KRUPA GLOBAL INVESTMENTS

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# Why Societe Generale's Valuation Report on Kraft Heinz Undervalues the Company based on Flawed Analysis

Societe Generale, the controversial French financial services firm, recently released a report giving Kraft Heinz a price target of $45/share. We strongly take issue with this report.

Specifically, we contend that SocGen uses an incorrect approach to the discounted cash flow ("DCF") model of valuing Kraft Heinz. We believe 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.

FCFF = net income+ non-cash charges+ interest x (1 - tax rate) - long-term investments in working capital

Other common formulas include the following.

FCFF = cash flow from operations + interest expense x ( 1 - tax rate ) - capital expenditures (CAPEX)

FCFF = earnings before interest and taxes (EBIT) x (1 - tax rate) + depreciation - long-term investments - investments in working capital

FCFF = earnings before interest, tax, depreciation and amortization (EBITDA) x (1 - tax rate) + depreciation x tax rate - long-term investments - 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.

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.

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 believe that an $80/share buyout is in the best interests of 3G Capital and Berkshire Hathaway (who are poised to take advantage of long-term gains), public shareholders (who can be made whole on their IPO investments in KHC) and Kraft Heinz employees (who will benefit from the increased stability at the helm of Mr. Buffett without Wall Street pressures). We look forward to a constructive resolution and will not rest until one is achieved.

**Contact for media:**
Mgr. Barbora Hanáková, spokesperson, +420 776 575 096, hanakova@krupainvestments.com
**Krupa Global Investments a.s.**, Doudlebska 1699/5, 140 00 Prague 4, Czech Republic
www.krupainvestments.com

**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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