BERKSHIRE HATHAWAY INC.

Berkshire Hathaway target assessment of Campbell Soup Company

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Table of contents

1 Introduction and motivation

The purpose of this thesis is to determine if Campbell Soup Company (Campbell) is a potential target for Warren Buffet's Berkshire Hathaway (Berkshire).

As a previous exchange student at Columbia University, where Warren Buffet went to Graduate School, I am very interested in Berkshire's investment philosophy and wanted to assess a company from Berkshire's point of view.

Berkshire is an American multinational conglomerate holding company lead by Chairman Warren Buffet and Vice-Chairman Charlie Munger. The company today owns multiple companies in various industries. Berkshire both fully and partially owns companies and some of the companies they have ownership in are Heinz, Coca-Cola, GEICO and Goldman Sachs. Berkshire assesses companies after their 6 investment criteria. These criteria will be presented later in the thesis.

The fall 2013 Berkshire bought Heinz, a company with similar capabilities as Campbell. There were also rumors that Berkshire was interested in acquiring Campbell.

The purpose of the thesis is to determine if Campbell could be a potential target for Berkshire, where the main focus will be a valuation of Campbell. The subject will be highly relevant both for my current studies (Applied Economics and Finance) and my full-time job the fall 2014 at PwC Deals.

1.1 Berkshire Hathaway´s investment criteria

It has in recent years become clear that Berkshire Hathaway both fully own companies and invest in marketable securities that they truly believe in. As Warren Buffett writes in his annual letter to shareholders in 2013: "At Berkshire, we much prefer owning a non-controlling but substantial portion of a wonderful company to owning 100% of a so-so business; it's better to have a partial interest in the Hope diamond than to own all of a rhinestone."[1] The company owns parts of (what Warren Buffett refers to as their "big four

[1] www.berkshirehathaway.com - Annual letter 2013

investments") Coca-Cola, IBM, American Express and Wells Fargo. Berkshire has six investment criteria: the purchase must be large, the target company must have demonstrated consistent earnings power, the business must earn good returns on equity while employing little or no debt, the business must be simple and understandable and there must be an offering price (or in the case of stock market purchase it must have a sensible price tag)[2].

Simple businesses

The first criterion for Berkshire is to be able to fully understand the business they are considering to buy. Berkshire generally does not invest in high tech companies that they cannot fully understand. In order for a company to be a target for Berkshire it must have a simple and understandable business model. In the 2013 annual letter to shareholders Warren Buffet writes: "We first have to decide whether we can sensibly estimate an earnings range for five years out, or more.[3]" Berkshire believes it is vital to recognize which industries and businesses they fully understand and stick to those.

Superior management in place

A target company must have superior management in place. First of all, Berkshire is not able to provide new high skilled management to companies they are buying. Therefore they are not interested in buying companies with managers they do not admire, trust and believe in. This is one of Berkshire´s most important criterion, and one that has proved to add value to Berkshire in previous years. The easiest way to assess if a company has superior management is to analyze a company's performance against the industry, which it operates in, previous profit/loss history and development in the share price.

Demonstrated consistent earning power

Berkshire is not interested in companies that historically have delivered low or no earnings, even though some expect such a company to earn above average returns in the future. In the future Berkshire will continue to look at companies that have demonstrated consistent earnings power and they are not interested in turnaround situations. Berkshire is looking for

[2] www.berkshirehathaway.com - Acquisition criteria
[3] www.berkshirehathaway.com - Annual letter 2013

companies that have a positive slope in their profit margins. This generally means that management is able to increase profit margins by controlling costs.

Businesses earning good returns on equity while employing little or no debt
Return on equity is defined as net income divided by shareholder's equity. In general Berkshire is looking for companies with a positive slope in the return on equity and they are usually searching for companies with a return of equity of around 15%. Berkshire has never been a particularly big fan of using debt, as their investment philosophy is very conservative.

Large purchases with a sensible price tag
Berkshire demands that the target company has $50 million of pre-tax earnings or more unless the target company will fit into one of Berkshire´s existing units[4]. Another of Berkshire´s criteria is that it should have an offer price, or in the case of investing in marketable securities a sensible price tag. By sensible price tag Berkshire refers to the fact that the company must have price that is lower or close to the target´s intrinsic value. In order to estimate a company´s intrinsic value Warren Buffet and Charlie Munger performs a fundamental analysis of the target company and compares their result to the market price. It is however important to notice that Berkshire is not interested in quick gains, and is truly an investor for the long run. Berkshire has historically invested in companies if the distance between the company's intrinsic value and its market value has a sufficient margin of safety so that the business can deal with unexpected future events and could affect future earnings growth. They may consider a lower margin if the target company has solid fundamentals.

1.2 Problem statement

The main purpose of this Master Thesis it so determine if Campbell fits the investment criteria set by Berkshire presented in section 1.1. The foundation of the analysis will be based on the fundamental value of Campbell, where the goal is to find out if the current market price of Campbell is above or below its intrinsic value. The main research question will by supported by nine sub questions.

[4] www.berkshirehathaway.com - Acquisition criteria

1.2.1 Main research question

"How does Campbell Soup Company fit Berkshire Hathaway´s investment criteria?"

1.2.2 Sub questions

The sub questions support the main research question and are linked to Berkshire Hathaway´s investment criteria. The various sub questions will be analyzed in the different sections of the thesis.

Strategic analysis

- What are the expected future developments in the food and beverage industry?
- How is Campbell´s positioned (within the food and beverage industry) with regards to the anticipated developments in these markets?
- Does Campbell have superior management?

Financial statement analysis

- How is the quality of Campbell´s reported earnings?
- Does Campbell employ good returns on equity with little or no debt?
- Have and will Campbell deliver consistent good earnings in the long-term?

Budget forecast

- How will the financial statements for FY2014-FY2023 develop?

Valuation

- What is the fair value of Campbell´s shares based on the enterprise discounted cash flow model and the multiples analysis as of May 19, 2014?

Sensitivity analysis

- How is the fair value of Campbell´s influenced by changes in important underlying parameters?

1.3 Data Collection and models

In this section I will provide an overview of the different theoretical models used in this Master Thesis.

1.3.1 Data Collection

This thesis is written from an independent analyst's point of view, and I have only used publicly available information. The data used in this thesis is both of quantitative and qualitative nature. In the thesis I have used the following sources: annual reports, market data, academic books, financial literature and articles.

1.3.2 PEST

The food and beverage industry is highly affected by the macro environment. It is therefore important to analyze factors that are and will affect the industry´s and Campbell´s performance. I found the PEST framework to be the most appropriate framework as it takes into consideration various macro factors that affect company performance.

The PEST framework categories environmental factors into four main types: political, economic, social and technological. The crucial part of the PEST analysis is to choose factors that are vital not only important for the future performance of Campbell and the food and beverage industry[5].

One of the major drawbacks of the PEST model is that it is highly influenced by the analyst performing it. The results of the PEST analysis are likely too subjective, and it is unlikely that two analysts would produce the same PEST analysis.

1.3.3 Porters five forces

In order to provide a realistic budget forecast it is important to understand how the structure of an industry drives competition. The competitive environment will affect the industry´s profitability and thereby Campbell´s chance of securing sustainable earnings.

[5] Grant (2010) Contemporary Strategic Analysis, p.64

I find the industry analysis "Porter's Five Forces" best suited to analyze the food and beverage industry that Campbell operates in. Porter's five forces framework analyses the attractiveness of a specific industry in terms of five competitive forces: the threat of entry, the threat of substitutes, the power of buyers, the power of suppliers, and the extent of rivalry between competitors[6]. Low entry barriers, strong competition, strong supplier and buyer power and many substitutes make the industry less attractive.

One of the large critics to "Porter's Five Forces" is that the model does not take into consideration factors like digitalization, globalization and deregulation[7]. I have therefore chosen to also analyze Campbell with the PEST framework to capture these factors.

1.3.4 Value chain analysis

The value chain analysis will provide information on where in Campbell's value chain a potential competitive advantage might lie. According to Michael E. Porter it is important to isolate various operating activities to identify the value creating activities[8]. The value chain analysis in this thesis will focus on a potential cost advantage. It is important to acknowledge that the activities in a company are closely linked together and that it is these linkages that might itself be the competitive advantage[9].

1.3.5 The enterprise discounted cash flow model (DCF)

I have chosen to base by valuation on the DCF model, which is based on the forecast of free cash flows to firm. The DCF valuation is the first step in finding the fundamental value of Campbell. Free cash flow to firm is given by the following formula[10]:

$$FCFF = NOPAT + depreciation\ and\ amortization \pm \Delta NWC - Net\ investments\ (non - current\ asset$$

[6] Grant (2010) Contemporary Strategic Analysis, p.69
[7] Downes and Mui (2000) Unleashing the Killer App: Digital Strategies for Market Dominance, p.35-36
[8] Porter (1985) Competitive Advantage, p.39
[9] Porter (1985) Competitive Advantage, p.48
[10] Petersen and Plenborg (2012) Financial Statement Analysis p.176

The enterprise DCF model discounts the free cash flows, available to all investors, with the weighted average cost of capital[11]:

$$Enterprise\ value_0 = \sum_{t=1}^{n} \frac{FCFF_t}{(1+WACC)^t} + \frac{FCFF_{n+1}}{WACC - g} * \frac{1}{(1+WACC)^n}$$

In order to find the equity value with this approach, one has to subtract net interest-bearing debt and minority interest from the enterprise value. The valuation formula is presented below with free cash flows to all investors, weighted average cost of capital and terminal growth rate as crucial inputs.

It is important for the reader to understand that the valuation model is only as accurate as the forecasts it relies on.

1.3.6 Relative valuation (multiples analysis)

I have chosen to stress test my DCF model with two multiples to test my forecasted cash flow's plausibility. The relative valuation will provide information on how attractive Campbell is compared to its peers. Furthermore, if a company has higher multiples than its peers this might be a sign of the company being overpriced compared to its peers or a sign that the company have superior market outlook. The multiples analysis will give me input in the discussion of whether or not Campbell could be a target for Berkshire Hathaway.

Furthermore, the value of the multiples analysis critically relies on the assumption that the companies in the peer group truly are comparable companies[12].

The two multiples I have chosen are EV/EBITDA and P/E. The multiples are calculated in the following way[13]:

- P/E=price per share divided by earnings per share
- EV/EBITDA=enterprise value divided by earnings before interest, depreciation and amortization

[11] Petersen and Plenborg (2012) Financial Statement Analysis p.216
[12] Petersen and Plenborg (2012) Financial Statement Analysis p.227
[13] Petersen and Plenborg (2012) Financial Statement Analysis p.230

I have only used forward looking multiples based on current market values from Bloomberg and compared those against my own forecast. The overview of the peer group companies can be found in section 2.5. It is important to notice that the P/E does not take into consideration differences in capital structures.

1.3.7 Sensitivity analysis

The DCF model is based on several subjective assumptions and the DCF valuation could potentially be influenced by the analyst's opinion. I will therefore perform a sensitivity analysis. In the sensitivity analysis I will change the weighted average cost of capital and the terminal growth to see how changes in these inputs will change the DCF valuation.

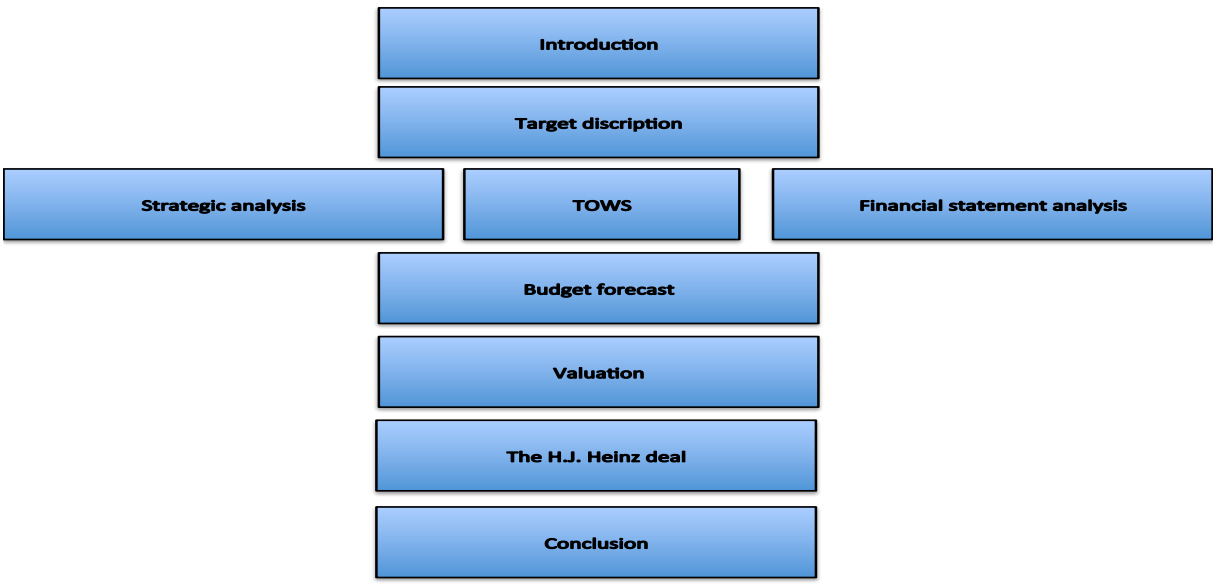
1.3.8 TOWS

TOWS is a framework that is used to provide insight to the internal and external factors that affects Campbell. TOWS evaluates the threats, opportunities, weaknesses and strengths of a specific company. I will use the TOWS matrix to summarize my findings from the strategic and financial statement analysis.

1.3.9 The research structure

The Master Thesis will follow the structure presented in figure 1.1.

Figure 1.1 Thesis structure



Source: Own creation

1.4 Delimitation

- I have chosen to value Campbell after their release of their Q3 report of the fiscal year of 2014. The valuation date is set to be May 19, 2014.
- I have only used publicly available information to find Berkshire's investment criteria and to value Campbell.
- As Campbell consists of many different sub brands I have decided to analyze Campbell's five reportable business segments.
- Since Campbell operates in several product classes in the food and beverage industry it is difficult to find exact comparable companies. I have therefore chosen the ones that are most similar to Campbell.
- The determination of how well Campbell fits Berkshire's investment criteria might be biased by my subjective opinion.
- I value Campbell as a going concern and will not include valuation models that focus on liquidation value.

2 Campbell Soup Company

Campbell Soup Company (Campbell) manufactures and markets foods and simple meals, such as soups and sauces, baked snacks and healthy beverages. Campbell produces and sells their food globally and had over $8 billion in sales in the fiscal year of 2013. The company is listed on the New York Stock Exchange (NYSE) and is headquartered in Camden, New Jersey.

2.1 The history

In 1869 Joseph Campbell and Abraham Andersen formed the business that later would become Campbell Soup Company. The company went in 1954 public on the New York Stock Exchange. They originally started in the soup business, but have through the companies almost 150 years of existence acquired several companies. The company is today a large producer of different types of food, snacks and beverage[14].

Campbell is famously known for their canned soups with their white and red label.

[14] www.campbellsoupcompany.com - About Campbell

Source: The Campbell Soup Company website, designed by Andy Warhol.

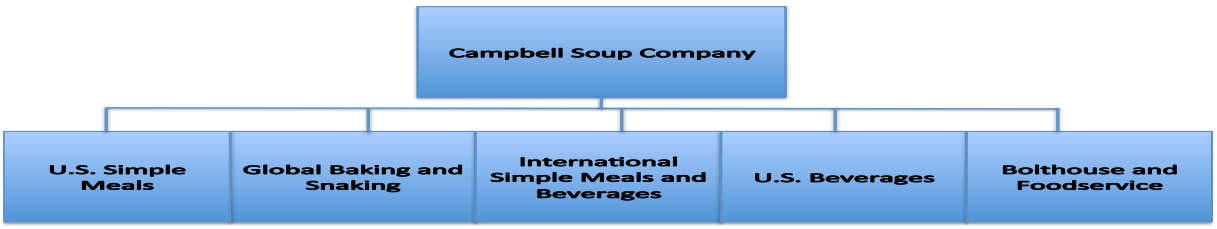
In the early 2010s Campbell suffered declining sales, and has in recent years acquired companies like Bolthouse Farms, Plum Organics and Kelsen Group support future growth.

2.2 Corporate structure

Campbell consists of several different brands within their three core categories Soup & Simple Meals, Snacks and Healthy Beverages. They currently serve different geographical markets with different brands.

The company is divided into five segments which they report results on: U.S. Simple Meals; Global Baking and Snacking; International Simple Meals and Beverages; U.S. Beverages; and Bolthouse and Foodservice[15].

Figure 1.2 Corporate structure



Source: Own creation from Campbell Soup Company's 2013 annual report

[15] Campbell Soup Company's 2013 annual report, p.23-24

U.S. Simple Meals

This category aggregates two operating segments: U.S. Soup and U.S. Sauces. The U.S. Soup retail business includes: Campbell's soups, Swanson broth and stocks. The U.S. Sauces retail business includes: Prego pasta sauces; Pace Mexican sauces; Campbell´s canned gravies, pasta and beans; Swanson canned poultry; and Plum Organics foods and snacks (as of June 13 2013)[16].

Global Baking and Snacking

The Global Baking and Snacking segment aggregates: Pepperidge Farm cookies, crackers, bakery and frozen products in U.S. retail; and Arnott's biscuits in Australia and Asia Pacific[17].

International Simple Meals and Beverages

The International Simple Meals and Beverages segment aggregates simple meals and beverages outside the U.S. In Canada the segment currently consist of Habitant and Campbell's soups, Prego pasta sauces, Pace Mexican sauces, V8 juices and beverages, and certain Pepperidge Farm products. In the Asia Pacific the segment includes Campbell's soup and stock, Kimball sauces, V8 juices and beverages, Prego pasta sauces and Swanson broths. The segment earlier also included simple meal brands in Europe, but has now been sold[18].

U.S. Beverages

This segment has showed disappointing declining sales numbers in recent years, is heavily influenced by the sales in is dominating brand, V8. The U.S. Beverage segment represents the following products: V8 juices and beverages and Campbell's tomato juice[19].

Bolthouse and Foodservice

This segment consists of Bolthouse Farms products and the North American Foodservice. The North American Foodservice segment includes the distribution of various products such as

[16] Campbell Soup Company´s 2013 annual report, p.3.
[17] Campbell Soup Company´s 2013 annual report, p.4
[18] Campbell Soup Company´s 2013 annual report, p.4
[19] Campbell Soup Company´s 2013 annual report, p.43

soup, specialty entrées, beverage products, other prepared foods and Pepperidge Farm products through various food service channels in the U.S. and Canada[20].

2.3 Corporate governance

This section is provided to give an overview of ownership structure, management, Board of Directors, various board committees and compensation policies. The goal of this section is see if there could be some part of the company´s corporate governance that could affect Campbell´s intrinsic value, but also to see if this is a company that could fit Berkshire Hathaway.

Ownership Structure

Campbell Soup Company is listed on the New York Stock Exchange under the ticker name CPB. There are currently 313,747,000 shares outstanding (as of May 19, 2014)[21]

There are several large owners of Campbell: Malone (16.9%), Dorrance (14.7%), van Beuren (7.5%), Weber (4.1%), BlackRock (3%), T. Rowe Price Associates (3%), the Vanguard Group (2.8%), State Street Global Advisors (2.6%), PNC Wealth Management (1.8%) and Mellon Capital Management Corporation (1.8). The remaining 41.8% of shares are owned by various smaller shareholders. All shareholders have equal voting rights.

Management and executive compensation

Campbell is run by CEO Denise M. Morrison, which has been CEO since August 2011. She joined the company in 2003 and has over 30 years of experience in the food industry. She has been a part of several other large food businesses such as Kraft Foods, Nabisco, Nestle and Pepsi-Cola. Denise was named to Barack Obama´s Export Council in 2012[22]. The executive team consists of ten senior vice presidents for Campbell´s different divisions[23].

[20] Campbell Soup Company´s 2013 annual report, p.4
[21] www.campbellsoupcompany.com - Stock Charts
[22] www.campbellsoupcompany.com - Denise Morrison
[23] www.campbellsoupcompany.com - Corporate governance

The compensation and organization committee recommends the CEO's annual compensation including base salary, annual incentive compensation and long-term incentive compensation (including stock options and restricted stock. The board of directors makes the final decision on compensation for the CEO and the rest of the company´s executive team. In determining the CEO's compensation the committee takes into consideration annual performance evaluation of the CEO, the company´s performance, relative shareholder return, the value of similar incentive compensation awards to CEOs at comparable companies, the awards given to the CEO in prior years, and the quality of earnings[24]. A deeper analysis of the management will be provided in the strategic analysis.

Board of Directors

The board of directors consists of 15 members as of September 2013. The board of directors selects the CEO, reviews and approves fundamental financial and business strategies, major corporate actions and an annual operating plan[25].

Several of the company's large owners like Mary Alice D. Malone, Bennett Dorance, Archbold D. van Beuren and Charlotte C. Weber are currently on the board of directors. The board decides upon the number of members on the board and a substantial majority of the board´s members should be considered independent. The shareholders at the annual meeting elect directors and they are elected for one year. The CEO is currently the only employee on Campbell´s board.

The directors are required to own 2,000 shares within one year of election and 6,000 shares within three years of election. The primary responsibility of the directors are to act in what they believe are in the best interest of their shareholders and to ensure that the business of Campbell is conducted to further the long-term interests of the shareholders.

The current principle for director fees is that it is set at the median of a group of 23 food and consumer products companies, and shall be delivered 50% in unrestricted shares and 50% in

[24] www.campbellsoupcompany.com - Corporate governance

[25] www.campbellsoupcompany.com - Board of directors

cash unless a director elects to receive his or her compensation entirely in the form of Campbell stock.

Board Committees

There are currently four board committees: the Audit Committee, the Compensation and Organization Committee, the Governance Committee and the Finance and Corporate Development Committee[26].

The Audit Committee meets at least six times each year and the Committee meets periodically with management, internal auditors and the company´s independent auditor. "The Committee's purpose is to assist the Board in its oversight of (1) the integrity of the Company's financial statements and financial reporting process, (2) the qualifications and independence of the independent auditors, (3) the performance of the independent auditors and of the Company's internal audit function, and (4) compliance by the Company with legal and regulatory requirements." The Committee has the authority to select, appoint, evaluate and, if appropriate replace the independent auditors. They also approve all the independent auditors fees[27].

The Compensation and Organization Committee oversees compensation and benefit policies, performance and compensation of senior executives, succession plans and organization changes. Furthermore, the Governance Committee oversees matters relating to compensation, organization and effectiveness of the Board and its committees. The Finance and Development Committee overseas the company´s capital structure, capital budget, pension fund, issue and repurchase of debt and equity, acquisitions and divestures.

From the short review above it seems like Campbell have the proper corporate governance function in place and that the corporate governance is sufficient to be a potential target for Berkshire.

[26] www.campbellsoupcompany.com - Corporate governance
[27] www.campbellsoupcompany.com - Corporate governance

2.4 Business model and strategy

This section is provided to give an overview of Campbell's business model and strategy. The section will include a description of the change in the strategic plan in 2011 after the hiring of the new CEO, Denise M. Morrison.

2.4.1 Business model

Campbell´s business model is to produce food and beverages for sale. They have in recent years performed several acquisitions in order to stay competitive and secure growth. Campbell is a growing global food company with annual sales of more than $8 billion and powerful brands in three core categories: Soup & Simple Meals, Snacks and Healthy Beverages. On their company website one can read: "*After almost 150 years, we are still focused on delighting consumers with great-tasting foods and beverages that meet their evolving preferences, needs and desires*." The company is known for their iconic $2.1 billion Campbell's brand, and their portfolio extends beyond soup, to foods such as Pepperidge Farm cookies and Goldfish crackers; Arnott's, Kjeldsens and Royal Dansk biscuits; V8 juices; Bolthouse Farms super-premium beverages, carrots and dressings; Plum Organics premium organic baby food; Swanson broths; Prego pasta sauces; and Pace Mexican sauce.[28]

2.4.2 Change of strategic plan 2011[29]

The overarching goal of Campbell is to deliver long-term total shareholder return that exceeds the industry average in a sustainable way. In 2011, when Denise M. Morrison was elected CEO, Campbell introduced a new strategic plan. The strategic plan includes an increased focus on consumer-driven innovation in products and packaging as the primary driver of organic growth.

Campbell has under Morison´s leadership focused on three growth strategies: Stabilize and then profitably grow North American soup and simple meals; expand the company´s international presence and; continue to drive growth in healthy beverages and baked snacks.

[28] www.campbellsoupcompany.com - About Campbell

[29] Campbell Soup Company's 2011 annual report, p.5-8

Stabilize and then profitably grow North America Soup and Simple Meals
As a part of the new strategy Campbell is rebalancing their marketing investments to expand the equity of their brands. The R&D strategy changed with an increased focus on expanding their product and packaging platforms to reach new customers and new eating occasions.

Expand our International presence
The 2011 strategy seeks to broaden the range and availability of Campbell´s products in the international markets they currently do business. They are also increasing their focus on emerging markets like Latin America and China as well as entering new geographies.

Continue to drive growth in Healthy Beverages and Baked Snacks
Through continuous innovation, improved marketing and investment Campbell believe they can restore their competiveness in this segment. Also here will they continue to expand into new markets with both existing and new products.

The company has recently performed three large acquisitions: Bolthouse Farms, Plum Organics and Kelsen. These acquisitions are claimed to support the company´s three growth strategies and enable Campbell to reach their goal, to deliver sustainable shareholder return above the industry average.

2.5 Competitors
In order to do a fundamental analysis of Campbell it is important to assess the performance of Campbell´s competitors compared to the performance of Campbell. I will throughout this thesis use a peer group that consists of General Mills, ConAgra Foods, Flowers Foods, Mondelez International, Kellogg and Nestle. It is often hard to find exact comparable companies as they often differ in product line, methods, financing and so on. I acknowledge that not all companies in the peer group compete with Campbell in all product categories.

General Mills, Inc.
General Mills is one of the largest food companies in the world and had net sales of $17.8 Billion in fiscal year 2013. More than 60 percent of their net sales come from U.S. Retail products. “General Mills has a distinguished portfolio of leading brands, including Cheerios,

Betty Crocker, Pillsbury, Green Giant, Yoplait, Nature Valley, Old El Paso and Häagen-Dazs, and holds the No. 1 or No. 2 share position in growing food categories worldwide."[30]

General Mills overarching mission is to make lives healthier, easier and richer. General Mills competes with Campbell in segments such as soup, snacks, simple meals and baked products[31].

ConAgra Foods[32]

ConAgra Foods is one of North America's largest food companies, with last year's sales of over $15 billion. The company started as a flour milling company and has since the beginning significantly changed their product portfolio. Furthermore, the company is divided into two segments: Consumer Foods and Commercial Foods. The company has products in several categories like meals, entrées, condiments, sides, snacks and desserts.

Flowers Foods[33]

The company has a strong history and dates back to 1919. Flowers currently operates in fresh bakery foods, including fresh breads, buns, rolls, tortilla and snack cakes. The Flowers brand are among the strongest in the baking industry and mainly competes with Campbell in their Global Baking and Snaking segment, but is also a potential substitute product to other operating segments for Campbell.

Mondelez International, Inc. [34]

Mondelez mainly competes with Campbell in the snack market, and Mondelez is one of the largest snack companies in the world with sales of over $35 billion. On October 1, 2012 as a part of the spin-off of the North American grocery operations the company changed name from Kraft Foods to Mondelez International. Mondelez owns famous brands like Oreo, Nabisco, Jacobs coffee and Tang powdered beverage.

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[30] www.generalmills.com - Investor relations

[31] www.generalmills.com - About General Mills

[32] ConAgra Foods' 2012 annual report, p.4

[33] Flowers Foods' 2013 annual report, p.1-2

[34] Mondelez International's 2013 annual report ,p.1

Kellogg Company[35]

Kellogg's was founded in 1906 and is a company with a rich history. Kellogg's mainly operates in ready-to-eat cereal and convenience foods. The products sold by Kellogg's include: cereal, cookies, toaster pastries, frozen waffles and veggie foods. Kellogg's has almost $15 billion in sales and is one of the largest food companies in North America.

Nestle

The start of Nestle dates back to 1866 in Switzerland. Nestle had over CHF92 billion in sales last year, and is the largest food company in the world. The company has over 200 brands across the world operates in 86 countries. Their portfolio includes baby foods, bottled water, cereals, chocolate & confectionary, coffee, dairy, drinks, food service, healthcare nutrition, ice cream and pet care[36]. Nestlé's products practically cover almost every food and beverage category.

3 Strategic analysis

I will in this chapter perform a strategic analysis of Campbell. The goal of the analysis is to provide insights in the company´s strategic position in order to realistically forecast Campbell´s budget in future periods. In this section I will perform a macro-level analysis, an industry-level analysis, a value chain analysis, an assessment of Campbell's strength and weaknesses and lastly an analysis of Campbell's business segments. The analysis of Campbell's business segments will also include a forecast of Campbell's future revenue growth. I will in chapter five summarize my findings in a TOWS-analysis.

3.1 PEST

The primary objective for this section is to detect macro factors that may affect Campbell and the food and beverage industry's cash flow potential and risk.

[35] Kellogg's 2013 annual report, p. 2
[36] www.nestle.com - Our brands

The macroeconomic environment will be analyzed trough the PEST model that indicates the impact of political, economic, social and technical factors on cash flow and risk[37]. The PEST model is earlier discussed in section 1.3.2.

3.1.1 Political factors

Lower Trade Barriers

China's participation in the World Trade Organization (WTO) has opened China to Western companies. By removing trade barriers China is promoting their market, with about 1.3 billion potential customers, for foreign trade and investment[38]. Furthermore the expansion of the European Union (the EU), and a potential trade agreement between the EU and the U.S. would have a positive impact on the food and beverage industry and Campbell's performance[39].

Stronger Regulation of the Food and Beverage Industry

The food and beverage industry is heavily affected by political factors. The manufacturing and marketing of food products is extensively regulated. The primary areas of regulation include the processing, packaging, storage, distribution, advertising, labeling, quality and safety of the company's food products, as well as the health and safety of the company's employees and the protection of the environment. Changes in regulatory requirements, or evolving interpretations of existing regulatory requirements, may result in increased compliance cost, capital expenditures and other financial obligations that could adversely affect the industry[40].

Stricter laws and regulations on labeling have already been costly for the industry. Changes in the political environment in the U.S. could lead to stricter regulations and thereby increasing production costs for food producers. These costs increases could possible put pressure on profit margins and have a negative effect on the industry. The trend is heading towards stricter regulation of food in the U.S. An example of this is the FDA´s (Food and Drug

[37] Petersen and Plenborg (2012) Financial Statement Analysis p.188
[38] Monzella (2000) "Upon Joining the WTO, China Will Reduce Trade Barriers, Possibly Benefiting Your Business"
[39] www.ec.europa.eu - European commission, trade, policy, countries, US
[40] Campbell Soup Company's 2013 annual report, p.7

Administration in the U.S.) proposal to update the Nutrition Facts Label found on most food packages in the U.S.[41]. Internationally there is also an increased focus on food labeling.

The increased political focus on fighting obesity might affect the industry in the form of increased transition costs. Current product lines might have higher levels of added sugars or sodium than what is recommended by the government. Changes in these relationships might affect the demand for products with high levels of added sugars or sodium.

Political Instability

In recent years slowing economies, oppressive regimes, and changes in society have contributed to political instability in emerging markets and various other countries. Companies with presences in these countries face potential political violence, terrorist attacks, and resource nationalism that can put the security of their people, assets and supply chains at risk[42].

Climate Changes

Crops grown in the U.S. are critical for the supply of food around the world. Natural disasters, draught, floods and temperature extremes could have a sever effect on crops yield both in the U.S. and around the world. Even though crops tend to grow quicker in warmer conditions, warmer temperatures could also reduce crop yield[43]. This can again lead to higher prices on production inputs in the food and beverage industry, and thereby harming profit margins.

Trademarks, Patents and Copyrights

Trademarks are increasingly important in the processed and packaged food industry. As one example Campbell has currently 4,400 trademarks registered in 170 different countries[44]. It is important to note that laws differ from country to country and that in some countries

[41]www.fda.gov - Food regulations
[42]Marsh (2014) "Managing Political Instability in Emerging markets"

[43] www.epa.gov - Climate changes and agriculture
[44] Campbell Soup Company's 2013 annual report, p.4

trademark laws are not heavily enforced. Weakly enforced trademark laws might harm individual brands.

3.1.2 Economical factors

Economic Growth and Consumer Buying Power

Top-line growth is one of the key trends analyst looks for in the food and beverage industry. The majority of the industry expects modest growth next year[45]. Despite the expected growth in the industry next year the biggest threats to profit margins are costs of input or merchandise, discounting and other sales incentives and decreased sales volumes[46].

Raw Materials and input costs

In recent years there has been severe price volatility in raw materials used for food production and this trend is likely to continue in the future. Raw material prices are affected by both supply and demand, which both has been pressured in the last decade due to factors such as unstable weather conditions and increasing world population[47]. Increasing inputs costs like raw materials and energy costs will put pressure on profit margins in the food and beverage industry and will have a negative effect on Campbell.

Exchange Rates

The U.S. is one of the largest markets for the food and beverage industry and the industry is strongly affected by the U.S. dollar. A weak U.S. dollar will make it costly for American based companies to produce in the U.S. and ship goods to China, as prices in foreign countries often are fixed. This will lead to lower revenue from subsidiaries abroad. Furthermore, no matter where the company is located, it will be affected by changes in exchange rates.

[45] KPMG 2013 Food and Beverage Industry Outlook Survey, p.27
[46] KPMG 2013 Food and Beverage Industry Outlook Survey, p.30
[47] United Nations (2012) Excessive commodity price volatility: Macroeconomic effects on growth and policy options, p. 7-9

3.1.3 Social factors

Health

Health is one of the most important innovation drivers in the global food and beverage industry. The focus on health is increasing in strength around the world and not only in the U.S., Governments support health initiatives in order to reduce fat-related problems, preventing heart and cardiovascular diseases and increase overall wellness among their inhabitants. The importance of the health trend is likely to continue in the future and health is considered as a mega-trend in the food and beverage industry[48].

Convenience and Premium food

Premium food is another mega-trend within the food and beverage industry. "Premium" in this case refers to the quality, uniqueness and specialty of foods or ingredients charging a high price-point for its purchase[49]. These products have earlier been restricted to high-end food halls or select retailers. The new trend is that regular customers also demand a higher quality and in many ways are trading-up to premium brands or products.

Ready-to-go meals and snack is a part of the convenience trend that has been present for several years. As people are getting busier and busier simple meals, beverages and snacks have become an important market for the food and beverage industry.

Increasing middle class in emerging markets

The middle class in the BRIC-countries (Brazil, Russia, India and China) is growing more rapidly ever before. They are demanding food, beverage and goods like the middle class in the U.S. and Western Europe are consuming. The opportunities for growth in these markets have already proven to be great even with risks as corruption, political instability and different consumer tastes. There is currently living over 2.7 billion people in the BRIC-countries, and even though there is a smaller percentile of people in the middle class than in the U.S. and Western Europe, the potential market is enormous. The global middle class will grow rapidly

[48] Stefania Vercesi (2008) "Market dynamics in the food industry: a new logic to sustain value creation", p.25
[49] Jones (2000) "Growth Strategies in Premium Food & Drinks"

in the next 20 years[50]. It will however be important that companies like Campbell are able to adapt to the various consumer tastes and differences in these markets, as they are different from the U.S. and Western Europe.

3.1.4 Technological factors

Social Media

Social media as a communication channel has exploded in the past few years. The world is changing in a more rapid pace than one could have imaging only ten years ago. Access to information is now easier than ever, and people are connecting through personal networks at a daily basis. This will have a dramatic effect on how easy a brand´s reputation could be both built and destroyed in just a matter of days or even hours. Brand equity is important in the food and beverage industry, and there is a threat that food scandals could destroy strong brands before they are able to respond properly. These trends are not limited to mature markets such as the U.S. and Western Europe. Similar trends are seen in emerging markets. Online consumer-to-consumer word-of-mouth and online consumer reviews are increasing and play an important role in the consumer's path to purchase[51].

Technology Affects Production

Technology is not only affecting brand value, it also gives opportunities to reduce production costs, and produce products with higher quality. Innovation in the food and beverage industry is often lead by changes in consumer taste, but is now also driven by the opportunities that technology gives. New technology gives the industry the opportunity to use a higher percentage of their raw materials, reduce waste and reduce the number of working hours used in production. The consequence is that the industry might be able to increase their profit margins in the future.

3.2 Porters five forces

The attractiveness of an industry is ultimately a result of the possibility of earning returns above the cost of capital. In general the attractiveness is a function of the competitive

[50] EY (2013) "Hitting the sweet spot: the growth of the middle class in emerging markets", p. 4
[51] Deloitte (2013) "Global powers of consumer products 2013" p.7-8

landscape, and high competition reduces the chances of obtaining abnormal returns[52]. For the investor it is therefore important to analyze the different forces affecting the competition.

In the following analysis, Porter's framework will be applied in order to analyze, which of the competitive forces that are the most dominant in determining the attractiveness of the food and beverage industry. The evaluation will, unless otherwise stated, cover both food and beverage.

3.2.1 Threat of new entrants

In order to analyze the threat of new entrants into the food and beverage industry it is important to have a look at the entry barriers for this particular industry. Factors that need to be considered are economies of scale, brand value, large investments and industry consolidation, retaliation from industry players and distribution networks.

In the food and beverage industry productivity is very important[53]. Large companies in the industry can take advantage of their size and produce in large quantities and thereby lowering their average cost per product produced. By exploiting their economies of scale the companies can either increase their profit margins or pressure prices down or force smaller companies out of business.

Brand value provides another important entry barrier for companies wanting to establish a strong position within the food and beverage industry. The industry consists of products with strong brand value like Campbell´s, Nestle, and Heinz, but private label products are also increasing in size. On the other hand the effect of the social media boom has reduced companies control over their online brand image. Companies' reputation can be harmed in just a few hours online, however this also provides opportunities for companies wanting to enter the market. By receiving good feedback on their product market enterers could quickly get free and high exposure for their products and thereby being a threat to the more established brands in the industry.

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[52] Petersen and Plenborg (2012) Financial Statement Analysis p.189
[53] Pfitzer and Krishnaswamy (2007) "The Role of the Food & Beverage Sector in Expanding Economic Opportunity." p.6

In recent years there have been several mergers and acquisitions in the food and beverage industry. Market consolidation has helped the big companies getting even bigger and expanding their market share. Large market shares, often supports strong brands. Large investments are demanded in order to engage in acquisitions, but also to keep up with trends and product innovation. These costs are often major for new market entrants and works as a strong entry barrier for the industry.

Another factor that new companies in the industry need to consider is the retaliation of established companies. Examples of retaliation could be lowering prices or extensive marketing campaigns. The threat of retaliation might prevent some companies from entering the industry.

One of the most important assets a company in the food and beverage industry can have is a large and functioning distribution network. It is extremely important in order to reach markets far away from production facilities, and to reach end customers in a cost effective way. Building large distribution networks does however often take considerably long time and could be very costly. New market entrants often do not possesses large distribution networks.

I consider entry barriers to be medium to high in the food and beverage industry. Economies of scale, large investments, distribution networks and retaliation threats support a high entrance barrier, but the impact of social media on branding could reduce the entrance barrier.

3.2.2 Buyer power

Buyers in the food and beverage industry can be divided into retailers and customers, and there are different forces applicable to each of them. In order to assess the bargaining power of buyers I will look at buyer awareness, price sensitivity, product innovation, threat of backward integration and buyer concentration.

Consumer's buyer awareness is increasing, as consumers are becoming more informed about different products. They are now easily able to review health ingredients, safety and price discounts. This makes it more challenging for companies to have customer focus and loyalty.

After the turmoil of the recession consumers have reduced their expenditures, which raised consumer price sensitivity on food and beverages. This makes it harder for companies to raise prices; it seems like the only way companies drive profit up is by discounted prices and driving volume up. Hard pressure on prices in the long-term will drive profits down and make the industry less attractive. As consumers in such large quantities change their spending patterns, one can easily argue that consumers do have some kind of buying power.

Consumers today are getting more and more demanding and always want to be on top of the trends in society. Producers are loading consumers with products to initiate their buying momentum, and rewarding consumers with significant buying power.

The threat of backward integration seems unlikely, as retailers do not pose a reliable backward integration threat where retailers set up independent production units or acquire producers to grow up the value chain. The cost of such integration would be large, and there are a very limited number of retailers that would have the financial power to perform these acquisitions. It does not seem like the threat of backward integration increases the buying power of retailers.

The buyers in the food and beverage industry are highly fragmented and there are only a few companies like Walmart and Carrefour that could put any kind of pressure on the producing companies. Campbell states in their recent annual report, that 19% of net sales comes from Walmart. It is obvious that such a large share comes at a cost and that particularly Walmart possess a lot of bargaining power.

I consider retailers' bargaining power in general to be low, however Walmart is by far the largest discount supermarket in the U.S. and they are likely to have an effect on prices.

3.2.3 Supplier power

The food and beverage industry mainly use raw materials that are commodity products or livestock in their production. To analyze the food and beverage industry I will look at the availability of raw materials, supplier concentration, input differentiation and switching costs.

There has in recent years been a shortage in the supply of raw materials. One important indicator for this is the tense situation on the raw materials markets. The high consumption of raw materials in rich countries are currently being compensated by low consumption in poor countries, however this trend is not likely to continue forever and the demand for raw materials will put pressure on raw materials prices. Even though this does not increase the power of suppliers it makes industries, like the food and beverage industry, less favorable. Increasing input costs will put pressure on profits[54].

The food processing industry has a large number of competitive suppliers, where companies can buy agriculture products from a variety of suppliers, both large and small. This takes away the leverage suppliers could have utilized if they were providing large volumes of supplies individually.

Inputs in the production of processed food and beverages are similar for different suppliers of the inputs. The low input diversification leads to companies not being demanded upon one or two producers of their supplies. As previously stated the raw materials that are procured in the food and beverage industry are commodity products or livestock, these inputs are only differentiated in quality. This is favorable for the industry as it points in the direction of low supplier power.

Furthermore switching costs for the suppliers are usually high since the suppliers usually operates on long-term contracts. This makes the suppliers bargain position weaker, and it is often not feasible for the suppliers to quickly and not expensively switch to another buyer.

I consider the power of suppliers in the food and beverage industry to be low. However, the present and potentially increasing shortage of raw materials makes raw materials volatile and makes the industry less attractive.

[54] Shae (2014) ”Industry Outlook” Exhibit 10 of 17

3.2.4 Industry rivalry

The competition in the food and beverage is high and there are many large players. In order to assess the competition level in the industry I will look at product diversification, consumer switching costs, price wars and market consolidation.

In recent years there has been an extreme focus on products being healthier and having higher quality. Other trends mentioned in the PEST analysis are convenience and premium food. This intensifies the competition in the industry as more companies are innovating to meet consumer demands. The pressure of always being "ahead of the herd" is costly and puts pressure on profits.

Switching costs for consumers are low in this industry as the customers are losing close to nothing on changing from one brand to another. This often leads to frequent churning and fierce advertisement rivalry among the players in the industry. The low switching costs make it hard for companies to change prices, as they fear retaliation from other large companies within the industry.

Companies in industries with high degree of rivalry often engage in price wars, which is also the case for the food and beverage industry. As a consequence of the switching costs for consumers being low, companies try to take advantage of this and secure higher volumes to increase their top-line. The presence of price wars makes the industry less favorable.

Market consolidation is another factor that needs to be taken into consideration when analyzing the competitive rivalry within the industry. In recent years the industry has experienced a wave of mergers and acquisitions and the industry is getting more and more consolidated. The large companies are more likely to be price setters and the small companies are more likely to be price takers. This makes the industry more favorable for the large companies and less favorable for the small companies.

I consider the industry rivalry in the food and beverage industry to be high. There are several large companies such as Nestle, Mondelez, Heinz, Kellogg's< and General Mills in the industry that all have strong brands in their portfolio.

3.2.5 Threat of substitutes

In order to assess the threat of substitution products I will consider the threat of substitutes for some of Campbell´s large products such as soups, sauces and canned food, juices and smoothies, snacks and baby food.

There are many substitutes for soup and canned food as a fast served meal. In supermarkets soup and canned food compete with frozen pizza and various other frozen meals that can be prepared in just a few minutes. In addition to products sold at supermarkets there are also fast food and regular food served in restaurants. In many ways sauces as a group are harder to substitute, you either have sauce or you don't.

The juice and smoothie segment has several potential competing products. Likely substitutes are water, soda, energy drinks, and milk.

Snacks like cookies and other baked snacks face fierce competition. Among likely substitutes are chips, chocolate and fruit.

Baby food on the other hand is a product that faces less threat of substitutes, as babies are not able to eat the same foods as adults.

The threat of substitutes for the overall food and beverage industry is obviously not high, as we all need to eat and drink to survive. However I consider the threat of substitutes for most food and beverage products to be high because there are a large number of options available to consumers.

3.2.6 Partial conclusion

The food and beverage industry is a highly competitive industry. Increased consolidation in the industry makes the industry more favorable for the large companies as they are able to exploit their economies of scale. However, the attractiveness of the industry lies in the fact that we all need to eat and drink. Overall, the food and beverage industry is an attractive industry as long as one is currently one of the large players. The industry is currently not

especially attractive for companies wanting to enter the industry. Furthermore, price wars and pressure on margins will make the industry less attractive in the future.

3.3 Internal analysis

In this section I will attempt to identify the strengths and weaknesses of Campbell. The section will include a value chain analysis with focus on costs, an assessment of what I believe could be potential strength and weaknesses for Campbell and lastly I will analyze the five operating segments of Campbell. I will summarize my findings in a TOWS analysis in chapter five.

3.3.1 Value chain analysis

Campbell's value chain could be separated into production, marketing, distribution and selling, administration and R&D.

Figure 3.1 Value chain

Source: Own creation

Production

The inputs in the production of Campbell's products mainly consist of raw materials that are bought in large quantities. Furthermore, the majority of Campbell's products are produced in the U.S. The company's cost of goods sold percentage of revenue is 58.78% in the fiscal year of 2013, which is close to identical to the average of the peer group. The peer group has an average cost of goods sold percentage of revenue of 58.58%. This indicates that Campbell

does not have a cost advantage or disadvantage in production related activities compared to its peer group. The PEST analysis showed that the food and beverage industry has experienced volatility and some inflation in input. This is also the case for Campbell. The majority of Campbell's costs lies in cost of goods sold and is therefore an important category to reduce if the company is to improve its profit margin in the future.

Marketing, distribution and selling

Marketing, distribution and selling is of outmost importance for any company in the fast moving consumer goods industry. These costs contributed for 11.76% of revenues last year. Most of the growth in earnings in Campbell is driven by either top-line growth or reduction in costs. Last year's three large acquisition will contribute to the expansion of Campbell's distribution network, especially in Asia. To fully exploit their marketing budget Campbell's brand equity is essential. Campbell's brand equity will be further discussed in section 3.3.2.

Administration

In order for Campbell to stay competitive with the recent large acquisitions it is important that the company is able to keep the administrative expenses as low as possible. The administrative expenses are currently 8.41% of revenue. In 2011 and 2012 these costs contributed a lower 8.1% of sales[55].

R&D

A large part of the change in the strategic plan of 2011 was that the company needed to be able to faster bring new products to the market. This has been the case in 2013 where they launched over 200 new products[56]. R&D expenses are currently 1.59% of revenue, down from 1.62% in the fiscal year of 2012.

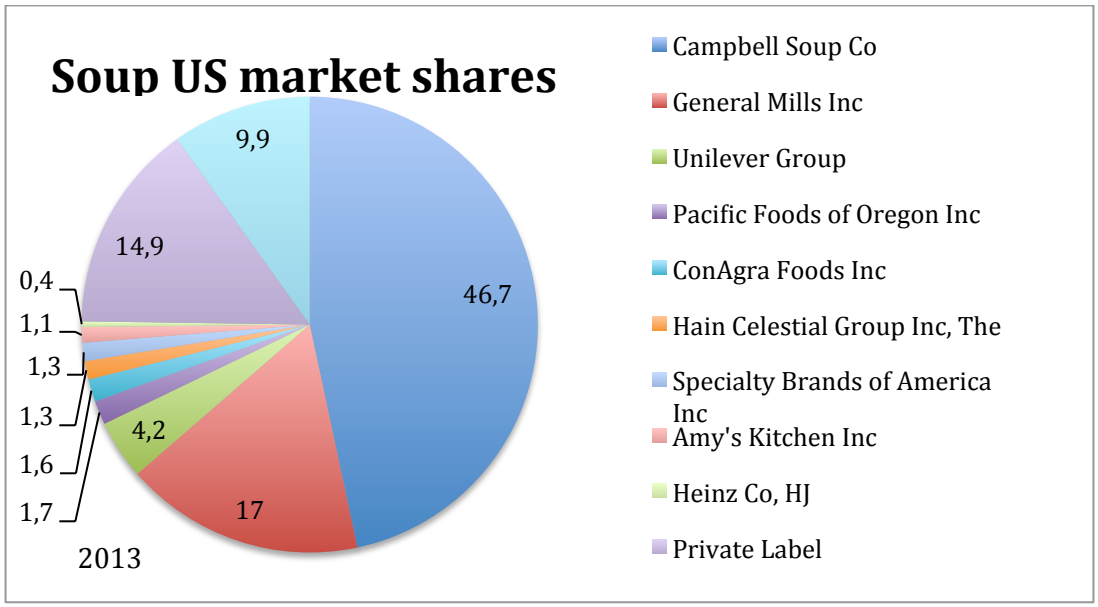
[55] Campbell Soup Company's 2013 annual report, p. 19
[56] Campbell Soup Company's 2013 annual report, p. 3

3.3.2 Assessment of potential strength and weakness

The following internal factors are discussed in this section: the soup category, brand equity, R&D capabilities, revenue concentration, diversified geographic operations and management.

Soup

Figure 4.1 Market shares U.S. soup market



Source: Own creation with data from Euromonitor

The soup category is by far the most important product category for Campbell. As can be seen from figure 4.1 Campbell has 46.7% market share in the U.S. soup market, which is their core market. Campbell states in their annual report that they in 2013 grew net sales and operating earnings by improving execution and optimizing key drivers of demand, including brand positioning, communication, merchandising and pricing, taste, distribution and innovation. The U.S. Simple Meals business, which the soup category is a part of, grew as stated in the annual report from 2013. Last year's results indicate that growth in this category was decent, with around 5% last year. However, it seems that some of that growth came from other products than soup. Campbell's strong market position within the soup category is a positive factor for the company, however being too reliable on a segment that shows slow growth might harm future earnings for the company. Numbers from Euromonitor also show that Campbell's market share in the U.S. soup market has dropped by 5% over the last five years.

Brand equity

High-equity brands are generally better protected against the switching to private labels, which often is the case in times of economic downturn. High-equity brands normally recover faster and suffer less from, following a product-harm crisis[57].

One of Campbell's most important resources is the many strong brand names they possess in various product categories, like Campbell Soup, Pepperidge Farm, Goldfish, V8 and Bolthouse. The company has also in recent years performed several large acquisitions in order to further strengthen brand equity and secure future growth.

Campbell's strong brand equity will in many ways protect the company from being severely affected by a recession in the U.S. and world economy. It will be important for Campbell to further strengthen their brand equity in order secure sustainable growth.

R&D capabilities

The ability to stay on top of new trends and be able to create new products after consumer demand is important in the food and beverage industry. Campbell expects to launch 200 new products in fiscal 2014, with products like Campbell's Skillet Sauces to break into the $200 billion dinner segment[58]. In recent years Campbell has improved their ability to get product innovation on to the market much faster than what they historically have been able to. Campbell's R&D capabilities must be further strengthen if the company is going to secure growth in higher-growth categories, new segments and new geographies. The fact that Campbell was able to launch 38 new soups last year shows that the company is able to create new products fast. However, creating new products means less, if consumers are not buying.

Revenue concentration

Campbell´s five largest buyers accounted for 36% of the company´s net sales from continuing operations in 2013, comparable numbers where 37% in 2012 and 2011. Walmart is the Campbell´s largest customer and accounts for 19% of net sales. There are no other customer

[57] Steenkamp and Dekimpe (2009) "Marketing strategies for fast-moving consumer goods"
[58] Campbell Soup Company's 2013 annual report, p.3

that accounts for more than 10% of Campbell´s net sales[59]. One of Campbell's weaknesses is the reliance on Walmart. The company's profits would be reduce if they were to lose Walmart as a customer. Relying too much on a few large customers increases the risk of sever losses for Campbell.

Furthermore, Campbell had in 2013 67% of their sales in the U.S. making them dependent on growth in the U.S. market.

Diversified geographic operations

Even though currently 67% of Campbell's total sales comes from the U.S. the company is present on all continents. The large international presence gives the company the opportunity to secure growth abroad, in economies with higher growth rates than the American. The already strong international presence gives the company a strong position for future growth.

Furthermore, there are both advantages and disadvantages of selling the same products all over the world. The advantages are that it is easier to exploit brand names and economies of scale. However, the disadvantage is that one is not able to adapt to various consumer tastes in different countries.

Management

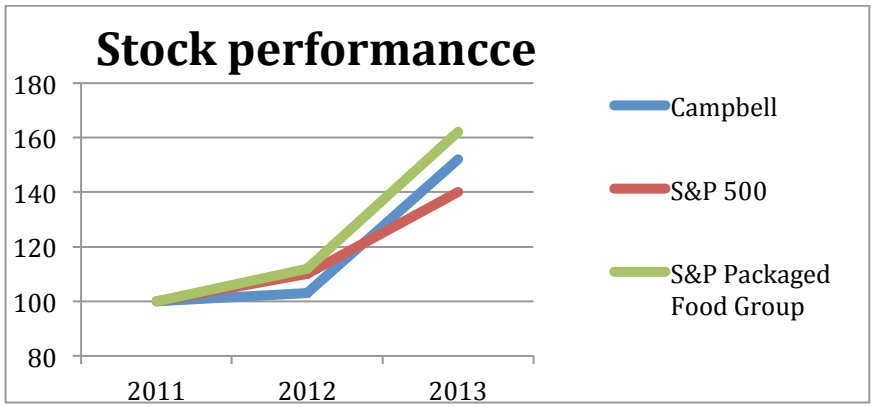
In August 2011 Campbell appointed a new CEO, Denise M. Morrison. She has previously worked for Kraft Foods, Nabisco, Nestle, Pepsi-Cola and Proctor and Gamble. She has however no experience being CEO. It is difficult to analyze Morrison's direct influence on Campbell's performance as there are several factors that affect for example the stock price such as decisions made by the former CEO, market dynamics and growth rates in the world economy. However, by taking a look at the company's return to equity in the years before and after her appoint one can see that after she was appointed the return on equity has fallen by 32.88%. A further decomposition of the return on equity will be performed in the financial statement analysis chapter below. Some of this reduction could potentially be explained by the loss

[59] Campbell Soup Company's 2013 annual report, p.4

connected to the divestures of the European Simple Meals business and the three large acquisitions.

Furthermore the company's stock price under the current CEO and the last three years period for the former CEO shown below. The stock price under Morrison's leadership outperforms the S&P 500 index, but is outperformed by the S&P Packaged Food Group index.

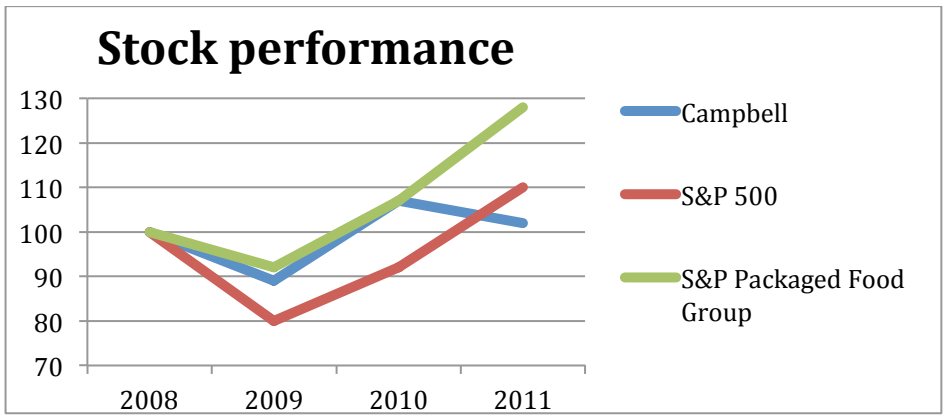
Figure 4.2 Stock performance current CEO



Source: Own creation from Campbell's annual report 2013

Under the former CEOs leadership outperforms the S&P 500 and keeps up with the S&P Packaged Food Group index from 2008 until 2010. The stock price from 2010 until 2011 is however outperformed by both indexes.

Figure 4.3 Stock performance former CEO



Source: Own creation from Campbell's annual report 2013

It is difficult to assess whether or not Campbell possesses superior management. However, with the declining return on equity and the company being outperformed by the S&P

Packaged Food group index there is no evidence in favor of Campbell having superior management.

3.3.3 Business segment analysis

In the following section I will analyze Campbell's business segments and determine revenue growth. As mentioned earlier, Campbell reports earnings in five business segments: U.S. Simple Meals, Global Baking and Snaking, International Simple Meals and Beverages, U.S. Beverages and Bolthouse and Foodservice.

U.S. Simple Meals

This segment aggregates the operating segments:

- U.S. Soups (Campbell's soups and Swanson broth)
- U.S. Sauces (Prego, Pace, Campbell's gravies, pasta and beans, Swanson canned poultry and Plum)

U.S. Simple Meals stood for 35% of revenues in fiscal 2013 and historically Campbell's most important segment. Last year this segment delivered a revenue growth of 4.51%, with about 1% of that growth coming from the acquisition of the number-four baby food brand, Plum Organics[60]. This acquisition will help Campbell penetrate the baby food market.

As mentioned previously, Campbell has introduced several new soups to the market, which they hope will boost top-line growth in this segment. However, as the industry analysis showed there are various substitute products available for consumers, and competition is fierce. This will affect future revenue growth in this segment. Campbell has a market share of 46.7% in the U.S. Soup market in 2013, which is the same as in 2012, but less than 52.7% in 2008[61].

The consumption of soup and simple meals will be somewhat correlated to the U.S. economy and therefore GDP growth will affect Campbell's revenue growth in this segment. Moreover, the U.S. GDP growth rates in 2014, 2015 and 2016 are expected to be 3.08%, 3.43% and

[60] Campbell Soup Company's 2013 annual report, p.3
[61] Euromonitor database (2014)

3.39%, respectively[62]. Furthermore, soup is expected to have a CAGR of 1.6% in the period 2013 to 2018[63].

I will expect the acquisition of Plum Organics to contribute some to top-line growth, but the slow growth in the soup market will limit the growth in this segment to 4% in FY2015-2017, and 3% in FY2018-2023

Global Baking and Snaking
This segment aggregates the operating segments:
- Pepperidge Farm (Cookies, crackers, bakery and frozen products in U.S. retail)
- Arnott's (Biscuits in Australia and Asia Pacific)

In August 2013 Campbell bought the Danish baked snacks company, Kelsen. Kelsen has established distribution networks in Asia, the U.S., Europe, the Middle East, South America and Africa, and it is the market leader in the assortment segment of sweet biscuits category in Hong Kong and China[64]. This acquisition has immediately provided Campbell with the potential for growth in China and this segment aggregated.

Trends that provide a healthier lifestyle will affect revenues in this segment, as products in this segment can be categorized as less healthy alternatives to substitutes mentioned earlier like fruit. In order to secure future growth in this segment Campbell must be able to development healthier options to meet consumer demand.

Furthermore, GDP growth will also somewhat affect the Global Baking and Snaking segment, where GDP growth in China is particularly important. GDP world growth is expected to be 4.69%, 4.80% and 4.86% in 2014, 2015 and 2016, respectively (IMF database, 2014). Moreover, GDP growth in China is expected to be 9.46%, 9.49% and 9.49% in 2014, 2015 and 2016, respectively[65].

[62] IMF database (2014)
[63] Euromonitor database (2014)
[64] Campbell Soup Company's 2013 annual report, p.3
[65] IMF database (2014)

Both baked snacks and biscuits are expected to grow despite current health trends. It is expected that baked snacks will have a CAGR of 3.5% and biscuits a CAGR of 5% in the period 2014-2018[66].

I expect the strong health trend to have a negative effect on growth in this segment. However, the recent acquisition gives potential for growth in China and other growing emerging markets. Growth in this segment is expected to be 7% in FY2015-FY2018, and declining to 6% in FY2019, 5% in FY2020, 4% in FY2021 and 3% in FY2022-FY2023.

International Simple Meals and Beverages
These segments aggregates the simple meals and beverages sold outside the U.S., including the retail business in Canada, Asia Pacific, Latin America and China. This segment also earlier included the European Simple Meals business that has now been sold to CVC Capital Partners[67].

The International Simple Meals and Beverage segment as experienced negative revenue growth in recent years. Some of this negative growth can be explained by a negative impact on currency, which most likely will reverse in the future. This segment has a large potential with presence in several large emerging markets. On the other hand Campbell has had problems, as explained above, adapting to different consumer tastes in different countries and cultures. World GDP growth, especially in emerging markets, is strong and should contribute to a potential turnover in this segment. However, Campbell must be able to develop products that fit consumers taste in various markets, which might be difficult.

According to the Euromonitor database the world sale of soup will have a CAGR of about 4% in the period 2014-2018. This makes it more likely that Campbell can turn its international department to a positive trend in the future.

[66] Euromonitor database (2014)
[67] Campbell Soup Company's 2013 annual report, p.4

I expect the negative trend to continue in the next years, however at a slower rate. Revenue growth is forecasted to be -5% in FY2015, -3% in FY2016, -1% in FY2017, 1% in FY2018 and 3% in FY2019-FY2023.

U.S. Beverages

This segment includes the following products: V8 juices and beverages; and Campbell's tomato juice. U.S. Beverages has been struggling the last couple of years being under pressure from category weakness in shelf-stable juices, as well as from competition from specialty beverages[68]. The analysis of the industry showed that consumers are looking for more healthy alternatives, and V8 juices and beverages should fit this trend rather well.

The overall growth in this market is expected to be negative with a decline of 4%, however the market is enormous with about 10.7 billion liters[69]. Another important trend mentioned above is the fact that consumers are moving towards lower calorie and functional drinks, which will lead to a reduction in sales volumes for products with for example high amounts of sugar.

Furthermore, overall the U.S. economy is improving, which will increase consumers spending pattern. This will improve growth in this segment. I expect the revenue growth to continue to be negative in FY2015 and FY 2016 with -4% and -2% respectively, and showing positive growth from FY2018. The exact growth numbers can be found in the forecasting section in chapter six.

Bolthouse and Foodservice

This segment includes the recent acquisition Bolthouse and the North American Foodservice operating segment:

- Bolthouse (fresh carrots, juice concentrate and fiber, juice, smoothies and salad dressings)
- North American Foodservice (soup, specialty entrées, beverage products and other prepared food)

[68] Campbell Soup Company's 2014 Q2 report, p.28
[69] Euromonitor database (2014)

Bolthouse is well positioned in terms of the health and convenience trend, which I pointed out earlier in the thesis. However, the juice category is facing declining sales growth. As mentioned above, this is particularly the case for juices with high amounts of sugar. Bolthouse juices and smoothies do not contain high amounts of sugar, so they will be well positioned for future growth.

Foodservice has in recent years had a steep decline in sales, and is showing few signs of recovering soon. Sales have been declining mostly because of fierce competition and customer feedback on their frozen soup products. This industry has shown weaker results in recent years[70].

I expect Bolthouse to drive growth in this category, with and exciting product portfolio that should meet consumers demand for healthy beverages. I expect the positive trend to continue in this segment with a growth rate of 5% for FY2015-FY2018, 4% for FY2019-FY2021 and 3% for FY2022-FY2023.

3.4 Partial conclusion

The food and beverage industry are affected by several macro factors such as consumer mega trends, enforced laws and regulations and increased focus on social media. The industry is highly competitive and it is difficult for new entrants to compete with the large players in the market.

As can be seen from last year's performance from the S&P Packaged Food Group index it is still an attractive industry to be positioned in. Campbell is on the other hand experiencing low growth.

Campbell is well positioned in the soup market with high market shares, but the high reliance on the soup category makes the company vulnerable for changes in consumer demand. I expect Campbell to produce positive growth U.S. Simple Meals, Global Baking and Snaking and Bolthouse and Foodservice in the upcoming years. Furthermore I expect Campbell to continue

[70] Shea (2013) "Foodservice Remains Weak" Exhibit 1 of 2

to see negative growth in the segments International Simple Meals and Beverages and U.S. Beverages, but believe that Campbell will be able to turn this negative growth in the future, mostly because of introduction of new products and potentially utilize the distribution network that the Kelsen acquisition provided.

One of Berkshire Hathaway's requirements is that a potential target should have superior management. There is no evidence to support a claim that Campbell currently possesses superior management. However, a period of three years is most likely to little time to properly assess Morrison and her team's performance.

4 Financial statement analysis

After analyzing the strategic environment of Campbell, the following chapter of the thesis will consist of an analysis of Campbell's financial performance. It is essential to analyze Campbell's historical performance in order to understand the company's underlying income and cost drivers. The traditional financial statements, such as the income statement, balance sheet and statement of cash flows must be reorganized for robust assessments of operating performance and value. The balance sheet mixes together operating assets, non-operating assets, and sources of finance. Furthermore the income statement combines operating profits with the costs of financing such as interest expense.[71] In the following part the financial statements will be re-organized in order to separate operating activities from financing activities. This chapter will also include an analysis of Campbell's accounting quality.

The analysis uses numbers from the public annual reports published by Campbell from 2007 to 2013.

4.1 Accounting quality

Campbell's financial statements from 2007 until 2013 have been prepared in conformity with accounting principles generally accepted in the United States (US GAAP)[72]. As an analyst the aim is to estimate the value of a company, based on cash flows. Therefore the quality of

[71] Koller, Goedhart and Wessels (2010), Valuation: Measuring and managing the value of companies, p.132

[72] Campbell Soup Company's 2013 annual report, p.27

earnings is important. Quality of earnings is according to Penman (2010) *"the degree to which current earnings serve as an indicator of future earnings".* Penman characterizes permanent and recurring accounting items as high quality, and non-recurring and special items as of lower quality[73].

In the following section I will analyze the quality of Campbell's earnings by reviewing the following accounts: revenue, inventory, property, plant and equipment, and pension. The quality of earnings is important for several reasons. Firstly, the management could be pressured by capital markets to over or understate earnings to meet analysts' expectations. Secondly, if the management is in possession of stocks or stocks options they might have an incentive to overstate earnings for their own personal benefit. Lastly, if management has in fact overstated or understated earnings in the past, this will affect future earnings as previous overstatement of earnings normally lead to lower future earnings and vice versa.

Revenue

From the 2013 annual report *"Revenues are recognized when the earnings process is complete. This occurs when products are shipped in accordance with terms of agreements, title, and risk of loss transfer to customers, collection is probable and pricing is fixed or determinable. Revenues are recognized net of provision for returns, discounts and allowances. Certain sales promotion expenses, such as feature price discounts, in-store displays incentives, cooperative advertising programs, new product introduction fees and coupon redemption costs, are classified as reduction of sales."*

Table 4.1 Quality of revenue

	2009	2010	2011	2012	2013
Net Sales	7586	7 676	7 143	7 175	8 052
Gross A/R	547	529	571	563	646
Allowance for doubtful accounts	19	17	11	10	11
Gross A/R to Net Sales	0,072	0,069	0,080	0,078	0,080
Allowance for doubtful accounts to Gross A/R	0,035	0,032	0,019	0,018	0,017

Source: Own creation from annual reports

[73] Penman (2010), Financial Statement Analysis and Security Valuation, p.608

Table 4.1 shows that the company has stabile low gross accounts receivables to sales, which may indicate that revenue is not overstated. Even though the Gross A/R to sales increased from 2010 to 2011, the ratio is stable in the following periods. Had the Gross A/R to sales ratio increased significantly this would be a sign that outstanding receivables were getting older and that the company should increase the allowance for doubtful accounts. As this is not the case for Campbell, the table above indicates good earnings quality.

Table 4.2 Quality of revenue

	2009	2010	2011	2012	2013
Net Sales	7586	7 676	7 143	7 175	8 052
Cost of goods sold	4558	4 526	4 255	4 365	5 140
Gross Profit	3028	3150	2888	2810	2912
Inventory	824	724	767	714	925
Inventory to cost of goods sold	0,181	0,160	0,180	0,164	0,180
Gross Profit Margin	39,92 %	41,04 %	40,43 %	39,16 %	36,16 %

Source: Own creation from annual reports

A high level and/or an increase in the inventory to COGS ratio could be an indication of "round tripping" transactions. This does not seem to be the case for Campbell. The average gross profit margin has been 39% over the last five years, and there is no indication of revenue overstatement. The drop in gross profit margin could potentially be that the acquired company, Bolthouse, have lower margins on their product.

Inventory

All of Campbell's inventories are valued at the lower of average cost or market[74].

Table 4.3 Quality of inventory

	2009	2010	2011	2012	2013
Cost of goods sold	4558	4 526	4 255	4 365	5 140
End of period Inventory	824	724	767	714	925
Inventory turnover	5,532	6,251	5,548	6,113	5,557
Days Inventory held	65,985	58,387	65,794	59,704	65,686
Raw materials etc to Cost of goods sold	7,11 %	5,77 %	6,13 %	6,35 %	7,08 %
Finished products to cost of goods sold	10,97 %	10,23 %	11,89 %	10,01 %	10,91 %
Inventory to cost of goods sold	18,08 %	16,00 %	18,03 %	16,36 %	18,00 %

Source: Own creation from annual reports

[74] Campbell Soup Company's 2013 annual report, p.36

There is a decrease in inventory turnover from 2012 to 2013, this might be an indication of earnings overstatement. Even though the decrease is rather large, it might be explained by one of Campbell's recent acquisitions. As mentioned earlier the gross profit margin also declined in the same period and this is most likely linked to the acquisitions. It is therefore difficult to determine whether or not Campbell's has manipulated their earnings. The inventory to COGS ratio also increased slightly, which could indicate that the company is having trouble selling their goods. However, the increase in raw materials to COGS is an indication of an increase in demand for Campbell's products.

There might be a risk of overstatement of earnings based on the analysis of the inventory accounts; however this potential overstatement does not seem to be significant.

Property, plant and equipment

From the 2013 annual report *"Property, plant and equipment are recorded at historical cost and are depreciated over estimated useful lives using the straight-line method. Buildings and machinery and equipment are depreciated over periods not exceeding 45 years and 20 years, respectively. Assets are evaluated for impairment when conditions indicate that the carrying value may not be recoverable. Such conditions include significant adverse changes in business climate or a plan of disposal. Repairs and maintenance are charged to expense as incurred."*

Table 4.4 PP&E analysis

	2009	2010	2011	2012	2013
Sales	7586	7 676	7 143	7 175	8 052
Net PP&E	1977	2 051	2 103	2 127	2 260
Capital Expenditures	345	315	272	323	336
Net PP&E to sales	0,261	0,267	0,294	0,296	0,281
Capital Expenditures to Sales	0,045	0,041	0,038	0,045	0,042

Source: Own creation from annual reports

The stabile low ratio of net PP&E to sales shows no signs of excess capitalization or insufficient depreciation. Furthermore, the low stabile capital expenditures to sales give no indication of excess capitalization or over-investment.

Pension

Table 4.5 Pension assumptions

	2011	2012	2013
Discount rate	5,46 %	5,41 %	4,05 %
Long-term rate of return on plan assets	8,15 %	7,90 %	7,65 %
Long-term rate of compensation increase	3,29 %	3,31 %	3,31 %

Source: Own creation from annual reports

Above are Campbell's assumptions as basis for their pension expense, pension obligation and their plan assets. Campbell had as of the ending of the fiscal year 2013 54% of their plan asset invested in equities, and the 7.65% expected return for 2013 seems slightly high, however not unreasonable. The reduction in the discount rate leads to increased pension obligations, however the discount rate decrease seems reasonable as there have been a decrease in interest rates in the same period. A manipulation of these assumptions could lead to understated pension expense and overstated earnings.

Table 4.6 Analysis of the funded status

	2012	2013
Benefit Obligations	2748,00	2489,00
Fair Value of plan assets	2118,00	2275,00
Funded Status	-630,00	-214,00

Source: Own creation from annual reports

The company is only obligated to report the net pension obligation on their balance sheet, which was 630 and 214, in 2012 and 2013 respectively. This number does not however reflect the entire risk. For example, a drop in equities followed by a decrease in interest rates will cause a reduction in the plan assets and an increase in the obligation. The balance sheet fails to reflect these exposures as the plan assets are netted against the benefit obligation.

4.2 Reformulation of financial statements

The full reformulated balance sheet and income statement can be found in appendix 7 and 8.

Balance sheet

In the balance sheet I have calculated net operating assets, as the sum of all operating assets minus all operating liabilities. These assets are funded by shareholders and lenders, and

therefore the net operating assets, less net financial obligations is equal to common shareholders equity plus minority interest. To obtain these figures, line items are classified as operating assets, operating liability, financial assets, financial obligations, shareholders' equity and minority interest.

- *Assets and liabilities held for sale* are classified as financial items as it concerns the selling of the European Simple Meals business completed in fiscal 2013.
- *Fair value of derivatives,* both assets and liabilities*,* is classified as financial items, as it is used at a hedging strategy and it is very difficult to segregate the post.
- *Dividend payable* is classified as equity.
- If the cash position is stable across time, it is normal to classify cash as a financial item[75]. However, the cash and cash equivalents item vary a lot across time and is classified as an operating item.

Income Statement
I have classified items in the income statement according to their relation with the core business. I have calculated the operating result as NOPAT (Net Operating Profit After Tax). I have performed the following reclassifications in the income statement:

- The financial statement does not distinguish between tax on operations and tax on financial items; I need to estimate them separately[76]. I have done this by calculating the tax shield from net financial expenses. Campbell is a company that operates in multiple countries and I have therefore chosen to use Campbell's effective tax rate each year.
- Restructuring charges and acquisition costs are classified as non-recurring items, as they are related to a cost saving strategy and one time acquisition costs respectively.

4.3 Profitability analysis

The following section examines Campbell's historical performance in comparison to its competitors and the analysis will give a good indication of Campbell's financial situation against its peers. The financial analysis is based on reformulated income statements and

[75] Petersen and Plenborg (2012) Financial Statement Analysis p.77
[76] Petersen and Plenborg (2012) Financial Statement Analysis p.76

balance sheets. The analysis will follow the same structure as the Du Pont model shown in appendix 4.

As the budget forecast involves forecasting profitability and growth it is important to understand what drives the return on equity (ROE). The historical profitability of Campbell is an important element to consider in determining the future expectations of the company[77]. The operating profitability side is measured by return on invested capital (ROIC), whereas the financial side is measured by the financial leverage and net borrowing cost (NBC).

$$ROE = ROIC + (ROIC - NBC) * Financial\ Leverage$$

Campbell is throughout this thesis compared to six competitors. As Campbell and all of these six competitors can be look upon as food conglomerates, and there no financial statements available at brand level, the analysis will be performed at group level. The six competitors are as stated in section 2.5: General Mills, ConAgra Foods, Flowers Foods, Mondelez International (Mondelez has only been a separate company for three fiscal years, and the analysis of this company is therefore somewhat limited), Kellogg and Nestle. The reformulated financial statements for the peer group companies can be found in the appendix 10-21.

4.3.1 Return on invested capital

ROIC is the measure of overall profitability from operations[78]. A high ROIC will lead, all other things equal, to a higher firm value and increased the firm's ability to secure cheaper finance[79].

ROIC after tax:

$$ROIC = \frac{Net\ operating\ profit\ after\ tax\ (NOPAT)}{Invested\ capital} * 100$$

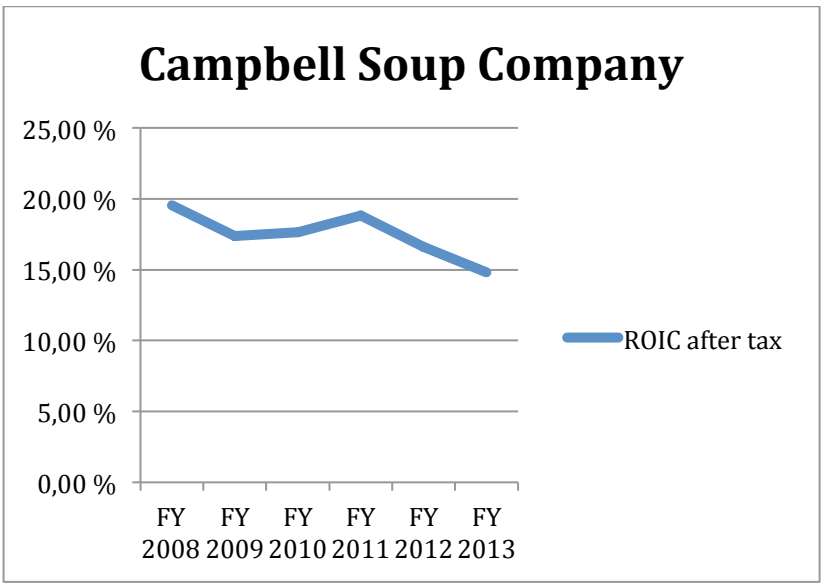
[77] Petersen and Plenborg (2012) Financial Statement Analysis p.93
[78] Petersen and Plenborg (2012) Financial Statement Analysis p.94
[79] Petersen and Plenborg (2012) Financial Statement Analysis p.94

ROIC before tax:

$$ROIC = \frac{EBIT}{Invested\ capital} * 100$$

Invested capital is here measured as the average of invested capital for the year being analyzed.

Figure 4.2 ROIC Campbell Soup Company

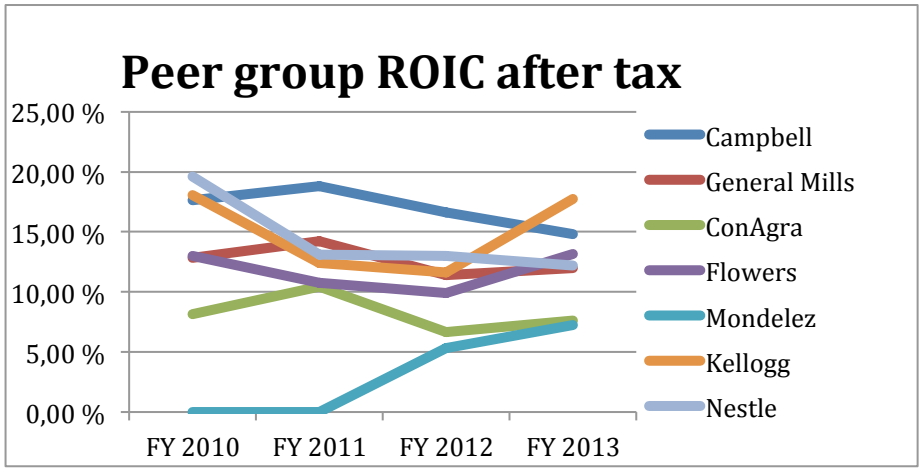


Source: Own creation from Campbell's annual reports

The figure above shows the development in Campbell's return on invested capital after tax. As can be seen from the graph Campbell's return on invested capital has been declining in recent years. A further investigation of the company's ROIC is necessary to potentially explain the decline as a company problem or an industry problem.

By adjusting the competitor's financial statements in the same way as Campbell's, the data for the analysis will be less influenced by noise.

Figure 4.3 ROIC peer group



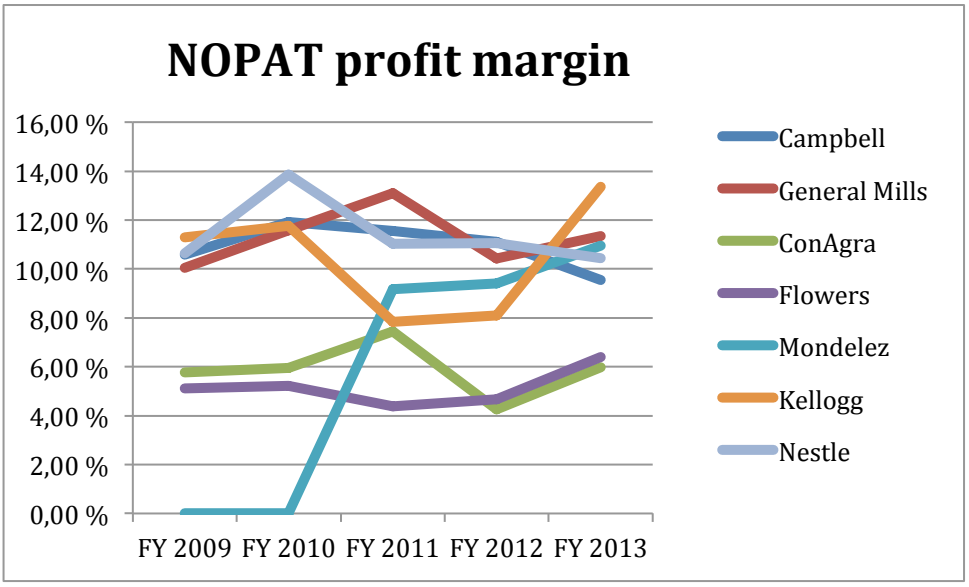
Source: Own creation

Most of the companies in the peer group showed a slight increase in ROIC last year, and Campbell and Nestle are the only two companies with a non-positive trend. Campbell has a return on invested capital that is among the best in the peer group. To explain why Campbell has a negative trend I will further break down ROIC into profit margin and turnover rate on invested capital.

4.3.1.1 Profit margin

The profit margin describes the relation between profit and revenue, as profit is measured as a percentage of revenue. The higher the profit margin, the better the financial performance, all other things equal. Below in figure 4.4 one can see the Campbell's profit margin compared to its peers.

Figure 4.4 NOPAT profit margin peer group



Source: Own creation

As previously stated in the strategic analysis, economies of scale and size are very important in the food and beverage industry. The smallest company in the peer group analysis, Flowers Foods, has the lowest average profit margin. Campbell has one of the highest average profit margins in the peer group. However, it is also showing a negative trend. I will further below analyze what could potentially drive this reduction in profit margins.

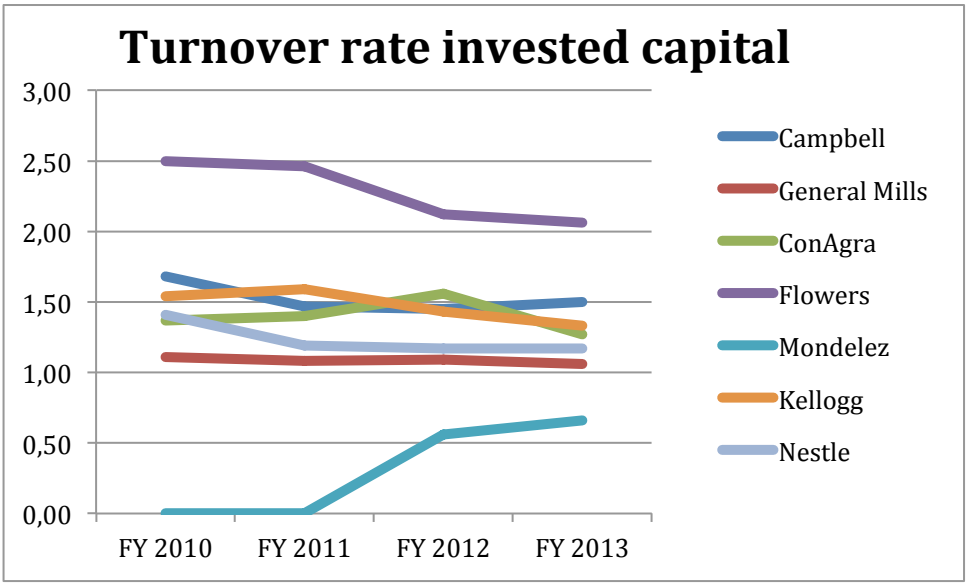
4.3.1.2 Turnover rate invested capital

The turnover rate expresses Campbell's ability to utilize invested capital. All things being equal, it is more attractive to have a higher turnover rate of invested capital.[80]. The food and beverage industry is characterized with relatively high turnover rate on invested capital, as they produce goods that often are easily substituted.

As one can see from the figure 4.5, Campbell's turnover rate on invested capital is consistent across the time period and among the best in the peer group analysis, only beaten by Flowers Foods. Campbell's revenues and invested capital was stabile in the period fiscal 2010-2012, with an increase in both revenues and invested capital in fiscal 2013 as a result of several acquisitions.

[80] Petersen and Plenborg (2012) Financial Statement Analysis p.108

Figure 4.5 Turnover rate invested capital peer group



Source: Own creation

4.3.1.3 Analysis of profit margin and turnover rate

Profit margin - Revenue and expenses

Table 4.7 Growth figures from the trend analysis

	2009-2013	2009-2013	2009-2013	2009-2013	2011-2013	2009-2013	2009-2013
	Campbell	General Mills	ConAgra	Flowers	Mondelez	Kellogg	Nestle
Revenue growth	6,14 %	22,11 %	25,45 %	44,22 %	-1,43 %	17,63 %	-14,17 %
COGS growth	10,22 %	20,55 %	23,96 %	41,87 %	-0,56 %	19,96 %	5,37 %
Gross profit growth	0,82 %	24,58 %	29,94 %	46,93 %	-2,72 %	14,89 %	-26,99 %
EBITDA growth	2,62 %	23,80 %	33,62 %	57,95 %	1,30 %	42,74 %	-7,35 %
EBIT growth	-8,86 %	22,66 %	30,17 %	62,47 %	13,52 %	43,56 %	-12,70 %
NOPAT growth	-4,34 %	37,97 %	30,32 %	80,81 %	17,95 %	39,30 %	-15,85 %

Source: Own creation from annual reports

Campbell's revenue in the period 2009-2013 has increased by 6.14% and their cost of goods sold has increased by 10.22%. These two developments are likely to have caused the slight decline in Campbell's profit margin in the same period. One other important thing to notice is that except from Mondelez and Nestle, Campbell has by far the lowest revenue growth rate in the last five years. The company also had a negative NOPAT growth rate, which is not consistent with the peer group. A more detailed analysis of this will be made when looking at the common-size analysis.

Below one can see the key figures from the common-size analysis for Campbell and its peers.

Table 4.8 Common-size analysis average 2009-2013

	2009-2013	2009-2013	2009-2013	2009-2013	2011-2013	2009-2013	2009-2013
	Campbell	General Mills	ConAgra	Flowers	Mondelez	Kellogg	Nestle
COGS	-56,82 %	-59,28 %	-74,19 %	-52,92 %	-59,92 %	-55,94 %	-46,66 %
Gross profit	43,18 %	40,72 %	25,81 %	47,08 %	40,08 %	44,06 %	53,34 %
EBITDA	19,77 %	19,97 %	11,63 %	11,04 %	14,15 %	40,21 %	17,74 %
EBIT	15,93 %	16,77 %	8,88 %	7,77 %	10,47 %	14,66 %	14,64 %
NOPAT	10,95 %	11,31 %	5,88 %	5,16 %	9,85 %	10,47 %	11,41 %
Net earnings	9,69 %	10,27 %	5,63 %	5,08 %	9,92 %	9,11 %	16,77 %

Source: Own creation from annual reports

Table 4.9 Common-size analysis 2013

	2013	2013	2013	2013	2013	2013	2013
	Campbell	General Mills	ConAgra	Flowers	Mondelez	Kellogg	Nestle
COGS	-58,78 %	-60,55 %	-74,15 %	-52,58 %	-60,42 %	-55,14 %	-48,66 %
Gross profit	41,22 %	39,45 %	25,85 %	47,42 %	39,58 %	44,86 %	51,34 %
EBITDA	18,47 %	19,35 %	12,07 %	12,10 %	14,30 %	50,84 %	17,57 %
EBIT	13,41 %	16,04 %	9,19 %	8,94 %	11,25 %	19,21 %	14,15 %
NOPAT	9,55 %	11,35 %	5,99 %	6,40 %	10,97 %	13,37 %	10,44 %
Net earnings	5,69 %	10,44 %	5,00 %	6,16 %	11,09 %	12,22 %	11,31 %

Source: Own creation from annual reports

It is evident from table 4.8 that Campbell's cost of goods sold percentage is not particularly high compared to its peers. Campbell's average margins seem in line with its peers. Furthermore, table 4.9 shows that Campbell has increased cost of goods sold, which is in line with its peers. In the strategic analysis I pointed put that the food and beverage industry faces inflation in inputs cost and table 4.9 shows evidence of the same. The large drop in the net earnings percentage is explained by the divestment of the European division, which cost a large loss from discontinued operations as can be seen below.

Table 4.10 Common-size analysis Campbell

Common-size analysis	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	Average
Net revenue	100,00 %	100,00 %	100,00 %	100,00 %	100,00 %	100,00 %	100,00 %	100,00 %
Cost of goods sold	-55,53 %	-56,65 %	-56,60 %	-55,69 %	-55,82 %	-57,18 %	-58,78 %	-56,61 %
Gross Profit	**44,47 %**	**43,35 %**	**43,40 %**	**44,31 %**	**44,18 %**	**42,82 %**	**41,22 %**	**43,39 %**
Marketing and selling expenses	-14,98 %	-14,53 %	-14,20 %	-13,78 %	-12,73 %	-13,11 %	-11,76 %	-13,58 %
Administrative expenses	-7,73 %	-7,60 %	-7,79 %	-7,88 %	-8,08 %	-8,08 %	-8,41 %	-7,94 %
Research and development expenses	-1,50 %	-1,44 %	-1,50 %	-1,60 %	-1,68 %	-1,62 %	-1,59 %	-1,56 %
Other expenses	0,41 %	-0,16 %	-0,90 %	-0,04 %	-0,07 %	-0,13 %	-0,20 %	-0,16 %
Foreign Exchange (gains) losses	0,00 %	0,00 %	0,09 %	-0,01 %	-0,07 %	0,04 %	-0,04 %	0,00 %
Operating profit before special items	**20,66 %**	**19,62 %**	**19,10 %**	**20,99 %**	**21,56 %**	**19,92 %**	**19,23 %**	**20,15 %**
Acqusition related costs	0,00 %	0,00 %	0,00 %	0,00 %	0,00 %	-0,07 %	-0,12 %	-0,03 %
Restructuring charges	0,00 %	-2,19 %	0,00 %	-0,16 %	-0,84 %	-0,10 %	-0,63 %	-0,56 %
EBITDA	**20,66 %**	**17,43 %**	**19,10 %**	**20,83 %**	**20,72 %**	**19,75 %**	**18,47 %**	**19,57 %**
Depreciation and amortization	-3,83 %	-3,70 %	-3,48 %	-3,27 %	-3,75 %	-3,65 %	-5,05 %	-3,82 %
EBIT	**16,83 %**	**13,73 %**	**15,62 %**	**17,56 %**	**16,97 %**	**16,10 %**	**13,41 %**	**15,75 %**
Tax on EBIT	-4,70 %	-3,92 %	-5,02 %	-5,63 %	-5,41 %	-4,99 %	-3,86 %	-4,79 %
NOPAT	**12,13 %**	**9,81 %**	**10,60 %**	**11,93 %**	**11,55 %**	**11,11 %**	**9,55 %**	**10,96 %**
Interest Income	0,26 %	0,10 %	0,05 %	0,08 %	0,14 %	0,11 %	0,12 %	0,12 %
Interest Expense	-2,21 %	-2,09 %	-1,45 %	-1,46 %	-1,71 %	-1,59 %	-1,68 %	-1,74 %
Net financial expense before tax	-1,95 %	-1,99 %	-1,40 %	-1,38 %	-1,57 %	-1,48 %	-1,55 %	-1,62 %
Net financial expense after tax	-1,41 %	-1,42 %	-0,95 %	-0,94 %	-1,07 %	-1,02 %	-1,11 %	-1,13 %
Earnings (loss) from discontinued	0,84 %	6,18 %	0,05 %	0,00 %	0,74 %	0,56 %	-2,87 %	0,79 %
Net Profit after tax	11,56 %	14,57 %	9,70 %	11,00 %	11,23 %	10,65 %	5,58 %	10,61 %
Net earnings (loss) attributable to noncontrolling interests	0,00 %	0,00 %	0,00 %	0,00 %	-0,04 %	-0,14 %	-0,11 %	-0,04 %
Net profit after tax attributable to Campbell	**11,56 %**	**14,57 %**	**9,70 %**	**11,00 %**	**11,27 %**	**10,79 %**	**5,69 %**	**10,65 %**

Source: Own creation from annual reports

From table 4.10 above, one can see that Campbell's cost of goods sold as a percentage of revenue has increased in recent years. This is consistent with the increased cost of inputs for the food and beverage industry. Furthermore, administrative expenses have increased by almost 1%. This is mainly explained by higher costs related to owning more brands after several large acquisitions. Depreciation and amortization costs have mostly likely increased because of similar reasons.

The trend and common-size analysis show that Campbell's declining profit margin in recent years is caused by higher input costs, and higher administrative and depreciation and amortization costs in the aftermath of several large acquisitions.

Invested capital

Campbell's turnover rate on invested capital has been stabile across the period being analyzed with a slight decrease from 1.74 in 2010 to 1.50 in 2013. Invested capital in the same

period has increased 18.08% and net revenues have increased 6.14%. The larger increase in invested capital has contributed to the decline in the turnover rate on invested capital.

The main reason for the increase in invested capital is the fact that Campbell has engaged, as stated earlier in the thesis, in several large acquisitions. It will be important for Campbell in future periods to be able to utilize the increase in invested capital to increase future revenues.

4.3.1.4 Financial leverage and net borrowing cost (NBC)

NBC most often does not match a firm's borrowing rate. The difference between deposit and lending rates, but also other financial items such as currency gains and losses on securities will affect NBC[81]. Furthermore, financial leverage is defined as:

$$\frac{Net\ interest-bearing\ debt}{Book\ value\ of\ equity}$$

Net interest-bearing debt is here measured as the difference between interest-bearing debt and interest-assets. Furthermore, the difference between ROIC and NBC is defined as the spread. Higher financial leverage will with a positive spread leader to a higher rate of return on capital employed (ROE), and a higher financial leverage with a negative spread will lead to a lower ROE. In calculating the average financial leverage, averages of net interest-bearing debt and book value of equity have been used.

Table 4.11 Key figures financial leverage and NBC - Campbell

	2008	2009	2010	2011	2012	2013	Average
ROIC	19,52 %	17,38 %	17,64 %	18,82 %	16,62 %	14,81 %	17,47 %
NBC	3,55 %	2,11 %	1,98 %	2,03 %	1,89 %	2,10 %	2,28 %
Spread	15,97 %	15,27 %	15,66 %	16,79 %	14,73 %	12,71 %	15,19 %
FL	2,31	3,07	3,95	3,39	3,55	3,68	3,33

Source: Own creation from annual reports

Table 4.12 Key figures averages 2009-2013

	2009-2013	2009-2013	2009-2013	2009-2013	2011-2013	2009-2013	2009-2013
	Campbell	General Mills	ConAgra	Flowers	Mondelez	Kellogg	Nestle
ROIC	17,64 %	12,61 %	8,22 %	11,71 %	6,26 %	10,47 %	14,47 %
Net borrowing cost (NBC)	1,98 %	3,03 %	2,91 %	0,11 %	6,64 %	2,54 %	4,52 %
Spread	15,66 %	9,58 %	5,30 %	11,60 %	-0,37 %	12,43 %	9,95 %
Financial Leverage	3,33	1,21	0,99	0,62	0,74	3,04	0,20

Source: Own creation from annual reports

[81] Petersen and Plenborg (2012) Financial Statement Analysis p.117

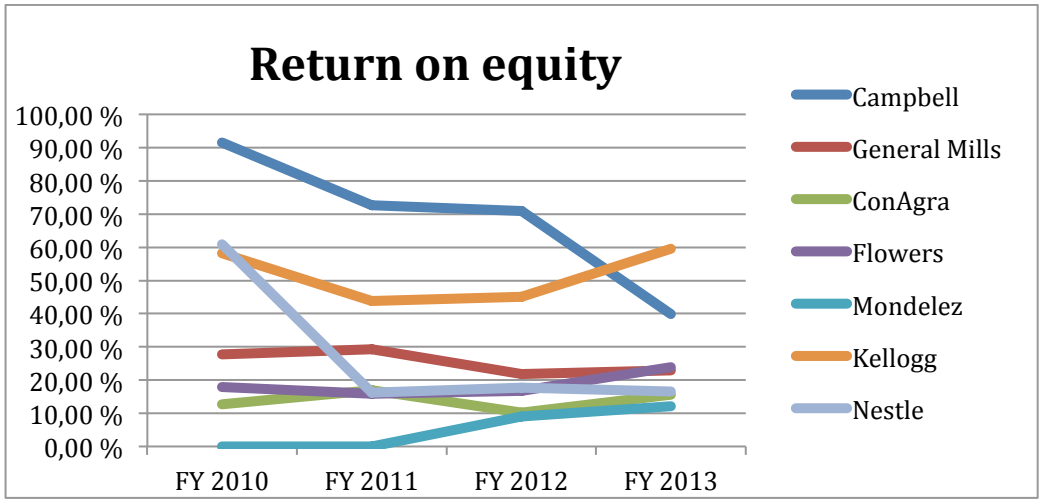
It is evident from table 4.11 Campbell's spread has been reduced significantly from 2010 until 2013. This is mainly caused by the reduced ROIC. Additionally, Campbell's NBC has been very stable across the time period. Compared to its peers Campbell has both a high spread and a low NBC.

Furthermore, Campbell has the highest financial leverage in the peer group analysis. This will be further discussed in the partial conclusion of this chapter.

4.3.2 Return on equity

Return on equity (ROE) measures the profitability taking into account both financial and operating leverage. ROE measures owners' accounting return on their investments. Operating profitability, net borrowing cost after tax and financial leverage are all factors that influence a company's ROE[82].

Figure 4.6 Return on equity peer group



Source: Own creation from annual reports

From the graph above one can see that Campbell has experienced a steep decline in their ROE. Campbell had in fiscal 2010 by far the highest ROE with 91.59%, but has the second highest in fiscal 2013 with 39.81%. The steep curve could be explained by the large reduction in ROIC in the same time period. Furthermore, the divestment of the European division caused the

[82] Petersen and Plenborg (2012) Financial Statement Analysis p.117

extreme drop in ROE in fiscal 2013. However, Campbell's ROE is still high compared to other companies in its peer group as most of the companies have a ROE of 10% to 25%.

4.3.3 Summary

It is evident from the analysis above that Campbell has a high return on equity compared to its peers. This can be explained by the fact that the company has the highest amount interest-bearing debt compared to book value of equity (financial leverage) and among the highest return on invested capital. On the other hand Campbell's seems to have negative trend in both ROE and ROIC that is not consistent with its peers.

The slow revenue growth, slight reduction in profit margin and turnover rate on invested capital has reduced Campbell's return on invested capital and is the main factors that contribute to the steep decline in both return on equity and return on invested capital.

4.4 Partial conclusion

From the analysis of Campbell's earnings quality above it seems reasonable to state that there are no significant risk of previous over or under-statement of earnings for Campbell. Berkshire Hathaway has always appreciated companies that not engage in accounting tricks and good earnings quality is considered as requirement for Berkshire Hathaway's potential targets.

One of Berkshire Hathaway's investment criteria is that the target company must have delivered consistent good earnings in the past and that pretax earnings must be over $50 million. Campbell has over the last 7 years had average pretax earnings of $1066 million and never below $939 million. As stated in section 1.1 Berkshire Hathaway is usually looking for companies with increasing profit margins and increasing ROE, this is not the case for Campbell. As I stated above Campbell has shown declining profit margins in recent years mostly due to inflation in input costs.

Furthermore, it is evident that Campbell provides a high return on equity compared to its peers. However, as stated above return on equity is affected by financial leverage. Berkshire Hathaway would want a target to give high return on equity with little or no debt. This is not

the case with book values of debt and equity, where Campbell has a large portion of debt. It is however clear, that Campbell has a relatively low amount of portion of debt when one uses market values. The debt ratio for Campbell is then 24.96% of enterprise value, which is similar to many competitors as shown in chapter seven.

Moreover, Campbell has a lower revenue growth than the market average with 6.14% against 14.28% in the last five years.

5 TOWS

THREATS	OPPORTUNITIES
• Stronger regulation • Increased raw materials and input costs • Strong competition • Private labels • Slow growth in the soup market • Social media	• Lower trade barriers to China • Increasing middle class in emerging markets • Strong growth in healthy beverages • Social media • Technology that reduce production costs
WEAKNESSES	STRENGTHS
• Heavily reliant on the U.S. soup market • High revenue concentration (Walmart) • Not been able to fully execute the strategic plan of 2011. • Lower growth than its peers	• Strong brand equity • Strong R&D capabilities • Diversified geographic operations • Strong return on invested capital

6 Budget forecast

In this chapter I will forecast the financial statements that will provide me with the information I need to calculate NOPAT and free cash flow to firm (FCFF). Both FCFF and NOPAT are essential parts of a valuation together with WACC (WACC will be calculated in chapter seven).

The forecasted financial statements are based on the strategic and financial analysis provided in chapter 3 and 4, and summarized in chapter 5. Furthermore, the explicit forecast period must be long enough for Campbell to reach steady state. Steady state is defined by the following characteristics:

- The company grows at a constant rate and reinvests a constant proportion of its operating profits into the business each year.
- The company earns a constant rate of return on new capital invested.
- The company earns a constant return on its base level of invested capital.

FCFF will as a result of this grow at a constant rate and valued at Gordon's growth formula:

$$Terminal\ value = \frac{FCFF_{t-1}}{WACC - g}$$

The theory recommends that one use an explicit forecast period of 10 to 15 years[83]. It is important that the forecast period includes a whole business cycle with both periods of high and low growth. By having a too short forecast period one risks to over- or understate the growth in steady state. In light of the three large acquisitions that affected top-line growth in the last years, my forecast period will be FY2015-FY2023 plus the last quarter of FY2014. After the explicit forecast period a perpetual model is applied from FY2024, as I assume that the company will enter steady state by FY2024.

This chapter is further divided into a summary of the revenue forecast, the terminal growth rate, a forecast of the income statement, a forecast of the balance sheet and a short analysis of the forecasted value drivers.

6.1 Revenue forecast

The revenue forecast is based on growth in Campbell's five business segments

[83] Koller, Goedhart, Copeland and Wessels (2010), Valuation: Measuring and managing the value of companies, p.258

Table 6.1Revenue forecast

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	Terminal
U.S. Simple Meals	3,06 %	4,00 %	4,00 %	4,00 %	3,00 %	3,00 %	3,00 %	3,00 %	3,00 %	3,00 %	2,00 %
Global Baking and Snacking	6,41 %	7,00 %	7,00 %	7,00 %	7,00 %	6,00 %	5,00 %	4,00 %	3,00 %	3,00 %	2,00 %
International Simple Meals and Beverages	-13,21 %	-5,00 %	-3,00 %	-1,00 %	1,00 %	3,00 %	3,00 %	3,00 %	3,00 %	5,00 %	2,00 %
U.S. Beverages	-5,27 %	-4,00 %	-2,00 %	0,00 %	1,00 %	2,00 %	3,00 %	3,00 %	3,00 %	3,00 %	2,00 %
Bolthouse and Foodservice	2,75 %	5,00 %	5,00 %	5,00 %	5,00 %	4,00 %	4,00 %	4,00 %	3,00 %	3,00 %	2,00 %
Total	1,43 %	3,53 %	4,01 %	4,42 %	4,34 %	4,09 %	3,85 %	3,51 %	3,00 %	3,14 %	2,00 %

Source: Own creation based on Campbell 's quarterly reports and own expectations

As mentioned in the business segment analysis in section 3.3.1 Campbell will continue to show modest growth in U.S. Simple Meals, which is heavily influenced by their famous soup brand. Furthermore, the Global Baking and Snaking division is expected to continue to grow as Campbell expands into new markets. Two divisions that struggled last year; International Simple Meals and Beverages and U.S. Beverages are expected to continue their negative growth. Lastly, the acquisition of Bolthouse is expected to contribute with positive growth numbers in the Bolthouse and Foodservice division. Overall, Campbell is expected to see annual growth numbers from around 3% to 4.42% in FY2015-FY2023.

6.2 Terminal growth rate

The growth rate in the terminal period should reflect Campbell's expected growth rate in the terminal period. Campbell has the majority of its revenue in the U.S. and I have decided to base my terminal growth rate on the target inflation rate in the U.S. economy. This inflation target is 2% and set by the Federal Reserve[84].

6.3 Forecasted income statement

In this section I will discuss the assumptions and techniques I have used to create the forecasted analytical income statement. The forecasted analytical income statement can be found in the appendix 23.

[84] www.federalreserve.gov - Why does the Federal Reserve aim for 2 percent inflation over time?

Table 6.2 Budget forecast assumptions income statement

Forecast Assumptions	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
Revenue growth	1,43 %	3,53 %	4,01 %	4,42 %	4,34 %	4,09 %	3,85 %	3,51 %	3,00 %	3,14 %
COGS/Revenue	-59,00 %	-59,00 %	-59,00 %	-59,00 %	-59,00 %	-59,00 %	-59,00 %	-59,00 %	-59,00 %	-59,00 %
Gross Profit/Revenue	41,00 %	41,00 %	41,00 %	41,00 %	41,00 %	41,00 %	41,00 %	41,00 %	41,00 %	41,00 %
Marketing and selling expenses/Revenue	-12,00 %	-12,00 %	-12,00 %	-12,00 %	-12,00 %	-12,00 %	-12,00 %	-12,00 %	-12,00 %	-12,00 %
Administrative expenses/Revenue	-8,50 %	-8,50 %	-8,50 %	-8,50 %	-8,50 %	-8,50 %	-8,50 %	-8,50 %	-8,50 %	-8,50 %
Research and development expenses/Revenue	1,56 %	1,56 %	1,56 %	1,56 %	1,56 %	1,56 %	1,56 %	1,56 %	1,56 %	1,56 %
Other expenses/Revenue	0,16 %	0,16 %	0,16 %	0,16 %	0,16 %	0,16 %	0,16 %	0,16 %	0,16 %	0,16 %
Foreign Exchange (gains) losses/Revenue	0,00 %	0,00 %	0,00 %	0,00 %	0,00 %	0,00 %	0,00 %	0,00 %	0,00 %	0,00 %
Operating profit before special items/Revenue	22,22 %	22,22 %	22,22 %	22,22 %	22,22 %	22,22 %	22,22 %	22,22 %	22,22 %	22,22 %
Acqusition related costs/Revenue	-0,50 %	-0,40 %	-0,30 %	-0,20 %	-0,10 %	0,00 %	0,00 %	0,00 %	0,00 %	0,00 %
Restructuring charges/Revenue	-0,56 %	-0,56 %	-0,56 %	-0,56 %	-0,56 %	-0,56 %	-0,56 %	-0,56 %	-0,56 %	-0,56 %
EBITDA/Revenue	21,16 %	21,26 %	21,36 %	21,46 %	21,56 %	21,66 %	21,66 %	21,66 %	21,66 %	21,66 %
Depreciation and amortization/Tangible and Intangible assets	-8,00 %	-8,00 %	-8,00 %	-8,00 %	-8,00 %	-8,00 %	-8,00 %	-8,00 %	-8,00 %	-8,00 %
EBIT/Revenue	15,70 %	16,08 %	16,21 %	16,33 %	16,42 %	16,51 %	16,50 %	16,48 %	16,46 %	16,46 %
Tax rate	-40,00 %	-40,00 %	-40,00 %	-40,00 %	-40,00 %	-40,00 %	-40,00 %	-40,00 %	-40,00 %	-40,00 %
NOPAT/Revenue	9,42 %	9,65 %	9,72 %	9,80 %	9,85 %	9,91 %	9,90 %	9,89 %	9,87 %	9,88 %
Interest rate	-4,55 %	-4,55 %	-4,55 %	-4,55 %	-4,55 %	-4,55 %	-4,55 %	-4,55 %	-4,55 %	-4,55 %

Source: Own creation

Cost of goods sold

Plenborg and Petersen suggest that one uses a sales-driven forecasting approach where the various operating expenses and investments are forecasted as a percentage of revenue. I have in this thesis used this approach to forecast the cost of goods sold.

It is evident from the financial analysis chapter that Campbell has one of the highest margins in the industry. It is however declined in recent years. The average cost of goods sold to revenue in FY2007-FY2013 has been 56.61%, but increased in recent years due to inflation in input costs. It is expected that the inflation in input costs will continue and the cost of goods sold percentage is set to be 59% in the entire forecast period. There is no indication from either annual reports or both the financial and strategic analysis that this ratio will change dramatically in the forecasting period.

Marketing, selling and administrative expenses

Marketing, selling and administrative expenses will also be forecasted as a percentage of revenue as suggested by Plenborg and Petersen. Marketing and selling expenses has average

of 13.58% in FY2007-FY2013. Campbell has in their annual report of 2013 claimed that they are changing some of their marketing strategy into new and cheaper marketing channels. The combination of new marketing with a larger nominal marketing budget will reduce the marketing and selling expenses to revenue. The percentage of marketing and selling expenses to sales is set a 12% for the entire forecasting period.

Furthermore, the administrative expenses as a percentage of revenue are expected to be a bit higher than previous periods. The average in FY2007-FY2013 is 7.94% and the percentage of administrative expenses to revenues is set to be 8.5%. This is mainly due to the fact that the company has become larger after last year's acquisitions.

Research and development expenses

Research and development will, as mentioned earlier in the thesis, be very important for Campbell in upcoming periods. The cost of research and development has increased in recent years due to several large product launches. I expect research and development cost to continue to grow nominally, but stay constant as a percentage of revenue. The research and development expenses as a percentage of revenue are set to be 1.56%, which is the average for the period FY2007-FY2013.

Other expenses and foreign exchange gains and losses

The development of other expenses and foreign exchange gains and losses are hard to predict and is therefore set to 0.16% and 0%, which is the average of the period FY2007-FY2013.

Special items: acquisition related costs and restructuring costs

Acquisition related costs are expected to slowly decline towards 0% in FY2019. I expect there to be some cost related to last year's acquisitions in the next few years, however at a declining percentage of revenue.

Furthermore, it is difficult to predict restructuring costs, as Campbell does not provide information on restructuring plans 5 to 10 years ahead. I have therefore decided to set restructuring costs as a constant percentage of revenue, which is equal to the average for the

period FY2007-FY2013. Restructuring cost as a percentage of revenue is set to be 0.56% in the entire forecasting period.

Depreciation and amortization

I have forecasted depreciation and amortization as a percentage of tangible and intangible assets as suggested by Petersen and Plenborg. After several large acquisitions the average for the period FY2007-FY2013 will not be the best match for Campbell's expected depreciation and amortization costs. I have decided to set the depreciation and amortization percentage of tangible and intangible assets at 8%, which is slightly lower than 8.78% in FY2013.

Tax rate

I have applied the U.S. statutory tax rate as explained in WACC section 7.1. The U.S. statutory tax rate is 40%.

Net financial expenses

Net financial expense is calculated by multiplying prior year's net interest-bearing debt with the required return on debt. The required return on debt is as stated in the WACC 4.55%. By basing net financial expense on prior years NIBD, circularity in the forecast is eliminated[85].

Earnings or losses from discontinued operations

As I have no information on the management plans to sell some of Campbell's brands or assets, I have decided to set the expected earnings or losses from discontinued operations to zero in the forecast period.

6.4 Forecasted balance sheet and cash flow statement

In this section I will discuss the assumptions made in the forecasted balance sheet to create the free cash flow to firm (FCFF). The main contribution from the balance sheet is net

[85] Koller, Goedhart and Wessels (2010), Valuation: Measuring and managing the value of companies, p.196

investments in tangible and intangible assets, changes in net working capital and the development in net interest-bearing debt.

Table 6.3 Budget forecast assumptions balance sheet and cash flow statement

Forecast Assumptions	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
Intangible and tangible assets/Revenue	67,00 %	67,00 %	67,00 %	67,00 %	67,00 %	67,00 %	67,00 %	67,00 %	67,00 %	67,00 %
Net working capital/Revenue	4,00 %	4,00 %	4,00 %	4,00 %	4,00 %	4,00 %	4,00 %	4,00 %	4,00 %	4,00 %
Net interest-bearing debt/Invested capital	77,83 %	77,83 %	77,83 %	77,83 %	77,83 %	77,83 %	77,83 %	77,83 %	77,83 %	77,83 %

Source: Own creation

Intangible and tangible assets

I have, as suggested by Plenborg and Petersen, calculated intangible and tangible assets as a percentage of revenues. These assets have previously been from 58% to 69.27% of revenue with an average of 62.15% in the period FY2007-FY2013. Due to the three large acquisitions last year, these assets were 69.27% of revenue. I expect the ratio to stay stable at 67% in the forecast period.

Table 6.4 Investments, tangible and intangible assets

Investments, intangible and tangible assets	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
Intangible and tangible assets, end of period	5472,04	5665,46	5892,90	6153,28	6420,23	6683,12	6940,13	7183,91	7399,43	7631,89
Deperciation and amortization	446,24	437,76	453,24	471,43	492,26	513,62	534,65	555,21	574,71	591,95
Intangible and tangible assets, beginning of period	-5578,00	-5472,04	-5665,46	-5892,90	-6153,28	-6420,23	-6683,12	-6940,13	-7183,91	-7399,43
Investments, tangible and intangible assets	**340,28**	**631,19**	**680,68**	**731,81**	**759,21**	**776,51**	**791,65**	**798,99**	**790,23**	**824,42**

Source: Own creation

Table 6.4 shows the net investments needed each year in the forecasting period to keep intangible and tangible assets at 67% of revenue. The net investment numbers will later be used to calculate free cash flow to firm.

Net working capital

I have forecasted net working capital as a percentage of revenue as suggested by Plenborg and Petersen. Net working capital as a percentage of revenue has an average of 2.29% in the period FY2007-FY2013. However, it was 4.38% in FY 2011, and 4.11% in FY2013. I have therefore set the net working capital as a percentage of revenue at 4%, as I expect it to stay fairly constant in the forecasting period. Changes in net working capital will later be used to calculate the free cash flow to firm.

Net interest-bearing debt

As discussed in the section on WACC, there is no information available from management on Campbell's development in net interest-bearing debt. I therefore assume that the current capital structure will continue in the forecasting period. Net interest-bearing debt is calculated as a percentage of invested capital as suggested by Plenborg and Petersen. As mentioned above net interest-bearing debt as a percentage of invested capital is expected to stay the same throughout the forecasting period. NIBD as a percentage of invested capital is set to be 77.83%, which is equal to the ratio for FY2013.

NOPAT

Net operating profit after tax is an estimate of what Campbell would have earned with no debt. NOPAT will later be used to calculate free cash flow to firm.

Table 6.5 NOPAT forecasting period

	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
NOPAT	769,17	815,98	855,27	899,67	944,23	988,16	1025,39	1060,34	1090,44	1125,19

Source: Own creation

NOPAT is increasing because of increasing revenues in the period FY2014-FY2023.

Free cash flow to firm

Table 6.6 Free cash flow to firm calculation

	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
NOPAT	**769,17**	**815,98**	**855,27**	**899,67**	**944,23**	**988,16**	**1025,39**	**1060,34**	**1090,44**	**1125,19**
Depreciation	446,24	437,76	453,24	471,43	492,26	513,62	534,65	555,21	574,71	591,95
Change in net working capital	4,31	-11,55	-13,58	-15,55	-15,94	-15,70	-15,34	-14,55	-12,87	-13,88
Investments, intangible and tangible assets	-340,28	-631,19	-680,68	-731,81	-759,21	-776,51	-791,65	-798,99	-790,23	-824,42
Free cash flow to the firm (FCFF)	**879,44**	**611,01**	**614,25**	**623,75**	**661,34**	**709,57**	**753,04**	**802,00**	**862,06**	**878,84**

Source: Own creation

Free cash flow to firm is calculated by adjusting NOPAT for depreciation, changes in net working capital and net investments in intangible and tangible assets as suggested by Plenborg and Petersen.

7 Valuation

This chapter starts with a discussion of the weighted average cost of capital, followed by the enterprise discounted cash flow valuation, a sensitivity analysis and finally a relative valuation.

7.1 Weighted average cost of capital (WACC)

Estimating cost of capital

To be able to estimate the equity value of Campbell using cash flow models, I must estimate a proper discount rate, known as weighted average cost of capital (WACC). Both equity and debt holders demand a return that reflects the risk of future cash flows. Debt holders are normally entitled to, for a fixed period of time, a quarterly cash flow and also have priority in the case of default. Therefore it is necessary to calculate a required rate of return for the two asset classes separately. The general formula for WACC is listed below[86].

$$WACC = r_d * (1 - T) * \frac{NIBD}{NIBD + E} + r_e * \frac{E}{NIBD + E}$$

Return on equity, r_e

When estimating the return of equity, there exist several theoretical frameworks. However, most financial literature recommends using the CAPM model (Plenborg, Koller fl.), and I have therefore chosen this as the appropriate model ($r_e = r_f + \beta * (r_m - r_f)$.

It is important to notice that the CAPM model never will be completely accurate as it is nearly impossible to construct a portfolio of every security in the world[87]. Furthermore CAPM also assumes that every investor can borrow money at the risk-free rate and assumes that returns are unaffected by taxes.

Risk free rate, r_f

The first variable that needs to be determined is the risk free interest rate. This rate is defined as the certain expected return of an asset. In order for this condition to be met the asset must

[86] Petersen and Plenborg (2012) Financial Statement Analysis p.246
[87] Hillier, Ross, Westerfield, Jaffe and Jordan (2010) Corporate Finance, p.285-286

have no default or reinvestment risk[88]. The proxy normally used for the risk free rate is a default government bond that has a maturity that matches the forecasting horizon[89]. In order to handle the issue with inflation it is important that the government bond is denominated in the same currency as the underlying cash flow.[90]

Campbell's cash flow is nominal and reported in USD. It therefore makes most sense to use the American risk free interest rate. USA is recognized as one of the world's most solvent nations and possesses an AAA rating. As the forecasting period is infinite, I will use long-term government bonds as a proxy. I looked at 10-30 year zero coupon bonds in order to eliminate reinvestment risk. The 30-year bonds would be the best fit for the underlying cash flow, however it will suffer from a liquidity premium[91]. The interest rate for 10 years zero coupon bonds is 2.54% at the date of the analysis (May 19, 2014)[92]. I however believe that the current interest rates are too low compared to the historical average. I have therefore decided to use an average of the last 10 years as my risk-free interest rate based on data from the Federal Reserve. The risk-free interest rate used is 3.55%.

Estimating beta, β, systematic risk

Estimation of beta is usually based on historical return[93]. Beta is often not stable over time, and different time periods will often yield different results. I have estimated the beta value of Campbell by regressing monthly returns on Campbell's stock against the S&P 500. The analysis showed that different time periods yield different results. A time period of 3 years yields a beta of 0.543 and time period of 5 years gives a beta of 0.329 I have therefore chosen to use an average of various financial sources as Campbell's beta. As one can see from the table below the beta applied is 0.52.

[88] Damodaran, Aswhat (2008), "What is the risk free rate? A search for the basic building block", p.6
[89] Petersen and Plenborg (2012) Financial Statement Analysis p.249
[90] Petersen and Plenborg (2012) Financial Statement Analysis p.251
[91] Petersen and Plenborg (2012) Financial Statement Analysis p.251
[92] www.federalreserve.gov - Selected interest rates
[93] Petersen and Plenborg (2012) Financial Statement Analysis p.251

Table 7.1 Beta calculation

Yahoo finance	0,52
Google finance	0,41
Reuters	0,4
Financial times	0,39
Damodaran	0,89
Average	0,52

Source: Own creation from Yahoo, Google, Reuters, Financial times and Damodaran

The average beta of the peer group is 0.58 after adjusting for differences in capital structure[94].

Equity risk premium

The next component in estimating the WACC is the equity risk premium. The most common way to estimate the equity risk premium is with references to books and articles[95]. In theory, the market risk premium should be the same for all companies. That is because it is an estimate of how much return, over the risk free rate, investors expect[96]. However, experts differ in their opinion of what is the appropriated equity risk premium. Koller et. Al. estimates the risk premium to be between 4.5% and 5.5%[97]. In addition NYU professor Damodaran estimates the equity risk premium in the US to be 5.81%[98]. I have chosen to use Damodaran as a source, as he continuously updates his estimates and is in consensus with financial analysts. The equity risk premium I will use when calculating WACC is 5.81%.

Return on debt

The two most widely used approaches to estimating the required return on debt are:

- Finding the yield to maturity on a straight bond outstanding for the specific firm. One limitation to this approach is that there are few firms that have long-term straight bonds that are liquid and frequently traded.

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[94] Data collected from Yahoo finance

[95] Petersen and Plenborg (2012) Financial Statement Analysis p.264

[96] Jacobs, Michael T. "Do you know your cost of capital?", Harvard Business Review, July-August 2012, p.118-124

[97] Koller, Goedhart and Wessels (2010), Valuation: Measuring and managing the value of companies, p.253

[98] Damodaran (2013): Dataset: Implied Equity Risk Premiums for US Market

- Finding the credit rating for the firm and estimating a default spread based upon that rating[99].

According to Standard & Poor Campbell has a credit rating of BBB+/A-2, which implies a default spread of 1.00%[100]. As there is limited information available on the interest rate on Campbell's outstanding debt I have used the risk-free rate and added a spread of 1%. The interest rate used in the WACC calculation is 4.55%.

Tax

As free cash flow is calculated in after tax terms, I must adjust the cost of capital for the fact that interest payments are tax deductible. Campbell operates in multiple regions around the global and using the U.S. corporate tax rate might not yield the most reliable result. The alternative to using the U.S. corporate tax rate is to use Campbell's effective tax rate. This approach however assumes that the company's borrowing costs are distributed in the same way as the firm's operating earnings. Furthermore, the effective tax rate is affected by different tax depreciation schemes for different types of assets[101]. I have chosen to base my estimate on the U.S. corporate tax rate, which currently is 40% [102]. The corporate tax rate is therefore set to be 40%.

Capital Structure

The current capital structure may not be the same as the target capital structure for Campbell as the current structure may not reflect the level expected to prevail in the long term for the company. Estimating the target capital structure is often deduced by assessing the different aspects[103]:

- Estimating the current market value based capital structure

[99] Damodaran 2014, powerpoint slides
[100] Damodaran 2014, powerpoint slides
[101] Petersen and Plenborg (2012) Financial Statement Analysis p.265
[102] KPMG 2013, Corporate marginal tax rates
[103] Koller, Goedhart and Wessels (2010), Valuation: Measuring and managing the value of companies, p.262-263

- Reviewing the capital structure of comparable companies
- Reviewing managements own expectations for target capital structure

In order to calculate the current market value based capital structure, I need to assess the market value of equity and debt. The market value of equity is easily determined as it is the number of shares outstanding multiplied by the current share price, also known as the company's market capitalization. Campbell's market capitalization as of 19th of May 20014 was $13,824 million. The market value of debt on the other hand is more difficult to determine, as there are for Campbell not enough information available to calculate the market value of debt. The book value of net interest-bearing debt will therefore be used as a proxy for the company's market value of debt. Book values are often considered an acceptable approximation as long as the company is not in financial distress, which Campbell is not. The book value of net-interest bearing debt is 4599. This gives a current capital structure of 24.96% debt and 75.04% equity.

The second element of the capital structure analysis is to look at comparable companies.
Table 7.2 Capital structure ratios peer group

	Debt %	Equity %
General Mills	13,15 %	86,85 %
ConAgra	45,34 %	54,66 %
Flowers	8,49 %	91,51 %
Mondelez	24,45 %	75,55 %
Kellogg	23,56 %	76,44 %
Nestle	5,72 %	94,28 %
Average	20,65 %	79,35 %

Source: Own creation from annual reports and Google finance

The table above shows variation in capital structure for the peer group companies. ConAgra is the company, which is closest to Campbell in size. They have however significantly higher debt ratio than Campbell. The average of the peer group is close to Campbell's current capital structure and this fact supports using the current capital structure as Campbell's target capital structure.

Furthermore, there is no information in recent annual reports on Campbell's target capital structure and there has been no other public available information that might suggest that the management as a significantly different capital structure target. Therefore, the current capital structure will be used as the target capital structure when calculating the WACC.

Weighted average cost of capital
The return on debt is calculated to be:
Return on debt = 3.55%+1.00%=4.55%
The return on equity is calculated to be:
Return on equity=3.55%+(5.81%*0.82)=6.58%

With the calculations used above, the WACC can now be calculated.
WACC=(6.58%*0.7504)+(4.55%*0.2496*(1-40%))=5.621%

The WACC of 5.621% is the WACC that will be used in the following valuation of Campbell.

7.2 DCF valuation
In section 6.4 I showed the calculation behind the free cash flow to firm, and in section 7.1 I showed the calculations behind the weighted average cost of capital. These two inputs together with the terminal growth rate presented in section 6.2 will be the inputs in the enterprise discounted cash flow model below. The discounted cash flow model is presented in section 1.3.5.

The valuation date is the 19th of May, which is the same date, as the Q3 report of FY2014 was made public. Therefore, the cash flows below are discounted by 0.25, 1.25, 2.25 years and so on. I assume that the cash flow is distributed according to percentage of sales in FY2014, and therefore multiply the cash flow of FY2014 by 19.07%.

Table 7.3 Present value forecasting period

	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
FCFF	167,71	611,01	614,25	623,75	661,34	709,57	753,04	802,00	862,06	878,84
DF	0,99	0,93	0,88	0,84	0,79	0,75	0,71	0,67	0,64	0,60
PV FCFF	165,43	570,64	543,14	522,18	524,19	532,48	535,03	539,49	549,03	529,93
PV of FCFF, forecasting period			5 011,53							

Source: Own creation

The discount factor for FY2014 is calculated as 1/(1+0.05621)^0.25, the discount factor for FY2015 is calculated as 1/(1+0.05621)^1.25 and so on. Furthermore the terminal value is calculated as

$$Terminal\ FCFF = \frac{FCFF\ terminal\ year}{WACC - g}$$

Which gives $\frac{896.42}{5.621\% - 2\&} = 24\ 755.99$

The terminal FCFF must then be discounted by the same discount factor as the last period in the forecast, which is 0.60[104]. This yields a terminal value of 14 927.58.

Table 7.4 Share price calculation

PV of FCFF, forecasting period	5 011,53
PV of FCFF, forecasting period	5 011,53
PV terminal period	14 927,58
Enterprise Value	**19 939,11**
Debt Value	4 599,00
Equity value	**15 340,11**
Number of shares	313,75
Share Price	**48,89**

Source: Own creation

The enterprise value is calculated by adding the present value of the terminal period to the total present value of the forecasting period. As can be seen from table 6.3 the enterprise value of Campbell's 19 9939.11 million dollars. Furthermore, in order to get a share price for

[104] Petersen and Plenborg (2012) Financial Statement Analysis p.217

Campbell one must subtract net-interest bearing and divide by current outstanding shares[105]. The share price of Campbell is calculated to be 48.89 dollars. The DCF valuation yields a share price that is 10.97% higher than the market price as of 19th of May 2014, which was 44.06 dollars per share.

7.3 Sensitivity analysis

The DCF valuation is highly sensitive to changes in the discount factor and the terminal growth rate. The WACC relies on many underlying assumptions as the CAPM formula. It is important to test the DCF valuation for changes in the WACC and the terminal growth rate to see the effects on the final share price.

In table 7.5 below I have tested the DCF valuation by changing WACC from 4% to 8% and the terminal growth rate from 1% to 3%.

Table 7.5 Sensitivity analysis by changing WACC and terminal growth rate

WACC/Terminal growth	1,00 %	1,50 %	2 %	2,50 %	3,00 %
8 %	19,47	21,10	23,00	25,25	27,95
7 %	25,53	27,95	30,87	34,43	38,88
6 %	34,03	37,88	42,70	48,88	57,13
5,62 %	38,23	42,92	48,89	56,79	67,69
5 %	46,84	53,53	62,45	74,93	93,66
4 %	68,24	81,75	102,02	135,80	203,36

Source: Own creation

The share price ranges from $23.00 to §102.02 with a WACC of 4% and 8% holding the terminal growth rate constant at 2%. Moreover, the share price ranges from $38.23 to $67.69 with a terminal growth rate of 1% and 3% holding the WACC constant at 5.62%. It is evident that the share price is stronger influenced by changes in the WACC than changes in the terminal growth rate. In the most extreme cases in table 7.5 the share price ranges from $19.47 to $203.36 showing the sensitivity of the inputs in the DCF calculation. The prices in red are prices that are lower than the market price as of May 19, 2014.

[105] Petersen and Plenborg (2012) Financial Statement Analysis p.217

7.4 Relative valuation – multiples analysis

The relative valuation is used to stress test the DCF valuation. In the multiple valuation approach I have collected the 2014 forward-looking P/E and EV/EVITDA multiples and averaged the multiples for the companies in the peer group as shown in table 7.6 below.

Table 7.6 Peer group multiples

	P/E	EV/EBITDA
General Mills	18,73	11,64
ConAgra	14,19	9,53
Flowers	20,53	10,92
Mondelez	21,59	13,79
Kellogg	16,86	11,51
Nestle	19,4	13,2
Average	**18,55**	**11,765**

Source: Own creation from estimates from 5-6 investment banks, collected from Bloomberg[106]

In the case of the P/E multiple I have multiplied the average P/E of 18.55 with Campbell's forecasted 2014 earnings to get the price of Campbell's equity. In order to get the share price I divided the price of equity by the current outstanding shares. The share price retrieved from the P/E multiple calculation is $38.05. Furthermore, in the case of the EV/EBITDA multiple, I multiplied the average multiple with the 2014 forecasted EBITDA to get the enterprise value. Moreover, I subtracted net interest-bearing debt and divided by current outstanding shares to get the share price. The share price was in the case of the EV/EBITDA multiple, $50.15. The data is the average of 5-6 investment banks and collected from the Bloomberg database. I have only used 1 year forward-looking multiples.

7.5 Partial conclusion

The DCF valuation showed that Campbell's intrinsic value is currently 10.97% higher than the current market value. However, the DCF valuation relies on many strong assumptions and is often biased by the analyst's opinion. The sensitivity analysis showed that the DCF valuation is very sensitive to changes in the WACC and the terminal growth rate, which could be expected. Furthermore, the EV/EBITDA multiples valuation supports the DCF valuation by

[106] Bloomberg database (2014)

arriving at nearly the same share price, $50.15 against $48.89. The P/E multiple valuation supported a lower share price of $38.05.

As stated in section 1.1 Warren Buffet has historically searched for companies that have higher intrinsic value than market value, and my valuation shows that Campbell could potentially be undervalued by approximately 10%. It is important to note that even a slight increase in the WACC would result in a lower intrinsic value than the current market capitalization of Campbell.

8 The H.J. Heinz transaction

On February 14, 2013 Berkshire Hathaway and 3G Capital announced the takeover of H.J. Heinz. Heinz is, like Campbell, one of the most respected brands in the food industry[107].

Heinz is known for its famous ketchup, but beyond ketchup Heinz also markets a selection of other products such as sauces, meals, snacks and infant nutrition. The company is famous for its iconic brands on six continents and enjoys number-one or number-two positions in most markets[108].

I will in this section analyze the potential similarities between the H.J. Heinz transaction and a potential acquisition of Campbell Soup Company. Factors that will be analyzed are management, return on equity and debt levels, earnings power and the acquisition price.

8.1 Management

Warren Buffet states clearly in announcement of the acquisition of H.J. Heinz that Berkshire believes that H.J. Heinz possess superior management. Berkshire believes that the management in combination with the company's strong brand equity will be a great fit for Berkshire[109].

[107] www.berkshirehathaway.com - News H.J. Heinz deal
[108] www.heinz.com - About Heinz
[109] www.berkshirehathaway.com - News H.J. Heinz deal

It is difficult to determine exactly what "superior management" is, but in the case of H.J. Heinz I believe that the term superior management refers to 30 quarters of top-line organic growth combines with high returns on invested capital and high returns on equity.

8.2 Return on equity and debt levels

H.J. Heinz had around the announcement of the acquisition $6 249 million in net interest-bearing debt. The all time high market capitalization was approximately $19 167 million, this yields a debt ratio of 24.59% and an equity ratio of 75.41%.

H.J. Heinz return on equity in the period FY2011 to FY2013 is shown in table 7.1

Table 8.1 Return on earnings H.J. Heinz

	FY 2010	FY 2011	FY 2012	FY 2013
ROE		38,57 %	30,81 %	35,79 %

Source: Own creation form H.J. Heinz annual reports

The return on equity is fairly high compared to similar companies in the peer group analyzed in section 4.3.1.5. In the book "The Essays of Warren Buffet", Warren Buffet states that they are looking for targets with a high return on equity with little or no debt. In the case of H.J. Heinz both of these criteria are met.

8.3 Pre-tax earnings and demonstrated consistent earnings power

As stated in section 1.1, Berkshire has historically not been interested in turnaround cases, companies with large volatility in their earnings or low pre-tax earnings. Low pre-tax earnings are by Berkshire referred to as below $50 million.

Table 8.2 Pre-tax earnings and net income H.J. Heinz

	FY 2010	FY 2011	FY 2012	FY 2013
Pre-tax earnings	1290,45	1416,32	1236,09	1343,64
Net income	864,89	989,51	923,16	1012,90

Source: Own creation from H.J. Heinz annual reports

It is clear from table 8.2 that H.J. Heinz had consistent high pre-tax earnings and net income in the last years before the acquisition.

8.4 Acquisition price

As stated in section 1.1, one of Berkshire's demands is that the target should have a sensible price tag. In the case of the H.J. Heinz transaction, Berkshire acquired together with 3G Capital H.J. Heinz for $72.50 per share. The acquisition price was 20% above the closing price of February 13, 2013 and 19% above H.J. Heinz all-time high share price.

The high premium of 20% is abnormal for Berkshire's historical acquisitions, but comes as a consequence of the size of Berkshire today. At first sight this looks like an expensive deal, but out of the $13 billion dollars Berkshire paid, 9$ billion is in the form of preference shares and the remainder in equity[110].

Furthermore, it is expected that Berkshire will receive a yield of 9% on these preference shares, which are most likely more than any large stock on the S&P 500.

8.5 Partial conclusion

The acquisition of H.J. Heinz, a company with similar characteristics as Campbell, shows that Berkshire is interested in companies in the food and beverage industry.

As mentioned in section 3.3.2 it is difficult to determine whether the current management of Campbell is superior or not. The current management has however not shown strong results and disappointed analysts in the fiscal year of 2014. It is evident from the acquisition of H.J. Heinz that Berkshire clearly favors target companies that they believe is in the possession of superior management.

H.J. Heinz showed high returns on equity in the period before the acquisition and had a relatively low debt ratio of 24.59%. Moreover, the capital structure of Campbell is nearly identical to the one at H.J. Heinz before the takeover. The debt ratio of Campbell is 24.96%. It

[110] Prabhat Sakya (2013)"Why Buffet Bought H.J. Heinz"

is clear from this comparison that the current debt level of Campbell would not be a deal breaker for Berkshire in a potential acquisition of Campbell.

Furthermore, H.J. Heinz shows stronger earnings than Campbell, but is also a larger company. Both H.J. Heinz and Campbell are far above the minimum pre-tax earnings demand for Berkshire to consider a company a potential target. Both companies have also shown strong consistent net income numbers, which is a criterion set by Berkshire.

Lastly, the acquisition price in the H.J. Heinz deal is about 20% above the current market price. It is difficult to estimate what Berkshire believes are the fundamental value of H.J. Heinz without performing a fundamental analysis of H.J. Heinz. Moreover, it seems clear that the a discount of 10.97% of the current market value of Campbell would be attractive in light of the acquisition of H.J. Heinz.

9 Conclusion

The main purpose of the Master Thesis was to assess if Campbell Soup Company could be a potential target for Berkshire Hathaway. The analysis concluded on the six investment criteria that Berkshire have when assessing a company.

The analysis of the management in the internal analysis concluded that a period of three years is too short to conclude whether or not Campbell possess superior management. Moreover, the analysis showed no evidence supporting superior performance by Campbell's current management.

Furthermore, the financial statement analysis showed that Campbell has delivered consistent earnings in the past. In the last 7 years Campbell had average pretax earnings of $1066 million and never below $939 million. On the other hand, the analysis showed that Campbell's profit margin is declining and as stated in section 1.1 Berkshire prefers companies with the ability to improve their profit margins.

Moreover, the financial statement analysis showed that Campbell has a very high return on equity both in absolute numbers and compared to its peers. However, Campbell's return on

equity and return on invested capital are both declining. Berkshire favors companies with little or no debt. In terms of book values Campbell's debt level is high, but this is not the case when looking at market values. Campbell's debt level is similar to H.J. Heinz at the time of Berkshire's acquisition and close to the average debt levels of their competitors.

In order to find the intrinsic value of Campbell and compare the value to Campbell's current market value I conducted a strategic analysis and a financial statement analysis, which I summarized in a TOWS, analysis in chapter 5. This was the foundation for the budget forecast. The strategic analysis showed that consumers are looking towards healthier dinner meals. This will reduce growth in the important U.S. soup segment. Furthermore, the strategic analysis showed that higher input costs and stronger regulation will make it difficult for Campbell to increase their profit margins substantially. Lastly, the analysis showed that organic revenue growth has been and will be slow due to factors like health focus, potentially outdated products and a beverage division that is struggling. The financial analysis showed declining profit margins and high returns on equity.

Furthermore, the DCF valuation showed that Campbell's intrinsic value is 10.97% higher than the current market price. I performed a sensitivity analysis and a multiple valuation to stress test my DCF valuation. The sensitivity analysis showed that the DCF valuation was sensible to changes in the discount factor and the terminal growth rate. By increasing the current WACC by only 0.38% the share price would have an intrinsic value that is lower than the current market value. Moreover, by using forward-looking P/E and EV/EBITDA multiples I found support of my DCF valuation. The EV/EBITDA valuation was very close to my DCF valuation. Campbell is according to my valuation sensibly priced, and the price supports Campbell as a target for Berkshire.

There is no evidence suggesting that Campbell has superior management. Furthermore, Campbell is showing declining ROIC, ROE and profit margins. The Master Thesis shows that Campbell most likely would not be a target for Berkshire as of May 19, 2014.

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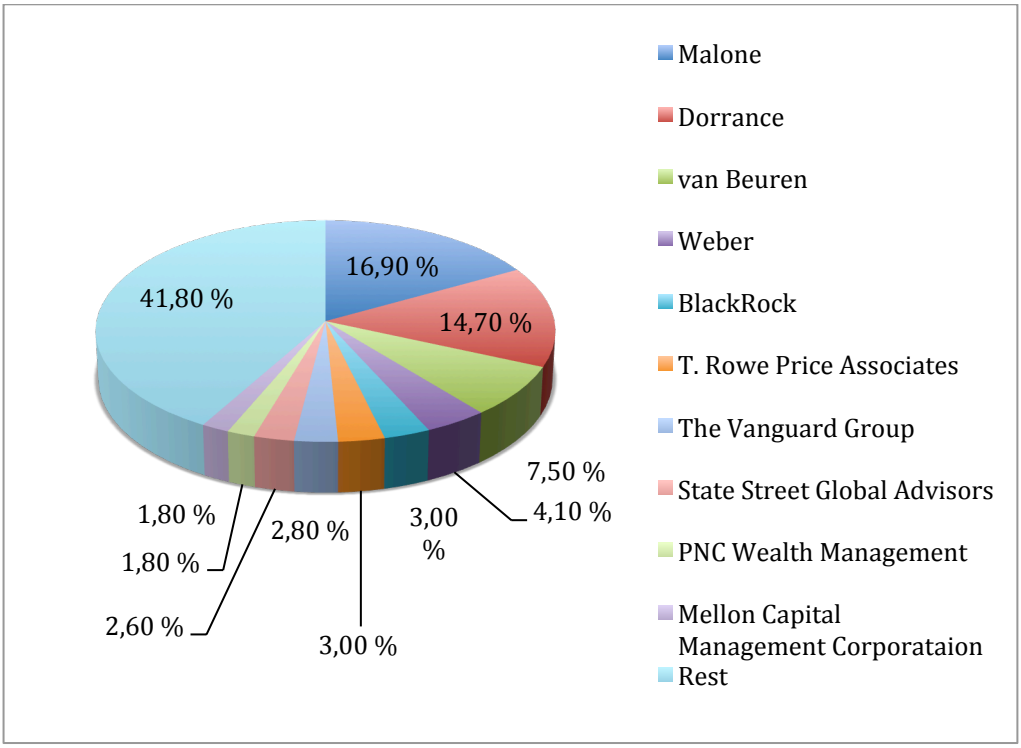
11 Appendix

Appendix 1 Ownership structure

Source: Own creation from Campbell Soup Company's website



Appendix 2 Revenue composition Campbell Soup Company

Source: Own creation / Annual reports 2007-2013

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
U.S. Simple Meals	40,19 %	38,28 %	38,51 %	37,99 %	35,38 %
Global Baking and Snacking	9,69 %	25,73 %	30,18 %	30,56 %	28,23 %
International Simple Meals and Beverages	24,33 %	18,54 %	12,42 %	12,15 %	10,79 %
U.S. Beverages	17,89 %	9,93 %	10,63 %	10,79 %	9,22 %
Bolthouse and Foodservice	7,90 %	7,53 %	8,26 %	8,50 %	16,38 %
Total	**100,00 %**	**100,00 %**	**100,00 %**	**100,00 %**	**100,00 %**

Appendix 3 Revenue per business segment forecasted and historical Campbell

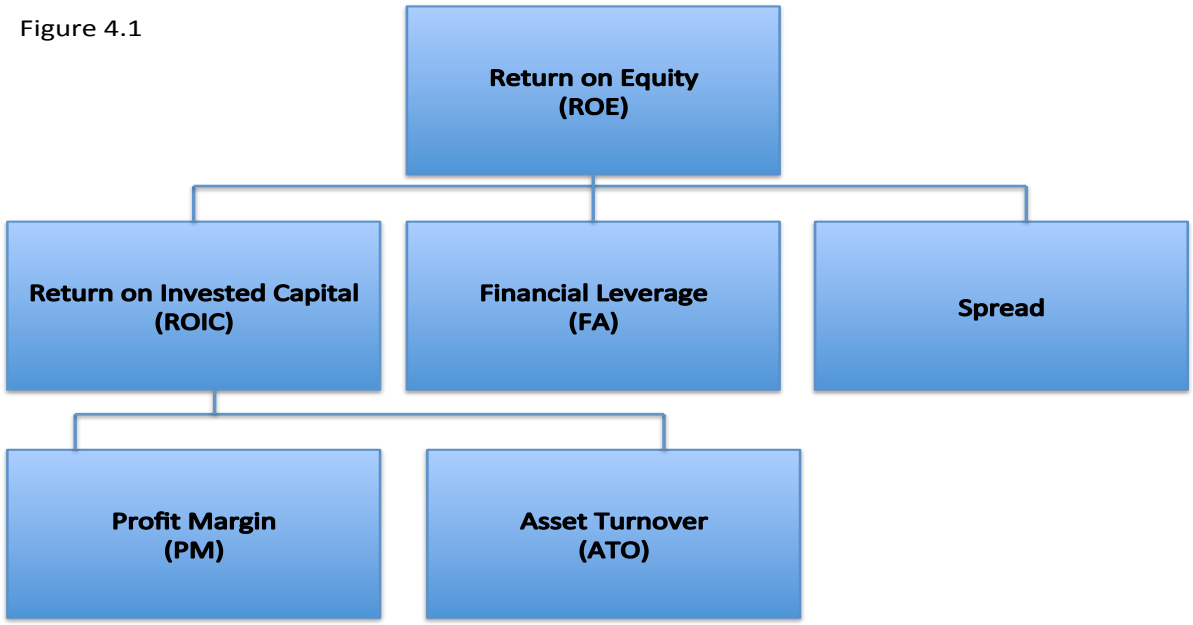
Source: Own creation

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	Q1 FY 2014	Q2 FY 201	Q3 FY 2014	Q4 FY 2014f	FY 2014f	FY 2015f	FY 2016f	FY 2017f	FY 2018f	FY 2019f	FY 2020f	FY 2021f	FY 2022f	FY 2023f
U.S. Simple Meals	3049	2938	2751	2726	2849	860	894	672	510	2936	3054	3176	3303	3402	3504	3609	3717	3829	3944
Global Baking and Snacking	735	1975	2156	2193	2273	609	639	564	607	2419	2588	2769	2963	3170	3361	3529	3670	3780	3893
International Simple Meals and Beverages	1846	1423	887	872	869	193	213	186	162	754	717	695	688	695	716	737	759	782	821
U.S. Beverages	1357	762	759	774	742	173	176	190	164	703	675	661	661	668	681	702	723	744	767
Bolthouse and Foodservice	599	578	590	610	1319	330	359	358	308	1355	1423	1494	1569	1647	1713	1782	1853	1909	1966
Total	**7586**	**7676**	**7143**	**7175**	**8052**	2165	2281	1970	1751	**8167**	**8456**	**8795**	**9184**	**9582**	**9975**	**10358**	**10722**	**11044**	**11391**

Appendix 4 Du Pont model

Source: Own creation from Petersen and Plenborg 2012

Figure 4.1



Appendix 5 Campbell Soup Company original balance sheet
Source: Own creation / Annual reports 2007-2013

	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Assets							
+ Cash & Cash Equivalents	71	81	51	254	484	335	333
+ Accounts Receivable, net	581	570	528	512	560	553	635
+ Inventories	775	829	824	724	767	714	925
+ Deferred Taxes	97	96	100	128	112	104	90
+ Fair value of derivatives	0	0	10	16	1	35	9
+ Other Current Assets	54	76	38	53	39	30	36
+ Current Assets Held for Sale	0	41	0	0	0	0	193
Total Current Assets	**1 578**	**1 693**	**1 551**	**1 687**	**1 963**	**1 771**	**2 221**
+Plant Assets, net of depreciation	2042	1939	1977	2 051	2 103	2 127	2 260
+ Goodwill	1872	1998	1901	1 919	2 133	2 013	2 297
+Other Intangible Assets, net of amortization	615	605	522	509	527	496	1 021
+ Fair value of derivatives	0	0	25	34	20	10	23
+ Deferred taxes	8	20	24	21	47	49	27
+ Other Non current Assets	330	191	56	55	69	64	81
+ Noncurrent Held for Sale	0	28	0	0	0	0	393
Total Long-Term Assets	4 867	4 781	4 505	4 589	4 899	4 759	6 102
Total Assets	**6 445**	**6 474**	**6 056**	**6 276**	**6 862**	**6 530**	**8 323**
Liabilities & Shareholders' Equity							
+ Short-Term Borrowings	595	982	378	835	657	786	1 909
+ Payable to Suppliers and Others	694	655	569	545	585	571	523
+ Accrued compensation and benefits	262	225	236	229	262	267	270
+ Fair value of derivatives	13	42	19	2	37	29	35
+ Accrued trade and consumer promotion programs	116	127	112	129	132	140	137
+ Accrued interest	52	41	43	47	32	31	41
+ Restructuring	0	37	4	1	39	16	21
+ Other Current	179	183	165	152	117	115	113
+ Dividend Payable	77	81	88	95	95	93	100
+ Accrued Income Taxes	42	9	14	30	33	22	19
+ Current Liabilities Held for Sale	0	21	0	0	0	0	114
Total Current Liabilities	**2 030**	**2 403**	**1 628**	**2 065**	**1 989**	**2 070**	**3 282**
+ Long-Term Debt	2074	1633	2246	1 945	2 427	2 004	2 544
+ Deferred Taxes	354	354	237	258	367	298	489
+ Pension Benefits	117	142	656	500	319	618	190
+ Deferred compensation	150	150	142	149	144	96	112
+ Postretirement Benefits	307	299	313	332	344	386	361
+ Fair value of derivatives	77	80	19	22	90	54	1
+ Unrecognized tax benefits	0	59	50	45	51	50	40
+ Other non current Liabilities	41	35	34	31	35	56	72
+ Noncurrent Liabilities Held for Sale	0	1	0	0	0	0	22
Total Long-Term Liabilities	3 120	2 753	3 697	3 282	3 777	3 562	3 831
Total Liabilities	**5 150**	**5 156**	**5 325**	**5 347**	**5 766**	**5 632**	**7 113**
+ Preferred Stock	0	0	0	0	0	0	0
+ Capital Stock	20	20	20	20	20	20	12
+ Additional Paid-in Capital	331	337	332	341	331	329	362
+ Earnings Retained in Business	7082	7909	8288	8 760	9 185	9 584	1 772
+ Capital Stock in Treasury, at cost	-6015	-6812	-7194	-7 459	-8 021	-8 259	-364
+ Accumulated Other Comprehensive Income	-123	-136	-718	-736	-427	-776	-565
Total Campbell Soup Company Shareowner´s Equity	1 295	1 318	728	926	1 088	898	1 217
Noncontrolling Interests	0	0	3	3	8	0	-7
Total Equity	**1 295**	**1 318**	**731**	**929**	**1 096**	**898**	**1 210**
Total Liabilities & Equity	**6 445**	**6 474**	**6 056**	**6 276**	**6 862**	**6 530**	**8 323**

Appendix 6 Campbell Soup Company original income statement
Source: Own creation / Annual reports 2007-2013

	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Net Operating Revenues	7385	7998	7586	7 676	7 143	7 175	8 052
- Cost of goods sold	4384	4827	4558	4 526	4 255	4 365	5 140
Gross Profit	**3 001**	**3 171**	**3 028**	**3 150**	**2 888**	**2 810**	**2 912**
- Marketing and selling expenses	1106	1162	1077	1 058	909	941	947
- Administrative expenses	571	608	591	605	577	580	677
- Research and development expenses	111	115	114	123	120	116	128
- Other expenses (income)	0	0	0	0	0	0	0
Foreign Exchange (gains) losses	0	0	-7	1	5	-3	3
Other expenses	-30	13	68	3	5	9	16
Acqusition related costs	0	0	0	0	0	5	10
- Restructuring charges	0	175	0	12	60	7	51
Total expenses	6 142	6 900	6 401	6 328	5 931	6 020	6 972
EBIT	**1 243**	**1 098**	**1 185**	**1 348**	**1 212**	**1 155**	**1 080**
- Interest Expense	163	167	110	112	122	114	135
+ Interest Income	19	8	4	6	10	8	10
ings before taxes	**1 099**	**939**	**1 079**	**1 242**	**1 100**	**1 049**	**955**
- Taxes on Earnings	307	268	347	398	351	325	275
Earnings from continuing operations	792	671	732	844	749	724	680
Earnings (loss) from discontinued operations	62	494	4	0	53	40	-231
Net Earnings	**854**	**1 165**	**736**	**844**	**802**	**764**	**449**
- Net earnings (loss) attributable to noncontrolling in	0	0	0	0	-3	-10	-9
Net earnings attributable to Campbell Soup Compa	**854**	**1 165**	**736**	**844**	**805**	**774**	**458**
Per share basic							
Earnings from continuing operations	2,05	1,80	2,05	2,44	2,28	2,30	2,19
Earnings (loss) from discountined operations	0,16	1,32	0,01	0,00	0,16	0,12	-0,74
Net earnings attributable to Campbell Soup Compan	2,21	3,12	2,06	2,44	1,46	2,43	2,44
Weighted average shares outstanding - basic	386	373	352	340	326	317	314
Per share - assuming dilution							
Earnings from continuing operations	2	1,76	2,03	2,42	2,26	2,29	2,17
Earnings (loss) from discountined operations	0,16	1,3	0,01	0,00	0,16	0,12	-0,73
Net earnings attributable to Campbell Soup Compan	2,16	3,06	2,05	2,42	2,42	2,41	1,44
Weighted average shares outstanding - assuming dil	396	381	354,00	319,00	329	319	317

Appendix 7 Campbell Soup Company reformulated balance sheet
Source: Own creation / Annual reports 2007-2013

	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Current assets							
Cash & Cash Equivalents	71	81	51	254	484	335	333
Accounts Receivable, net	581	570	528	512	560	553	635
Inventories	775	829	824	724	767	714	925
Deferred taxes	97	96	100	128	112	104	90
Other current assets	54	76	38	53	39	30	36
Total current assets	**1578**	**1652**	**1541**	**1671**	**1962**	**1736**	**2019**
Non-current assets							
Plant Assets, net of depreciation	2042	1939	1977	2051	2103	2127	2260
Goodwill	1872	1998	1901	1919	2133	2013	2297
Other Intangible Assets, net of amortization	615	605	522	509	527	496	1021
Deferred taxes	8	20	24	21	47	49	27
Other non-current assets	330	191	56	55	69	64	81
Total non-current assets	**4867**	**4753**	**4480**	**4555**	**4879**	**4749**	**5686**
Non-interest-bearing debt							
Payable to Suppliers and Others	694	655	569	545	585	571	523
Accrued compensation and benefits	262	225	236	229	262	267	270
Accrued trade and consumer promotion programs	116	127	112	129	132	140	137
Restructuring	0	37	4	1	39	16	21
Other Current liabilities	179	183	165	152	117	115	113
Accrued Income Taxes	42	9	14	30	33	22	19
Deferred taxes	354	354	237	258	367	298	489
Deferred compensation	150	150	142	149	144	96	112
Unrecognized tax benefits	0	59	50	45	51	50	40
Other non current Liabilities	41	35	34	31	35	56	72
Total non-interest-bearing debt	**1838**	**1834**	**1563**	**1569**	**1765**	**1631**	**1796**
Invested Capital	**4607**	**4571**	**4458**	**4657**	**5076**	**4854**	**5909**
Total equity	**1 372**	**1 399**	**819**	**1 024**	**1 191**	**991**	**1 310**
Interest-bearing debt							
Short-Term Borrowings	595	982	378	835	657	786	1909
Current fair value of derivatives	13	42	19	2	37	29	35
Accrued interest	52	41	43	47	32	31	41
Current Liabilities Held for Sale	0	21	0	0	0	0	114
Long-Term Debt	2074	1633	2246	1945	2427	2004	2544
Pension Benefits	117	142	656	500	319	618	190
Postretirement Benefits	307	299	313	332	344	386	361
Non-current Fair value of derivatives	77	80	19	22	90	54	1
Noncurrent Liabilities Held for Sale	0	1	0	0	0	0	22
Total interest-bearing debt	**3235**	**3241**	**3674**	**3683**	**3906**	**3908**	**5217**
Interest-bearing assets							
Current fair value of derivatives	0	0	10	16	1	35	9
Current Assets Held for Sale	0	41	0	0	0	0	193
Non-current fair value of derivatives	0	0	25	34	20	10	23
Noncurrent Held for Sale	0	28	0	0	0	0	393
Total interest-bearing assets	**0**	**69**	**35**	**50**	**21**	**45**	**618**
Net-interest-bearing debt	**3235**	**3172**	**3639**	**3633**	**3885**	**3863**	**4599**
Invested capital	**4 607**	**4 571**	**4 458**	**4 657**	**5 076**	**4 854**	**5 909**

Appendix xx Campbell Soup Company reformulated income statement
Source: Own creation / Annual reports 2007-2013

	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Net revenue	7385,0	7998,0	7586,0	7676,0	7143,0	7175,0	8052,0
Cost of goods sold	-4101,0	-4531,0	-4294,0	-4275,0	-3987,0	-4103,0	-4733,0
Gross Profit	**3284,0**	**3467,0**	**3292,0**	**3401,0**	**3156,0**	**3072,0**	**3319,0**
Marketing and selling expenses	-1106,0	-1162,0	-1077,0	-1058,0	-909,0	-941,0	-947,0
Administrative expenses	-571,0	-608,0	-591,0	-605,0	-577,0	-580,0	-677,0
Research and development expenses	-111,0	-115,0	-114,0	-123,0	-120,0	-116,0	-128,0
Other expenses	30,0	-13,0	-68,0	-3,0	-5,0	-9,0	-16,0
Foreign Exchange (gains) losses	0,0	0,0	7,0	-1,0	-5,0	3,0	-3,0
Operating profit before special items	**1526,0**	**1569,0**	**1449,0**	**1611,0**	**1540,0**	**1429,0**	**1548,0**
Acqusition related costs	0,0	0,0	0,0	0,0	0,0	-5,0	-10,0
Restructuring charges	0,0	-175,0	0,0	-12,0	-60,0	-7,0	-51,0
EBITDA	**1526,0**	**1394,0**	**1449,0**	**1599,0**	**1480,0**	**1417,0**	**1487,0**
Depreciation and amortization	-283,0	-296,0	-264,0	-251,0	-268,0	-262,0	-407,0
EBIT	**1243,0**	**1098,0**	**1185,0**	**1348,0**	**1212,0**	**1155,0**	**1080,0**
Tax on EBIT	-347,2	-313,4	-381,1	-432,0	-386,7	-357,8	-311,0
NOPAT	**895,8**	**784,6**	**803,9**	**916,0**	**825,3**	**797,2**	**769,0**
Interest Income	19,0	8,0	4,0	6,0	10,0	8,0	10,0
Interest Expense	-163,0	-167,0	-110,0	-112,0	-122,0	-114,0	-135,0
Net financial expense before tax	-144,0	-159,0	-106,0	-106,0	-112,0	-106,0	-125,0
Net financial expense after tax	-103,8	-113,6	-71,9	-72,0	-76,3	-73,2	-89,0
Earnings (loss) from discontinued	62,0	494,0	4,0	0,0	53,0	40,0	-231,0
Net Profit after tax	**854,0**	**1165,0**	**736,0**	**844,0**	**802,0**	**764,0**	**449,0**
Net earnings (loss) attributable to noncontrolling interests	0,0	0,0	0,0	0,0	-3,0	-10,0	-9,0
Net profit after tax attributable to Campbell	**854,0**	**1165,0**	**736,0**	**844,0**	**805,0**	**774,0**	**458,0**

Appendix xx Effective tax rates Campbell Soup Company
Source: Own creation / Annual reports 2007-2013

	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Effective tax rate	27,93 %	28,54 %	32,16 %	32,05 %	31,91 %	30,98 %	28,80 %

Appendix 8 General Mills reformulated balance sheet
Source: Own creation / Annual reports 2009-2013

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Current assets					
Cash and cash equivalents	749,8	673,2	619,6	471,2	741,4
Receivables	953,4	1041,6	1162,3	1323,6	1446,4
Inventories	1346,8	1344	1609,3	1478,8	1545,5
Deferred income taxes	15,6	42,7	27,3	59,7	128
Other receivables	87,6	101,4	104,7	103,8	193,1
Prepaid expenses	197,5	127,5	161	178,3	168,6
Miscellaneous	55,4	24,5	22,4	33,2	20,8
Total current assets	**3406,1**	**3354,9**	**3706,6**	**3648,6**	**4243,8**
Non-current assets					
Land, buildings, and equipment	3034,9	3127,7	3345,9	3652,7	3878,1
Goodwill	6663	6592,8	6750,8	8182,5	8622,2
Other intangible Assets	3747	3715	3813,3	4704,9	5015,1
Miscellaneous	137	144,8	114,3	108	120,2
Total non-current assets	**13581,9**	**13580,3**	**14024,3**	**16648,1**	**17635,6**
Non-interest-bearing debt					
Accounts payable	803,4	849,5	995,1	1148,9	1423,2
Accrued payroll	338,2	331,4	303,3	367,4	417,3
Accrued trade and consumer promotions	473,5	555,2	463	560,7	635,3
Accrued taxes current	168	440,2	80,4	39,2	88
Accrued customer advances	19,3	25,5	36,4	0	0
Restructuring and exit cost reserve	0	0	7,2	85,9	19,5
Miscellaneous current	275	242,6	253,7	202	262,7
Deferred income taxes noncurrent	1165,3	874,6	1127,4	1171,4	1389,1
Accrued income taxes noncurrent	541,5	276,3	233,3	230,9	277,1
Miscellaneous noncurrent	81	74,1	64,9	105,8	115,6
Total non-interest-bearing debt	**3865,2**	**3669,4**	**3564,7**	**3912,2**	**4627,8**
Invested Capital	**13122,8**	**13265,8**	**14166,2**	**16384,5**	**17251,6**
Total equity + Minority interest	**5 417**	**5 648**	**6 612**	**7 755**	**8 376**
Interest-bearing debt					
Current portion of long-term debt	508,5	107,3	1031,3	741,2	1443,3
Notes payable	812,2	1050,1	311,3	526,5	599,7
Accrued interest, including interest rate swaps	182,1	136,5	114	100,2	91,2
Derivative payable	25,8	18,1	34,8	26,1	4,1
Grain contracts current	0	12,7	28,7	20,6	30
Long term debt	5754,8	5268,5	5542,5	6161,9	5926,1
Interest rate swaps	258,7	180,2	22,2	0	0
Accrued compensation and benefits, including obliga	1051	1588,1	1412,8	1853,1	1560,2
Total interest-bearing debt	**8593,1**	**8361,5**	**8497,6**	**9429,6**	**9654,6**
Interest-bearing assets					
Accrued interest receivable, including interest rate sv	73,4	64,9	29	0	0
Derivative receivables, primarily commodity-related	32	48,8	109,1	34,5	47,6
Other marketable securities	23,4	0	0	0	0
Grain contracts	0	11,4	57,3	8,3	7,5
Pension assets	195,1	2,2	128,6	42,7	131,8
Investments in and advances to joint ventures	283,3	398,1	519,1	529	478,5
Exchangeable not with related party	0	0	0	98,9	88,8
Life insurance	89,8	88,2	87,2	86,7	24,4
Derivative receivables	189,8	130,1	13,3	0	0
Total interest-bearing assets	**886,8**	**743,7**	**943,6**	**800,1**	**778,6**
Net-interest-bearing debt	**7706,3**	**7617,8**	**7554**	**8629,5**	**8876**
Invested capital	**13 122,8**	**13 265,8**	**14 166,2**	**16 384,5**	**17 251,6**

Appendix 9 General Mills reformulated income statement
Source: Own creation / Annual reports 2009-2013

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Net sales	14555,8	14635,6	14880,2	16657,9	17774,1
Net revenue	**14555,8**	**14635,6**	**14880,2**	**16657,9**	**17774,1**
Cost of sales	-8927,3	-8378,3	-8454,1	-10071,7	-10762,2
Gross Profit	**5628,5**	**6257,3**	**6426,1**	**6586,2**	**7011,9**
Selling, general, and administrative expenses	-2893,2	-3162,7	-3192,0	-3380,7	-3552,3
Operating profit before special items	**2735,3**	**3094,6**	**3234,1**	**3205,5**	**3459,6**
Divestitures (gain)	84,9	0,0	17,4	0,0	0,0
Restructuring, impairment, and other exit costs	-41,6	-31,4	-4,4	-101,6	-19,8
EBITDA	**2778,6**	**3063,2**	**3247,1**	**3103,9**	**3439,8**
Depreciation and amortization	-453,6	-457,1	-472,6	-541,5	-588,0
EBIT	**2325,0**	**2606,1**	**2774,5**	**2562,4**	**2851,8**
Tax on EBIT	-862,4	-911,7	-823,9	-822,6	-833,9
NOPAT	**1462,6**	**1694,4**	**1950,6**	**1739,8**	**2017,9**
Interest expense	-409,5	-374,5	-360,9	-370,7	-333,8
Capitalized interest	5,1	6,2	7,2	8,9	4,3
Interest income	21,6	6,8	7,4	9,9	12,6
Loss (Gain) on debt repurchase	0,0	-40,1	0,0	0,0	0,0
Net financial expense before tax	-382,8	-401,6	-346,3	-351,9	-316,9
Net financial expense after tax	-240,8	-261,1	-243,5	-238,9	-224,2
After-tax earnings from joint ventures	91,9	101,7	96,4	88,2	98,8
Net earnings, including earnings attributable to ree	**1313,7**	**1535,0**	**1803,5**	**1589,1**	**1892,5**
Net earnings attributable to reedemable and noncon	9,3	4,5	5,2	21,8	37,3
Net earnings attributable to General Mills	**1304,4**	**1530,5**	**1798,3**	**1567,3**	**1855,2**

Appendix 10 ConAgra Foods reformulated balance sheet
Source: Own creation / Annual reports 2009-2013

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Current assets					
Cash and cash equivalents	243,2	953,2	972,4	103	183,9
Receivables, less allowance for doubtfull accounts	755,3	849,6	849,4	924,8	1286,2
Inventories	1821,7	1597,9	1803,4	1869,6	2394,1
Prepaid expenses and other current assets	269,5	307,3	274,1	321,4	515,6
Total current assets	**3089,7**	**3708**	**3899,3**	**3218,8**	**4379,8**
Non-current assets					
Property, plant and equipment, net	2559,2	2602,4	2670,1	2741,9	3859,2
Goodwill	3483,6	3549,9	3609,4	4015,4	8450,7
Brands, trademarks and other intangibles, net	834,9	874,8	936,3	1191,5	3422,1
Other assets	768,1	695,6	293,6	274,3	293,5
Total non-current assets	**7645,8**	**7722,7**	**7509,4**	**8223,1**	**16025,5**
Non-interest-bearing debt					
Accounts payable	809,1	919,1	1083,7	1190,3	1501,6
Accrued payroll	165,9	263,9	124,1	177,2	287,2
Other accrued liabilities	551,3	579	554,3	779,6	909,6
Noncurrent income tax liabilities	525,9	509,4	770,5	693,5	1632,3
Other noncurrent liabilities, less current portion	100,7	170,8	221,3	134,6	167,4
Total non-interest-bearing debt	**2152,9**	**2442,2**	**2753,9**	**2975,2**	**4498,1**
Invested Capital	**8582,6**	**8988,5**	**8654,8**	**8466,7**	**15907,2**
Total equity	**4 721**	**4 929**	**4 677**	**4 536**	**5 363**
Interest-bearing debt					
Notes payable	3,7	0,6	0	40	185
Current installments of long-term debt	23,9	260,2	363,5	38,1	517,9
Current liabilities held for sale	20,2	13,4	0	0	0
Senior long-term debt, exluding current installments	3259,5	3030,5	2674,4	2662,7	8691
Subordinated debt	195,9	195,9	195,9	195,9	195,9
Postretirement healt care and pension obligations	600,4	790,5	674,1	846,5	783,5
Self-insurance liabilities	0	0	0	76,3	105,1
Environmental liabilities	90	70,6	70,2	71,2	65,8
Non current liabilities held for sale	5,9	5,2	0	0	0
Total interest-bearing debt	**4199,5**	**4366,9**	**3978,1**	**3930,7**	**10544,2**
Interest-bearing assets					
Current assets held for sale	246,9	252,1	0	0	0
Noncurrent assets held for sale	90,9	55,2	0	0	0
Total interest-bearing assets	337,8	307,3	0	0	0
Net-interest-bearing debt	**3861,7**	**4059,6**	**3978,1**	**3930,7**	**10544,2**
Invested capital	**8 582,6**	**8 988,5**	**8 654,8**	**8 466,7**	**15 907,2**

Appendix 11 ConAgra Foods reformulated income statement
Source: Own creation / Annual reports 2009-2013

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Net sales	12348,6	12014,9	12386,1	13367,9	15491,4
Net revenue	**12348,6**	**12014,9**	**12386,1**	**13367,9**	**15491,4**
Cost of goods sold	-9266,2	-8642,2	-9122,6	-10183,3	-11486,2
Gross Profit	**3082,4**	**3372,7**	**3263,5**	**3184,6**	**4005,2**
Selling, general, and administrative expenses	-1683,2	-1987,7	-1499,0	-1983,6	-2135,6
Operating profit before special items	**1399,2**	**1385,0**	**1764,5**	**1201,0**	**1869,6**
EBITDA	**1399,2**	**1385,0**	**1764,5**	**1201,0**	**1869,6**
Depreciation and amortization	-304,9	-324,1	-360,9	-371,8	-445,2
EBIT	**1094,3**	**1060,9**	**1403,6**	**829,2**	**1424,4**
Tax on EBIT	-382,0	-344,4	-482,6	-259,7	-496,2
NOPAT	**712,3**	**716,5**	**921,0**	**569,5**	**928,2**
Long-term debt interest expense	-261,9	-257,7	-231,1	-213,2	-284,0
Short-term debt interest expense	-5,4	-0,1	-0,2	-0,3	-0,7
Interest income	78,2	85,2	42,2	4,0	3,0
Interest capitalized	3,1	12,2	11,6	5,5	6,1
Net financial expense before tax	-186,0	-160,4	-177,5	-204,0	-275,6
Net financial expense after tax	-121,1	-108,3	-116,5	-140,1	-179,6
Equity method investments earnings	24,0	22,1	26,4	44,9	37,5
Income from continuing operations	615,2	630,3	830,9	474,3	786,1
Income (loss) from discontinued operations, net of ta	363,8	-19,3	-11,5	0,1	0,0
Net income	**979,0**	**611,0**	**819,4**	**474,4**	**786,1**
Less: Net income attributable to noncontrolling inter	0,6	-2,5	1,8	6,5	12,2
Net income attributable to ConAgra Foods	**978,4**	**613,5**	**817,6**	**467,9**	**773,9**

Appendix 12 Flowers Foods reformulated balance
Source: Own creation / Annual reports 2009-2013

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Current assets					
Cash and cash equivalents	18 948,00	6 755,00	7 783,00	13 275,00	8 530,00
Accounts and notes receivables, net	178 708,00	166 281,00	185 603,00	256 235,00	253 967,00
Inventories	60 996,00	60 574,00	74 096,00	91 010,00	100 851,00
Spare parts and supplies	35 437,00	37 085,00	39 624,00	45 239,00	47 956,00
Deferred Taxes	20 714,00	1 095,00	36 264,00	29 198,00	31 790,00
Prepaid Assets	9 022,00	11 139,00	13 028,00	14 544,00	17 176,00
Income taxes receivables	3 616,00	7 622,00	9 852,00	5 399,00	9 050,00
Other current assets	1 990,00	783,00	478,00	567,00	1 209,00
Total current assets	**329 431,00**	**291 334,00**	**366 728,00**	**455 467,00**	**470 529,00**
Non-current assets					
Property, plant and equipment, net	602 576,00	604 693,00	685 487,00	725 836,00	867 004,00
Notes receivables	94 457,00	92 860,00	102 322,00	102 723,00	142 845,00
Other noncurrent assets	4 157,00	5 113,00	13 932,00	6 223,00	5 873,00
Goodwill	201 682,00	200 153,00	219 730,00	269 897,00	282 404,00
Other intangible assets, net	103 080,00	97 032,00	141 231,00	388 384,00	656 710,00
Total non-current assets	**1 005 952,00**	**999 851,00**	**1 162 702,00**	**1 493 063,00**	**1 954 836,00**
Non-interest-bearing debt					
Accounts payable	92 692,00	102 068,00	115 138,00	153 956,00	151 935,00
Employee compensation	47 780,00	50 015,00	55 910,00	61 911,00	69 599,00
Income taxes payable	459,00	-	-	-	-
Other accrued liabilities	26 346,00	24 876,00	16 115,00	19 682,00	18 033,00
Deferred taxes	63 748,00	66 680,00	35 375,00	39 206,00	112 140,00
Other long-term liabilities	43 851,00	45 291,00	52 567,00	48 891,00	51 199,00
Total non-interest-bearing debt	**274 876,00**	**288 930,00**	**275 105,00**	**323 646,00**	**402 906,00**
Invested Capital	**1 060 507,00**	**1 002 255,00**	**1 254 325,00**	**1 624 884,00**	**2 022 459,00**
Total equity	**728 026,00**	**795 790,00**	**758 968,00**	**858 620,00**	**1 076 189,00**
Interest-bearing debt					
Current maturities of long-term debt and capital leas	25 763,00	28 432,00	42 768,00	71 996,00	31 272,00
Fair value of derivative instruments	10 414,00	5 821,00	8 078,00	3 914,00	10 626,00
Insurance	17 521,00	20 036,00	20 125,00	21 195,00	24 908,00
Colleteral from counterparties of derivative positions	797,00	11 524,00	-	-	-
Bank overdraft	-	-	10 162,00	16 846,00	16 347,00
Accrued interest	-	-	123,00	5 458,00	5 062,00
Long-term debt and capital lease obligations	225 905,00	98 870,00	283 406,00	535 016,00	892 478,00
Post-retirement/post-employment obligations	68 140,00	76 086,00	155 263,00	159 158,00	44 226,00
Total interest-bearing debt	**348 540,00**	**240 769,00**	**519 925,00**	**813 583,00**	**1 024 919,00**
Interest-bearing assets					
Colleteral to counterparties for derivative positions	7 023,00	-	11 842,00	8 984,00	16 876,00
Fair value of derivative instruments	2 501,00	22 380,00	-	-	-
Assets held for sale - distributor routes	6 535,00	11 924,00	12 726,00	30 116,00	26 564,00
Assets held for sale - property, plant and equipment	-	-	-	2 301,00	28 188,00
Unamortized debt issuance costs	-	-	-	3 594,00	3 207,00
Unamortized financing fees	-	-	-	2 324,00	3 814,00
Total interest-bearing assets	16 059,00	34 304,00	24 568,00	47 319,00	78 649,00
Net-interest-bearing debt	**332 481,00**	**206 465,00**	**495 357,00**	**766 264,00**	**946 270,00**
Invested capital	**1 060 507,00**	**1 002 255,00**	**1 254 325,00**	**1 624 884,00**	**2 022 459,00**

Appendix 13 Flowers Foods reformulated income statement
Source: Own creation / Annual reports 2009-2013

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Net sales	2 600 849,00	2 573 769,00	2 773 356,00	3 046 491,00	3 751 005,00
Net revenue	**2 600 849,00**	**2 573 769,00**	**2 773 356,00**	**3 046 491,00**	**3 751 005,00**
Materials, supplies, labor and other productions cost	- 1 390 183,00	- 1 346 790,00	- 1 473 201,00	- 1 617 810,00	- 1 972 221,00
Gross Profit	**1 210 666,00**	**1 226 979,00**	**1 300 155,00**	**1 428 681,00**	**1 778 784,00**
Selling, general, and administrative expenses	- 926 418,00	- 935 999,00	- 1 016 491,00	- 1 107 480,00	- 1 375 131,00
Operating profit before special items	**284 248,00**	**290 980,00**	**283 664,00**	**321 201,00**	**403 653,00**
Gain on acquisition	3 013,00	-	-	-	50 071,00
EBITDA	**287 261,00**	**290 980,00**	**283 664,00**	**321 201,00**	**453 724,00**
Depreciation and amortization	- 80 928,00	- 85 118,00	- 94 638,00	- 102 690,00	- 118 491,00
EBIT	**206 333,00**	**205 862,00**	**189 026,00**	**218 511,00**	**335 233,00**
Tax on EBIT	- 73 538,76	- 71 758,14	- 67 488,33	- 76 040,09	- 95 128,25
NOPAT	**132 794,24**	**134 103,86**	**121 537,67**	**142 470,91**	**240 104,75**
Interest expense	- 11 587,00	- 8 164,00	- 10 172,00	- 23 411,00	- 28 875,00
Interest income	13 013,00	12 682,00	13 112,00	13 672,00	16 015,00
Net financial income before tax	1 426,00	4 518,00	2 940,00	- 9 739,00	- 12 860,00
Net financial income after tax	917,76	2 943,14	1 890,33	- 6 349,91	- 9 210,75
Net income	**133 712,00**	**137 047,00**	**123 428,00**	**136 121,00**	**230 894,00**
Less: net income attributable to noncontrolling inter	- 3 415,00	-	-	-	-
Net income attributable to Flowers Foods	**130 297,00**	**137 047,00**	**123 428,00**	**136 121,00**	**230 894,00**

Appendix 14 Mondelez International reformulated balance sheet
Source: Own creation / Annual reports 2011-2013

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Current assets					
Cash and cash equivalents			1 974,00	4 475,00	2 664,00
Receivables			6 361,00	6 129,00	5 403,00
Inventories, net			5 706,00	3 741,00	3 743,00
Deferred income taxes			912,00	593,00	517,00
Other current assets			1 249,00	735,00	889,00
Total current assets			**16 202,00**	**15 673,00**	**13 216,00**
Non-current assets					
Property, plant and equipment			13 813,00	10 010,00	10 247,00
Goodwill			37 297,00	25 740,00	25 597,00
Intangible assets, net			25 186,00	22 552,00	21 994,00
Other assets			1 308,00	1 484,00	1 449,00
Total non-current assets			**77 604,00**	**59 786,00**	**59 287,00**
Non-interest-bearing debt					
Accounts payable			5 525,00	4 642,00	5 345,00
Accrued marketing			2 863,00	2 484,00	2 318,00
Accrued employment costs			1 365,00	1 038,00	1 043,00
Other current liabilities			4 856,00	2 855,00	3 051,00
Deferred income taxes			6 738,00	6 235,00	6 282,00
Other noncurrent liabilities			3 396,00	3 046,00	2 491,00
Total non-interest-bearing debt			**24 743,00**	**20 300,00**	**20 530,00**
Invested Capital			**69 063,00**	**55 159,00**	**51 973,00**
Total equity			**35 328**	**32 416**	**32 532**
Interest-bearing debt					
Short-term borrowings			182,00	274,00	1 636,00
Current portion of long-term debt			3 654,00	3 577,00	1 003,00
Long-term debt			23 095,00	15 574,00	14 482,00
Accrued pension costs			3 597,00	2 885,00	1 962,00
Accrued postretirement healt care costs			3 238,00	451,00	412,00
Total interest-bearing debt			**33 766,00**	**22 761,00**	**19 495,00**
Interest-bearing assets					
Prepaid pension assets			31,00	18,00	54,00
Total interest-bearing assets			31,00	18,00	54,00
Net-interest-bearing debt			**33 735,00**	**22 743,00**	**19 441,00**
Invested capital			**69 063,0**	**55 159,0**	**51 973,0**

Appendix 15 Mondelez International reformulated balance sheet
Source: Own creation / Annual reports 2011-2013

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Net revenue			35810,0	35015,0	35299,0
Cost of sales			-21450,0	-20811,0	-21329,0
Gross Profit			**14360,0**	**14204,0**	**13970,0**
Selling, general, and administrative expenses			-9382,0	-9176,0	-8679,0
Operating profit before special items			**4978,0**	**5028,0**	**5291,0**
Asset impairment and exit costs			5,0	-153,0	-273,0
Gains on acquisition and divestitures, net			0,0	107,0	30,0
EBITDA			**4983,0**	**4982,0**	**5048,0**
Depreciation and amortization			-1485,0	-1345,0	-1077,0
EBIT			**3498,0**	**3637,0**	**3971,0**
Tax on EBIT			-215,8	-344,4	-99,6
NOPAT			**3282,2**	**3292,6**	**3871,4**
Interest expense, debt			-1383,0	-1177,0	-1017,0
Loss on debt extinguishment and other related expenses			0,0	0,0	-612,0
Spin-Off-related financing fees			0,0	-609,0	0,0
Other expense (income), net			-235,0	-77,0	50,0
Net financial expense before tax			-1618,0	-1863,0	-1579,0
Net financial expense after tax			-1518,2	-1686,6	-1539,4
Earnings from continuing operations			1764,0	1606,0	2332,0
Earnings from discontinued operations			1810,0	1488,0	1603,0
Net earnings			**3574,0**	**3094,0**	**3935,0**
Noncontrolling interest			20,0	27,0	20,0
Net earnings attributable to Mondelez international			**3554,0**	**3067,0**	**3915,0**

Appendix 16 Kellogg reformulated balance sheet
Source: Own creation / Annual reports 2009-2013

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Current assets					
Cash and cash equivalents	334,00	444,00	460,00	281,00	273,00
Accounts receivables, net	1 093,00	1 190,00	1 188,00	1 454,00	1 424,00
Inventories	910,00	1 056,00	1 174,00	1 365,00	1 248,00
Deferred income taxes	128,00	110,00	149,00	152,00	195,00
Other prepaid assets	93,00	115,00	98,00	128,00	127,00
Total current assets	**2 558,00**	**2 915,00**	**3 069,00**	**3 380,00**	**3 267,00**
Non-current assets					
Property, plant and equipment	3 010,00	3 128,00	3 281,00	3 782,00	3 856,00
Goodwill	3 643,00	3 628,00	3 623,00	5 038,00	5 051,00
Other intangible assets, net	1 458,00	1 456,00	1 454,00	2 359,00	2 367,00
Other assets	371,00	387,00	366,00	465,00	514,00
Total non-current assets	**8 482,00**	**8 599,00**	**8 724,00**	**11 644,00**	**11 788,00**
Non-interest-bearing debt					
Accounts payable	1 077,00	1 149,00	1 189,00	1 402,00	1 432,00
Accrued income taxes	33,00	60,00	66,00	46,00	69,00
Accrued salaries and wages	322,00	153,00	242,00	266,00	327,00
Acctued advertising and promotion	409,00	405,00	410,00	517,00	476,00
Other current liabilities	402,00	421,00	411,00	472,00	503,00
Deferred income taxes	425,00	697,00	643,00	523,00	928,00
Other liabilities	459,00	425,00	404,00	409,00	429,00
Total non-interest-bearing debt	**3 127,00**	**3 310,00**	**3 365,00**	**3 635,00**	**4 164,00**
Invested Capital	**7 913,00**	**8 204,00**	**8 428,00**	**11 389,00**	**10 891,00**
Total equity	**2 275**	**2 154**	**1 798**	**2 465**	**3 607**
Interest-bearing debt					
Current maturities of long-term debt	1,00	952,00	761,00	755,00	289,00
Notes payable	44,00	44,00	234,00	1 065,00	739,00
Long-term debt	4 835,00	4 908,00	5 037,00	6 082,00	6 330,00
Pension liability	430,00	265,00	560,00	886,00	277,00
Nonpension retirement benefits	488,00	214,00	188,00	281,00	68,00
Total interest-bearing debt	**5 798,00**	**6 383,00**	**6 780,00**	**9 069,00**	**7 703,00**
Interest-bearing assets					
Pension	160,00	333,00	150,00	145,00	419,00
Total interest-bearing assets	160,00	333,00	150,00	145,00	419,00
Net-interest-bearing debt	**5 638,00**	**6 050,00**	**6 630,00**	**8 924,00**	**7 284,00**
Invested capital	**7 913**	**8 204**	**8 428**	**11 389**	**10 891**

Appendix 17 Kellogg reformulated income statement

Source: Own creation / Annual reports 2009-2013

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Net revenue	12575,0	12397,0	13198,0	14197,0	14792,0
Cost of goods sold	-6800,0	-6663,0	-7677,0	-8315,0	-8157,0
Gross Profit	**5775,0**	**5734,0**	**5521,0**	**5882,0**	**6635,0**
Selling, general, and administrative expenses	-3390,0	-3305,0	-3725,0	-3872,0	-3266,0
Operating profit before special items	**2385,0**	**2429,0**	**1796,0**	**2010,0**	**3369,0**
Other income (expense), net	-22,0	1,0	-10,0	24,0	4,0
EBITDA	**2363,0**	**2430,0**	**1786,0**	**2034,0**	**3373,0**
Depreciation and amortization	-384,0	-392,0	-369,0	-448,0	-532,0
EBIT	**1979,0**	**2038,0**	**1417,0**	**1586,0**	**2841,0**
Tax on EBIT	-559,4	-580,7	-383,0	-434,5	-863,4
NOPAT	**1419,6**	**1457,3**	**1034,0**	**1151,5**	**1977,6**
Interest Income	0,0	0,0	0,0	0,0	0,0
Interest Expense	-295,0	-248,0	-233,0	-261,0	-235,0
Net financial expense before tax	-295,0	-248,0	-233,0	-261,0	-235,0
Net financial expense after tax	-211,6	-177,3	-170,0	-189,5	-163,6
Earnings (loss) from joint ventures	0,0	0,0	0,0	-1,0	-6,0
Net income	**1208,0**	**1280,0**	**864,0**	**961,0**	**1808,0**
Net income attributable to noncontrolling interests	-4,0	-7,0	-2,0	0,0	1,0
Net earnings attributable to Kellogg Company	**1212,0**	**1287,0**	**866,0**	**961,0**	**1807,0**

Appendix xx Nestle reformulated balance sheet
Source: Own creation / Annual reports 2009-2013

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Current assets					
Cash and cash equivalents	2 734,00	8 057,00	4 938,00	5 713,00	6 415,00
Inventories	7 734,00	7 925,00	9 255,00	8 939,00	8 382,00
Trade and other receivables	12 309,00	12 083,00	13 340,00	13 048,00	12 206,00
Prepayments and accrued income	589,00	748,00	900,00	821,00	762,00
Current income tax assets	1 045,00	956,00	1 094,00	972,00	1 151,00
Total current assets	**24 411,00**	**29 769,00**	**29 527,00**	**29 493,00**	**28 916,00**
Non-current assets					
Property, plant and equipment	21 599,00	21 438,00	23 971,00	26 576,00	26 895,00
Goodwill	27 502,00	27 031,00	29 008,00	32 688,00	31 039,00
Intangible assets	6 658,00	7 728,00	9 356,00	13 018,00	12 673,00
Current income tax assets	213,00	90,00	39,00	27,00	124,00
Deferred tax assets	2 202,00	1 911,00	2 476,00	2 899,00	2 243,00
Total non-current assets	**58 174,00**	**58 198,00**	**64 850,00**	**75 208,00**	**72 974,00**
Non-interest-bearing debt					
Trade and other payables	13 033,00	12 592,00	13 584,00	14 627,00	16 072,00
Accruals and deferred income	2 779,00	2 798,00	2 909,00	3 078,00	3 185,00
Current income tax liabilities	1 173,00	1 079,00	1 417,00	1 608,00	1 276,00
Deferred tax liabilities	1 404,00	1 371,00	2 060,00	2 240,00	2 643,00
Other payables	1 361,00	1 253,00	2 119,00	2 181,00	1 387,00
Total non-interest-bearing debt	**19 750,00**	**19 093,00**	**22 089,00**	**23 734,00**	**24 563,00**
Invested Capital	**62 835,00**	**68 874,00**	**72 288,00**	**80 967,00**	**77 327,00**
Total equity	**53 631,00**	**62 598,00**	**58 274,00**	**62 664,00**	**64 139,00**
Interest-bearing debt					
Financial debt current	14 438,00	12 617,00	16 100,00	18 408,00	11 380,00
Provisions current	643,00	601,00	576,00	452,00	523,00
Derivative liabilities	1 127,00	456,00	646,00	423,00	381,00
Liabilities directly associated with assets held for sale	2 890,00	3,00	-	1,00	100,00
Financial debt non-current	8 966,00	7 483,00	6 207,00	9 008,00	10 363,00
Employee benefits liabilities	6 249,00	5 280,00	7 105,00	8 360,00	6 279,00
Provisions non-current	3 222,00	3 510,00	3 094,00	2 827,00	2 714,00
Total interest-bearing debt	**37 535,00**	**29 950,00**	**33 728,00**	**39 479,00**	**31 740,00**
Interest-bearing assets					
Short-term investments	2 585,00	8 189,00	3 050,00	3 583,00	638,00
Derivative assets	1 671,00	1 011,00	731,00	576,00	230,00
Assets held for sale	11 203,00	28,00	16,00	368,00	282,00
Investments in associates and joint ventures	8 693,00	7 914,00	8 629,00	11 586,00	12 315,00
Financial assets	3 949,00	6 366,00	7 161,00	4 979,00	4 550,00
Employee benefit assets	230,00	166,00	127,00	84,00	537,00
Total interest-bearing assets	28 331,00	23 674,00	19 714,00	21 176,00	18 552,00
Net-interest-bearing debt	**9 204,00**	**6 276,00**	**14 014,00**	**18 303,00**	**13 188,00**
Invested capital	**62 835,00**	**68 874,00**	**72 288,00**	**80 967,00**	**77 327,00**

Appendix xx Nestle reformulated income statement

Source: Own creation / Annual reports 2009-2013

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Sales	107618	93015	83642	89721	92158
Other revenue	0	109	128	210	215
Net revenue	**107618,0**	**93124,0**	**83770,0**	**89931,0**	**92373,0**
Cost of goods sold	-42656,0	-43210,0	-41202,0	-44451,0	-44946,0
Gross Profit	**64962,0**	**49914,0**	**42568,0**	**45480,0**	**47427,0**
Distribution expenses	-8420,0	-8078,0	-7602,0	-8017,0	-8156,0
Marketing and administration expenses	-36270,0	-21122,0	-17395,0	-19041,0	-19711,0
Research and development costs	-2021,0	-1881,0	-1423,0	-1413,0	-1503,0
Operating profit before special items	**18251,0**	**18833,0**	**16148,0**	**17009,0**	**18057,0**
Profit on disposal of property, plant and equipment	26,0	41,0	18,0	53,0	24,0
Miscellaneus trading income	331,0	127,0	33,0	88,0	96,0
Loss on disposal of property, plant and equipment	-57,0	-9,0	-15,0	-20,0	-9,0
Restructuring costs	-200,0	-469,0	-100,0	-88,0	-274,0
Impairment of assets other than goodwill	-170,0	-194,0	-150,0	-74,0	-143,0
Litigations and onerous contracts	-411,0	-584,0	-341,0	-369,0	-380,0
Miscellaneus trading expenses	-293,0	-274,0	-130,0	-86,0	-159,0
Profit on disposal of business	109,0	10,0	4,0	105,0	33,0
Miscellaneus operating income	0,0	28,0	108,0	41,0	583,0
Loss of disposal of business	-28,0	-13,0	-7,0	-3,0	-1221,0
Impairment of goodwill	-37,0	-337,0	-16,0	-14,0	-114,0
Miscellaneus operating expenses	0,0	-221,0	-156,0	-205,0	-260,0
EBITDA	**17521,0**	**16938,0**	**15396,0**	**16437,0**	**16233,0**
Depreciation and amortization	-2552,0	-2639,0	-2925,0	-3049,0	-3165,0
EBIT	**14969,0**	**14299,0**	**12471,0**	**13388,0**	**13068,0**
Tax on EBIT	-3505,8	-1387,2	-3220,7	-3440,2	-3421,2
NOPAT	**11463,2**	**12911,8**	**9250,3**	**9947,8**	**9646,8**
Net financing cost	-615,0	-753,0	-421,0	-444,0	-381,0
Net interest expense (income) on defined benefit plans	0,0	0,0	0,0	-237,0	-248,0
Other	0,0	0,0	0,0	-24,0	-2,0
Net financial expense before tax	-615,0	-753,0	-421,0	-705,0	-631,0
Net financial expense after tax	-471,0	-679,9	-312,3	-523,8	-465,8
Net other operating income(expense) of discontinued operations	0,8	22142,1	0,0	0,0	0,0
Share of results of associates and joint ventures	800,0	1010,0	866,0	1253,0	1264,0
Profit for the year	**11793,0**	**35384,0**	**9804,0**	**10677,0**	**10445,0**
of which attributable to non-controlling interests	1365,0	1151,0	317,0	449,0	430,0
of which attributable to shareholders of the parent (net profit)	10428,0	34233,0	9487,0	10228,0	10015,0

Appendix 18 Ratio analysis Campbell Soup Company
Source: Own creation / Annual reports 2007-2013

ROIC After tax	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	Average
NOPAT / Invested Capital		19,52 %	17,38 %	17,64 %	18,82 %	16,62 %	14,81 %	17,47 %
ROIC Before tax								
EBIT / Invested Capital		0,00 %	26,25 %	29,58 %	24,90 %	23,26 %	20,07 %	20,68 %
Profit margin analysis								
Profit margin After tax	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	Average
NOPAT / Net Revenues	12,13 %	9,81 %	10,60 %	11,93 %	11,55 %	11,11 %	9,55 %	10,96 %
Profit margin Before tax								
EBIT / Net Revenues	16,83 %	13,73 %	15,62 %	17,56 %	16,97 %	16,10 %	13,41 %	15,75 %
Turnover rate invested capital	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	Average
Net Revenues / Invested Capital		1,74	1,68	1,68	1,47	1,45	1,50	1,59
Net earnings after tax / Book value of equity	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	Average
Return on Equity		61,64 %	66,37 %	91,59 %	72,69 %	70,94 %	39,81 %	67,17 %
Net Borrowing Cost (NBC)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	Average
Net financial expenses after tax / net interest-bearing debt	6,42 %	3,55 %	2,11 %	1,98 %	2,03 %	1,89 %	2,10 %	2,87 %
Fiancial Leverage	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	Average
Net interest-bearing debt / book value of equity	2,36	2,31	3,07	3,95	3,39	3,55	3,68	3,19
EBIT margin	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	Average
	16,83 %	13,73 %	15,62 %	17,56 %	16,97 %	16,10 %	13,41 %	15,75 %
EBITDA margin	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	Average
	20,66 %	17,43 %	19,10 %	20,83 %	20,72 %	19,75 %	18,47 %	19,57 %

Appendix 19 Forecasted financial statements
Source: Own creation / Annual reports 2007-2013

Income Statement	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
Net revenue	**7 385,00**	**7 998,00**	**7 586,00**	**7 676,00**	**7 143,00**	**7 175,00**	**8 052,00**	**8 167,22**	**8 455,91**	**8 795,37**	**9 184,00**	**9 582,43**	**9 974,81**	**10 358,40**	**10 722,25**	**11 043,92**	**11 390,88**
Cost of goods sold	- 4 101,00	- 4 531,00	- 4 294,00	- 4 275,00	- 3 987,00	- 4 103,00	- 4 733,00	- 4 818,66	- 4 988,99	- 5 189,27	- 5 418,56	- 5 653,63	- 5 885,14	- 6 111,45	- 6 326,13	- 6 515,91	- 6 720,62
Gross Profit	**3 284,00**	**3 467,00**	**3 292,00**	**3 401,00**	**3 156,00**	**3 072,00**	**3 319,00**	**3 348,56**	**3 466,92**	**3 606,10**	**3 765,44**	**3 928,80**	**4 089,67**	**4 246,94**	**4 396,12**	**4 528,01**	**4 670,26**
Marketing and selling expenses	- 1 106,00	- 1 162,00	- 1 077,00	- 1 058,00	- 909,00	- 941,00	- 947,00	- 980,07	- 1 014,71	- 1 055,44	- 1 102,08	- 1 149,89	- 1 196,98	- 1 243,01	- 1 286,67	- 1 325,27	- 1 366,91
Administrative expenses	- 571,00	- 608,00	- 591,00	- 605,00	- 577,00	- 580,00	- 677,00	- 694,21	- 718,75	- 747,61	- 780,64	- 814,51	- 847,86	- 880,46	- 911,39	- 938,73	- 968,22
Research and development expenses	- 111,00	- 115,00	- 114,00	- 123,00	- 120,00	- 116,00	- 128,00	- 127,41	- 131,91	- 137,21	- 143,27	- 149,49	- 155,61	- 161,59	- 167,27	- 172,29	- 177,70
Other expenses	- 30,00	- 13,00	- 68,00	- 3,00	- 5,00	- 9,00	- 16,00	- 13,07	- 13,53	- 14,07	- 14,69	- 15,33	- 15,96	- 16,57	- 17,16	- 17,67	- 18,23
Foreign Exchange (gains) losses	-	-	- 7,00	- 1,00	- 5,00	- 3,00	- 3,00	-	-	-	-	-	-	-	-	-	-
Operating profit before special items	**1 526,00**	**1 569,00**	**1 449,00**	**1 611,00**	**1 540,00**	**1 429,00**	**1 548,00**	**1 814,76**	**1 878,90**	**1 954,33**	**2 040,69**	**2 129,22**	**2 216,40**	**2 301,64**	**2 382,48**	**2 453,96**	**2 531,05**
Acqusition related costs	-	-	-	-	-	- 5,00	- 10,00	- 40,84	- 33,82	- 26,39	- 18,37	- 9,58	-	-	-	-	-
Restructuring charges	-	- 175,00	-	- 12,00	- 60,00	- 7,00	- 51,00	- 45,74	- 47,35	- 49,25	- 51,43	- 53,66	- 55,86	- 58,01	- 60,04	- 61,85	- 63,79
EBITDA	**1 526,00**	**1 394,00**	**1 449,00**	**1 599,00**	**1 480,00**	**1 417,00**	**1 487,00**	**1 728,18**	**1 797,73**	**1 878,69**	**1 970,89**	**2 065,97**	**2 160,54**	**2 243,63**	**2 322,44**	**2 392,11**	**2 467,26**
Depreciation and amortization	- 283,00	- 296,00	- 264,00	- 251,00	- 268,00	- 262,00	- 407,00	- 446,24	- 437,76	- 453,24	- 471,43	- 492,26	- 513,62	- 534,65	- 555,21	- 574,71	- 591,95
EBIT	**1 243,00**	**1 098,00**	**1 185,00**	**1 348,00**	**1 212,00**	**1 155,00**	**1 080,00**	1 281,94	1 359,96	1 425,45	1 499,45	1 573,71	1 646,93	1 708,98	1 767,23	1 817,40	1 875,31
Tax on EBIT	- 347,23	- 313,38	- 381,09	- 431,97	- 386,74	- 357,84	- 310,99	- 512,78	- 543,99	- 570,18	- 599,78	- 629,48	- 658,77	- 683,59	- 706,89	- 726,96	- 750,12
NOPAT	895,77	784,62	803,91	916,03	825,26	797,16	769,01	769,17	815,98	855,27	899,67	944,23	988,16	1 025,39	1 060,34	1 090,44	1 125,19
Interest Income	19,00	8,00	4,00	6,00	10,00	8,00	10,00										
Interest Expense	- 163,00	- 167,00	- 110,00	- 112,00	- 122,00	- 114,00	- 135,00										
Net financial expense before tax	- 144,00	- 159,00	- 106,00	- 106,00	- 112,00	- 106,00	- 125,00	- 209,25	- 205,35	- 212,61	- 221,14	- 230,91	- 240,93	- 250,80	- 260,44	- 269,59	- 277,68
Net financial expense after tax	- 103,77	- 113,62	- 71,91	- 72,03	- 76,26	- 73,16	- 89,01	- 125,55	- 123,21	- 127,56	- 132,69	- 138,55	- 144,56	- 150,48	- 156,27	- 161,75	- 166,61
Earnings (loss) from discontinued	62,00	494,00	4,00	-	53,00	40,00	- 231,00	-	-	-	-	-	-	-	-	-	-
Net Profit after tax	**854,00**	**1 165,00**	**736,00**	**844,00**	**802,00**	**764,00**	**449,00**	643,61	692,77	727,71	766,99	805,68	843,60	874,91	904,07	928,69	958,58
Net earnings (loss) attributable to noncontrolling interests	-	-	-	-	- 3,00	- 10,00	- 9,00	-	-	-	-	-	-	-	-	-	-
Net profit after tax attributable to Campbell	**854,00**	**1 165,00**	**736,00**	**844,00**	**805,00**	**774,00**	**458,00**	643,61	692,77	727,71	766,99	805,68	843,60	874,91	904,07	928,69	958,58
Balance Sheet	**FY2007**	**FY2008**	**FY2009**	**FY2010**	**FY2011**	**FY2012**	**FY2013**	**FY2014**	**FY2015**	**FY2016**	**FY2017**	**FY2018**	**FY2019**	**FY2020**	**FY2021**	**FY2022**	**FY2023**
Intangible and tangible assets	4 529,00	4 542,00	4 400,00	4 479,00	4 763,00	4 636,00	5 578,00	5 472,04	5 665,46	5 892,90	6 153,28	6 420,23	6 683,12	6 940,13	7 183,91	7 399,43	7 631,89
Net working capital	78,00	29,00	58,00	178,00	313,00	218,00	331,00	326,69	338,24	351,81	367,36	383,30	398,99	414,34	428,89	441,76	455,64
Invested capital (Net operating assets)	4 607,00	4 571,00	4 458,00	4 657,00	5 076,00	4 854,00	5 909,00	5 798,73	6 003,70	6 244,71	6 520,64	6 803,53	7 082,11	7 354,46	7 612,80	7 841,18	8 087,52
Equity, begin		1 372,00	1 399,00	819,00	1 024,00	1 191,00	991,00	1 310,00	1 285,55	1 330,99	1 384,43	1 445,60	1 508,31	1 570,07	1 630,45	1 687,72	1 738,36
Net earnings		1 165,00	736,00	844,00	805,00	774,00	458,00	643,61	692,77	727,71	766,99	805,68	843,60	874,91	904,07	928,69	958,58
Dividends		- 1 138,00	- 1 316,00	- 639,00	- 638,00	- 974,00	- 139,00	- 668,06	- 647,33	- 674,28	- 705,82	- 742,96	- 781,83	- 814,53	- 846,80	- 878,05	- 903,97
Equity, end	1 372,00	1 399,00	819,00	1 024,00	1 191,00	991,00	1 310,00	1 285,55	1 330,99	1 384,43	1 445,60	1 508,31	1 570,07	1 630,45	1 687,72	1 738,36	1 792,97
Net interst-bearing debt (NIBD)	3 235,00	3 172,00	3 639,00	3 633,00	3 885,00	3 863,00	4 599,00	4 513,17	4 672,70	4 860,29	5 075,04	5 295,21	5 512,04	5 724,01	5 925,07	6 102,83	6 294,56
Invested capital (equity and NIBD)	4 607,00	4 571,00	4 458,00	4 657,00	5 076,00	4 854,00	5 909,00	5 798,73	6 003,70	6 244,71	6 520,64	6 803,53	7 082,11	7 354,46	7 612,80	7 841,18	8 087,52
Cash flow statement	**FY2007**	**FY2008**	**FY2009**	**FY2010**	**FY2011**	**FY2012**	**FY2013**	**FY2014**	**FY2015**	**FY2016**	**FY2017**	**FY2018**	**FY2019**	**FY2020**	**FY2021**	**FY2022**	**FY2023**
NOPAT		784,62	803,91	916,03	825,26	797,16	769,01	769,17	815,98	855,27	899,67	944,23	988,16	1 025,39	1 060,34	1 090,44	1 125,19
Depreciation		296,00	264,00	251,00	268,00	262,00	407,00	446,24	437,76	453,24	471,43	492,26	513,62	534,65	555,21	574,71	591,95
Change in net working capital		49,00	- 29,00	- 120,00	- 135,00	95,00	- 113,00	- 4,31	- 11,55	- 13,58	- 15,55	- 15,94	- 15,70	- 15,34	- 14,55	- 12,87	- 13,88
Investments, intangible and tangible assets		- 309,00	- 122,00	- 330,00	- 552,00	- 135,00	- 1 349,00	- 340,28	- 631,19	- 680,68	- 731,81	- 759,21	- 776,51	- 791,65	- 798,99	- 790,23	- 824,42
Free cash flow to the firm (FCFF)		**820,62**	**916,91**	**717,03**	**406,26**	**1 019,16**	**- 285,99**	**879,44**	**611,01**	**614,25**	**623,75**	**661,34**	**709,57**	**753,04**	**802,00**	**862,06**	**878,84**
Change net interest-bearing debt (NIBD)		- 63,00	467,00	- 6,00	252,00	- 22,00	736,00	- 85,83	159,53	187,59	214,75	220,17	216,83	211,97	201,06	177,75	191,73
Net financial expenses, beginning of year debt		- 159,00	- 71,91	- 72,03	- 76,26	- 73,16	- 89,01	- 209,25	- 205,35	- 212,61	- 221,14	- 230,91	- 240,93	- 250,80	- 260,44	- 269,59	- 277,68
Tax shield		45,38	34,09	33,97	35,74	32,84	35,99	83,70	82,14	85,04	88,46	92,37	96,37	100,32	104,18	107,84	111,07
Free cash flow to equity		**644,00**	**1 346,09**	**672,97**	**617,74**	**956,84**	**396,99**	**668,06**	**647,33**	**674,28**	**705,82**	**742,96**	**781,83**	**814,53**	**846,80**	**878,05**	**903,97**
Dividends		- 644,00	- 1 346,09	- 672,97	- 617,74	- 956,84	- 396,99	- 668,06	- 647,33	- 674,28	- 705,82	- 742,96	- 781,83	- 814,53	- 846,80	- 878,05	- 903,97
Cash surplus		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Investments, intangible and tangible assets	**FY2007**	**FY2008**	**FY2009**	**FY2010**	**FY2011**	**FY2012**	**FY2013**	**FY2014**	**FY2015**	**FY2016**	**FY2017**	**FY2018**	**FY2019**	**FY2020**	**FY2021**	**FY2022**	**FY2023**
Intangible and tangible assets, end of period		4 542,00	4 400,00	4 479,00	4 763,00	4 636,00	5 578,00	5 472,04	5 665,46	5 892,90	6 153,28	6 420,23	6 683,12	6 940,13	7 183,91	7 399,43	7 631,89
Deperciation and amortization		296,00	264,00	251,00	268,00	262,00	407,00	446,24	437,76	453,24	471,43	492,26	513,62	534,65	555,21	574,71	591,95
Intangible and tangible assets, beginning of period		4 529,00	4 542,00	4 400,00	4 479,00	4 763,00	4 636,00	5 578,00	5 472,04	5 665,46	5 892,90	6 153,28	6 420,23	6 683,12	6 940,13	7 183,91	7 399,43
Investments, tangible and intangible assets		**309,00**	**122,00**	**330,00**	**552,00**	**135,00**	**1 349,00**	**340,28**	**631,19**	**680,68**	**731,81**	**759,21**	**776,51**	**791,65**	**798,99**	**790,23**	**824,42**

Appendix 20 Value driver/budget control

Source: Own creation / Annual reports 2007-2013

Value driver/Budget control	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
Revenue growth	8,30 %	-5,15 %	1,19 %	-6,94 %	0,45 %	12,22 %	1,43 %	3,53 %	4,01 %	4,42 %	4,34 %	4,09 %	3,85 %	3,51 %	3,00 %	3,14 %
EDITDA margin	17,43 %	19,10 %	20,83 %	20,72 %	19,75 %	18,47 %	21,16 %	21,26 %	21,36 %	21,46 %	21,56 %	21,66 %	21,66 %	21,66 %	21,66 %	21,66 %
EBIT margin	13,73 %	15,62 %	17,56 %	16,97 %	16,10 %	13,41 %	15,70 %	16,08 %	16,21 %	16,33 %	16,42 %	16,51 %	16,50 %	16,48 %	16,46 %	16,46 %
ROIC	17,10 %	17,81 %	20,10 %	16,96 %	16,06 %	14,29 %	13,14 %	13,83 %	13,97 %	14,10 %	14,17 %	14,23 %	14,21 %	14,17 %	14,11 %	14,13 %
Profit margin	9,81 %	10,60 %	11,93 %	11,55 %	11,11 %	9,55 %	9,42 %	9,65 %	9,72 %	9,80 %	9,85 %	9,91 %	9,90 %	9,89 %	9,87 %	9,88 %
Turnover rate	1,74	1,68	1,68	1,47	1,45	1,50	1,40	1,43	1,44	1,44	1,44	1,44	1,44	1,43	1,43	1,43
Return on equity	84,09 %	66,37 %	91,59 %	72,69 %	70,94 %	39,81 %	49,59 %	52,95 %	53,60 %	54,20 %	54,55 %	54,81 %	54,67 %	54,49 %	54,21 %	54,29 %
Net borrowing cost	3,55 %	2,11 %	1,98 %	2,03 %	1,89 %	2,10 %	2,76 %	2,68 %	2,68 %	2,67 %	2,67 %	2,68 %	2,68 %	2,68 %	2,69 %	2,69 %
Financial leverage	2,27	4,44	3,55	3,26	3,90	3,51	3,51	3,51	3,51	3,51	3,51	3,51	3,51	3,51	3,51	3,51

Appendix 21Beta calculations
Source: Own creation from Yahoo finance

General Mills	0,242
ConAgra	0,328
Flowers	0,750
Mondelez	0,663
Kellogg	0,557
Average	0,508

Monthly average from the last 10 years	0,377
Monthly average from the last 5 years	0,329
Monthly average from the last 3 years	0,543
Monthly average from the last 1 years	0,862

Appendix 22 Target assessment
Source: Own creation

Berkshire Hathaway's Investment criteria	**Campbell Soup Company** **Max *******
The purchase must be large	****
Demonstrated consistent earnings power	****
Good returns on equity with little or no debt	***
Simple and understandable business	*****
Superior management in place	**
Offering price / sensible price tag	****