FINANCIAL ANALYSIS REPORT

Prepared by: Group 7

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Declaration

As a team (Group-7), we have compiled the enclosed report for The Kraft Heinz Company (KHC) based on financial data from January 1st, 2013, till December 31st, 2023. The reports and analysis have been thoroughly researched and predicted to give the information needed to compare the annual analysis and performance of the Stock. This stock valuation and forecasting will help us to determine and make an informed decision about whether the stocks are over or undervalued based on the Implied Share price versus the Current Stock Price and an informed buy or sell. The necessary places have included the relevant resources supporting the valuation, source data, and numerical figures.

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Submission Date: October 7th, 2024

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Valuation: Kraft Heinz

Recommendation: BUY

The basis for Recommendation:

On August 6th, 2024, Kraft Heinz Company (KHC) was priced at $34.60. Our assessment using the FCFF and FCFE Models determined the stock's fair value to be $36.61 (potential upside of 5.80%) and $39.71 (potential upside of 14.76%), respectively.

Both models suggest the stock is undervalued, ***so we recommend purchasing it now.***

Table 1: Stock Price Comparison for Kraft Heinz (Market vs Intrinsic Value)

FCFF Valuation Model

		2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	CV
t		1	2	3	4	5	6	7	8	9	10	11
g												1.70%
WACC												6.47%
FCFF		3,796.12	3,649.85	3,458.45	3,279.40	3,058.71	3,461.44	3,586.69	3,542.56	3,524.31	3,537.42	3,537
PV of FCFF2022-2031		3,565.33	3,219.54	2,865.23	2,551.71	2,235.29	2,375.81	2,312.11	2,144.82	2,004.04	1,889.20	1,774
Continuing Value											74,108.25	
PV of CV											39,578.47	
Enterprise (Firm) Value	*64,741.55*											
Total Debt (Book Value of Debt)	*20,150.00*											
Total Equity	*44,591.55*											
Number of outstanding shares	*1,218.00*											
Price per share	*$36.61*											
Current price per share (October 6, 2024)	*$34.60*											

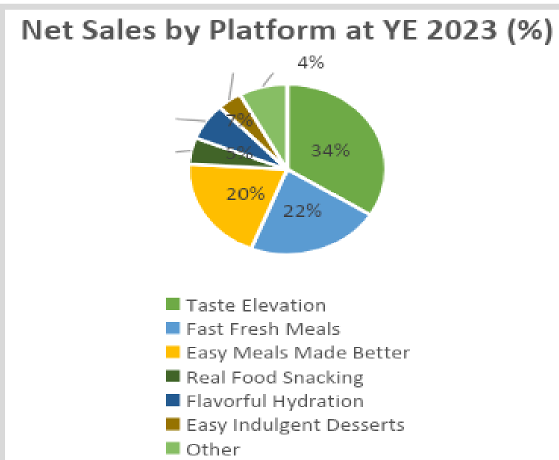
FCFE Valuation Model

		2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	CV
t		1	2	3	4	5	6	7	8	9	10	11
g												1.70%
Cost of Equity												5.18%
FCFE		1,379.63	1,328.51	1,010.46	1,435.16	1,294.74	1,557.20	1,761.11	1,791.97	1,880.03	1,933.35	2,057.86
PV of FCFE2022-2031	12,683.42	1,311.69	1,200.87	868.40	1,172.65	1,005.81	1,150.13	1,236.67	1,196.37	1,193.34	1,166.75	1,181
Continuing Value											59,133.79	
PV of CV	35,686.51										35,686.51	
Equity Value	48,369.93											
Number of outstanding shares	1,218.00											
Price per share	*$39.71*											
Current price per share (October 6, 2024)	$34.60											

Background

Established through a $45 billion merger of Kraft Foods Group and H.J. Heinz in 2015, KHC is one of the largest food and beverage companies globally. The company is headquartered in Pittsburgh, Pennsylvania. It operates in 40 countries worldwide, offering various products, including condiments & sauces, cheese & dairy, ambient foods, frozen & chilled foods, and meats & seafood.

As of December 2023, KHC conducts its business through six consumer-driven product platforms, each representing a grouping of real consumer needs. Net sales by platform (as a percentage of consolidated net sales) at December 30th, 2023 were as follows (2):



During Q4 2023, several organizational changes were implemented to allow for a more streamlined approach to strategic planning. Chief among these was the introduction of two reportable segments: a) North America and b) International Developed Markets, with the remaining operating segments being combined and disclosed as "Emerging Markets". Although KHC has a global presence, North America is the most significant product market, accounting for 76% of net sales on December 30th, 2023 (2).

Institutional investors hold a significant portion of KHC's outstanding equity, with the top nine shareholders owning 50% of the company (4). A high level of institutional ownership implies that the stock price of KHC is sensitive to the actions of a small cohort of shareholders, which may increase the potential for price volatility. Countering this to some extent, a high degree of institutional ownership may signal credibility within the investment community.

In the fourth quarter of 2018, KHC posted a $12.6bn loss, representing the most extensive quarterly loss in the company's history (5). Much of this was due to significant write-downs in the value of intangible assets (in particular, the Kraft and Oscar Mayer brands), and the impact of this loss has been commented on in our valuation file. (Please note that KHC's earnings had substantially recovered by YE 2019 and have increased steadily- albeit slowly- since).

Financial Highlights:

- (-) Total revenue in 2023 was US $26.6bn, representing a c0.6% increase versus YE 2022 (see chart in "Accountancy Analysis"). In general, KHC's revenue line item demonstrates a high level of consistency over time, but the level of growth has not been impressive.

- (+) Long-term debt had increased to c$29.7bn by 2016 but has reduced by c$10bn (nearly a third) to a little over $19bn since then, which helps to reduce the business's risk profile (6).

- (+) Margins have grown from 31.1% in 2022 to 33.7% in 2023 due to increased operational efficiencies, and operating income of $4.5bn is at its highest level over the past six years (6).

- (+) Operating cash flow was $4.0bn in 2023, which is c61% higher than the previous year. This is primarily driven by lower cash outflows in 2023 for inventories, tax payments, and interest payments (due to the reduction of long-term debt throughout 2022) (2)

- (+) KHC pays a stable and attractive dividend of $0.40 per quarter, or $1.60 annually (6). (This represents 49% of the company's net income, which is a typically high distribution level for mature, stable businesses that may no longer be as growth-oriented as they were in the past.)

Sustainability Performance:

KHC has an ambitious program of Environmental, Social, and Governance (ESG) activities underway, with solid progress across its three priority pillars of Healthy Living & Community Support, Environmental Stewardship, and Responsible Sourcing. The company's 2023 ESG Report outlines some critical advancements in these areas, including the development of paper-based, renewable, and recyclable packaging solutions, increasing representation of women and ethnic minorities in global management positions, and achieving 66% of the company's goal of providing 1.5bn meals to those in need by 2025 (3).

KHC's ESG performance in managing greenhouse gas emissions and the risks and opportunities related to the low-carbon transition has been objectively assessed by the Transition Pathway Initiative as being reasonably good (with a score of 3 out of 4), with some shortcomings identified in the company's strategic assessments and the integration of ESG into operational decision-making (7). Due to the relatively long time frames associated with the sustainability journey, we are satisfied that KHC's ESG track record is sufficiently strong to support a "buy" recommendation.

Principal Risks:

The key risks identified by KHC's management (2) include:

- **Raw materials and packaging:**
  External factors, such as currency fluctuations, pandemics, and severe weather, affect the prices of raw materials.

- **Competition:**
  Products are sold in highly competitive marketplaces, which continue to experience increased concentration and the growing presence of e-commerce retailers.

- **Regulation:**
  Regulatory regime changes may add cost and complexity to KHC's compliance efforts.

- **Change in the retail landscape:**
  Retail customers may continue consolidating, enabling them to seek better terms from KHC or market their private-label products. Technology-based systems also significantly alter the retail landscape in many of the company's markets.

- **Reputation/brand:**
  Negative social or digital media publicity could seriously damage KHC's brand and reputation.

- **Revenue growth:**
  Future results will depend on KHC's ability to innovate in faster-growing and more profitable categories or platforms.

- **Climate change:**
  Increased natural disasters due to changing weather patterns may impede KHC's access to raw materials, and increased energy or compliance costs due to climate change impacts may push up operating costs.

The shelf-stable food product sector is resilient due to strong customer loyalty towards well-known and reliable brands. We are also concerned that consumer preferences may swing towards more health-conscious, sustainable, and/or affordable food options and that stocks such as KHC are vulnerable to changing public health messaging around healthy food choices. We are satisfied for now, however, that KHC has adequately weathered the challenging inflationary environment over the past few years and has performed relatively well in the face of the various risk drivers outlined above.

Investors' Perception:

On the positive side, KHC's high institutional ownership, strong brand awareness, and diversified product portfolio encourage confidence among investors. In addition, KHC commands one of the highest proportionate stakes in the portfolio of the famed investor Warren Buffett, which suggests that he believes in its long-term prospects (6).

However, critics have noted that KHC struggles to generate profits, with revenue flat over the past three years and below-average returns on capital. On the other hand, investors have praised KHC's robust cash profitability (with an average free-cash-flow margin of 10.9% over the past two years) and its favorable trend in Return On Invested Capital (ROIC), which has increased by c2ppts per year over the past number of years. ROIC is a key metric that investors assess since it shows how much operating profit a company generates compared to the volume of capital (debt plus equity) it has raised.

In summary, investors' outlook is mixed. Some are lured by ROIC's strong cash profitability and growth, and others are underwhelmed by the company's failure to drive revenue and earnings growth over the past few years. The company's ability to innovate and find profitable business opportunities over the coming years will be crucial to its impact on investor sentiment.

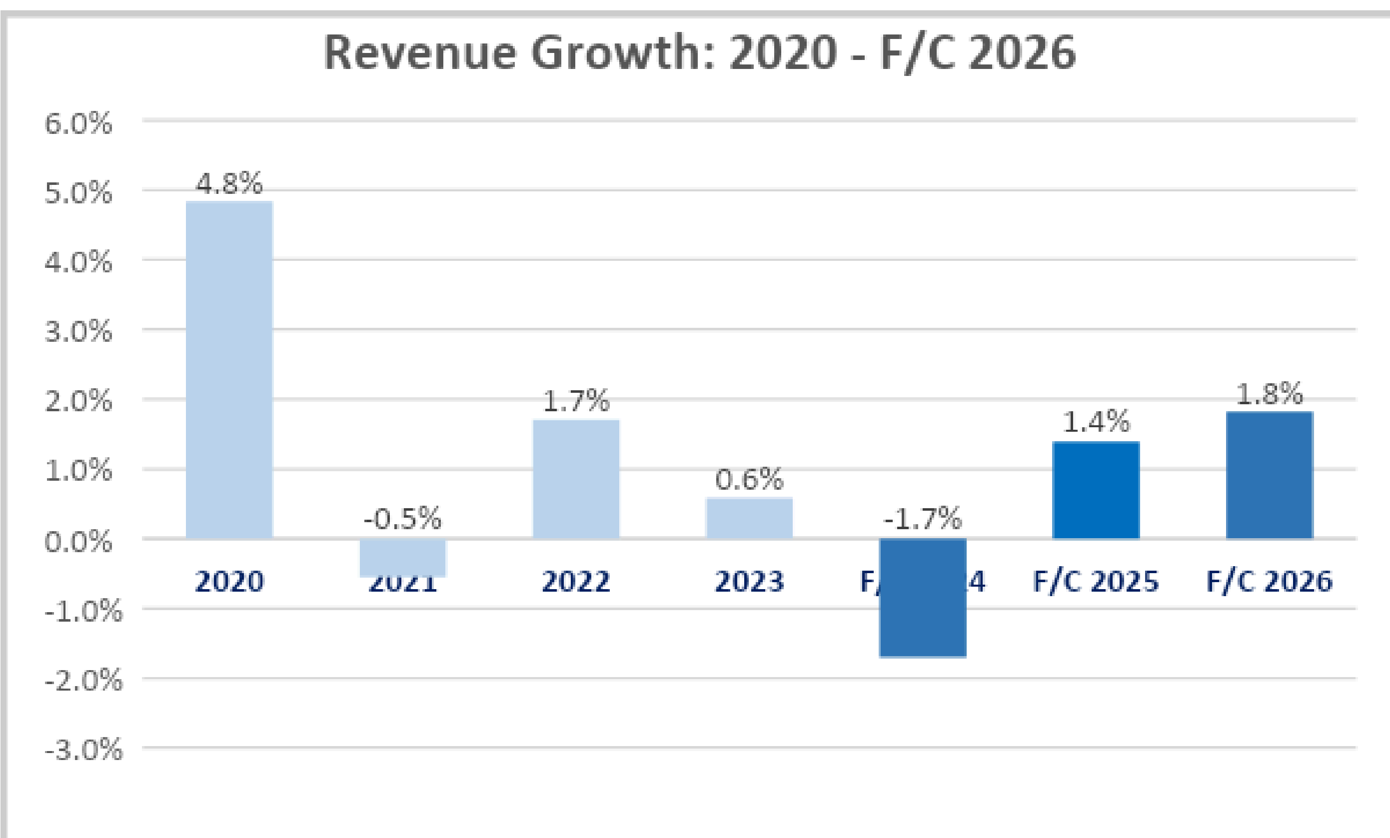
Accountancy Analysis

We agreed to value KHC using a five-year detailed and simplified projection period before reaching a terminal value. According to Koller (9), a shorter detailed projection window is appropriate for a stable, mature company (such as KHC) due to the low change anticipated over the medium term.

- **Revenues:**
  KHC's revenue stream has been flat over the past three years, indicating that the business has not expanded. However, a large revenue base gives it production advantages and negotiating leverage with retailers (8).

We have used revenue growth forecasts from Eikon (which are very close to the predictions from a wide range of analysts and combine top-down and bottom-up approaches). We used a "market average" growth projection to represent the consensus view and reduce the volatility of one forecast. Still, we have subjected this to sensitivity testing (see later in the report).

Graph 1: Revenue Growth % for Kraft Heinz (2020 - 2026)



- **Principal Risks and Off-Balance Sheet Items:**

  Key risks for Kraft Heinz are inflationary pressures, volume declines, and possible disruptions due to changes in consumer preferences. With a heavy reliance on commodity inputs, the company is highly vulnerable to changes in the price of commodities. Besides that, the high pension and post-retirement benefit exposures could strain cash flows in case market returns underperform.

  Off-balance items include operating leases, which are accounted for with transparency. There are no significant contingent liabilities and unrecorded commitments which would potentially have a material impact on the company's financial position. Transparency in this area justifies a high degree of confidence in the figures reported and presented in the financial disclosures.

- **Solvency and Liquidity Position:**

  Kraft Heinz's liquidity position improved in 2024, with a current ratio of 1.05x compared to 0.95x in 2023. Improvement here underlines short-term liquidity management. Long-term debt had fallen to $19 billion in 2024 from $29.7 billion in 2016. This reduction of debt has contributed positively towards the interest coverage ratio of the company, hence positioning it better against any rise in interest rates. (The Kraft Heinz Company)

- **Earnings Quality and Adjustments:**

  The high cash conversion ratio reflects solid earnings quality at Kraft Heinz. However, frequent non-recurring items at Kraft Heinz like restructuring charges and the $3.0 billion share repurchase program in 2024, pose a challenge for analyzing actual operational performance. Adjustments were carried out regarding such non-operating charges in the valuation model to give a better view with regard to going profitability. (The Kraft Heinz Company)

Historical Analysis: Income Statement

Table 2: Integrated Financial Statement - Income Statement for Kraft Heinz (2014 - 2023)

Income Statement for Year Ending:	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
	31-12-2014	31-12-2015	31-12-2016	31-12-2017	31-12-2018	31-12-2019	31-12-2020	31-12-2021	31-12-2022	31-12-2023
Revenue	10,923.00	18,340.00	26,294.00	26,076.00	26,268.00	24,977.00	26,185.00	26,042.00	26,485.00	26,640.00
Cost of Sales	7,296.00	12,520.00	16,464.00	16,542.00	17,105.00	16,825.00	17,028.00	17,343.00	18,187.00	17,656.00
Gross Profit	**3,627.00**	**5,820.00**	**9,830.00**	**9,534.00**	**9,163.00**	**8,152.00**	**9,157.00**	**8,699.00**	**8,298.00**	**8,984.00**
Operating Expenses	2,063.00	3,122.00	3,234.00	2,808.00	3,068.00	3,105.00	3,607.00	3,518.00	3,365.00	3,687.00
Depreciation	575.00	740.00	1,337.00	1,036.00	983.00	994.00	969.00	910.00	933.00	961.00
EBITA	**1,564.00**	**2,698.00**	**6,596.00**	**6,726.00**	**6,095.00**	**5,047.00**	**5,550.00**	**5,181.00**	**4,933.00**	**5,297.00**
NonOperating Income	(264.00)	(457.00)	550.00	507.00	352.00	970.00	315.00	222.00	145.00	(111.00)
NonOperating Expenses	0.00	0.00	1,060.00	483.00	16,400.00	2,007.00	3,431.00	1,722.00	1,283.00	724.00
Other Nonoperating Income (Expenses)	(108.00)	(603.00)	533.00	437.00	268.00	982.00	305.00	281.00	210.00	(68.00)
EBIT	**1,456.00**	**2,095.00**	**6,069.00**	**6,680.00**	**(10,037.00)**	**4,022.00**	**2,424.00**	**3,740.00**	**3,860.00**	**4,505.00**
Interest Income	33.00	0.00	0.00	0.00	0.00	0.00	0.00	15.00	27.00	40.00
Interest Expense	(686.00)	(1,082.00)	(1,130.00)	(1,230.00)	(1,284.00)	(1,361.00)	(1,394.00)	(2,047.00)	(921.00)	(912.00)
Interest, Net	(653.00)	(1,082.00)	(1,130.00)	(1,230.00)	(1,284.00)	(1,361.00)	(1,394.00)	(2,032.00)	(894.00)	(872.00)
EBT	803.00	1,013.00	4,939.00	5,450.00	(11,321.00)	2,661.00	1,030.00	1,708.00	2,966.00	3,633.00
Reported Taxes	131.00	366.00	1,333.00	1,518.00	(1,171.00)	728.00	750.00	919.00	598.00	787.00
Marginal Tax Rate	**16.31%**	**36.13%**	**26.99%**	**27.85%**	**10.34%**	**27.36%**	**72.82%**	**53.81%**	**20.16%**	**21.66%**
Net Income	672.00	647.00	3,606.00	3,932.00	(10,150.00)	1,933.00	280.00	789.00	2,368.00	2,846.00
Interest Tax Shield	106.53	390.93	304.98	342.59	132.81	372.34	1,015.05	1,093.33	180.25	188.90
Operating Taxes	237.53	756.93	1,637.98	1,860.59	(1,038.19)	1,100.34	1,765.05	2,012.33	778.25	975.90
NOPLAT	**1,326.47**	**1,941.07**	**4,958.02**	**4,865.41**	**7,133.19**	**3,946.66**	**3,784.95**	**3,168.67**	**4,154.75**	**4,321.10**

From 2014 to 2023, revenue continuously increased for the company, while for certain years, it showed some fluctuations. For this tenure, revenues increased from $10,923.00 million in 2014 to $26,640.00 million in 2023, reflecting a remarkable annual growth rate of 10.4% or CAGR. Revenue significantly increased by 43.4% from 2015 to 2016, while revenue from 2017 onward increased relatively stable until 2023. The only setback, as expected, occurred in the year 2020 due to supply chain and production constraints linked to COVID-19. The gross profit margin remained between 31.7% and 35.0%, reflecting consistent efficiency of operations. Operating expenses increased in line with revenue growth. EBITDA increased from $1,564.00 million in 2014 to $5,297.00 million in 2023, indicating improved operational results. The net income, however, experienced a huge loss of -$10,150.00 million in 2018 due to unforeseen cost inflation and less than contemplated savings.

[Net Income Loss (2018)]

The effective tax rate fluctuated from 16.31% to 72.82% due to deferred tax liability on historic earnings related to local withholding taxes. NOPLAT increased from $1,326.47 million in 2014 to $4,321.10 million in 2023, indicating improved core operating performance. Based on this income statement analysis for 2020-2023, the stock shows strong growth potential, presenting an excellent investment opportunity. [Effective Tax Rate (2018-2020)]

Historical Analysis: Balance Sheet

Table 3: Integrated Financial Statement - Balance Sheet for Kraft Heinz (2014 - 2023)

Balance Sheet for Year Ending:	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
	31-12-2014	31-12-2015	31-12-2016	31-12-2017	31-12-2018	31-12-2019	31-12-2020	31-12-2021	31-12-2022	31-12-2023
Assets										
Operating Current Asset	5,185	10,364	8,684	7,820	8,607	9,503	10,448	10,224	9,171	9,472
Operating Current Liabilities	2,860	6,432	6,555	6,959	7,050	6,815	7,808	7,769	8,055	7,399
Net Operating Working Capital	2,325	3,932	2,129	861	1,557	2,688	2,640	2,455	1,116	2,073
Operating Long-Term Assets	1,144	1,498	1,617	1,573	1,337	1,357	1,814	2,187	1,726	1,807
Operating Long-Term Liabilities	569	3,157	2,844	1,515	1,208	1,636	1,994	3,281	3,230	2,985
Net Op Long-Term Assets	575	(1,659)	(1,227)	58	129	(279)	(180)	(1,094)	(1,504)	(1,178)
Goodwill & Intangibles	28,147	105,171	103,422	104,257	85,971	84,198	79,756	74,838	73,482	72,907
Net Operating Assets [Invested Capital]	31,047	107,444	104,324	105,176	87,657	86,607	82,216	76,199	73,094	73,802
NonOperating Assets *(incl. investments)*	581	870	967	1,193	2,749	941	2,437	727	846	569
NonOperating Liabs	232	417	255	0	55	32	17	0	0	0
Net Non-Operating Assets	349	453	712	1,193	2,694	909	2,420	727	846	569
Excess cash (plug)	(2,601)	(15,576)	(13,821)	81	(11,796)	(9,207)	(8,554)	(6,936)	(4,575)	(3,298)
Total Assets [Total Funds Invested]	**28,795**	**92,321**	**91,215**	**106,450**	**78,555**	**78,309**	**76,082**	**69,990**	**69,365**	**71,073**
Reconcile Retained Earnings										
Beg. Retained Earnings	1,281	1,953	536	1,277	2,218	(10,992)	(11,018)	(12,703)	(13,890)	(13,510)
Profit	672	647	3,606	3,932	(10,150)	1,933	280	789	2,368	2,846
Less: Dividends	0	2,064	2,865	2,991	3,060	1,958	1,965	1,976	1,989	1,998
End Retained Earnings	**1,953**	**536**	**1,277**	**2,218**	**(10,992)**	**(11,018)**	**(12,703)**	**(13,890)**	**(13,510)**	**(12,663)**
Liabilities & Equity										
Debt	13,358	25,234	32,404	31,503	31,168	29,244	28,306	21,815	20,070	20,032
Debt Equivalent	0	107	81	56	50	158	116	98	93	118
Equity	15,437	66,980	58,142	66,396	52,190	51,967	50,354	49,759	48,713	49,556
Retained Earnings	0	0	588	8,495	(4,853)	(3,060)	(2,694)	(1,682)	489	1,367
Total Funds Invested	**28,795**	**92,321**	**91,215**	**106,450**	**78,555**	**78,309**	**76,082**	**69,990**	**69,365**	**71,073**

Operating Current Assets increased from $5,185 million in 2014 to $9,472 million in 2023, indicating an increase in sales and business. Long-term operational assets have been consistently invested in, as shown by the increase in Operating Long-Term Assets. The growth in Operating Long-Term Liabilities would show there has been an increase in long-term financing, perhaps because of an acquisition or capital expenditure. Goodwill and intangibles show considerable acquisition or inorganic growth, particularly around 2015. The increase in Operating Current Liabilities reflects the scale of operation. Fluctuations in Net Operating Working Capital depict variable efficiency in working capital management.

About Capital Structure, from the trend, it is observable that Debt surged from 2014's $13,358 million to $20,032 million in 2023, peaking in 2016, and has lately been on a gradual decline, hence becoming more conservative in financial leverage. From the Equity analysis, there seems to be considerable earnings retention and equity issuances. Negative retained earnings are observable with huge losses between the years of 2018 and 2023. It is seen, however, that the company had continued to pay dividends through the losses. From the cash holdings liquidity, it is consistently negative from 2014 into 2023 except for a small value in 2017. It would thus appear that the company operates on slim liquidity and increases debt levels to sustain operations.

Overall Financial Position:

Growth is to be followed by restructuring or divestments. During the last several years, there has been a trend for debt reduction and equity financing that may have strengthened the balance sheet position. The retained earnings have remained negative consistently since 2018 means the continued operational pressures from cost inflation and lower-than-planned savings. [Net Income Loss (2018)]. Despite going through financial losses, dividends were paid reflecting the commitment to shareholder return.

This reduction of debt, along with the maintenance of dividend payments, underlines a strategic focus on financial stability and shareholder value.

Image 2: The Kraft Heinz Company (KHC) Stock Price as of December 29, 2023 - Nasdaq.

[Source: Yahoo Finance]

Forecasting Analysis: Income Statement

Table 4: Integrated Financial Statement - Income Statement for Kraft Heinz (2024 - 2033)

Income Statement for Year Ending:	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	CV
	31-12-2024	31-12-2025	31-12-2026	31-12-2027	31-12-2028	31-12-2029	31-12-2030	31-12-2031	31-12-2032	31-12-2033	
Revenue	26,187.12	26,551.12	27,034.35	27,675.07	28,220.26	28,763.50	29,206.46	29,543.80	29,771.28	29,885.90	30,393.96
Cost of Sales	17,489.50	17,702.05	18,113.00	18,564.63	18,840.70	19,231.39	19,531.86	19,769.48	19,916.70	19,982.52	20,328.28
Gross Profit	**8,697.62**	**8,849.07**	**8,921.35**	**9,110.44**	**9,379.56**	**9,532.12**	**9,674.60**	**9,774.32**	**9,854.59**	**9,903.39**	**10,065.69**
Operating Expenses	3,470.36	3,562.18	3,607.62	3,684.02	3,790.82	3,840.37	3,905.32	3,947.77	3,979.23	3,997.80	4,062.35
Depreciation	958.70	955.10	966.89	994.35	1,017.90	1,037.48	1,050.30	1,062.37	1,071.70	1,076.23	1,094.17
EBITA	**5,227.26**	**5,286.89**	**5,313.73**	**5,426.42**	**5,588.74**	**5,691.75**	**5,769.29**	**5,826.55**	**5,875.36**	**5,905.59**	**6,003.34**
NonOperating Income	317.90	317.92	317.94	317.96	317.98	318.00	318.01	318.02	318.03	318.04	318.05
NonOperating Expenses	1,849.47	1,823.52	1,519.59	1,500.73	1,562.94	1,755.29	1,726.25	1,689.61	1,708.46	1,733.92	1,779.41
Other Nonoperating Income (Expenses)	351.59	219.00	204.60	191.62	189.72	246.73	222.21	220.99	222.17	226.24	235.24
EBIT	**3,729.38**	**3,682.37**	**3,998.74**	**4,117.30**	**4,215.52**	**4,183.18**	**4,265.25**	**4,357.93**	**4,389.07**	**4,397.91**	**4,459.17**
Interest Income	16.22	19.73	24.11	26.43	26.59	23.88	25.49	26.54	26.79	26.56	26.68
Interest Expense	(1,321.10)	(1,318.00)	(1,322.54)	(1,192.78)	(1,269.02)	(1,363.83)	(1,367.12)	(1,366.18)	(1,360.75)	(1,381.58)	(1,412.72)
Interest, Net	(1,304.88)	(1,298.27)	(1,298.43)	(1,166.35)	(1,242.43)	(1,339.95)	(1,341.63)	(1,339.64)	(1,333.97)	(1,355.02)	(1,386.04)
EBT	2,424.50	2,384.10	2,700.31	2,950.96	2,973.09	2,843.23	2,923.61	3,018.29	3,055.10	3,042.89	3,073.13
Reported Taxes	1,403.71	2,268.37	2,616.08	2,856.32	2,861.51	2,732.77	2,811.69	2,910.44	2,943.20	2,928.76	2,958.08
Marginal Tax Rate	**57.90%**	**95.15%**	**96.88%**	**96.79%**	**96.25%**	**96.12%**	**96.17%**	**96.43%**	**96.34%**	**96.25%**	**96.26%**
Net Income	1,020.80	115.73	84.23	94.64	111.58	110.46	111.92	107.85	111.90	114.14	115.05
Interest Tax Shield	511.00	539.06	457.86	368.03	420.34	485.95	478.79	462.45	458.51	473.38	487.28
Operating Taxes											
NOPLAT											

Based on our projections, the company's revenue is expected to grow steadily over the next decade, starting at $29,885.90 million in 2033, with a compound annual growth rate (CAGR) of approximately 1.47%, indicating consistent but moderate growth. The gross margin is expected to remain relatively stable over this period, suggesting consistent cost management concerning revenue. Operating expenses are anticipated to increase slowly, reflecting our analysis that the company has previously invested in excessive expansion, which should improve operational efficiency. Non-operating income is projected to remain steady, indicating better management of non-core expenses. We anticipate that EBIT and interest expenses will increase, resulting in higher net interest expenses, possibly signaling higher debt levels or interest rates. The growth in EBT indicates improved pre-tax profitability, while the marginal tax rate may fluctuate. Net income predicts volatility, dropping sharply and then gradually recovering. This pattern may be due to the typical economic cycle, which reduces revenue and leads to high operating expenses. Furthermore, the interest tax shield reinforces our expectation of reduced revenue by providing some tax benefits from the company's debt financing.

Although the company is experiencing steady revenue growth and improving operational efficiency, high-interest expenses, and an unusually high tax rate have hampered its profitability.

Forecasting Analysis: Balance Sheet

Table 5: Integrated Financial Statement - Balance Sheet for Kraft Heinz (2024 - 2033)

Balance Sheet for Year Ending:	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	CV
	31-12-2024	31-12-2025	31-12-2026	31-12-2027	31-12-2028	31-12-2029	31-12-2030	31-12-2031	31-12-2032	31-12-2033	
Assets											
Operating Current Asset											
Operating Current Liabilities											
Net Operating Working Capital	2,214	2,122	2,047	1,993	2,201	2,245	2,241	2,249	2,268	2,302	2,335
Operating Long-Term Assets											
Operating Long-Term Liabilities											
Net Op Long-Term Assets	(844)	(967)	(1,144)	(1,173)	(1,115)	(1,110)	(1,164)	(1,197)	(1,196)	(1,187)	(1,209)
Goodwill & Intangibles	77,524	76,421	76,905	78,567	80,478	82,690	83,463	84,306	85,008	85,433	86,927
Net Operating Assets [Invested Capital]	78,894	77,575	77,808	79,387	81,565	83,825	84,541	85,357	86,080	86,548	88,053
NonOperating Assets (incl. investments)											
NonOperating Liabs											
Net Non-Operating Assets	601	619	644	675	695	718	747	772	803	833	862
Excess cash (plug)	(29,928)	(32,826)	(34,818)	(37,523)	(40,727)	(44,185)	(46,005)	(47,826)	(49,444)	(50,771)	(53,101)
Total Assets [Total Funds Invested]	**49,567**	**45,369**	**43,634**	**42,540**	**41,533**	**40,358**	**39,282**	**38,303**	**37,439**	**36,610**	**35,815**
Reconcile Retained Earnings											
Beg. Retained Earnings	(12,663)	(18,516)	(21,152)	(21,280)	(21,328)	(21,394)	(21,518)	(21,631)	(21,736)	(21,832)	(21,938)
Profit	1,021	116	84	95	112	110	112	108	112	114	115
Less: Dividends	6,874	2,752	212	143	177	235	225	213	207	220	227
End Retained Earnings	**(18,516)**	**(21,152)**	**(21,280)**	**(21,328)**	**(21,394)**	**(21,518)**	**(21,631)**	**(21,736)**	**(21,832)**	**(21,938)**	**(22,050)**
Liabilities & Equity											
Debt	18,409	16,847	15,240	14,194	13,252	12,202	11,239	10,366	9,597	8,874	8,191
Debt Equivalent	118	118	118	118	118	118	118	118	118	118	118
Equity	49,556	49,556	49,556	49,556	49,556	49,556	49,556	49,556	49,556	49,556	49,556
Retained Earnings	(18,516)	(21,152)	(21,280)	(21,328)	(21,394)	(21,518)	(21,631)	(21,736)	(21,832)	(21,938)	(22,050)
Total Funds Invested	**49,567**	**45,369**	**43,634**	**42,540**	**41,533**	**40,358**	**39,282**	**38,303**	**37,439**	**36,610**	**35,815**

Continuing our assessment, Net Operating Working Capital reflects enhanced short-term liquidity and operational efficiency. The negative Net Operating Long-Term Assets indicate a rise in long-term liabilities. The table for Goodwill and intangibles points to potential acquisitions or increased investment in intangible assets, which is supported by the increase in Net Operating Assets, which signifies growth in investments outside core operations.

An imbalance in excess cash (plug) may predict a deficit in the debt position. Consistently negative Retained Earnings, which are deteriorating further, suggest accumulated losses or significant dividend payouts surpassing profits. Our profit is expected to remain relatively stable without substantial growth.

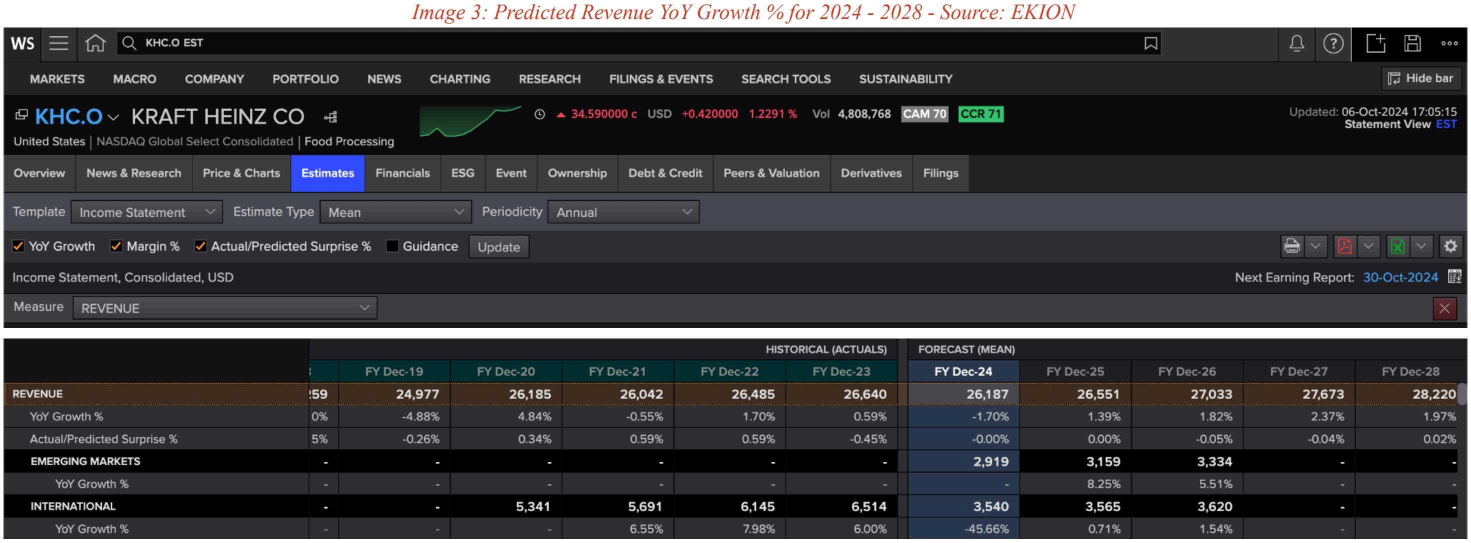
Valuation: Methodology

- Starting the valuation process, we initially obtained The Kraft Heinz Company's (KHC) Historical Raw data from EIKON Terminal. This data encompassed the company's comprehensive Income Statement and Balance Sheet for the previous 10 Financial Years, from January 1st, 2013, to December 31st, 2023. Additionally, we acquired the cash flow statement and conducted a ratio analysis for the firm's valuation.

Source: EKION Terminal

- Afterward, we used the historical data to calculate the Year-on-Year % revenue growth for the next 5 years up to 2028 and the subsequent 5 years until 2033. The predicted Revenue growth figure was obtained from EIKON's official website. We assumed that the perpetual GDP growth rate of Kraft Heinz Company (KHC) would mirror the country's perpetual GDP (1.7%). We discounted the Year-on-Year growth from 2033 to 2029 using the GDP value.

Image 3: Predicted Revenue YoY Growth % for 2024 - 2028 - Source: EKION



						HISTORICAL (ACTUALS)	FORECAST (MEAN)				
		FY Dec-19	FY Dec-20	FY Dec-21	FY Dec-22	FY Dec-23	FY Dec-24	FY Dec-25	FY Dec-26	FY Dec-27	FY Dec-28
REVENUE	59	24,977	26,185	26,042	26,485	26,640	26,187	26,551	27,033	27,673	28,220
YoY Growth %	0%	-4.88%	4.84%	-0.55%	1.70%	0.59%	-1.70%	1.39%	1.82%	2.37%	1.97%
Actual/Predicted Surprise %	5%	-0.26%	0.34%	0.59%	0.59%	-0.45%	-0.00%	0.00%	-0.05%	-0.04%	0.02%
EMERGING MARKETS	-	-	-	-	-	-	2,919	3,159	3,334	-	-
YoY Growth %	-	-	-	-	-	-	-	8.25%	5.51%	-	-
INTERNATIONAL	-	-	5,341	5,691	6,145	6,514	3,540	3,565	3,620	-	-
YoY Growth %	-	-	-	6.55%	7.98%	6.00%	-45.66%	0.71%	1.54%	-	-

Source: EKION Terminal

- The WAAC, Cost of Equity, and ROIC of the stock for the year ending 2023 were obtained from the Bloomberg terminal to facilitate the calculation of the stock's value using the Free Cash Flow to Firm (FCFF) and Free Cash Flow to Equity (FCFE).

Image 4: Screen Shot: Bloomberg Terminal - WAAC Data, Cost of Equity, and ROIC VALUES as of October 6, 2024

Source: Bloomberg (Data Centre, UCD Smurfit Graduate Business School)

- Next, we determined the NET CAPEX by combining the current year's Change in Net Long-term Assets with Depreciation. Subsequently, we used this figure with NOPLAT, Debt, Interest Expense, and Working Capital to derive the values for FCFF, FCFE, and ROIC.

- Next, we calculated the ***Continuing Value (CV)*** by dividing FCFF by the difference between WAAC and the GDP growth rate. Using the DCF (Discounted Cash Flow) method, we considered our Free Cash Flow, divided it by (1+ WACC), and raised it to the power of the number of forecasted years to get the ***Present Value of Continuing Value***.

- The firm's or enterprise value was determined by summing the present value of continuing value and the FCFF over 10 years. Subtracting the Enterprise Value from the firm's debt yielded the **Total Equity valuation**. The fair value of The Kraft Heinz Company (KHC) was calculated as **$36.61** by dividing the Total Equity by the Number of Outstanding Shares. ***- FCFF Valuation Model***

- Just like in the previous stage, we substituted the weighted average cost of capital (WAAC) with the cost of equity to compute the present value of the continuing value. We then deducted the total sum of the present value of the continuing value from it to obtain the **Equity Value.** Finally, we divided the Equity Value by the Number of Outstanding Shares. The calculated fair value of The Kraft Heinz Company (KHC) was **$39.71**. ***- FCFF Valuation Model***

Conclusions and Action

- (+) The company is expanding its operational assets, especially in goodwill and intangibles, indicating growth through acquisitions or internal development.

- (+) Despite the growth in operational assets, the total assets are decreasing, indicating improvements in asset efficiency or significant restructuring.

- (-) The increasing negative excess cash position indicates growing debt or cash deficits, a concern given the otherwise stable or improving operational metrics.

- (+) Over time, debt reduction and consistent equity suggest a shift towards equity financing or using operational cash flows to pay down debt.

- (-) Consistently negative and worsening retained earnings raise a red flag, potentially indicating ongoing losses or aggressive dividend policies that may not be sustainable.

- (+) The stable equity position combined with decreasing total assets suggests that despite the reduction in explicit debt, the company might become more leveraged over time.

Overall, the company demonstrates operational growth and efficiency improvements but grapples with challenges in cash management, accumulated losses, and potential over-leveraging.

The company has not released any important news that would impact stock prices. Based on our assessment, Kraft Heinz Company (KHC) is ***a favorable purchase or worth retaining*** if it is already in the portfolio and trades at a lower price than the current market price.

	FCFF	FCFE
Price per share (as per valuation based on Discounted Cash Flow Mothed)	***$36.61***	***$39.71***
Current price per share (October 6, 2024)	*$34.60*	*$34.60*

References and Sources

- EKION FX Rate Market Data - Download source for Raw Historic Data.
- Source for considering 1.70% as my Continuing Value/ Terminal Value (CV).
  https://www.cbo.gov/publication/58957#_idTextAnchor014

Image 5: Screen Shot of predicted GDP assumption of 2033

The Economic Outlook for 2028 to 2033

CBO's economic projections for the next five years are strongly influenced by changes in the overall demand for goods and services. By contrast, the agency's projections for the following five years are fundamentally determined by its assessment of the prospects for growth in several key inputs to potential GDP (the maximum sustainable output of the economy). Those inputs are the potential number of workers in the labor force, capital services (the flow of productive services from the stock of capital assets), and the potential productivity of the labor force and capital services.

Real potential GDP is projected to grow at an average rate of 1.8 percent a year over the 2028–2033 period. That rate is roughly equal to the average annual growth of real potential GDP since late 2007, the peak of the previous cycle of business activity. However, that overall growth rate masks differences for the two components of the growth of real potential GDP—growth of the potential labor force (CBO's estimate of the size of the labor force that would occur if economic output and other key variables were at their maximum sustainable amounts) and growth of that labor force's

- KSG ESG Report 2023
- NASDAQ
- Wall Street Journal Market
- Yahoo Finance: Simply Wall St (September 12th, 2024)
- Value Research
- Source: Kraft Heinz - Official Website
- The Kraft Heinz Company - Form 10-K: (Research Deferred Taxes since 2018)
- Quartz (February 22nd, 2019) Kraft Heinz lost $12.6 billion in 2018's fourth quarter (qz.com)
- Financhill (2024) Will KHC Ever Recover? (financhill.com)
- Kraft Heinz Transition Pathway Initiative Assessment (17th July 2023) Kraft Heinz - Transition Pathway Initiative
- StockStory – Kraft Heinz Q2 2024 Earnings Report Kraft Heinz (KHC) Q2 Earnings Report Preview: What To Look For (stockstory.org)
- Valuation: Measuring and Managing the Value of Companies (Koller)
- The Kraft Heinz Company: (Research - Net Loss in the Year of 2018)
- *Source: Bloomberg (Data Centre, UCD Smurfit Graduate Business School)*

Overview of Contributions

Below is an overview of the key contributions made by each group member to this analysis. (Please note that this list is not exhaustive and does not reflect various members' contributions to topics not within their direct area of ownership.)

Overview of Analysis Steps	Key Contributor(s)
1. Preparation and analysis of historical financials	
a - Extraction of raw historical data (from Eikon, Bloomberg)	TDL, RP
b - Preparation of historical financials to create "*A. Raw Historical Data*" tab.	All (sections allocated to each team member)
c - Market research	All
2. Building of revenue forecast	
a - Create the "*B. Integrated fin.*" tab and complete the historical data.	MMD, DOH, DS, TDL
b - Creation of "*C.Hist. & Forecast Ratio*" tab and calculation of historical ratios	MMD, DOH, DS, RP
c - Detailed forecast of each line item.	DS
d - Simplified forecast of each line item (beyond the detailed forecast projection period)	DS
3. Forecasting of income statement	DOH, DS
4. Forecasting of balance sheet	RP
5. Reconciliation of retained earnings	MMD
6. Calculation of ROIC and FCF	TDL, RP
a - Creation of "D.Market data & WACC" worksheet and inputting of WACC, Cost of Equity, and ROIC	TDL, MMD
b. Creation of "E.Reorg. fin. Stmt" worksheet	DOH, DS
c. Creation of "F.ROIC & FCF" worksheet	DOH
7. Valuation of FCFF and FCFE	
a. Creation of the "G.Valuation" tab	RP
b. Completion of FCFF valuation	RP
c. Proceed with FCFE Valuation	RP
Other - Competitor Analysis	MMD, DOH, RP
Other - Meeting Co-ordination	MMD, DOH
Other - Valuation Report Co-ordination	MMD, RP