

Krupa Global Investments Disputes Societe Generale Analysis on Kraft Heinz; Renews Call for \$80/share Buyout

The Central Europe based investment firm, previously known as Arca Capital, has issued a detailed rebuttal citing serious flaws in analysis conducted by Societe Generale ("SocGen") of Kraft Heinz and reiterates its confidence that Berkshire Hathaway will purchase the company at an \$80/share valuation

PRAGUE, Dec. 18, 2018 -- Krupa Global Investments ("KGI"), one of the largest institutional shareholders of The Kraft Heinz Company, is responding forcefully to a recent report issued by Societe Generale, the controversial French financial services company, in which SocGen issued a price target of \$45/share for the multi-national food conglomerate. In a detailed response published on the website for Krupa Global Investments, KGI takes aim at the metrics by which SocGen came to its valuation. KGI is demanding a full retraction by SocGen as well as a full apology to Kraft Heinz shareholders.

Specifically, KGI contends that SocGen uses an incorrect approach to the discounted cash flow ("DCF") model of valuing Kraft Heinz. KGI believes that SocGen used an "entity approach" of the DCF model which calculates with Free Cash Flow to Firm ("FCFF"). They used the weighted average cost of capital ("WACC") as a discount rate of free cash flow, which is a typical sign of using the Entity approach. The entity approach is based on a calculation of free cash flow available for both a company owners and creditors. Generally, interest is an income for creditors. Thus, it should be involved in the FCFF calculation.

KGI attempted to substantiate SocGen's analysis using one of several equations to determine FCFF the most common of which is the following.

$$\text{FCFF} = \text{net income} + \text{non-cash charges} + \text{interest} \times (1 - \text{tax rate}) - \text{long-term- investments in working capital}$$

It is important to note that cash flow is NOT reduced by an amount of Net Interest in any of these formulas. Further analysis is included here:

http://www.krupainvestments.com/content/uploads/2018/12/kgi_why-societe-generales-valuation-report-on-kraft-heinz-undervalues-the-company-based-on-flawed-analysis-18-12-2018-1.pdf

Nevertheless, SocGen's analysis subtracted it from the cash flow. If Net interest was added into FCFF then the implied value would be about \$60 per share not \$42 which is their result. KGI is strongly convinced that it is not a correct calculation. Thus, in KGI's view, this concerning calculation has unfairly impacted the implied value of KHC stock.

"Societe Generale should not play games with peoples' investments by allowing poorly researched and flawed analysis to be distributed. Societe Generale has operated for a very long time with a reckless disregard for proper procedure exemplified by its recent \$1.4 Billion settlement with US authorities for violating sanctions and money laundering regulations. It is high time they change their tune and adhere to broadly recognized standards for large financial institutions publicizing analysis they know will impact stock prices. We demand a full retraction and apology," said Pavol Krupa, Chairman of Krupa Global Investments.

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Krupa Global Investments is continuing to campaign strongly in favor of an \$80/share buyout of public investors by Warren Buffett and Berkshire Hathaway. KGI cites a recent piece by Daniel Thurecht in Seeking Alpha backing up KGI's \$80/share valuation published on November 20, 2018 and a piece by Lauren Hirsch in CNBC underscoring the benefits of large legacy consumer companies going private published on October 27, 2018.

"We do not believe Warren Buffett wants his career tarnished by the embarrassment of losing Kraft Heinz investors 40 percent of their investments from 2015 prices. We are liaising with Kraft Heinz management, 3G Capital and Berkshire Hathaway to figure out a constructive solution that will benefit Berkshire Hathaway, 3G, Kraft Heinz shareholders, and the Kraft Heinz brand. We believe such a resolution is possible and will not rest until one is achieved," added Krupa.

About Krupa Global Investments:

Krupa Global Investments, previously known as Arca Capital, is a private investment group with a focus on energy, real estate, retail and service activities, as well as regulated activities focused on building and managing fund structures focusing on energy, real estate and financial services. It is named after its founder and chairman, Pavol Krupa. The firm takes an activist approach, with the goal of remedying and eliminating management actions that have a negative impact on companies, and with the goal of achieving significant positive change in strategy, financial structure or management. The firm has fought and won many successful battles and in so doing has streamline companies and realize hundreds of millions in shareholder value. Krupa Global Investments currently has approximately \$2 Billion in Assets Under Management.

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