FIN535
Mergers and Acquisitions

Case Study: H.J. Heinz M&A

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Today's Agenda

- Case Synopsis
- Overview of Heinz
- Overview of Buyer
- Industry and Market condition
- Case Analysis
- Further Analysis
- After this case

1. Case Synopsis

- Dec 2012, Jorge Paulo Lemann, a co-founder and partner at 3G, proposed to Warren Buffett
  - 3G and Berkshire Hathaway acquire H.J. Heinz Company
  - 3G offered Heinz CEO William Johnson $70 per share of outstanding common stock to the Heinz Board

1. Case Synopsis

- Jan 15 2013, Heinz board appointed a transaction committee
  - Centerview and BOA as advisors
  - Heinz declined the offer

- Two days later, 3G and BH returned with $72.50 per share (total $28 billion)
  - A week after, Heinz agreed to discuss
  - Forty-day “go-shop” period

- Feb 13, signed the deal
  - Announced the transaction with board approval

2. Overview of Heinz

- Company Overview
  - Established in 1869 in Pennsylvania
  - One of the first food-processing companies in the US
  - Listed on the NYSE in 1946
  - Revenue: $11.68 billion (2012), Net income: $1,027 million, Total Equity: $2.85 billion, P/E ratio: 15.6X

2. Overview of Heinz

- Product Overview
  - Prepared and packaged foods
  - Condiments, frozen food, soups, infant nutrition, etc.
  - Geographically well diversified
    - 60 percent of the company’s sales were generated from outside the US

- Growth Opportunity
  - Expansion to the emerging markets (BRIC)
  - Earning growth is expected based on the use of improved technology and SCM.

3. Overview of Buyer

- 3G capital
  - 3G Capital is an Brazilian multibillion-dollar investment firm, founded in 2004 by principals Jorge Paulo Lemann, Carlos Alberto Sicupira, Marcel Herrmann Telles and Roberto Thompson Motta.

3. Overview of Buyer

- 3G capital
  - In 2010, the company acquired Burger King for $3.3 billion, and subsequently took the company private.
    - Under new management, Burger King introduced a reworked menu and marketing strategies.
    - In June 2012, Burger King was once again listed as a publicly traded company

4. Industry and Market condition

- How is the Food industry?
  - Matured? Growth Opportunity?
  - Recovering GDP in after the financial crisis in 2008-2009
  - Moderate growth in consumer spending
  - Expanding to new geographic markets (China, India, etc.,)
  - Economies of scale through acquisitions

5. Case Analysis

- Q1) Discuss the positions of various stakeholders, including Heinz shareholders, management, employees, and citizens of Pittsburgh

5. Case Analysis

- Q1) Impacts on stakeholders
  - Heinz Shareholder
  - Heinz management
    - William Johnson who began working from 1982 and became CEO in 2000 is replaced at the completion of the acquisition by former Burger King CEO, a portfolio company of 3G.
  - Employee
  - City of Pittsburg

5. Case Analysis

- Q2) What was the acquisition premium? Was this reasonable?

5. Case Analysis

- Q2) Acquisition premium
  - Premium was a 20 percent premium to the unaffected share price and a 30 percent premium to fair value assessment at the time of announcement
  - Industry average premium is 25 percent
  - But, given the size and other aspects of the transaction, it is difficult to find perfectly comparable transactions.
  - 20 percent is likely reasonable and the board adhered to its fiduciary responsibility by conducting go-shop process

5. Case Analysis

- Q3) Complete a valuation of Heinz for this acquisition based on the provided actual financial information. Develop a football field valuation analysis, stating reasons why you selected certain companies to include in your comparable companies and comparable transaction analyses

5. Case Analysis

- Q4) Why did this transaction propose zero synergy? Discuss and quantify potential synergies that could be realized, including where they come from and the period of time over which they can be realized, and quantify the impact on enterprise valuation.

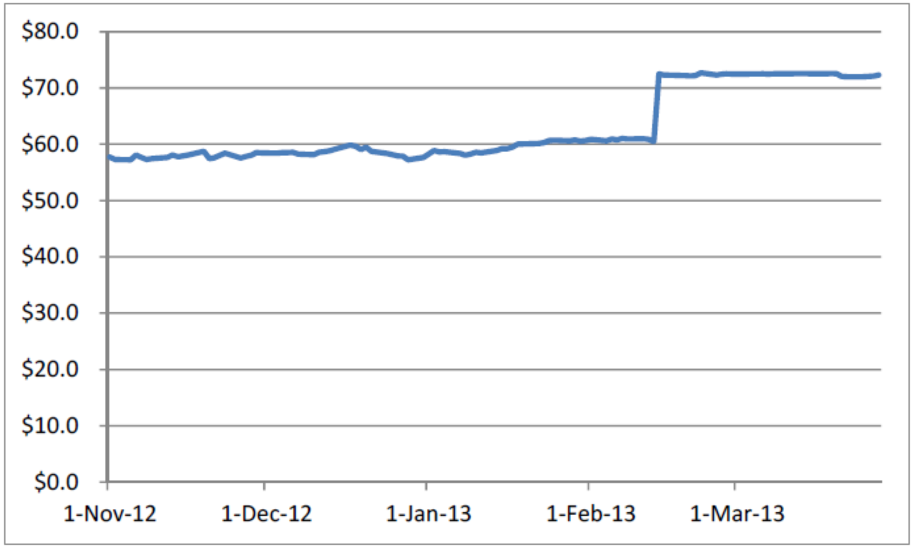
5. Case Analysis

- Q4) Synergy
  - The buyer indicated that they intended to leave the company as a standalone business rather than integrate the operations with other businesses so it was reasonable to conclude that there were no synergies.
  - The acquisition premium must be justified based on the expected growth of the company and cost-saving measures to be introduced by the new owners.
  - Financial buyers are acquiring a strategic target without the ability to capture synergies.

5. Case Analysis

- Q5) What was the market reaction to the acquisition announcement, including share price and equity analyst commentary?

HEINZ SHARE PRICE: NOVEMBER 1, 2012–APRIL 1, 2013



Source: Yahoo!Finance.

5. Case Analysis

- Q5) Market reaction
  - ▸ The price was in-line with the recent takeover premiums in the consumer packaged goods industry and was above the implied price of trading multiples.
  - ▸ With the all-cash offer, equity analysts predicted an extremely high likelihood of the deal closing at the $72.50 offer price.
    - – Upon announcement, the stock price spiked to the offer price and remained relatively unchanged thereafter, validating analyst’s predictions

6. Further Analysis

- Q1) Describe the activities of Nelson Peltz and the role he played in laying the groundwork for the acquisition by Berkshire and 3G

6. Further Analysis

- Q1) Role of Activist Investor
  - Activist investor Nelson Peltz laid the foundation for the Heinz acquisition.
  - As a board member, he pushed hard for Heinz to shed non-core assets, aggressively repurchase stock and trim the fat.
  - Peltz demanded five board seats but settled for two board seats.
  - Shortly after, Heinz announced a significant restructuring plan that would eliminate 2700 employees and shut down fifteen factories. At the same time, Heinz initiated a $1 billion share buy-back.
  - These efforts made Heinz more profitable and also increased the attention that the company received as a potential takeover target.

6. Further Analysis

- Q2) Discuss the go-shop process, explaining why it may be necessary and listing any risks associated with it.

6. Further Analysis

- Q2) go-shop process
  - Provision in a merger agreement that allows a target to solicit interest from potential buyers of the company for a limited period of time after signing a definitive agreement with an initial buyer
  - Seller's perspective
    - Are 3G and BH the first-best bidders?
    - Heinz have alternatives to a sale, including remaining a standalone company or pursuing acquisition by another company in the food and beverage industry

6. Further Analysis

- Q3) Why were so many investment bankers involved in this transaction, and what were their respective roles?

6. Further Analysis

- Q3) Number of Investment Bankers
  - Heinz hired BAO, Centerview and Moelis & Co.
  - Acquirers hired JP Morgan, Lazard, and Wells Fargo
  - Fees are shared between bankers
  - The company may benefit from obtaining additional perspectives and guidance from more than one source without paying higher fees.

6. Further Analysis

- Q4) What was the reason for an all-cash transaction, and what are the advantages and disadvantages of this form of consideration (as opposed to using common shares as consideration?) What are the principal risks and benefits of this transaction for 3G and Berkshire Hathaway?

Buyer 一方：用 Cash 就是果断，无需考虑后续的内容。给 Stock 的话就可以保持联系，让别人为了 Stock 奋斗

6. Further Analysis

- Q4) Method of payment and risks
  - The acquirers are acting as financial buyers and so the use of shares was not possible.
  - All-cash transaction can be superior to Heinz’s perspective because the company did not have any potential price risk.
  - Tax purpose, Heinz shareholders must recognize a taxable gain
  - Acquirer’s perspective, all-cash transaction may require external financing from debt or equity capital market
  - Cash transaction is speedy, certain, easier to get board approval, and avoids EPS dilution for the buyer

6. Further Analysis

- Q4) Method of payment and risks
  - Overpaying risk?
  - Cultural issues
  - Disruptive cost-cutting process
  - Expand margin and enter new markets

6. Further Analysis

- Q5) Should financial sponsors have been included in the list of prospective buyers? Why, or why not?

6. Further Analysis

- Q5) Financial sponsors
  - Yes, in order to fully consider the entire range of buyers
  - Given the size of the transaction, it may be challenging to find many financial sponsors that have access to sufficient levels of capital to fund this transaction.
  - A financial sponsor typically does not benefit from the same type of synergies that a strategy buyer is able to realize.

7. After this case

- They got together again in May 2015 to engineer the merger that created Kraft Heinz
  - ▸ The transaction ($40 billion) creates the third-largest food and beverage company in North America and the fifth-largest food and beverage company in the world.
  - ▸ Kraft Heinz has used job cuts and other belt-tightening tactics to cope with sluggish sales in the packaged-food industry.
    - – The strategy is a hallmark of 3G, which was founded by Brazilian billionaire Jorge Paulo Lemann.

KraftHeinz

7. After this case

- In December 2014, the Canadian federal government approved the purchase of Tim Hortons by 3G Capital for $12.5 billion.
  - The acquisition merged Burger King with Tim Hortons as Restaurant Brands International.

- May 11, 2016: General Mills Inc. was another takeover candidate for 3G Capital.

7. After this case

- Warren Buffett's Berkshire Hathaway has lost almost $5 billion in 2019 on Kraft Heinz's downturn
- Packaged food is out of favor with consumers, and that's hurting big brands
  - Consumers want to eat fresh foods
- Private equity firm 3G Capital Partners discloses that it sold 25.1 million shares of Kraft Heinz at $28.44 per share.
  - The move brings 3G's stake down by about 9%.
  - The Brazilian private equity firm is Kraft Heinz's second largest shareholder, after Warren Buffett's Berkshire Hathaway.

7. After this case

Kraft Heinz Co
NASDAQ: KHC

+ Follow

30.24 USD +0.33 (1.10%)
Closed: 20 May, 7:52 pm GMT-4 · Disclaimer
After hours 30.32 +0.080 (0.26%)

1 day | 5 days | 1 month | 6 months | YTD | 1 year | 5 years | Max

Open	30.15	Div yield	5.29%
High	30.48	Prev close	29.91
Low	29.98	52-wk high	33.43
Mkt cap	36.95B	52-wk low	19.99
P/E ratio	19.37		

7. After this case

Restaurant Brands International Inc
TSE: QSR

+ Follow

73.02 CAD +0.090 (0.12%) ↑
20 May, 4:00 pm GMT-4 · Disclaimer

1 day | 5 days | 1 month | 6 months | YTD | 1 year | 5 years | **Max**

Open	74.11	Div yield	4.01%
High	74.20	Prev close	72.93
Low	72.43	52-wk high	105.93
Mkt cap	33.98B	52-wk low	36.48
P/E ratio	22.61		