To: George Harper, NKK Corporation CEO
Subject: NKK Valuation

Valuation Difficulties

I have been tasked by my boss at Silverman Sachs with evaluating NKK in order for you to begin negotiations for a potential sale. I was not given any future management plans, so my projections were largely based on industry standards as well as your company's historical ratios. Since we are only in the beginning stages of the potential selling process, I was unsure if NKK would be bought by a private equity firm or acquired by a strategic buyer, who likely would have paid a higher price. Due to limited financial information (no accumulated depreciation figure or useful life), I was not able to assess the original purchase price of the Springfield, OH manufacturing. I was hoping to use this to determine an accurate cost of construction for a new plant since the case said management was planning on shutting down the old plant and building a new one. Despite not having exact plans for future financial fundamental changes, I believe I was still able to give a good assessment of the future of the firm's value.

Key Assumptions for DCF

My DCF model assumes that the operational metrics of the company would follow the same trend as they had over the previous 5 years. To show this, I used changes in common size statements from 2020-2024 to project the future. For revenue growth, COGS, SG&A, and depreciation, I calculated the changes in common size financials (5 year average) in order to predict how C.S. statements would look from 2025-2030. I wanted to observe if NKK had any changes in their fundamentals (Did they begin to spend more on marketing? Did they have greater operational efficiency that would lower COGS?). I then took those figures and applied them to the actual financial statements to get my projections for 5 years. I also assumed that the shutting down of the Springfield plant would result in decreased COGS as a % of sales by a modest 1.5%. I assumed this because the Springfield plant was known as the least productive and most inefficient plant of the three. To derive my WACC, I used an average of Post Holdings, Lamb Weston, and B&G Foods since they all had a debt percentage within 10% of NKK Corporation. I edited the equity risk premium to 10.5%, which is the 20 year average market premium according to Fama French's database. My long term terminal growth rate (1.8%) was expected real GDP growth according to the Federal Reserve Bank of St. Louis Projects. I chose to use real GDP growth rather than nominal since prices of food products have a big impact on the success of companies in this industry.

Springfield, OH Plant

One major assumption I made was the sale of the Springfield, OH plant since the case cited its lack of production and desire to shut it down and build a new one. The building of the plant would be a major CapEx cost, so an accurate assessment of its value would be vital to our projections. One of your peers, Lancaster Foods, announced they would be opening a facility that would cost 75 million[1]. Niagara Bottling announced their new plans would cost 160 million[2]. I wanted a number between these two figures and since we operate in an industry closer to Lancaster Foods, I decided to pick a number closer to theirs ($90 million). I assumed that special CapEx costs for the construction of the facility would take 5 years and that it would be financed with 73% debt and 27% equity since this was the debt and equity percentages of NKK previously. This assumption would greatly affect the CapEx when calculating projected FCFs.

Peer Analysis

Since all of the companies (Post, Lancaster, Flowers, Lamb Weston, and B&G) have similar customers and suppliers, as well as very similar margins, I didn't deem it necessary to remove any from the peer group originally given. I took an average of all of their LTM and NTM EBITDAs for the whole peer group. These two figures gave a very similar valuation for NKK.

Price Range

My suggested price range is $289,253,614- $390,521,283 with a suggested price of $327,841,310. This is the average price of my DCF ($390,521,283) LTM EBITDA ($289,253,614), and NTM EBITDA ($303,749,034). I do believe that the new plant will unlock some value for NKK that they are not currently seeing, but I was not given enough information to give details on the extent of that.

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[1] Ann Hanacek, "Lancaster Colony to Acquire Sauces, Dressings Processing Plant in Atlanta, Georgia," *Food Processing*, November 19, 2024, https://www.foodprocessing.com/business-of-food-beverage/mergers-acquisitions/news/55244023/lancaster-colony-to-acquire-sauces-dressings-processing-plant-in-atlanta-georgia.

[2] Niagara Bottling. "Niagara Bottling's Proposed New Manufacturing Project in Delano, California." *Niagara Bottling*. Accessed April 27, 2025. https://www.niagarawater.com/about-us/delano/.