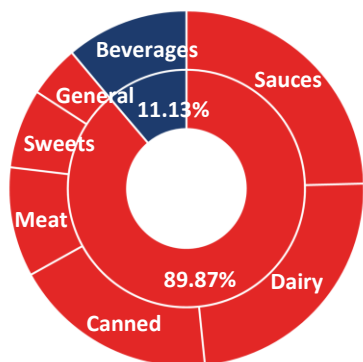




Product Revenue



■ Beverages ■ Food

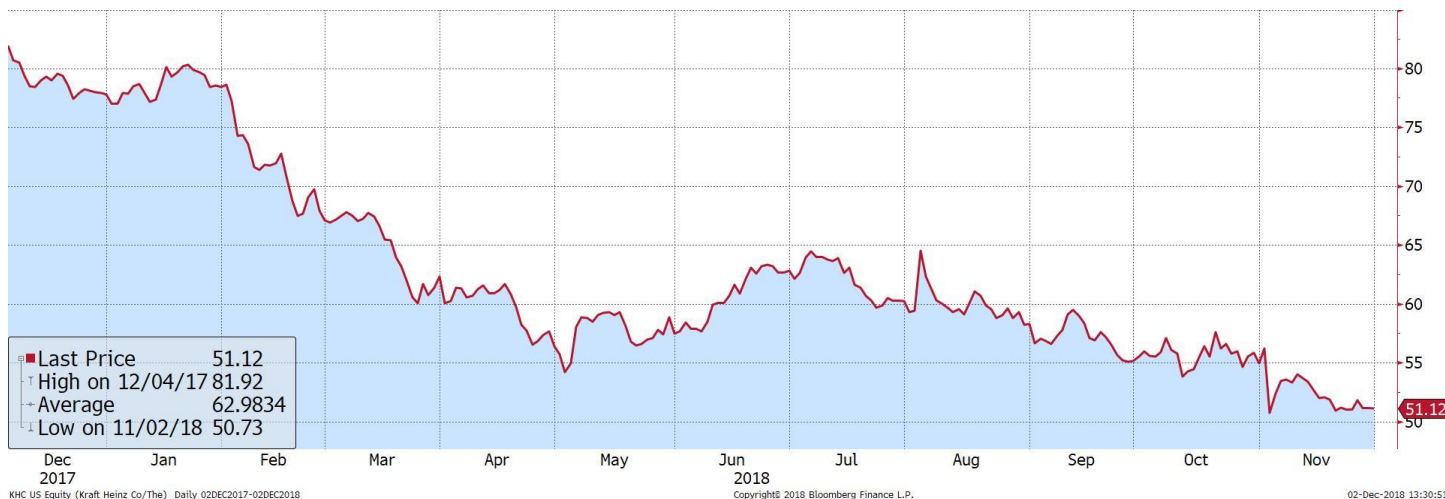
Source: FactSet

Valuation Date: Nov. 30, 2018	Recommendation: BUY	Exchange: (NASDAQ)
Current Price: \$51.12	Target Price: \$57.88	Industry: Food Packaging
Ticker: KHC	Upside: 13.22%	Sub-Industry: Packaged Foods

Introduction

The Kraft Heinz Company (KHC or the Company) is the third largest food and beverage company in the United States and fifth largest in the world. They primarily focus on various dairy products (23.8%) and sauces, dressings and oils (24.5%). KHC generates 89% of their revenue from their food division, through six different sub-industries. The Company delivers delicious, healthy and high-quality products to all eating occasions, that would consist of home, restaurant and on-the-go eating through renowned brands.

In 2015, Kraft Foods and H&J Heinz Company merged into one company bringing together around 200 brands with 8 different brands producing over \$1 billion in revenue, from sales and food service, last fiscal year. Dual headquartered in Chicago, Illinois and Pittsburg, Pennsylvania, KHC has nearly 39,000 employees and operates in 40 countries and sells to 200 countries. Combining Kraft's brands with Heinz's international markets, made Kraft Heinz Canada the largest food company in Canada, and one of the fastest growing companies in international markets.

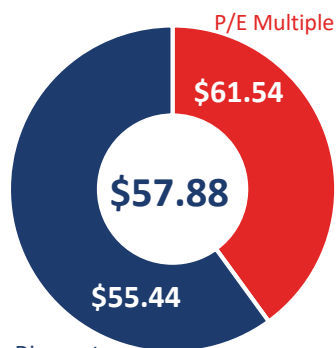


Recommendation

We recommend a BUY for Kraft Heinz Corporation with a target price of \$57.88, resulting in an upside potential of 13.22%. Using a weighted average between Price-to-Earnings Model and Discounted Dividend Model we have concluded that KHC is currently undervalued from their stock price of \$51.12; with a target range from \$57 to \$62.

With the current economic and market conditions that we are encountering today, a safety stock like KHC that pays high quarterly dividends would reinforce our current portfolio in case of an economic down turn. They have low sales growth year-over-year, but they could see an increase during troubling times, and would see consistent earnings during those times as well. This is a characteristic of the Consumer Staples sector which has been referenced time and time again, the use of it as a "safety net" to protect against the effects of economic downturns, such as a market pitfall which we are expecting.

Valuation



Discount
Dividend Model

Source: Team Analysis

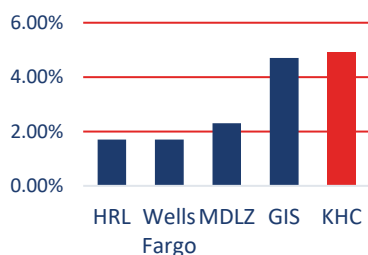
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UWEC Student Managed Investment Fund Fall 2018

College of Business

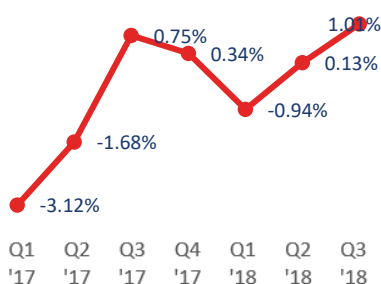
University of Wisconsin
Eau Claire

Annual Yield



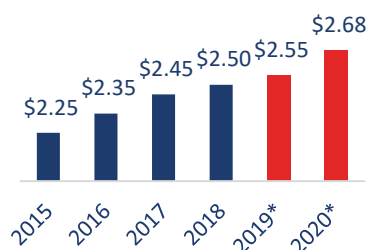
Source: Company Filings and Research

Sales Growth



Source: Company Filings

Annual Dividends



ST Growth Rate	4.50%
LT Growth Rate	2.00%
Required Rate	7.00%

*Predicted Annual Dividends based on analysis

Source: Team Analysis

P/E Multiple Method

Current P/E	6.10
Ave. Peer P/E	19.90
% Undervalued	326%
Expected P/E	17.00
Expected EPS	\$3.26
Target Price	\$61.54
% Upside	20.38%

Source: Team Analysis

Investment Thesis

Given the current economic environment and the general understanding that a big pull back from the market has been due for some time, this defensive position is what we believe is our best strategy. The current Certificate of Deposit (CD) has a range of 0.10%-2.80%, which is nearly half of the expected annual dividend yield of KHC, 4.8%. This provides a higher fixed income to investors with the added opportunity of value growth due to the tremendous upside potential showed in our valuation below.

In addition, the UWEC Student Managed Investment Fund has recently increased the weight of its Consumer Staples investments for its portfolio to 9%, almost double from its previous 5%. Other managed funds and the S&P 500 have also increased the weight of consumer staples and defensive stocks to combat the volatile market.

KHC has been known for their considerable margins but have moved away from them after their merger with Heinz. They have moved more money and effort into developing their brands in different countries and have increased their organic sales by 2.4% last quarter. They still have industry leading margins and have done the effectively since their inception in 2015 with their reduction in operation expense and recalls.

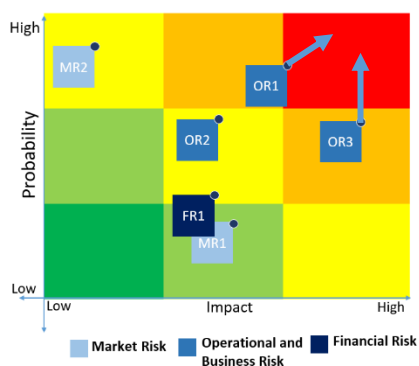
KHC has continuously innovated products to match consumer preferences and to penetrate white space within the market. They have increased their media presence to advertise their new healthier products, new products, and customer appealing dining options. All these areas should propel increased sales in the future.

Valuation

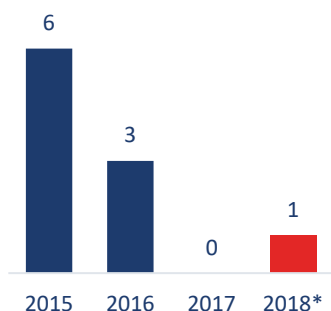
Our valuation for KHC included a 60% weight of Discounted Dividend Model (DDM) and a 40% weight of Price-to-Earnings Multiple Model. We arrived at a target price of \$57.88 which comes to an upside potential of 13.22% from their current price of \$51.12. Our target price of \$57.88 is considerably less than the average expert expectation of \$61.18. For the DDM, we determined the next years dividends, \$2.55, based on their prior performance and with their strategy. We expect KHC to keep increasing their dividends for the next five years during troubling market conditions at their 3-year average rate of 4.50%. This goes right along with their expectations and their announcements through corporate news. After we expect a perpetuity growth rate of around 2.00% from all different areas of economic conditions and growing at 4.50% is unrealistic for KHC. Then we calculated an average require rate of return to discount all these expected cash flows to be 7.00% and arrived at a target price of \$55.44.

Our P/E Multiple was comprised of the five competitors laid out in the "Peer Analysis" section of the report. We came up to a target P/E ratio of 19.90 which is 326% greater than their current ratio of about 6.1 making KHC a value stock. However, we do not believe that they will be able to achieve that within the investable future, that is why we adjusted to use a more conservative P/E ratio based on KHC's current standing and future economic outcome. A future P/E ratio of 17.00 resulted in a price of \$61.54, or an upside of 20.38%. This conservative approach we used to evaluate KHC to their peers, shows they are extremely undervalued, but still have better dividend and margins than most of their competitors.

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Number of Recalls

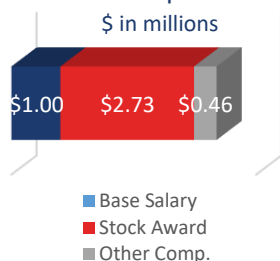


Source: Company Filings and Research. * 2018 was voluntary and not required by FDA.



Source: Company Annual Report. KHC's global presence is on all 7 continents, with production and retail on 6 of 7 continents.

CEO's Compensation



Source: FactSet, Bernardo Hees, the CEO, is not the highest paid executive, the former COO is.

Risks

Market Risks

Commodity Pricing (MR1): KHC is subject to fluctuations in the pricing of different commodities. Dairy, potatoes and tomatoes for example can fluctuate everyday making their costs differ. Some commodities have well established futures markets making them hedged in that area; however, dairy for example has a poor future market making their costs differ more.

Economic Conditions (MR2): As the economic conditions change, KHC will benefit from a potential market collapse and possible recession. Consumers might prefer the cheaper, or bargain brand, foods that KHC offers compared to current consumer trends. During economic downturns some Consumer Staples companies see an increase in sales. But, KHC would continue to see consistent revenues during this time.

Operational and Business Risks

Competition and Consumer Trends (OR1): The food and beverage industry has seen a wave of consumers moving towards healthy and organic lifestyles. Failure to catch market share and keep up with competitors could cause massive losses for KHC. However, KHC products have been changing due to these trends, and that could impact the costs associated to these products and potential taste consumers are accustomed too.

Brand Reputation (OR2): Dealing with food and beverages, possible health violations and scandals could hurt their brand leading to customers preferring different brands. KHC looks to extend their brand into different geographic regions and different products.

Private Ownership (OR3): Currently 3G Capital Partners and Berkshire Hathaway own nearly 50% of KHC stock and 6 out of 11 board positions. Also, 3G has multiple people within KHC in prominent positions, like CFO Mr. Knopf. There has been talks about taking KHC to the private side, paying dividends, and acquisitions and mergers that need to go through the board of directors for approval.

Financial Risks

International Risks (FR1): KHC has been moving into international countries more after their merger with Heinz Corporation. This could lead to currency risk between the United States Dollar and other currencies. Foreign political tension like tariffs and commodity prices could drastically change how KHC operates in these foreign markets. Lastly, the risk associate with the lack of information and failure of some of these emerging countries.

Management

KHC has a unique management team and board of directors that lead KHC. The Company has two large shareholders, Berkshire Hathaway (27%) and 3G Capital Investors (22%), that own majority share in the business and a majority share of the board of directors. After the 2015 merger, management was comprised of both Kraft Company and Heinz Company management. This brought a lot of leadership from areas of emphasis that these companies focused on prior to the merger. Kraft has very strong brand recognition while Heinz had great international and logistics ties which they have brought to the rest of the company. With the majority stake in KHC, both 3G and Berkshire have three board of directors currently serving, with Mr. Warren Buffett previously serving.

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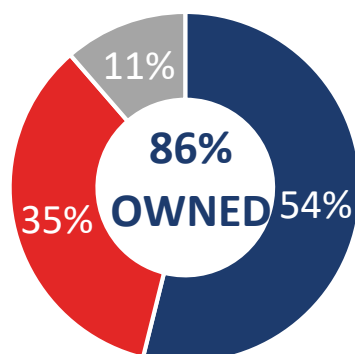


Bernardo Hees (left)



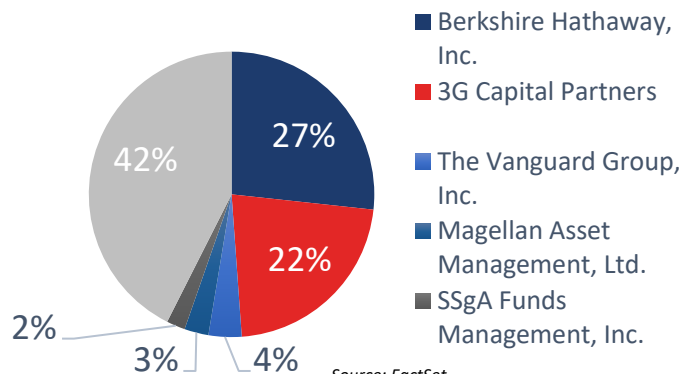
David Knopf (right)

KHC has recently seen changes within their management structure to combat the recent trends that is reflected in their stock price. Their prior CFO and COO have moved to different roles within the company, as a zone president and strategic advisor. They added youth to their executive team, Mr. Knopf, 30 and the CFO of KHC. Mr. Knopf worked on other mergers off other prolific food and beverage companies prior to taking reign. Their CEO, Bernardo Hees, remains at helm since the inception in 2015.



Source: FactSet

Ownership of Shares



Source: FactSet

Recent Acquisitions



Healthy
condiment
and sauces.

KHC's line to
disruptive
products from
the healthy
foods.



Quality coffee
roaster in
Canada.

Peer Analysis

The five biggest competitors, based on Market Value and pure competition, are: Danone, Conagra Brands, General Mills, Mondelez International, and Hormel Foods. Comparing KHC to the average of their peers, and the rest of the industry, KHC leads in most of the major categories. Their dividend has been one of the highest over the past three years (4.8% dividend yield), while still maintaining above average Return on Assets and Return on Equity.

Of their eight major brands, producing over \$1 billion in sales, three of them had the leading sales for their specific industry. Having the major sellers in such a competitive industry provides great brand recognition that is needed for some of these consumer staples industries. In addition, KHC is looking to even broaden their portfolio into the healthy and organic industry to keep up with consumer trends. They are changing their current products, like Oscar Mayer to have less nitrates, and developing a new line called Springboard Brands.

All \$ in millions	Market Cap	Sales*	EBIT*	Operating Margin*	Return on Equity*	P/E Ratio	Dividend Yield*
Kraft Heinz Company	\$62,411	\$26,245	\$6,005	22.88%	16.73%	6.05	4.90%
Danone	\$50,533	\$29,810	\$4,464	15.02%	19.36%	16.74	2.90%
Conagra Brands Inc.	\$15,748	\$7,969	\$1,260	15.81%	21.77%	23.49	2.60%
General Mills, Inc.	\$24,970	\$16,065	\$2,673	16.64%	41.83%	15.39	4.70%
Mondelez International Inc.	\$64,579	\$26,131	\$3,919	15.00%	9.96%	19.8	2.30%
Hormel Foods Corp.	\$23,932	\$9,514	\$1,137	12.12%	19.20%	24.1	1.70%
Averages	\$40,362	\$19,289	\$3,243	16.25%	21.48%	17.595	3.18%

*Last fiscal year's numbers

Source: Companies Filings

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