regulatory disclosures, is classified as a Sell rating; 48% of bonds with this rating category are investment banking clients of the Firm; 73% of the issuers with this rating have received financial services from the Firm.

Explanation of the Barclays EM Sovereign Credit Issuer Rating System

Overweight (OW):
The analyst expects the six-month excess return of the country's index eligible bonds to exceed the six-month excess return of the Bloomberg Barclays EM USD Sovereign Index.

Market Weight (MW):
The analyst expects the six-month excess return of the country's index eligible bonds to be in line with the six-month excess return of the Bloomberg Barclays EM USD Sovereign Index.

Underweight (UW):
The analyst expects the six-month excess return of the country's index eligible bonds to be less than the six-month excess return of the Bloomberg Barclays EM USD Sovereign Index.

Rating Suspended (RS):
The rating has been suspended temporarily due to market events that make coverage impracticable or to comply with applicable regulations and/or firm policies in certain circumstances including where the Investment Bank of Barclays Bank PLC is acting in an advisory capacity.

Distribution of ratings assigned by Barclays Emerging Markets Sovereign Research at the issuer level:
32% have been assigned an Overweight rating which, for purposes of mandatory regulatory disclosures, is classified as a Buy rating; 9% of issuers with this rating category are investment banking clients of the Firm; 64% of the issuers with this rating have received financial services from the Firm.

35% have been assigned Market Weight rating which, for purposes of mandatory regulatory disclosures, is classified as a Hold rating; 8% of issuers with this rating category are investment banking clients of the Firm; 83% of the issuers with this rating have received financial services from the Firm.

32% have been assigned an Underweight rating which, for purposes of mandatory regulatory disclosures, is classified as a Sell rating; 9% of issuers with this rating category are investment banking clients of the Firm; 91% of the issuers with this rating have received financial services from the Firm.

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