

HEINZ

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BACKGROUND & OVERVIEW

Heinz

156 Years
of History since 1869

Global Market Leader
in Food Processing Industry

60%
Revenue from International Markets in 2012

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

Berkshire Hathaway and 3G Capital

Unique Strategies

Berkshire Hathaway: **Long-term value-driven** conglomerate.

3G Capital: **Aggressive cost-cutting firm** using "zero-based budgeting"

Proven Success

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

Complementary Strengths

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

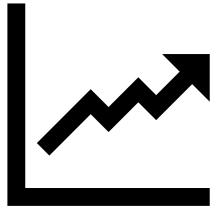
Shared Vision

Long-term value investing



ASSESSMENT 1

REVENUE GROWTH



Total Growth Potential

4.49%

CAGR (2011-2013)

*Outpaced Nestle and Mondelez
Decline 15.2% and 8.36% respectively*

Emerging Markets Growth

108.3%

Growth in 2012

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

GDP Growth in Emerging Markets

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



ASSESSMENT 2

COST REDUCTIONS

1

Tax Rate Reduction

by expanding overseas

1.8%

tax saving

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

2

Improve **SYNERGIES**
between Heinz and Acquirers to
drive **Cost-Cutting**

3.2%

Reduction in COGS

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

ASSESSMENT 3

LIQUIDITY & SOLVENCY

Emerging Markets expansion requires **substantial** capital.

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

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

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

High Potential

US\$ 1.39B

Cash Flow remains **POSITIVE**

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

US\$ 1.09B

Short-Term Debt **raised**

The support from Acquirers will:

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



KEY ASSUMPTIONS

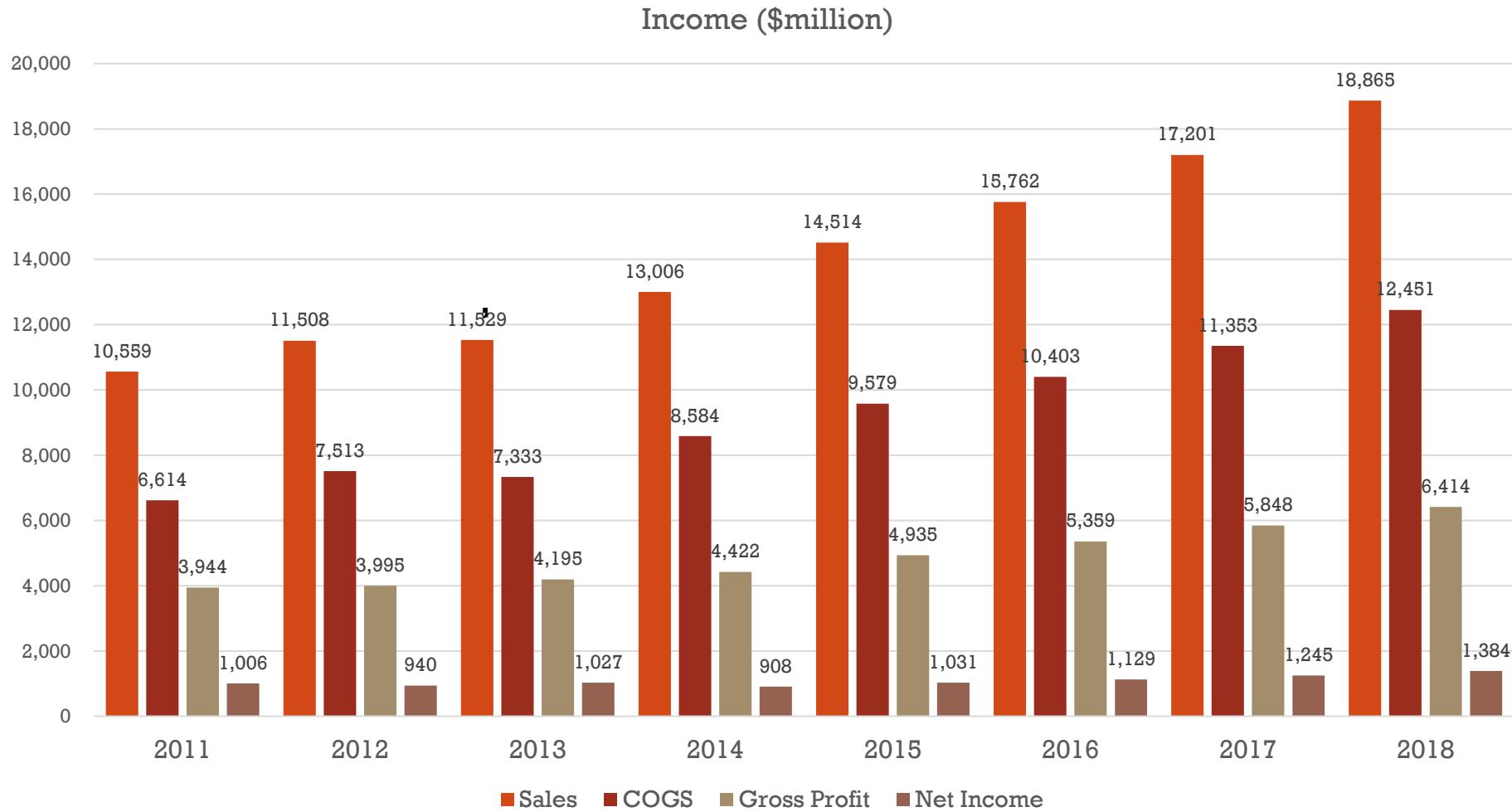
Area	Key Assumptions
Revenue Growth	<ul style="list-style-type: none">Heinz's sales in Europe, Asia/Pacific, North America, and the US are projected to grow at the same rate as observed between 2011 and 2012.Growth in the 'Rest of the World' is assumed to decelerate by 20% annually from 100% to 20% over four years (i.e., 80% in 2013, 60% in 2014, etc.), followed by a constant 20% growth rate thereafter.A 10% discount rate on sales is applied to account for exchange rate fluctuations, ensuring a prudent revenue forecast.
Cost Growth	<ul style="list-style-type: none">Cost of goods sold (COGS) and selling, general & administrative (SG&A) expenses as a percentage of sales constant at 66% and 22% of revenue respectively, in line with the highest recorded rates from 2011 to 2013.Interest income, interest expense, and other expenses are projected using the most adverse historical values from 2011 to 2013, representing a worst-case scenario.A flat tax rate of 18% is applied, consistent with 2013 levels, despite expectations of a lower effective tax rate as Heinz expands into regions with lower corporate tax rates than the US.
Cashflow Projection	<ul style="list-style-type: none">Net income projections are aligned with conservative revenue and cost estimates above.Depreciation and amortization are based on the lowest historical rate from 2011 to 2013, minimizing the impact of potential future tax benefits.Deferred tax benefits and pension contributions are projected at the highest (i.e., most negative) levels recorded from 2011 to 2013, ensuring a cautious outlook.For other cash flow components, given the absence of forward-looking disclosures from Heinz, we apply a historical average of 2011–2013 values as a reasonable estimate.

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



FINANCIAL PROJECTION

INCOME – BASE CASE

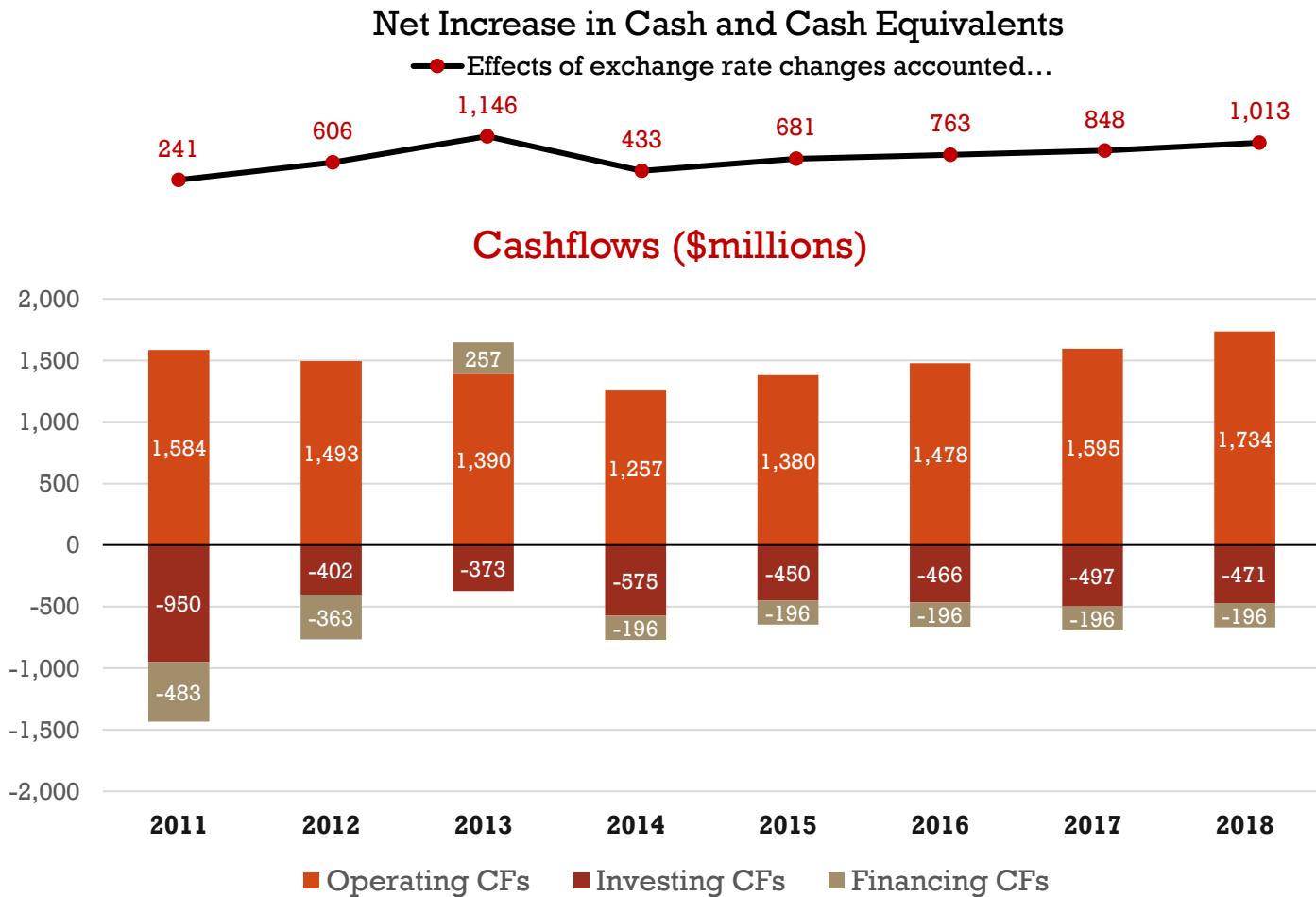


- **Sales Growth**
Constant Growth Rate in EMEA, APAC, NA.
Declining Growth Rate from 80% to 20% for the Rest of the World.
- **Profit Margin**
Constant at **34%** of Sales
- **Net Income**
Constant at **7%** of Sales
- Sales are expected to grow at a constant **sustainable growth rate**.



FINANCIAL PROJECTION

CASHFLOW – BASE CASE



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



VALUATION

BULLISH & BEARISH

Key Assumptions for Bullish and Bearish case

Area	Bullish Case	Bearish Case
Revenue Growth	<ul style="list-style-type: none"> Same as Base Case 	<ul style="list-style-type: none"> Growth in the 'Rest of the World' drops to 20% annually from 2014 onwards. Remaining same as Base Case.
Cost Growth	<ul style="list-style-type: none"> COGS as a percentage of sales decreases to 63% per year from 2014 to 2018. Effective Tax Rate as a percentage of EBT decreases to 17% per year from 2014 to 2018. Remaining same as Base Case. 	<ul style="list-style-type: none"> Same as Base Case
Cashflow Projection	<ul style="list-style-type: none"> Same as Base Case 	<ul style="list-style-type: none"> Same as Base Case

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

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

RECOMMENDATIONS FOR BERKSHIRE HATHAWAY AND 3G CAPITAL

ACQUIRE HEINZ

US\$ 28B

US\$ 72.50 / Share

Upside of 14%

Acquisition over Valuation

CAGR of 7.2%

Sales/Revenue Growth over 5 years

\$566m reduction

COGS Reduction in Year 5



Thank You !

Group 1

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